

KAEG-I [INTL VERSION 2024]: ISA 260 (Revised) Communication with Those Charged with Governance

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ISA 260 (Revised) Communication with Those Charged with Governance

[View the Full Chapter for this Standard](#)

ISA 260 (Revised) *Communication with Those Charged with Governance*

(Effective for audits of financial statements for periods ending on or after December 15, 2016)

International Standard on Auditing (ISA) 260 (Revised), *Communication with Those Charged with Governance*, should be read in conjunction with ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*.

Scope, The Role of Communication, Objectives and Definitions

International Standards on Auditing: ISA 260.01-10

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibility to communicate with those charged with governance in an audit of financial statements. Although this ISA applies irrespective of an entity's governance structure or size, particular considerations apply where all of those charged with governance are involved in managing an entity, and for listed entities. This ISA does not establish requirements regarding the auditor's communication with an entity's management or owners unless they are also charged with a governance role.

2. This ISA is written in the context of an audit of financial statements, but may also be applicable, adapted as necessary in the circumstances, to audits of other historical financial information when those charged with governance have a responsibility to oversee the preparation of the other historical financial information.

3. Recognizing the importance of effective two-way communication in an audit of financial statements, this ISA provides an overarching framework for the auditor's communication with those charged with governance, and identifies some specific matters to be communicated with them. Additional matters to be communicated, which complement the requirements of this ISA, are identified in other ISAs (see Appendix 1). In addition, ISA 265¹ establishes specific requirements regarding the communication of significant deficiencies in internal control the auditor has identified during the audit to those charged with governance. Further matters, not required by this or other ISAs, may be required to be communicated by law or regulation, by agreement with the entity, or by additional requirements applicable to the

engagement, for example, the standards of a national professional accountancy body. Nothing in this ISA precludes the auditor from communicating any other matters to those charged with governance. (Ref: Para. A33 - A36)

1 ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

The Role of Communication

4. This ISA focuses primarily on communications from the auditor to those charged with governance. Nevertheless, effective two-way communication is important in assisting:

- (a) The auditor and those charged with governance in understanding matters related to the audit in context, and in developing a constructive working relationship. This relationship is developed while maintaining the auditor's independence and objectivity;
- (b) The auditor in obtaining from those charged with governance information relevant to the audit. For example, those charged with governance may assist the auditor in understanding the entity and its environment, in identifying appropriate sources of audit evidence, and in providing information about specific transactions or events; and
- (c) Those charged with governance in fulfilling their responsibility to oversee the financial reporting process, thereby reducing the risks of material misstatement of the financial statements.

5. Although the auditor is responsible for communicating matters required by this ISA, management also has a responsibility to communicate matters of governance interest to those charged with governance. Communication by the auditor does not relieve management of this responsibility. Similarly, communication by management with those charged with governance of matters that the auditor is required to communicate does not relieve the auditor of the responsibility to also communicate them. Communication of these matters by management may, however, affect the form or timing of the auditor's communication with those charged with governance.

6. Clear communication of specific matters required to be communicated by ISAs is an integral part of every audit. ISAs do not, however, require the auditor to perform procedures specifically to identify any other matters to communicate with those charged with governance.

7. In some jurisdictions law or regulation may restrict the auditor's communication of certain matters with those charged with governance. Law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity, for example, when the auditor is required to report identified or suspected non-compliance with laws and regulations to an appropriate authority pursuant to anti-money laundering legislation. In these circumstances, the issues considered by the auditor may be complex and the auditor may consider it appropriate to obtain legal advice.

Effective Date

8. This ISA is effective for audits of financial statements for periods ending on or after December 15, 2016.

Objectives

9. The objectives of the auditor are:

- (a) To communicate clearly with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, and an overview of the planned scope and timing of the audit;
- (b) To obtain from those charged with governance information relevant to the audit;
- (c) To provide those charged with governance with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process; and
- (d) To promote effective two-way communication between the auditor and those charged with governance.

Definitions

10. For purposes of the ISAs, the following terms have the meanings attributed below:

- (a) Those charged with governance - The person(s) or organization(s) (e.g., a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager. For discussion of the diversity of governance structures, see paragraphs A1 - A8.
- (b) Management - The person(s) with executive responsibility for the conduct of the entity's operations. For some entities in some jurisdictions, management includes some or all of those charged with governance, for example, executive members of a governance board, or an owner-manager.

ISA Application and Other Explanatory Material: ISA 260.A33-A36

Supplementary Matters (Ref: Para. 3)

A33. The oversight of management by those charged with governance includes ensuring that the entity designs, implements and maintains appropriate internal control with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

A34. The auditor may become aware of supplementary matters that do not necessarily relate to the oversight of the financial reporting process but which are, nevertheless, likely to be significant to the responsibilities of those charged with governance in overseeing the strategic direction of the entity or the entity's obligations related to accountability. Such matters may include, for example, significant issues regarding governance structures or processes, and significant decisions or actions by senior management that lack appropriate authorization.

A35. In determining whether to communicate supplementary matters with those charged with governance, the auditor may discuss matters of this kind of which the auditor has become aware with the appropriate level of management, unless it is inappropriate to do so in the circumstances.

A36. If a supplementary matter is communicated, it may be appropriate for the auditor to make those charged with governance aware that:

- (a) Identification and communication of such matters is incidental to the purpose of the audit, which is to form an opinion on the financial statements;
- (b) No procedures were carried out with respect to the matter other than any that were necessary to form an opinion on the financial statements; and
- (c) No procedures were carried out to determine whether other such matters exist.

How do we comply with the Standards?

[ISA | KAEGHDWC]

1 Communicate with those charged with governance [ISA | 1219]

What do we do?

Communicate with those charged with governance.

Why do we do this?

Effective two-way communications are beneficial to both those charged with governance and us. Two-way communication assists those charged with governance in fulfilling their responsibility to oversee the financial reporting process, thereby reducing the risks of material misstatement of the financial statements and improving financial reporting to the benefit of users [of the financial statements].

Our communications with those charged with governance provides insight with respect to our views on accounting and disclosure matters, including our evaluation of the matters that are significant to the financial statements.

Our communications also allow us to perform a more efficient and effective audit because effective two-way communications assist us in obtaining insights and information that help us to identify and assess risks, and setting the audit strategy/audit plan.

Execute the Audit

[What does communicating with those charged with governance entail?](#) [ISA | 1219.1500]

At a high level, we communicate with those charged with governance by performing the following activities:

- [Determine who those charged with governance are;](#)
- Communicate the following matters:
 - [Communicate the identity and role of the partner and our responsibilities;](#)
 - [Communicate planned scope and timing of the audit;](#)
 - [Communicate significant findings from the audit;](#)

- [Communicate independence matters](#);
- [Set up the communication process](#).

[Are there other matters we communicate?](#) [ISA | 1219.11039]

Yes. Other standards identify additional matters that we communicate to those charged with governance - for example, control deficiencies, related-party matters and fraud-related matters. See other chapters in this manual for further communications.

[Can we communicate additional matters?](#) [ISA | 1219.11042]

Yes. We may choose to communicate matters identified during our audit that go beyond the specific items from the audit standards.

For example, we may choose to communicate matters such as significant issues regarding governance structures or processes or significant decisions or actions by senior management that lack appropriate authorization.

[What do we do when we communicate additional matters with those charged with governance?](#) [ISA | 1219.11043]

When we communicate additional matters, we may make those charged with governance aware that:

- identification and communication of those matters goes beyond the purpose of the audit, which is to form an opinion on the financial statements;
- we did not carry out procedures with respect to those matters, other than any procedures necessary to form an opinion on the financial statements; and
- we did not carry out procedures to determine whether other additional matters exist.

[Do we perform specific procedures to identify matters to communicate to those charged with governance?](#)

[ISA | 1219.11044]

No. We do not perform specific procedures to identify additional matters to communicate. All of our communications are related to matters that arise during the performance of our audit.

