

Auditing Standard

AUS 710
(May 1999)

Communicating with Management on Matters Arising from an Audit

Prepared by the **Auditing & Assurance Standards Board**
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Phone: (03) 9524 3600
Fax: (03) 9523 5499
Email: standard@aarf.asn.au

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**AUS 710 “COMMUNICATING WITH MANAGEMENT ON
MATTERS ARISING FROM AN AUDIT”**

CONTENTS

	<i>Paragraphs</i>
Main Features of the Standard	
Introduction.....	.01-.06
Levels of Management.....	.07-.09
Engagement Issues.....	.10-.12
Planning	13-14
Identification of Significant Matters .....	.15-.17
The Communication Process .....	.18-.19
<i>Timely Reporting</i>.....	.20-.22
<i>Reporting Significant Matters</i>.....	.23-.28
<i>Format and Presentation</i> .....	.29-.32
<i>Management Response</i>.....	.33-.34
<i>Distribution to Third Parties</i>.....	.35
<i>Economic Entity</i>.....	.36
Operative Date .....	.37
Compatibility with International Standards on Auditing .....	.38
Background to Revision	
Appendix 1: Communication with Audit Committees	
Appendix 2: Example paragraph for inclusion in the audit engagement letter regarding the intended form of communications with management	
Appendix 3 Example paragraph for inclusion in a communication to management where there are no matters arising to be reported	

**AUS 710 “COMMUNICATING WITH MANAGEMENT ON
MATTERS ARISING FROM AN AUDIT”**

MAIN FEATURES OF THE STANDARD

The Standard:

- (a) establishes standards and provides guidance to auditors in identifying matters to be communicated to management, the appropriate level of management with whom to communicate, and the appropriate method of communication;
- (b) identifies issues to be considered in determining what matters are to be communicated to different levels of management and addresses the role of an audit committee in the communication process;
- (c) identifies issues to be addressed in determining the nature and form of communication, and in implementing the communication process.

**AUS 710 “COMMUNICATING WITH MANAGEMENT ON
MATTERS ARISING FROM AN AUDIT”**

AUDITING STANDARD

**AUS 710 “COMMUNICATING WITH MANAGEMENT ON
MATTERS ARISING FROM AN AUDIT”**

Introduction

- .01 The purpose of this Auditing Standard (AUS) is to establish standards and provide guidance on identifying matters to be communicated to management, the appropriate level of management with whom to communicate, and the appropriate method of communication.
- .02 *The auditor should communicate significant matters relating to the audit, or identified as a result of the audit procedures performed, to an appropriate level of management on a timely basis.*
- .03 An auditor uses professional judgement to evaluate the significance of matters, to determine the appropriate level of management with whom to communicate, and to select the appropriate method of communication. This AUS identifies different levels of management and provides examples of significant matters. However, the final process for communication will be dependent on the individual circumstances and characteristics of the entity.
- .04 “Report to management” means a communication, excluding the audit report, to management on matters relating to the audit or arising from the audit of an entity’s financial report. A report to management would ordinarily be in writing.
- .05 “Management” means the governing body, audit committee, individual members of the governing body, officer(s) and/or other person(s) having responsibility for planning and directing the activities of an entity.
- .06 “Operational management” means those persons with responsibility for supervision of the day to day activities of the entity.

Levels of Management

- .07 The structure of an entity’s management can vary significantly with the size and nature of the organisation. “Management” could range from an owner/manager to a governing body. Within that structure the governing body could operate as a small group of owner/shareholders or as an elected board with selected subcommittees holding specific responsibilities. For example, the

AUS 710 “COMMUNICATING WITH MANAGEMENT ON MATTERS ARISING FROM AN AUDIT”

governing body may appoint an audit committee to assist in fulfilling its corporate governance responsibilities. Similarly, the role and responsibilities of individual officers and operational management will vary.

- .08 Therefore, the communication to an appropriate level of management of matters arising from an audit occurs within the context of the entity’s management structure. The auditor communicates with various levels of management and operational management about a range of issues during the course of an audit, and exercises judgement as to which of these matters are to be included in a written report. Ordinarily, significant matters are included in a written report to the governing body of the entity. Other matters are reported to a level of management or operational management that has the authority to take appropriate action.
- .09 Effective communication of significant matters to the governing body may also promote effective corporate governance. The auditor uses professional judgement to assess the significance of issues arising (AUS 710.15-.17) to identify matters to be reported. Further guidance on communicating with an audit committee is provided in Appendix 1 to this AUS. In the absence of an audit committee, or where the audit committee does not have an appropriate structure or mandate, the guidance is indicative of matters that would be addressed with the governing body, having regard to the entity size and management structure.