[Is it appropriate to discuss with management certain matters before communicating with those charged with governance?](#) [ISA | 1219.11045]

Not always. In certain circumstances, discussing matters with management before communicating them to those charged with governance may be inappropriate.

For example, it is not appropriate to discuss with management:

- questions around management's competence or integrity; or
- instances of identified or suspected fraud involving senior management

before communicating them to those charged with governance.

When it is appropriate, we may decide to discuss certain matters with management or other parties, such as the entity's internal auditors, before communicating with those charged with governance. This not only fosters a good professional relationship with management, but recognizes management's responsibility for the preparation and fair presentation of the financial statements. In addition, these

initial discussions may clarify facts and issues and give management an opportunity to provide further information and explanations.

Do we communicate with those charged with governance matters already communicated to them by management? [ISA | 1219.11046]

Yes. Management's communications to those charged with governance about matters we are required to communicate does not relieve us of our responsibility to make those communications.

However, management's communication of these matters may affect the form or timing of our communication with those charged with governance.

For example, if management has thoroughly communicated certain matters, we may:

- simply acknowledge that we have nothing to add or communicate, or
- communicate only what is incremental.

What do we do when those charged with governance are required to provide third parties with our written communications? [ISA | 1219.11047]

When those charged with governance are required by law or regulation to provide third parties - e.g. bankers or certain regulatory authorities - with copies of our written communications, refer to [GQ&RMM Section 10.6.3](https://www.gqrm-prod.kworld.kpmg.com/G/0/Content/83) <https://www.gqrm-prod.kworld.kpmg.com/G/0/Content/83> or any local risk management policies and procedures for further guidance.

Are we prohibited by law or regulation to communicate certain matters with those charged with governance? [ISA | 1219.11053]

We may be. For example, in some jurisdictions, laws or regulations may restrict our communication to management and/or those charged with governance, or other related action, of certain misstatements to avoid harming an investigation into an illegal act by an appropriate authority. For example, laws or regulations may specifically prohibit alerting the entity when we are required to report to an appropriate authority in accordance with anti-money laundering legislation.

See question '[What do we do if law or regulation prohibits communicating misstatements?](#)'.

Those Charged With Governance

International Standards on Auditing: ISA 260.11-13

Requirements

Those Charged with Governance

11. The auditor shall determine the appropriate person(s) within the entity's governance structure with whom to communicate. (Ref: Para. A1 - A4)

Communication with a Subgroup of Those Charged with Governance

12. If the auditor communicates with a subgroup of those charged with governance, for example, an audit committee, or an individual, the auditor shall determine whether the auditor also needs to communicate with the governing body. (Ref: Para. A5 - A7)

When All of Those Charged with Governance Are Involved in Managing the Entity

13. In some cases, all of those charged with governance are involved in managing the entity, for example, a small business where a single owner manages the entity and no one else has a governance role. In these cases, if matters required by this ISA are communicated with person(s) with management responsibilities, and those person(s) also have governance responsibilities, the matters need not be communicated again with those same person(s) in their governance role. These matters are noted in paragraph 16(c). The auditor shall nonetheless be satisfied that communication with person(s) with management responsibilities adequately informs all of those with whom the auditor would otherwise communicate in their governance capacity. (Ref: Para. A8)

ISA Application and Other Explanatory Material: ISA 260.A1-A8

Application and Other Explanatory Material

Those Charged with Governance (Ref: Para. 11)

A1. Governance structures vary by jurisdiction and by entity, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics. For example:

- In some jurisdictions, a supervisory (wholly or mainly non-executive) board exists that is legally separate from an executive (management) board (a "two-tier board" structure). In other jurisdictions, both the supervisory and executive functions are the legal responsibility of a single, or unitary, board (a "one-tier board" structure).
- In some entities, those charged with governance hold positions that are an integral part of the entity's legal structure, for example, company directors. In others, for example, some government entities, a body that is not part of the entity is charged with governance.
- In some cases, some or all of those charged with governance are involved in managing the entity. In others, those charged with governance and management comprise different persons.
- In some cases, those charged with governance are responsible for approving³ the entity's financial statements (in other cases management has this responsibility).

3 As described in paragraph A68 of ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, having responsibility for approving in this context means having the authority to conclude that all the statements that comprise the financial statements, including the related notes, have been prepared.

A2. In most entities, governance is the collective responsibility of a governing body, such as a board of directors, a supervisory board, partners, proprietors, a committee of management, a council of governors, trustees, or equivalent persons. In some smaller entities, however, one person may be charged with governance, for example, the owner-manager where there are no other owners, or a sole trustee. When governance is a collective responsibility, a subgroup such as an audit committee or even an

individual, may be charged with specific tasks to assist the governing body in meeting its responsibilities. Alternatively, a subgroup or individual may have specific, legally identified responsibilities that differ from those of the governing body.

A3. Such diversity means that it is not possible for this ISA to specify for all audits the person(s) with whom the auditor is to communicate particular matters. Also, in some cases, the appropriate person(s) with whom to communicate may not be clearly identifiable from the applicable legal framework or other engagement circumstances, for example, entities where the governance structure is not formally defined, such as some family-owned entities, some not-for-profit organizations, and some government entities. In such cases, the auditor may need to discuss and agree with the engaging party the relevant person(s) with whom to communicate. In deciding with whom to communicate, the auditor's understanding of an entity's governance structure and processes obtained in accordance with ISA 315 (Revised)⁴ is relevant. The appropriate person(s) with whom to communicate may vary depending on the matter to be communicated.

4 ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

A4. ISA 600 (Revised) includes specific matters to be communicated by the group auditors with those charged with governance of the group.⁵ The matters communicated may include those brought to the attention of the group auditor by component auditors that the group auditor judges to be significant to the responsibilities of those charged with governance of the group. Component auditors also may communicate matters to those charged with governance of the component.⁶ In those circumstances, the appropriate person(s) with whom the component auditor communicates depends on the engagement circumstances and the matter to be communicated. In some cases, a number of components may be conducting the same businesses within the same system of internal control and using the same accounting practices. Where those charged with governance of those components are the same (e.g., common board of directors), duplication may be avoided by dealing with these components concurrently for the purpose of communication.

5 ISA 600, *Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 49

6 ISA 600 (Revised), paragraph 45(i)

Communication with a Subgroup of Those Charged with Governance **(Ref: Para. 12)**

A5. When considering communicating with a subgroup of those charged with governance, the auditor may take into account such matters as:

- The respective responsibilities of the subgroup and the governing body.
- The nature of the matter to be communicated.
- Relevant legal or regulatory requirements.
- Whether the subgroup has the authority to take action in relation to the information communicated, and can provide further information and explanations the auditor may need.

A6. When deciding whether there is also a need to communicate information, in full or in summary form, with the governing body, the auditor may be influenced by the auditor's assessment of how effectively and

appropriately the subgroup communicates relevant information with the governing body. The auditor may make explicit in agreeing the terms of engagement that, unless prohibited by law or regulation, the auditor retains the right to communicate directly with the governing body.

A7. Audit committees (or similar subgroups with different names) exist in many jurisdictions. Although their specific authority and functions may differ, communication with the audit committee, where one exists, has become a key element in the auditor's communication with those charged with governance. Good governance principles suggest that:

- The auditor will be invited to regularly attend meetings of the audit committee.
- The chair of the audit committee and, when relevant, the other members of the audit committee, will liaise with the auditor periodically.
- The audit committee will meet the auditor without management present at least annually.

When All of Those Charged with Governance Are Involved in Managing the Entity (Ref: Para.13)

A8. In some cases, all of those charged with governance are involved in managing the entity, and the application of communication requirements is modified to recognize this position. In such cases, communication with person(s) with management responsibilities may not adequately inform all of those with whom the auditor would otherwise communicate in their governance capacity. For example, in a company where all directors are involved in managing the entity, some of those directors (e.g., one responsible for marketing) may be unaware of significant matters discussed with another director (e.g., one responsible for the preparation of the financial statements).

How do we comply with the Standards? [ISA | KAEGHDWC]

1 Determine who those charged with governance are [ISA | 1221]

What do we do?

Determine the appropriate person(s) with whom to communicate. **IF** we communicate with a subgroup of those charged with governance, **THEN** communicate with all its members and determine whether we communicate with also the governing body.

Why do we do this?

We communicate with those charged with governance. Since governance structures vary by jurisdiction and by entity, the diversity of governance structures sometimes makes it difficult to determine whom we communicate with.

Execute the Audit

Who are those charged with governance? [ISA | 1221.1300]

Those charged with governance are the person(s) or organization(s) - for example, a corporate trustee or the board of directors - with responsibility for overseeing the strategic direction of the entity and the

obligations related to the accountability of the entity. This includes overseeing the financial reporting process.

Those charged with governance may include management personnel - e.g. executive members of a governance board or an owner-manager.

What are examples of governance structures?

Governance structures vary by jurisdiction and by entity, reflecting influences such as different cultural and legal backgrounds and size and ownership characteristics. For example:

- Those charged with governance may hold positions that are an integral part of the entity's structure - e.g. entity directors - or may not be part of the entity - e.g. in some government entities.
- Those charged with governance and management may or may not be the same persons.
- Governance may be the collective responsibility of a governing body - e.g. a board of directors, a supervisory board, partners or proprietors - or may be the responsibility of one person - e.g. the owner-manager.
- When governance is a collective responsibility, a subgroup such as an audit committee or even an individual, may be charged with specific tasks to assist the governing body in meeting its responsibilities.

What do we do when the person(s) with whom to communicate are not clearly identifiable? [ISA | 1221.1400]

When the appropriate person(s) with whom to communicate are not clearly identifiable, we discuss and agree with the engaging party - i.e. the party that hired us - the relevant person(s) with whom to communicate.

Our understanding of an entity's governance structure and processes, obtained while performing risk assessment procedures, may be helpful in determining with whom to communicate.

What are the factors we think about to determine whether to communicate with a subgroup of those charged with governance? [ISA | 1221.1500]

The factors we think about to determine whether to communicate with a subgroup of those charged with governance instead of the governing body are:

- the respective responsibilities of the subgroup and the governing body;
- the nature of the matter to be communicated;
- relevant legal or regulatory requirements;
- whether the subgroup:
 - has the authority to take action regarding the information communicated and
 - can provide further information and explanations we may need; and
- whether we are aware of potential conflicts of interest between the subgroup and other members of the governing body.

Audit committees (or similar subgroups with different names) exist in many entities. Where they exist, communication with the audit committee has become a key element in our communication with those charged with governance. Good governance principles suggest that:

- we will be invited to regularly attend meetings of the audit committee;

- the chair of the audit committee and, when relevant, the other members of the audit committee, will liaise with us periodically; and
- the audit committee will meet us without management present at least annually.

Do we communicate with all members of a subgroup when we communicate with a subgroup of those charged with governance? [ISA | 1221.1600]

Yes. When we communicate with an audit committee or similar subgroup, we communicate with all its members.

When we communicate to only the audit committee chair in order to communicate matters in a timely manner during the audit, we may either communicate in full or summarize the matter in later communications to all members of the audit committee so that they all have full and balanced information.

Do we also communicate with the entire governing body when we communicate with a subgroup of those charged with governance? [ISA | 1221.1700]

It depends. When we communicate with a subgroup of those charged with governance, we determine whether it is necessary for us to communicate with the entire governing body - e.g. the board of directors.

Our decision is driven by thinking about certain factors, such as:

- the nature of the matter to be communicated and
- our assessment of how effectively and appropriately the subgroup communicates relevant information with the governing body.

How do we perform the communication when we decide to also communicate with the entire governing body?

When we decide to communicate with the entire governing body, we may communicate the same level of detail as we did to the subgroup or in a summarized manner.

How do we communicate when all of those charged with governance are involved in managing the entity?
[ISA | 1221.1800]

When:

- all of those charged with governance are involved in managing the entity, and
- matters required to be communicated with those charged with governance are also communicated to management,

we do not communicate the matters twice. However, we are cautious that our communications with management fully comply with our communication requirements to those charged with governance.

For example, in an entity where all directors are involved in managing the entity, some of those directors - e.g. one responsible for marketing - may be unaware of matters discussed with another director - e.g. one responsible for the preparation of the financial statements.

The Auditor's Responsibilities in Relation to the Financial Statement Audit

International Standards on Auditing: ISA 260.14

Matters to Be Communicated

The Auditor's Responsibilities in Relation to the Financial Statement Audit

14. The auditor shall communicate with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, including that:

- (a) The auditor is responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance; and
- (b) The audit of the financial statements does not relieve management or those charged with governance of their responsibilities. (Ref: Para. A9 - A10)

ISA Application and Other Explanatory Material: ISA 260.A9-A10

Matters to Be Communicated

The Auditor's Responsibilities in Relation to the Financial Statement Audit (Ref: Para. 14)

A9. The auditor's responsibilities in relation to the financial statement audit are often included in the engagement letter or other suitable form of written agreement that records the agreed terms of the engagement.⁶ Law, regulation or the governance structure of the entity may require those charged with governance to agree the terms of the engagement with the auditor. When this is not the case, providing those charged with governance with a copy of that engagement letter or other suitable form of written agreement may be an appropriate way to communicate with them regarding such matters as:

- The auditor's responsibility for performing the audit in accordance with ISAs, which is directed towards the expression of an opinion on the financial statements. The matters that ISAs require to be communicated, therefore, include significant matters arising during the audit of the financial statements that are relevant to those charged with governance in overseeing the financial reporting process.
- The fact that ISAs do not require the auditor to design procedures for the purpose of identifying supplementary matters to communicate with those charged with governance.
- When ISA 701⁷ applies, the auditor's responsibilities to determine and communicate key audit matters in the auditor's report.
- When applicable, the auditor's responsibility for communicating particular matters required by law or regulation, by agreement with the entity or by additional requirements applicable to the engagement, for example, the standards of a national professional accountancy body.

6 See paragraph 10 of ISA 210, *Agreeing the Terms of Audit Engagements*.

7 ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

A10. Law or regulation, an agreement with the entity or additional requirements applicable to the engagement may provide for broader communication with those charged with governance. For example, (a) an agreement with the entity may provide for particular matters to be communicated when they arise from services provided by a firm or network firm other than the financial statement audit; or (b) the mandate of a public sector auditor may provide for matters to be communicated that come to the auditor's attention as a result of other work, such as performance audits.

How do we comply with the Standards? [ISA | KAEGHDWC]

1 Communicate the identity and role of the partner and our responsibilities [ISA | 1227]

What do we do?

Communicate to key members of management and those charged with governance the identity and role of the partner AND communicate with those charged with governance our responsibilities.

Why do we do this?

Communicating the identity and role of the partner and our responsibilities in relation to the financial statement audit may help management and those charged with governance to better understand who we are and what we do.

Execute the Audit

What do we communicate regarding the identity and role of the engagement partner and our responsibilities? [ISA | 1227.1300]

We communicate:

What?	To whom?
the identity and role of the engagement partner	to key members of management and those charged with governance
our responsibilities in relation to the financial statement audit, including that: (a) we are responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management, with	to those charged with governance

<p>the oversight of those charged with governance, are prepared, in all material respects, in accordance with the applicable financial reporting framework; and</p> <p>(b) the audit of the financial statements does not relieve management or those charged with governance of their responsibilities.</p>	
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Who are key members of management?

Key members of management include individuals who have the authority and responsibility for planning, directing, and controlling the activities of the entity, either directly or indirectly. Key members of management may include the:

- Chief executive officer
- President
- Chief operating officer
- Chief financial officer
- Controller

What is the form of our communication regarding the identity and role of the engagement partner and our responsibilities? [ISA | 1227.1400]

We may communicate the identity and role of the engagement partner and our responsibilities orally or in writing.