Engagement Issues

- .10 AUS 204 “Terms of Audit Engagements” recognises that in establishing the terms of an engagement, reference is made to the form of reports or other communications that may result from the engagement. An audit engagement letter ordinarily includes reference to the nature and role of reports to management and, if applicable, any arrangements agreed with the entity for submitting to, or requesting from, other members of the economic entity any reports to management that might arise. The audit engagement letter also advises management that:
- (a) a report provided to management does not indicate that there are no additional matters that management should be aware of to meet its responsibilities;
 - (b) audit procedures are designed by the auditor to gather sufficient appropriate audit evidence to form an audit opinion in accordance with the audit mandate. In the absence of specific provisions contained in the audit

AUS 710 “COMMUNICATING WITH MANAGEMENT ON MATTERS ARISING FROM AN AUDIT”

mandate, the auditor does not have a responsibility to design audit procedures to identify matters that may be appropriate to report to management.

- .11 In certain circumstances, for example where there is a legislative or other specific mandate, the auditor may be required to produce a formal “management letter” at or near the conclusion of the audit. In circumstances where there are no matters to report, the mandate may call for a communication that indicates this is the case. The auditor ensures that the engagement letter includes reference to the intended form of communication, including reference to a “no matters to report” communication when required, so that the auditor’s responsibilities are understood in their proper context. An example paragraph for inclusion in the audit engagement letter regarding the intended form of communications with management, including a “no matters to report” communication, is given in Appendix 2. An example paragraph for inclusion in a communication to management where there are no matters arising to be reported is given in Appendix 3.
- .12 The entity may also have established policies and procedures to enable effective communication with external auditors. The auditor has regard to the policies established by the entity to promote effective communication.

Planning

- .13 During the planning of an audit, the auditor communicates with the appropriate level(s) of management, significant matters relating to the engagement. The auditor considers the organisational structure and characteristics of the entity to select the appropriate level(s) of management with whom to discuss planning and engagement issues. Matters that may be addressed with management include:
- (a) the terms of the audit engagement;
 - (b) the general approach to the audit including scope, materiality and results;
 - (c) areas identified as having a high inherent and/or control risk and the auditor’s response thereto;
 - (d) the extent of audit work related to internal controls;
 - (e) any extensions of audit scope requested;

AUS 710 “COMMUNICATING WITH MANAGEMENT ON MATTERS ARISING FROM AN AUDIT”

- (f) planned reliance on the work performed by internal or other auditors;
 - (g) the timing of the audit;
 - (h) other areas of concern identified by management or the auditor, for example, related party transactions or treasury activities; and
 - (i) any legislative or other specific mandate which requires communication of matters arising, including the issue of a “no matters to report” communication.
- .14 In addition, the auditor considers the approach to communicating to the various levels of management matters that may arise from the audit process. For example, where it is envisaged that the audit work is to be performed on more than one visit, the auditor may consider it appropriate to report to management at various times during the audit process.

Identification of Significant Matters

- .15 ***In assessing the significance of matters to be communicated to management, the auditor should consider the nature of the matter, relevant characteristics of the entity or the potential for the matter to materially affect the financial report.*** Examples of entity characteristics are size, complexity and diversity of activities, organisational structure and ownership characteristics. These characteristics may influence the auditor’s judgement about whether a matter should be communicated, and also about the level of management or operational management to be included in the communication. In addition to the engagement issues and planning matters referred to in AUS 710.13, significant matters may include:
- (a) matters that have resulted in the auditor assessing inherent risk and/or control risk as high for particular financial report assertions;
 - (b) irregularities, including fraud and non-compliance with legislative, regulatory or contractual requirements;
 - (c) the initial selection of and/or changes in material accounting policies by management, or their application, and the methods used to account for material unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus;

**AUS 710 “COMMUNICATING WITH MANAGEMENT ON
MATTERS ARISING FROM AN AUDIT”**

- (d) accounting estimates based on management’s judgement reflecting knowledge about past and current events and assumptions as to future events. Certain accounting estimates may be significant because of the possibility that future events affecting them may differ markedly from the assumptions made;
 - (e) audit adjustments that either individually or in aggregate, have a material effect on the financial report. An audit adjustment, whether or not recorded by the entity, represents a proposed correction of the financial report that may not have been detected except through the auditing procedures performed, and may therefore be indicative of weaknesses in internal control or systems. Matters underlying adjustments proposed by the auditor could potentially cause future financial reports to be materially misstated if they are not addressed by management;
 - (f) disagreements with operational management that individually or in aggregate could be significant to the entity’s financial report. Examples include disagreement over the application of accounting standards, reasonableness of estimates, scope of the audit, or disclosure in the financial report;
 - (g) difficulties encountered in performing the audit such as unreasonable delays in providing information for audit purposes, unavailability of client personnel, or an unreasonable timetable in which to complete the audit.
- .16 The identification and reporting of matters to management does not absolve the auditor from the need to consider the effect of such matters on audit procedures and the audit opinion. Furthermore, the auditor needs to consider specific reporting duties imposed by the audit mandate, including any relevant statute and/or regulations, for example the auditor’s duty to inform the Australian Securities and Investment Commission in accordance with section 311 of the Corporations Law.
- .17 While communications to management will be concerned primarily with issues affecting the audit and financial report, other matters may come to the auditor’s attention, as a result of procedures performed, that, in terms of the purpose of a financial report audit engagement, need not be reported to management. However, if identified, the auditor assesses their significance and any specific provisions contained in the audit mandate, and considers whether to report such matters to management.

AUS 710 “COMMUNICATING WITH MANAGEMENT ON MATTERS ARISING FROM AN AUDIT”

The Communication Process

- .18 Significant matters are ordinarily reported in writing to the governing body or audit committee. The auditor considers attending a meeting of the governing body or audit committee, when all members are present, to discuss such matters as appropriate. The auditor also considers any guidelines established by the governing body for reporting issues to, for example, an audit committee, or individuals with particular responsibility for audit issues (refer to Appendix 1).
- .19 ***If the auditor is concerned that a written report intended for a particular group within the management structure of an entity has not been, or may not be distributed to all members of that group, the auditor should implement an approach whereby all members are appropriately informed of the contents of the report.*** For example, when reporting to a particular group such as the governing body or audit committee, the auditor considers the composition, structure and operational style of that group.

Timely Reporting

- .20 ***Significant matters should be reported to management on a timely basis.***
- .21 Timely reporting in an appropriate manner enables management to respond effectively to matters raised. The determination of timeliness is a matter of professional judgement guided by the following:
- (a) the existence of predetermined guidelines for the reporting of significant matters to a group, for example the audit committee;
 - (b) the significance of the matter. For example, matters that may be material to the financial report are communicated to an appropriate level of management that has authority to take appropriate action as soon as is practicable following their identification. If the auditor is not satisfied that the issue is being appropriately addressed, the auditor reports the matter to a higher level of management. The auditor also determines whether the governing body is informed of these issues and where appropriate, makes direct representations to the governing body;
 - (c) an assessment of the urgency of the matter. For example, matters that affect the approval of the financial report

**AUS 710 “COMMUNICATING WITH MANAGEMENT ON
MATTERS ARISING FROM AN AUDIT”**

and/or the audit opinion need to be communicated prior to such approval; and

- (d) the schedule of meetings for the relevant group of management, for example the governing body or audit committee. In unusual circumstances, the auditor may need to consider requesting a special meeting or communicating directly with individuals responsible for areas of the management structure, such as the chairperson of the governing body or audit committee. The auditor also considers the need to provide management with sufficient time to consider important matters prior to a meeting.

- .22 During the course of the audit, issues are addressed with operational management to determine the extent of any potential problem or difference of opinion. The auditor may consider it appropriate that certain matters be reported in writing to operational management and/or other levels of management.

Reporting Significant Matters

- .23 The auditor ensures that the comments contained in a report to management are accurate, the opinions stated are reasonably held and that remarks concerning personnel of the entity are carefully considered.
- .24 When the auditor prepares a report of significant matters to management, the report also states that:
 - (a) the purpose of an audit of a financial report is to express an opinion on that report; and
 - (b) reports to management only include those significant matters that have come to the attention of the auditor.

Further reference may be made to the terms of the audit engagement to clarify the auditor’s and management’s responsibilities.