Our responsibilities with regard to the financial statement audit are included in the engagement letter and may also include the identity and role of the engagement partner in the engagement letter. When that is the case, providing the engagement letter to management and those charged with governance fulfils our communication requirement.

When do we communicate the identity and role of the engagement partner and our responsibilities? [ISA | 1227.1500]

We communicate matters regarding the identity and role of the engagement partner and our responsibilities to those charged with governance on a timely basis, which is usually at the beginning of the audit.

Planned Scope and Timing of the Audit

International Standards on Auditing: ISA 260.15

Planned Scope and Timing of the Audit

15. The auditor shall communicate with those charged with governance an overview of the planned scope and timing of the audit, which includes communicating about the significant risks identified by the auditor.

(Ref: Para. A11 - A16)

ISA Application and Other Explanatory Material: ISA 260.A11-A16

Planned Scope and Timing of the Audit (Ref: Para. 15)

A11. Communication regarding the planned scope and timing of the audit may:

- (a) Assist those charged with governance to understand better the consequences of the auditor's work, to discuss issues of risk and the concept of materiality with the auditor, and to identify any areas in which they may request the auditor to undertake additional procedures; and
- (b) Assist the auditor to understand better the entity and its environment.

A12. Communicating significant risks identified by the auditor helps those charged with governance understand those matters and why they were determined to be significant risks. The communication about significant risks may assist those charged with governance in fulfilling their responsibility to oversee the financial reporting process.

A13. Matters communicated may include:

- How the auditor plans to address the significant risks of material misstatement, whether due to fraud or error.
- How the auditor plans to address areas of higher assessed risks of material misstatement.
- The auditor's approach to the entity's system of internal control.
- The application of the concept of materiality in the context of an audit.⁸
- The nature and extent of specialized skill or knowledge needed to perform the planned audit procedures or evaluate the audit results, including the use of an auditor's expert.⁹
- When ISA 701 applies, the auditor's preliminary views about matters that may be areas of significant auditor attention in the audit and therefore may be key audit matters.
- The auditor's planned approach to addressing the implications on the individual statements and the disclosures of any significant changes within the applicable financial reporting framework or in the entity's environment, financial condition or activities.

⁸ ISA 320, *Materiality in Planning and Performing an Audit*

⁹ See ISA 620, *Using the Work of an Auditor's Expert*.

A14. Other planning matters that it may be appropriate to discuss with those charged with governance include:

- Where the entity has an internal audit function, how the external auditor and internal auditors can work together in a constructive and complementary manner, including any planned use of the work of the internal audit function, and the nature and extent of any planned use of internal auditors to provide direct assistance.¹⁰
- The views of those charged with governance about:
 - The appropriate person(s) in the entity's governance structure with whom to communicate.
 - The allocation of responsibilities between those charged with governance and management.
 - The entity's objectives and strategies, and the related business risks that may result in material misstatements.

- Matters those charged with governance consider warrant particular attention during the audit, and any areas where they request additional procedures to be undertaken.
 - Significant communications between the entity and regulators.
 - Other matters those charged with governance consider may influence the audit of the financial statements.
- The attitudes, awareness, and actions of those charged with governance concerning (a) the entity's internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control, and (b) the detection or possibility of fraud.
 - The actions of those charged with governance in response to developments in accounting standards, corporate governance practices, exchange listing rules, and related matters, and the effect of such developments on, for example, the overall presentation, structure and content of the financial statements, including:
 - The relevance, reliability, comparability and understandability of the information presented in the financial statements; and
 - Considering whether the financial statements are undermined by the inclusion of information that is not relevant or that obscures a proper understanding of the matters disclosed.
 - The responses of those charged with governance to previous communications with the auditor.
 - The documents comprising the other information (as defined in ISA 720 (Revised)) and the planned manner and timing of the issuance of such documents. When the auditor expects to obtain other information after the date of the auditor's report, the discussions with those charged with governance may also include the actions that may be appropriate or necessary if the auditor concludes that a material misstatement of the other information exists in other information obtained after the date of the auditor's report.

10 ISA 610 (Revised 2013), *Using the Work of Internal Auditors*, paragraphs 20 and 31

A15. While communication with those charged with governance may assist the auditor to plan the scope and timing of the audit, it does not change the auditor's sole responsibility to establish the overall audit strategy and the audit plan, including the nature, timing and extent of procedures necessary to obtain sufficient appropriate audit evidence.

A16. Care is necessary when communicating with those charged with governance about the planned scope and timing of the audit so as not to compromise the effectiveness of the audit, particularly where some or all of those charged with governance are involved in managing the entity. For example, communicating the nature and timing of detailed audit procedures may reduce the effectiveness of those procedures by making them too predictable.

How do we comply with the Standards? [ISA | KAEGHDWC]

1 Communicate planned scope and timing of the audit [ISA | 1241]

What do we do?

Communicate with those charged with governance an overview of the planned scope and timing of the audit, including significant risks and how we plan to use internal audit.

Why do we do this?

We communicate the planned scope and timing of the audit to those charged with governance because it may assist those charged with governance to better understand a) our work, b) our views regarding the significant risks, which we give special audit consideration, and c) how the internal auditors and we can work together in a constructive and complementary manner.

In addition, our communication gives those charged with governance the opportunity to view our planned scope of the audit and provide us with feedback on the risks they are concerned about. This feedback could inform our audit strategy and risk assessment.

Execute the Audit

What do we communicate to those charged with governance regarding the planned scope and timing of the audit? [ISA | 1241.1300]

We communicate the planned scope and timing of the audit.

As part of communicating the planned scope of the audit, we communicate:

- significant risks identified by us;
- how we have planned to use the work of the internal audit function, if applicable; and
- the nature and extent of the planned use of internal auditors to provide direct assistance, if applicable, so as to reach a mutual understanding with those charged with governance that such use is not excessive in the circumstances of the engagement.

Where can we find additional guidance related to communications around the planned scope and timing of the audit come from? [ISA | 1241.11175]

Communication matter	Location of additional guidance
Planned scope and timing of the audit	The information to communicate the planned scope, including the timing of the audit is determined during risk assessment and planning. Specifically, this information is the result of performing the activity " Establish the overall audit strategy ".
Significant risks identified by us	The information to communicate significant risks identified during our risk assessment is determined while performing the activity " Identify significant risks ".

	We communicate all significant risks, including the risk of management override of controls.
How we plan to use the work of the internal audit function, if applicable	The information to communicate how we plan to use the work of internal audit is determined while performing the activities in the chapter on internal audit (ISA 610).
The nature and extent of the planned use of internal auditors to provide direct assistance, if applicable, so as to reach a mutual understanding with those charged with governance that such use is not excessive in the circumstances of the engagement	The information to communicate the nature and extent of the planned use of internal audit to provide direct assist is determined while performing the activity " Determine the nature and extent of work assigned to internal auditors ".

What else do we think about in our communication of the planned scope and timing of the audit? [ISA | 1241.11176]

When we are communicating the planned scope and timing of the audit to those charged with governance, we think about the detail that is appropriate. In particular, we find a level of detail that is meaningful and clear, but not so detailed that it compromises the effectiveness of our audit procedures.

For example, communicating the nature and timing of detailed audit procedures may reduce the effectiveness of those procedures by making them too predictable.

We may also consider whether to exclude management from such communications. If we are going to provide those charged with governance with specific details that could compromise the effectiveness of the audit procedures, we may consider it appropriate that management not be present during the communication.

What is the form of our communication to those charged with governance regarding our planned scope and timing of the audit? [ISA | 1241.1400]

We may communicate to those charged with governance our planned scope and timing of the audit orally or in writing. Due to the nature of these communications, we usually communicate orally and in writing.

When do we communicate to those charged with governance our planned scope and timing of the audit? [ISA | 1241.1500]

We communicate matters to those charged with governance timely. In the case of our communication on our planned scope and timing of the audit, communicating early may allow us to more effectively incorporate the additional risks informed by those charged with governance, if any, into our audit strategy and audit plan.