- .25 It is important that matters identified during the course of the audit are discussed with entity staff and documented as they arise to ensure that the auditor has properly understood the matter. These discussions are not necessarily limited to accounting staff. If the auditor considers there is an unacceptable time delay in obtaining responses from the entity staff, the auditor does not delay the issue of a report to management.

**AUS 710 “COMMUNICATING WITH MANAGEMENT ON
MATTERS ARISING FROM AN AUDIT”**

- .26 The auditor considers whether to incorporate in the report to management responses made by entity staff to matters arising during the course of the audit. This approach is beneficial where, for example, management receive a report on matters arising from an audit and need to be informed of action taken by operational management.
- .27 The auditor may consider it appropriate to make recommendations regarding the matters referred to in a report to management. The auditor indicates that the approval and implementation of any recommendations contained in a report to management is the responsibility of management.
- .28 The auditor may discover significant matters of which management is already aware, and which represent a conscious decision by management to accept a degree of risk because of cost or other considerations. When management has acknowledged its understanding and consideration of such matters and the associated risks, the auditor may decide that the matter need not be reported. However, at each subsequent audit, the auditor would consider whether the nature of the matters or the characteristics of the entity have changed such that the matter has an effect on the current audit, or requires inclusion in future reports to management.

Format and Presentation

- .29 Reports are prepared by the auditor in a manner that is clear, constructive and concise. The auditor indicates the implications of all matters raised and, where necessary, uses specific examples identified during the audit to illustrate the matter raised and assist the understanding of the user.
- .30 The nature of significant matters identified during the course of an audit, or the size or characteristics of the entity, may be such that a written report is unnecessary, inappropriate or is not cost effective. The auditor may, therefore, consider that an oral report of the significant matters is appropriate. The auditor ensures that the oral report is to an appropriate level of management with sufficient authority to act upon the matters discussed. During the discussion, the auditor indicates to management the scope of the audit findings and requests that management outlines their proposed actions to deal with the matters raised.
- .31 ***The auditor should document the subject matter of oral reports to management regarding significant matters.*** The auditor may provide a copy of this record to management to ensure the communication has been fairly reflected. This record includes, but

**AUS 710 “COMMUNICATING WITH MANAGEMENT ON
MATTERS ARISING FROM AN AUDIT”**

is not limited to, management responses to the matters raised and actions taken or proposed.

- .32 The auditor may consider it appropriate, because of the significance of matters raised, to make an oral presentation of a written report to management, for example at a meeting of the audit committee or governing body, in addition to forwarding the written report to the committee or body. The objectives of such a presentation are to ensure that the contents of the report are conveyed to all members of the management group and/or to establish that the members understand and are aware of the implications of the matters raised in the report.

Management Response

- .33 The auditor would ordinarily request a written reply to points raised in a report to management, requesting that the reply indicate the action management has taken, or intends to take, as a result of the comments made in the report.
- .34 ***The auditor should review matters raised in previous reports to management and the subsequent action taken by management.*** If the auditor remains concerned about their potential impact on the financial report, or if management action is regarded as unsatisfactory as to either its nature or timing, the auditor reports such matters again to an individual at a higher level of management and/or the governing body and/or the audit committee as appropriate, and considers the effect of those matters on the audit opinion.

Distribution to Third Parties

- .35 The auditor discusses with management whether the report to management is likely to be distributed to third parties. After such discussions, and taking into account the engagement circumstances and knowledge of the entity, the auditor would ordinarily consider it appropriate to state in a report to management that it was prepared for the sole use of the entity, that the contents of the report are not to be disclosed to a third party without the auditor’s written consent, and that no responsibility is assumed by the auditor to anyone other than the entity.

Economic Entity

- .36 When other auditors are involved in the audit of controlled entities, the principal auditor requests a copy of reports to management that have been sent to the management of controlled entities. This will

**AUS 710 “COMMUNICATING WITH MANAGEMENT ON
MATTERS ARISING FROM AN AUDIT”**

help ensure the principal auditor is aware of any significant matters arising as a result of the audit of those entities. This request is made through:

- (a) the governing body of the parent entity to the management of the controlled entities concerned; or
- (b) the other auditor. When such a request is received by the other auditor, the other auditor obtains approval from the management of the controlled entity before complying with the request.

Operative Date

- .37 This AUS is operative from date of issue and supersedes AUS 710 issued in October 1995.

Compatibility with International Standards on Auditing

- .38 There is no corresponding International Standard on Auditing (ISA). ISA 400 “Risk Assessments and Internal Control” does, however, contain a paragraph including a basic principle/essential procedure, regarding communication of weaknesses in internal controls. This basic principle/essential procedure is consistent with this AUS.

AUS 710 “COMMUNICATING WITH MANAGEMENT ON MATTERS ARISING FROM AN AUDIT”

BACKGROUND TO REVISION

This section does not form part of the standard. It is a summary of the reasons for the current revision to the Standard and of key issues which have been considered by the Auditing & Assurance Standards Board (AuASB) as part of this revision.

1. AUS 710 has been revised to reflect changes in corporate governance over the past decade and to promote further change. While corporate governance clearly remains the responsibility of the governing body, the auditor may be able to assist the governing body to attain its objectives through effective, timely communication of matters arising from the financial report audit.
2. Entity structures have also been subject to change in the past decade. The revised AUS provides guidance to the auditor to ensure effective communication with an appropriate level of management.
3. Many governing bodies have appointed audit committees and make reference to their function in the corporate governance statement in the entity’s annual report. The audit committee is now a well-established vehicle that facilitates the participation of independent members of the governing body in the governance process. Most listed public entities in Australia have recognised the importance of audit committees, and are working to further develop their effectiveness. This revised AUS recognises that where an appropriately structured audit committee exists, it provides an effective mechanism for the auditor to communicate with management. Appendix 1 applies the basic principles for communication, as stated in the main text, and further discusses information to be communicated to audit committees to promote best practice.
4. The revised AUS 710 also includes communications in respect of planning issues in order that those with governance responsibilities understand the nature and scope of the audit.
5. In certain circumstances, for example where there is a legislative or other audit mandate, the AuASB has become aware that some parties have an expectation that a formal “management letter” be produced at or near the conclusion of an audit. In circumstances where there are no matters to report, a management letter may be expected indicating that is the case. This situation has the potential to create an expectation gap when there are no significant matters to report arising from the audit. The revised AUS 710 directs the auditor to clarify reporting requirements as an engagement issue, and to further communicate the context within which a “no matters

**AUS 710 “COMMUNICATING WITH MANAGEMENT ON
MATTERS ARISING FROM AN AUDIT”**

to report” communication may be issued. Appendix 2 provides example paragraphs for inclusion in the engagement letter, and Appendix 3 provides example paragraphs for inclusion in a “no matters to report” communication.

6. The revised AUS provides guidance to the auditor to assess the significance of matters to be communicated to management and provides examples of significant matters to report.
7. The revised AUS clarifies the nature and form of report, which the auditor communicates to management.

**AUS 710 “COMMUNICATING WITH MANAGEMENT ON
MATTERS ARISING FROM AN AUDIT”**

APPENDIX I

COMMUNICATION WITH AUDIT COMMITTEES

Introduction

- .01 The term “management” in this AUS includes an audit committee. Where an audit committee exists within an entity, many of the matters identified as matters to be communicated to management can be effectively addressed through the audit committee. The purpose of this Appendix is to provide guidance to auditors on the application of the principles in this Standard where an appropriately structured audit committee exists. In the absence of an audit committee, or where the audit committee does not have an appropriate structure or mandate, or is not considered effective by the auditor, the guidance is indicative of matters that would be addressed with the governing body, having regard to the entity size and management structure.
- .02 The term “audit committee” is used in this Appendix to describe a sub-committee of the governing body comprising a majority of independent non-executive members. The audit committee mandate or charter, as approved by the governing body, determines the audit committee’s authority, objectives and scope. Although the audit committee mandate may vary between entities, in general, an audit committee will have specific interests in the entity’s financial reporting, internal control structure, risk management systems, and the internal and external audit functions. An audit committee is unique in that it provides a forum where members of the governing body, management and auditors can address issues relating to the management of risk and financial reporting obligations. An audit committee also provides a vehicle that facilitates the participation of independent members of the governing body in the governance process.
- .03 Where an appropriately structured audit committee exists¹, it provides an effective mechanism for the auditor to communicate

¹ While identifying attributes of the structure and mandate of an audit committee, this document does not define an appropriate structure for an audit committee. Further guidance regarding how an audit committee may be structured and its terms of reference are available in *Audit Committees: Best Practice Guide* published by the Australian Accounting Research Foundation, Australian Institute of Company Directors and Institute of Internal Auditors – Australia, 1997.