Significant Findings from the Audit

International Standards on Auditing: ISA 260.16

Significant Findings from the Audit

16. The auditor shall communicate with those charged with governance: (Ref: Para. A17-A18)

- (a) The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. When applicable, the auditor shall explain to those charged with governance why the auditor considers a significant accounting practice, that is acceptable under the applicable financial reporting framework, not to be most appropriate to the particular circumstances of the entity; (Ref: Para. A19-A20)
- (b) Significant difficulties, if any, encountered during the audit; (Ref: Para. A21)
- (c) Unless all of those charged with governance are involved in managing the entity:
 - (i) Significant matters arising during the audit that were discussed, or subject to correspondence, with management; and (Ref: Para. A22)
 - (ii) Written representations the auditor is requesting;
- (d) Circumstances that affect the form and content of the auditor's report, if any; and (Ref: Para. A23-A25)
- (e) Any other significant matters arising during the audit that, in the auditor's professional judgment, are relevant to the oversight of the financial reporting process. (Ref: Para. A26-A28)

ISA Application and Other Explanatory Material: ISA 260.A17-A28

Significant Findings from the Audit (Ref: Para. 16)

A17. The communication of findings from the audit may include requesting further information from those charged with governance in order to complete the audit evidence obtained. For example, the auditor may confirm that those charged with governance have the same understanding of the facts and circumstances relevant to specific transactions or events.

A18. When ISA 701 applies, the communications with those charged with governance required by paragraph 16, as well as the communication about the significant risks identified by the auditor required by paragraph 15, are particularly relevant to the auditor's determination of matters that required significant auditor attention and which therefore may be key audit matters.¹¹

¹¹ ISA 701, paragraphs 9 - 10

Significant Qualitative Aspects of Accounting Practices (Ref: Para. 16(a))

A19. Financial reporting frameworks ordinarily allow for the entity to make accounting estimates, and judgments about accounting policies and financial statement disclosures, for example, in relation to the

use of assumptions in the development of accounting estimates. In addition, law, regulation or financial reporting frameworks may require disclosure of a summary of significant accounting policies or make reference to "critical accounting estimates" or "critical accounting policies and practices" to identify and provide additional information to users about the most difficult, subjective or complex judgments made by management in preparing the financial statements.

A20. As a result, the auditor's views on the subjective aspects of the financial statements may be particularly relevant to those charged with governance in discharging their responsibilities for oversight of the financial reporting process. For example, in relation to the matters described in paragraph A19, those charged with governance may be interested in the auditor's views on the degree to which complexity, subjectivity or other inherent risk factors affect the selection or application of the methods, assumptions and data used in making a significant accounting estimate, as well as the auditor's evaluation of whether management's point estimate and related disclosures in the financial statements are reasonable in the context of the applicable financial reporting framework. Open and constructive communication about significant qualitative aspects of the entity's accounting practices also may include comment on the acceptability of significant accounting practices and on the quality of the disclosures. When applicable, this may include whether a significant accounting practice of the entity relating to accounting estimates is considered by the auditor not to be most appropriate to the particular circumstances of the entity, for example, when an alternative acceptable method for making an accounting estimate would, in the auditor's judgment, be more appropriate. Appendix 2 identifies matters that may be included in this communication.

Significant Difficulties Encountered during the Audit (Ref: Para. 16(b))

A21. Significant difficulties encountered during the audit may include such matters as:

- Significant delays by management, the unavailability of entity personnel, or an unwillingness by management to provide information necessary for the auditor to perform the auditor's procedures.
- An unreasonably brief time within which to complete the audit.
- Extensive unexpected effort required to obtain sufficient appropriate audit evidence.
- The unavailability of expected information.
- Restrictions imposed on the auditor by management.
- Management's unwillingness to make or extend its assessment of the entity's ability to continue as a going concern when requested.

In some circumstances, such difficulties may constitute a scope limitation that leads to a modification of the auditor's opinion.¹²

¹² ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

Significant Matters Discussed, or Subject to Correspondence with Management (Ref: Para. 16(c)(i))

A22. Significant matters discussed, or subject to correspondence with management may include such matters as:

- Significant events or transactions that occurred during the year.
- Business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement.

- Concerns about management's consultations with other accountants on accounting or auditing matters.
- Discussions or correspondence in connection with the initial or recurring appointment of the auditor regarding accounting practices, the application of auditing standards, or fees for audit or other services.
- Significant matters on which there was disagreement with management, except for initial differences of opinion because of incomplete facts or preliminary information that are later resolved by the auditor obtaining additional relevant facts or information.

Circumstances that Affect the Form and Content of the Auditor's Report (Ref: Para 16(d))

A23. ISA 210 requires the auditor to agree the terms of the audit engagement with management or those charged with governance, as appropriate.¹³ The agreed terms of the audit engagement are required to be recorded in an audit engagement letter or other suitable form of written agreement and include, among other things, reference to the expected form and content of the auditor's report.¹⁴ As explained in paragraph A9, if the terms of engagement are not agreed with those charged with governance, the auditor may provide those charged with governance with a copy of the engagement letter to communicate about matters relevant to the audit. The communication required by paragraph 16(d) is intended to inform those charged with governance about circumstances in which the auditor's report may differ from its expected form and content or may include additional information about the audit that was performed.

¹³ ISA 210, paragraph 9

¹⁴ ISA 210, paragraph 10

A24. Circumstances in which the auditor is required or may otherwise consider it necessary to include additional information in the auditor's report in accordance with the ISAs, and for which communication with those charged with governance is required, include when:

- The auditor expects to modify the opinion in the auditor's report in accordance with ISA 705 (Revised).¹⁵
- A material uncertainty related to going concern is reported in accordance with ISA 570 (Revised).¹⁶
- Key audit matters are communicated in accordance with ISA 701.¹⁷
- The auditor considers it necessary to include an Emphasis of Matter paragraph or Other Matter paragraph in accordance with ISA 706 (Revised)¹⁸ or is required to do so by other ISAs.
- The auditor has concluded that there is an uncorrected material misstatement of the other information in accordance with ISA 720 (Revised).¹⁹

In such circumstances, the auditor may consider it useful to provide those charged with governance with a draft of the auditor's report to facilitate a discussion of how such matters will be addressed in the auditor's report.

¹⁵ ISA 705 (Revised), paragraph 30

¹⁶ ISA 570 (Revised), *Going Concern*, paragraph 25(d)

¹⁷ ISA 701, paragraph 17

18 ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraph 12

19 ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, paragraph 18(a)

A25. In the rare circumstances that the auditor intends not to include the name of the engagement partner in the auditor's report in accordance with ISA 700 (Revised), the auditor is required to discuss this intention with those charged with governance to inform the auditor's assessment of the likelihood and severity of a significant personal security threat.²⁰ The auditor also may communicate with those charged with governance in circumstances when the auditor elects not to include the description of the auditor's responsibilities in the body of the auditor's report as permitted by ISA 700 (Revised).²¹

²⁰ ISA 700 (Revised), paragraphs 46 and A63

²¹ ISA 700 (Revised), paragraph 41

Other Significant Matters Relevant to the Financial Reporting Process (Ref: Para. 16(e))

A26. ISA 300²² notes that, as a result of unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures, the auditor may need to modify the overall audit strategy and audit plan and thereby the resulting planned nature, timing and extent of further audit procedures, based on the revised consideration of assessed risks. The auditor may communicate with those charged with governance about such matters, for example, as an update to initial discussions about the planned scope and timing of the audit.

²² ISA 300, *Planning an Audit of Financial Statements*, paragraph A15

A27. Other significant matters arising during the audit that are directly relevant to those charged with governance in overseeing the financial reporting process may include such matters as material misstatements of the other information that have been corrected.

A28. To the extent not already addressed by the requirements in paragraphs 16(a) - (d) and related application material, the auditor may consider communicating about other matters discussed with, or considered by, the engagement quality reviewer, if one has been appointed.

How do we comply with the Standards? [ISA | KAEGHDWC]

1 Communicate significant findings from the audit

[ISA | 1247]

What do we do?