AUS 710 “COMMUNICATING WITH MANAGEMENT ON MATTERS ARISING FROM AN AUDIT”

with management about issues relating to the nature and scope of the audit and to report significant issues arising from the audit. Effective communication between auditors and audit committees also assists audit committee members meet their responsibilities and facilitates the maintenance of the independence of the external auditor and the external audit process.

- .04 The following are matters which, in accordance with the requirements of the standard, the auditor considers reporting to the audit committee. This list is not exhaustive and does not restrict the communication of other matters.

Major Issues that Influence Audit Appointment

- .05 The auditor communicates with the audit committee regarding any major issues discussed with management in connection with the initial or recurring appointment as external auditor and the auditor’s remuneration.

Planning the Audit

- .06 At the start of each audit, the auditor communicates the terms of the audit engagement with the audit committee. The terms of the audit engagement are agreed with the entity in accordance with AUS 204 “Terms of Audit Engagements”.
- .07 The auditor reviews the scope of the external audit (particularly the identified risk areas), with the audit committee.
- .08 The auditor informs the audit committee of any developments that may affect the financial reporting of the entity and the governing body’s responsibilities, such as legislative changes and new accounting standards.
- .09 The auditor ensures that information regarding the planning of the audit, which may have been communicated to other areas of management (AUS 710.13), is communicated to the audit committee on a timely basis as appropriate.
- .10 The auditor determines the extent to which the audit committee interacts with the internal audit function in the area of financial reporting and internal control. Where appropriate the auditor liaises with the audit committee regarding the coordination of internal and external audit functions in accordance with AUS 604 “Considering the Work of Internal Auditing”.

AUS 710 “COMMUNICATING WITH MANAGEMENT ON MATTERS ARISING FROM AN AUDIT”

- .11 The auditor agrees with the audit committee and management the information that the auditor intends to communicate to the audit committee.

Matters Arising from the Audit

- .12 The auditor ensures that the audit committee is informed about significant matters affecting the audit of the financial report.
- .13 The auditor communicates to the audit committee matters which, in the auditor’s judgement, represent material control weaknesses in the design or operation of the internal control structure which could adversely affect the entity’s ability to record, process, summarise, and report financial information consistent with the assertions of the governing body in the financial report.
- .14 The auditor also reports additional information regarding the scope and results of the audit that may assist the audit committee in overseeing the financial reporting and disclosure process for which management is responsible.
- .15 The auditor may consider it appropriate to inform the audit committee of matters that have been reported to operational management and the nature of such matters reported. If undertaken, this procedure would ordinarily be applied to both written and oral reports to operational management.

The Auditor’s Responsibility Under Australian Auditing Standards

- .16 In order for the audit committee to understand the nature of the assurance provided by an audit, and the relevance of the matters reported, the auditor reports to the audit committee the responsibilities the external auditor assumes under Australian Auditing Standards and the legislative mandate (where appropriate). This communication includes reference to, and explanation of, the statements included in the audit scope section of the audit report, and clarifies that the auditor obtains an understanding of the internal control structure sufficient to plan the audit and develop an effective audit approach. The reporting of matters arising from an audit to the audit committee is incidental to the audit, and as such cannot be relied upon as a comprehensive report of corporate governance issues.

Significant Accounting Policies

- .17 The auditor determines whether the audit committee is informed about the initial selection of and/or changes in material accounting

AUS 710 “COMMUNICATING WITH MANAGEMENT ON MATTERS ARISING FROM AN AUDIT”

policies or their application, and considers whether to include these matters in a report to the audit committee. Similarly, the auditor determines whether the audit committee is informed about the methods used to account for material unusual transactions, and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Management Judgements and Accounting Estimates

- .18 Accounting estimates may be an integral part of the financial report and are based on judgements by the relevant areas of management that reflect their knowledge and experience about past and current events and assumptions as to future events. Certain accounting estimates may be significant because of the possibility that future events affecting them may differ markedly from the assumptions made. The auditor determines whether the audit committee is informed about the process used to formulate material accounting estimates and about the basis for the auditor’s conclusions regarding the reasonableness of those estimates.

Significant Audit Adjustments

- .19 The auditor informs the audit committee about audit adjustments that could, in the auditor’s opinion, either individually or in aggregate, have a material effect on the financial report. An audit adjustment, whether or not recorded by the entity, is a proposed correction of the financial report that, in the auditor’s judgement, may not have been detected except through the auditing procedures performed. Matters underlying adjustments proposed by the auditor but not recorded by the entity could potentially cause future financial reports to be materially misstated, even though the adjustments are not material to the current financial report.