Communicate to those charged with governance significant findings from the audit.

Why do we do this?

Communicating to those charged with governance the significant findings from the audit helps them to exercise their oversight responsibilities. In addition, this communication provides an opportunity for

us to request further information from those charged with governance in order to follow up on the audit evidence obtained or obtain additional audit evidence.

Execute the Audit

What do we communicate regarding significant findings from the audit? [ISA | 1247.1300]

Regarding significant findings from the audit, we communicate to those charged with governance:

- [our views about significant qualitative aspects of the entity's accounting practices](#);
- [other significant findings from the audit](#).

When do we communicate the significant findings from the audit to those charged with governance? [ISA | 1247.1400]

We communicate to those charged with governance the significant findings from the audit after completion of the test work on the financial statements. However, in certain situations, we may consider it appropriate to communicate certain matters as soon as possible after we identify them, particularly if we are seeking additional information or input from those charged with governance.

What is the form of our communication to those charged with governance regarding significant findings from the audit? [ISA | 1247.1500]

We communicate to those charged with governance either orally or in writing. In the case of our communication on significant findings from the audit, we may consider that communicating in writing is more appropriate.

1.1 Communicate our views about significant qualitative aspects of accounting practices [ISA | 1248]

What do we do?

Communicate with those charged with governance our views about significant qualitative aspects of the entity's accounting practices.

Why do we do this?

Communicating to those charged with governance the significant findings from the audit helps them to exercise their oversight responsibilities. In addition, this communication provides an opportunity for us to request further information from those charged with governance in order to follow up on the audit evidence obtained or obtain additional audit evidence.

Execute the Audit

What do we communicate regarding our views about significant qualitative aspects of the entity's accounting practices? [ISA | 1248.1300]

We communicate with those charged with governance our views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

We explain to those charged with governance why we consider a significant accounting practice, that is acceptable under the applicable financial reporting framework, not to be the most appropriate to the particular circumstances of the entity when this situation exists.

[Where does the information to communicate our views about significant qualitative aspects of the entity's accounting practices come from?](#) [ISA | 1248.1400]

We gather the information to communicate our views about significant qualitative aspects of the entity's accounting practices while performing procedures specified in [ISA 700.12](#) and [ISA 540.32](#).

[What may those charged with governance be interested in specific to accounting for estimates and related disclosures?](#) [ISA | 1248.159600]

Those charged with governance may be interested in our views on the degree to which complexity, subjectivity, or other inherent risk factors affect the selection or application of the methods, assumptions, and data used in making a significant accounting estimate, as well as our evaluation of whether management's point estimate and related disclosures in the financial statements are reasonable in the context of the applicable financial reporting framework. Open and constructive communication about qualitative aspects of the entity's significant accounting practices may also include comment on the acceptability of significant accounting practices and the quality of the disclosures. When applicable, this may include whether a significant accounting practice of the entity relating to accounting estimates is considered by us to not be the most appropriate to the particular circumstances of the entity, for example, when an alternative acceptable method for making an accounting estimate would, in our judgment, be more appropriate.

[Appendix 2 of ISA 540](#), "Auditing Accounting Estimates and Related Disclosures," includes matters specific to accounting estimates that we may consider communicating to those charged with governance.

[Is management present in our discussions with those charged with governance when we communicate our views about the significant qualitative aspects of the entity's accounting practices?](#) [ISA | 1248.1500]

Since management has the primary responsibility for establishing an entity's accounting practices, they are an active participant in our discussions with those charged with governance when we communicate our views about the significant qualitative aspects of the entity's accounting practices.

[What matters may we include in our communication to those charged with governance regarding our views about the significant qualitative aspects of the entity's accounting practices?](#) [ISA | 1248.1600]

[Appendix 2 of ISA 260](#) identifies matters that we may include in our communication about the significant qualitative aspects of the entity's accounting practices.

[Do we perform communications about accounting estimates to other third parties?](#) [ISA | 1248.1700]

In certain circumstances, we are required by law or regulation to communicate about accounting estimates directly with other relevant parties, such as regulators or prudential supervisors.

Such communication may be useful throughout the audit or at particular stages, such as when planning the audit or when finalizing the auditor's report.

For example, in some jurisdictions, financial institution regulators seek to cooperate with auditors to share information about the operation and application of controls over financial instrument activities, challenges in valuing financial instruments in inactive markets, expected credit losses, and insurance reserves while other regulators may seek to understand our views on significant aspects of the entity's operations including the entity's costs estimates. This communication may be helpful to us in identifying, assessing and responding to risks of material misstatement.

1.2 Communicate other significant findings from the audit [ISA | 1249]

What do we do?

Communicate with those charged with governance other significant findings from the audit.

Why do we do this?

Communicating to those charged with governance the significant findings from the audit helps them to exercise their oversight responsibilities. In addition, this communication provides an opportunity for us to request further information from those charged with governance in order to follow up on the audit evidence obtained or obtain additional audit evidence.

Execute the Audit

What do we communicate to those charged with governance regarding other significant findings from the audit? [ISA | 1249.1300]

We communicate with those charged with governance:

Communication matter	What do we communicate and where can we find additional guidance
Significant difficulties, if any, encountered during the audit	<p>The information to communicate significant difficulties encountered is obtained from our observations during the audit. We do not perform new or additional procedures to gather the relevant information.</p> <p>We communicate to those charged with governance any significant difficulties encountered during the audit.</p>
Significant matters arising during the audit that were discussed, or subject to correspondence, with management;	The information to communicate comes from thinking critically about what discussions and written communications we had

	with management that are important to communicate to those charged with governance. We do not perform new or additional procedures to gather the relevant information.
Written representations we are requesting	We gather the information to communicate from the management representation letter. We may provide those charged with governance with a copy of management's written representations.
Circumstances that affect the form and content of the auditor's report, if any	We communicate any departures from the standard auditor's report.
Any other significant matters arising during the audit that, in our professional judgment, are relevant to the oversight of the financial reporting process	We gather the information to communicate from the results of our audit procedures regarding the matters considered significant to the oversight responsibilities of those charged with governance.

What are examples of significant difficulties encountered during the audit?

Significant difficulties encountered during the audit include, but are not limited to:

- significant delays by management, the unavailability of entity personnel, or an unwillingness by management to provide information to perform our audit procedures;
- an unreasonably brief time within which to complete the audit;
- unexpected extensive effort required by us to obtain sufficient appropriate audit evidence;
- restrictions imposed on us by management in the conduct of the audit; and
- management's unwillingness to provide information about management's plans for dealing with the adverse effects of the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Difficulties encountered by us during the audit could represent a scope limitation, which may result in us modifying the auditor's opinion.

What are examples of significant matters arising during the audit that were discussed, or subject to correspondence, with management?

Significant matters discussed, or subject to correspondence with management may include such matters as:

- significant events or transactions that occurred during the year;
- business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement;
- concerns about management's consultations with other accountants on accounting or auditing matters;

- discussions or correspondence in connection with our initial or recurring appointment as auditors regarding accounting practices, the application of auditing standards, or fees for audit or other services; or
- significant matters on which there was disagreement with management, except for initial differences of opinion because of incomplete facts or preliminary information that are later resolved by obtaining additional relevant facts or information.

[How do we comply with the communication of written representations we are requesting from management?](#)

We may provide those charged with governance with a copy of management's written representations in order to fulfil our requirement to communicate the written representations we are requesting from management.

[What do we communicate regarding the circumstances that affect the form and content of the auditor's report, if any?](#)

The agreed terms of the audit engagement are recorded in an audit engagement letter and include, among other things, reference to the expected form and content of the auditor's report. The communication informs those charged with governance about circumstances in which the auditor's report may differ from its expected form and content or may include additional information about the audit that was performed.

We may also communicate with those charged with governance that we elected not to include the description of the auditor's responsibilities in the body of the auditor's report as permitted by ISA 700 (Revised).