Other Information in Documents Containing Audited Financial Reports

- .20 The auditor discusses with the audit committee the respective responsibilities for other information in documents containing audited financial information, including procedures undertaken by the audit committee to determine that there is no material inconsistency with the financial report.

Disagreements with Other Areas of Management

- .21 The auditor discusses with the audit committee any disagreements with other areas of management that individually or in aggregate could be significant to the entity’s financial report. Examples

AUS 710 “COMMUNICATING WITH MANAGEMENT ON MATTERS ARISING FROM AN AUDIT”

include disagreement over the application of accounting standards, reasonableness of estimates, scope of the audit, or disclosure in the financial report.

Major Issues Discussed with Management Prior to Re-appointment

- .22 The auditor discusses with the audit committee any major issues that were discussed with other areas of management regarding the initial or recurring re-appointment of the auditor, including discussions relating to the application of accounting principles and auditing standards.

Difficulties Encountered in Performing the Audit

- .23 The auditor informs the audit committee of any serious difficulties encountered in performing the audit such as unreasonable delays in providing information for audit purposes, unavailability of client personnel, or an unreasonable timetable in which to complete the audit.

Other Matters

- .24 The auditor consults with the audit committee regarding other matters such as litigation and claims, related party transactions and the work of internal auditors where appropriate.
- .25 The auditor consults with the audit committee to ascertain whether there are any other matters of which the auditor should be aware.

Approval of Financial Report

- .26 The auditor attends the meetings of the audit committee when the financial report is reviewed to enable all audit committee members to ask any questions they may have regarding the audit process. The auditor may also consider attending the meeting of the governing body when the financial report is to be approved, to address any issues arising.

Non-executive Audit Committee Members

- .27 Non-executive members of the audit committee may request separate meetings with the auditor in order to be able to discuss freely issues involving executive management. The auditor has regard to the audit committee mandate concerning the responsibility and authority of the audit committee and its members, and responds positively, using professional judgement in providing information that could strengthen corporate governance.

**AUS 710 “COMMUNICATING WITH MANAGEMENT ON
MATTERS ARISING FROM AN AUDIT”**

APPENDIX 2

*EXAMPLE PARAGRAPH FOR INCLUSION IN THE AUDIT
ENGAGEMENT LETTER REGARDING THE INTENDED FORM OF
COMMUNICATIONS WITH MANAGEMENT*

The audit engagement letter includes reference to the intended form of the auditor’s communication with management, so that the auditor’s responsibilities are understood in their proper context. For example, the following paragraphs would be proposed for inclusion in the audit engagement letter where the auditor is required to provide a written report to management at or near the completion of the audit in order to meet management expectations, including a “no matters to report” communication:

“Our audit procedures are designed to gather sufficient appropriate audit evidence to form an opinion on the financial report. Unless otherwise agreed with you, we assume no responsibility to design audit procedures to identify matters that may be appropriate to report to you. However, if we encounter matters during the course of our audit that we believe should be brought to your attention for consideration or further action, we will communicate these matters to you. If no such matters come to our attention, we will report accordingly.

You cannot assume that any matters reported to you, or that a report that there are no matters to be communicated, indicates that there are no additional matters, or matters that you should be aware of in meeting your responsibilities.”

**AUS 710 “COMMUNICATING WITH MANAGEMENT ON
MATTERS ARISING FROM AN AUDIT”**

APPENDIX 3

*EXAMPLE PARAGRAPH FOR INCLUSION IN A COMMUNICATION TO
MANAGEMENT WHERE THERE ARE NO MATTERS ARISING TO BE
REPORTED*

In certain circumstances the auditor agrees to provide a report to management at or near completion of the audit in order to meet management expectations, including a “no matters to report” communication. In these circumstances when there are no matters arising to be reported to management, the auditor prepares a report to management stating:

“As indicated in the engagement letter dated.....we assume no responsibility to design audit procedures to identify matters to report to you, but would communicate any matters encountered during the course of our audit which we believe should be brought to your attention. We advise that we have not encountered any matters during the course of our audit that we believe should be brought to your attention.

This does not mean that there are no matters of which you should be aware in meeting your responsibilities, nor does this report absolve you from taking appropriate action to meet these responsibilities.”