[What is the difference between the communication regarding the circumstances that affect the form and content of the auditor's report and other communication requirements throughout the ISAs related to the auditor's report?](#)

The communication of the circumstances that affect the form and content of the auditor's report is a more general communication requirement.

In addition to this general communication requirement, there are also other communication requirements in the ISAs that indicate we communicate with those charged with governance specific modifications/additions to the auditor's report:

- see activity "[Communicate expected modifications and other reporting matters](#)" for modifications to the opinion in the auditor's report including Emphasis of Matter or Other Matter paragraphs
- See activity "[Communicate going concern matters](#)" for any material uncertainty related to going concern.
- See the chapter on communicating key audit matters ([ISA 701](#)).
- uncorrected material misstatement of the other information

In addition, in the case of listed entities and in the rare circumstances that we intend not to include the name of the engagement partner in the auditor's report in accordance with ISA 700 (Revised), we also discuss this intention with those charged with governance to inform our assessment of the likelihood and severity of a significant personal security threat - see [ISA 700.46](#).

[What other significant matters arising during the audit, are relevant to the oversight of the financial reporting process may we communicate?](#)

We may communicate with those charged with governance:

- modifications to the overall audit strategy and audit plan as a result of unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures;
- material misstatements of the other information that have been corrected; or
- other matters discussed with, or considered by, the engagement quality control reviewer to the extent not already addressed by other communication requirements.

Sometimes, those charged with governance may request that we communicate certain other matters that are beyond the standards. In such case, we may be responsible for communicating those particular matters as well.

[Enhanced | What else do we communicate to those charged with governance regarding other significant findings from the audit?](#) [ISA | 1249.11213]

We also provide those charged with governance with a draft of the auditor's report or a draft of the affected paragraph(s) to facilitate a discussion of how matters will be addressed in the auditor's report.

Auditor Independence

International Standards on Auditing: ISA 260.17

Auditor Independence

17. In the case of listed entities, the auditor shall communicate with those charged with governance:

(a) A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence; and

(i) All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, reasonably be thought to bear on independence. This shall include total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor; and

ii) In respect of threats to independence that are not at an acceptable level, the actions taken to address the threats, including actions that were taken to eliminate the circumstances that create the threats, or applying safeguards to reduce the threats to an acceptable level. (Ref: Para. A29-A32)

ISA Application and Other Explanatory Material: ISA 260.A29-A32

Auditor Independence (Ref: Para. 17)

A29. The auditor is required to comply with relevant ethical requirements, including those related to independence, relating to financial statement audit engagements.²⁴

²⁴ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 14

A30. The communication about relationships and other matters, and how threats to independence that are not at an acceptable level have been addressed with the circumstances of the engagement and generally addresses the threats to independence, safeguards to reduce the threats, and measures to eliminate circumstances that created threats.

A31. Relevant ethical requirements or law or regulation may also specify particular communications to those charged with governance in circumstances where breaches of independence requirements have been identified. For example, the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) requires the auditor to communicate with those charged with governance in writing about any breach and the action the firm has taken or proposes to take.²⁵

²⁵ See, for example, paragraphs R400.80-R400.82 and R400.84 of the IESBA Code.

A32. The communication requirements relating to auditor independence that apply in the case of listed entities may also be appropriate in the case of some other entities, including those that may be of significant public interest, for example, because they have a large number and wide range of stakeholders and considering the nature and size of the business. Examples of such entities may include financial institutions (such as banks, insurance companies, and pension funds), and other entities such as charities. On the other hand, there may be situations where communications regarding independence may not be relevant, for example, where all of those charged with governance have been informed of relevant facts through their management activities. This is particularly likely where the entity is owner-managed, and the auditor's firm and network firms have little involvement with the entity beyond a financial statement audit.

How do we comply with the Standards? [ISA | KAEGHDWC]

1 Communicate independence matters [ISA | 1228]

What do we do?

Communicate independence matters to those charged with governance.

Why do we do this?

Communicating to those charged with governance independence matters helps them to exercise their oversight responsibilities. Also, certain communications are driven by PCAOB rules and IESBA code.

Execute the Audit

[What do we communicate to those charged with governance regarding independence matters?](#) [ISA | 1228.1500]

Regarding independence communications, we do the following:

- [Communicate breaches of independence requirements](#);
- [Listed Entity | Communicate a statement about independence, relationships and safeguards](#);
- [Non-listed Entity | Communicate other independence matters, where appropriate](#); and

- [Public Interest Entity | Communicate non-assurance services to obtain concurrence.](#)

1.1 Listed Entity | Communicate a statement about independence, relationships and safeguards [ISA | 1238]

What do we do?

Communicate with those charged with governance in writing that we have complied with independence requirements, all relationships that may reasonably be thought to bear on independence and safeguards applied to eliminate or reduce threats.

Why do we do this?

Communicating to those charged with governance relationships that may reasonable be thought to bear on independence helps them to exercise their oversight responsibilities and prevents inadvertent non-compliance with independence requirements.

Execute the Audit

[What do we communicate to those charged with governance in audits of financial statements of listed entities?](#) [ISA | 1238.1300]

In the case of listed entities, we communicate with those charged with governance, in writing:

- a statement that we and other KPMG employees as appropriate, the firm and, when applicable, other KPMG member firms have complied with relevant ethical requirements regarding independence;
- all relationships and other matters between the firm, other KPMG member firms, and the entity that, in our professional judgment, may reasonably be thought to bear on independence.

This includes total fees charged during the period covered by the financial statements for audit and services other than audit provided by the firm and other KPMG member firms to the entity and components controlled by the entity.

These fees are allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on our independence, as follows:

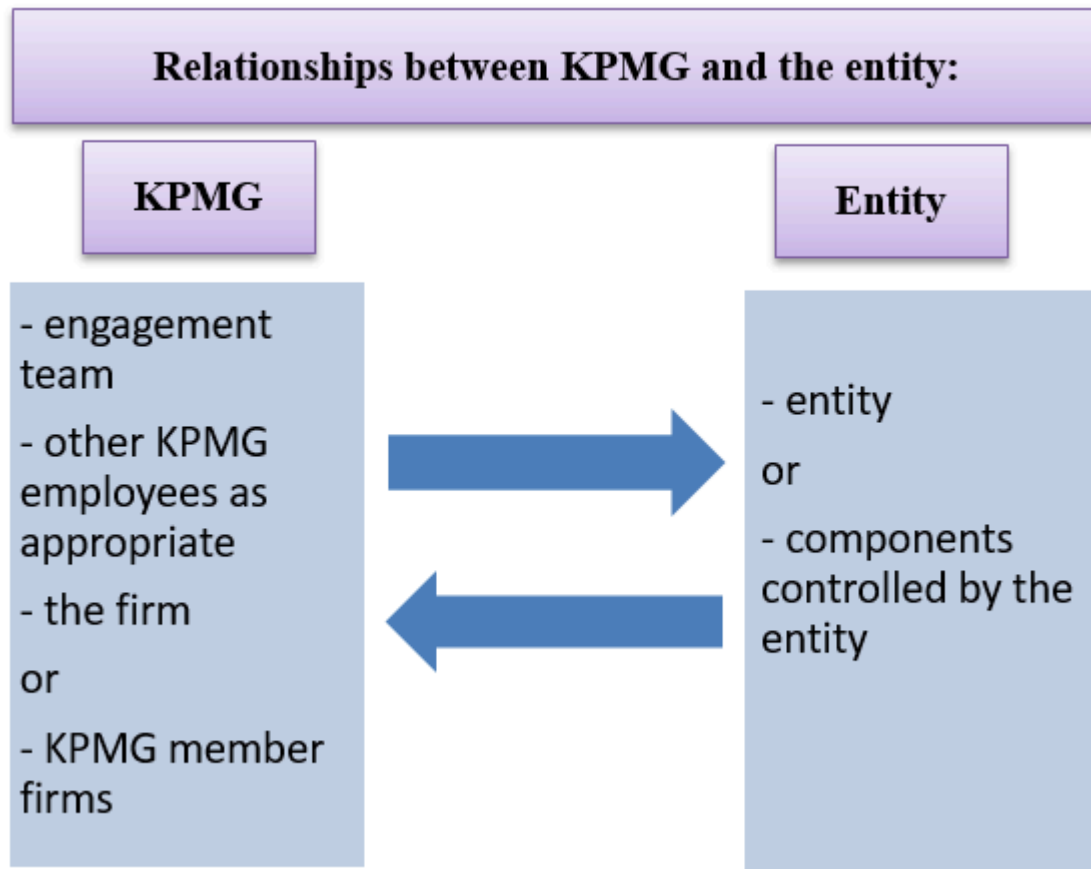
- (a) fees paid or payable to the firm or member firms for the audit of the financial statements on which the firm expresses an opinion, and
 - (b) fees charged to the entity and components controlled by the entity (which is substantially equivalent to and complies with the IESBA requirement for all PIEs which includes fees charged to the entity and its related entities over which the client has direct and indirect control that are consolidated in the financial statements on which the firm will express an opinion) for the provision of all other services by the firm or member firms during the period covered by the financial statements on which the firm will express an opinion.
- threats to independence that are not at an acceptable level, the actions taken to address the threats, including actions that were taken to eliminate the circumstances that create the threats or applying safeguards to reduce the threats to an acceptable level.
 - in relation to threats from fees specifically, we communicate:

- (a) Whether the threats created by the level of those fees are at an acceptable level, including, when applicable, any actions the firm has taken or proposes to take to reduce threats to an acceptable level, and
- (b) where the proportion of fees charged for services other than audit to the audit fee has been determined to impact the level of the self-interest threat or where an intimidation threat has been identified, whether such threats are at an acceptable level, including, when applicable, any actions taken or proposed to take to reduce such threats to an acceptable level.
- notification where fee dependency (i.e., where the total fees from an audit client that is a public interest entity represent, or are likely to represent, more than 15% of the total fees received by the firm) exists and whether this situation is likely to continue.

This includes communication of the safeguards applied to address the threats created by the fee dependency and any proposal to continue as the auditor after five consecutive years of fee dependency.

What relationships do we communicate to those charged with governance? [ISA | 1238.10239]

We disclose to those charged with governance those relationships that may reasonably be thought to bear on independence:



What process may help the engagement partner to determine the relationships to communicate? [ISA | 1238.1400]

The engagement partner may follow the following step-by-step process to determine the relationships to communicate:

- The engagement partner prepares a list of all known present and recently historic relationships between the firm (the engagement team, other KPMG employees as appropriate, the firm or other KPMG member firms) and the entity or components controlled by the entity.

The past and present relationships include:

- engagements to provide professional services. Sentinel is the primary source of information regarding audit, assurance and non-assurance services;
 - employment relationships;
 - business relationships; and
 - in the case of a new audit client, financial relationships.
- The engagement partner requests any relevant tax, advisory or other audit partners to review the list for completeness;
 - The engagement partner discusses the list with the entity's management to confirm completeness; and
 - Once the list is complete, the engagement partner determines those relationships that may reasonably be thought to bear on independence.

[What does the engagement partner think about to determine whether the relationships may reasonably be thought to bear on independence?](#) [ISA | 1238.10240]

We determine the relationships that may reasonably be thought to bear on independence based on:

- professional judgment taking into account all relevant facts and circumstances:
 - passage of time (i.e. a relationship that existed during the current audit period may be more likely to bear on independence than a relationship that ended before that time)
 - nature of the relationship
- how a reasonable and informed third party would view the relationship.

Only in exceptional circumstances does a terminated relationship need to be disclosed.

Normally, if an ongoing relationship has been disclosed in a prior communication and:

- the nature of the relationship and potential effects on independence remain substantially unchanged; and
- the make-up of those charged with governance remains unchanged,

we do not repeat the disclosure. We may discuss with the EQCR when there are questions regarding disclosure of relationships to those charged with governance.

[What do we do when we are uncertain about what relationships to communicate?](#) [ISA | 1238.10242]

When we are uncertain about what relationships to communicate, we consult with the Ethics and Independence Partner.

[What do we include in our communication regarding threats to independence that were initially assessed as not at an acceptable level?](#) [ISA | 1238.1500]

For threats to independence that are initially assessed as not at an acceptable level, we communicate the actions taken to address the threats, including actions that were taken to eliminate the

circumstances that created the threats, or safeguards applied to reduce the threats to an acceptable level.

Safeguards are actions, individually or in combination, that the KPMG professional or member firm takes that effectively reduce threats to independence to an acceptable level.

Refer to applicable sections of the [Global Quality and Risk Management Manual](https://www.gqrm-prod.kworld.kpmg.com/G/0/Content/231) <https://www.gqrm-prod.kworld.kpmg.com/G/0/Content/231> (e.g., Section 6.7 and Chapters 11 and 12) for examples of safeguards.

The safeguards generally address threats to independence, which may be categorized as:

- *Self-interest*: the threat to our objectivity due to financial or other self-interests.
- *Self-review*: the threat to our objectivity caused by a self-review of services performed by us or the firm during the audit.
- *Advocacy*: the threat to our objectivity if we become an advocate for (or against) the entity's position.
- *Familiarity or trust*: the threat of our becoming too trusting of the entity and, therefore, not maintaining appropriate professional skepticism.
- *Intimidation*: the threat of our becoming intimidated or threatened by overbearing or dominating members of management.

What is the form of our communication of independence matters? [ISA | 1238.1600]

We communicate independence matters to those charged with governance in writing.

When do we communicate independence matters? [ISA | 1238.1700]

We communicate independence matters on a timely basis. In particular, communications regarding independence may be appropriate whenever significant judgments are made.

For example, we may communicate when accepting an engagement to provide non-assurance services or in a concluding meeting.

The timing of the independence communications may be required by local standards, laws or regulations.

Group Audit | Who communicates group independence matters in a group audit? [ISA | 1238.1800]

The responsibility to comply with the communications about independence matters rests solely with the group auditor. The group engagement team's communication to those charged with governance includes all relevant relationships of all KPMG member firms participating in the audit.

Group Audit | What if the group auditor relies on the work of non-KPMG component auditors? [ISA | 1238.10243]

If the group auditor is relying on the work of non-KPMG component auditors, the group auditor's communication to those charged with governance generally does not address the non-KPMG component auditors' relationships and states that it does not do so. However, we may provide such information to those charged with governance at their request.

1.2 Communicate breaches of independence requirements [ISA | 1237]

What do we do?

Communicate specific matters regarding breaches of independence requirements to those charged with governance.

Why do we do this?

Communicating to those charged with governance independence matters helps them to exercise their oversight responsibilities.

Execute the Audit

What do we communicate to those charged with governance when there is a breach of independence requirements? [ISA | 1237.1300]

When there is a breach of independence within the firm or another KPMG member firm, including in a group audit, there are two possible communication scenarios. But before we communicate, all potential breaches of independence are immediately reported to the Ethics and Independence Partner.

Scenario 1

When the Ethics and Independence Partner, in conjunction with the engagement partner, determines that actions can be taken to satisfactorily address the consequences of a breach of independence, the engagement partner:

- (1) discusses the following with those charged with governance:
 - the significance of the breach, including its nature and duration
 - how the breach occurred and how it was identified
 - the action taken or proposed to be taken and our rationale for why the action will satisfactorily address the consequences of the breach and enable us to issue the auditor's report
 - the conclusion that, in our professional judgment, objectivity has not been compromised and the rationale for that conclusion, and
 - any steps that we have taken, or propose to take, to reduce or avoid the risk of further breaches occurring.

Such discussion is performed:

- Significant breach - as soon as possible
- Less significant breach of independence requirements of the IESBA Code - according to a timetable established by those charged with governance. Absent an agreed timetable, the discussion takes place as soon as possible.
- Less significant breaches of any other independence requirement - on a basis agreed between those charged with governance and us. Such arrangements may result in those charged with governance choosing not to require these less significant breaches to be reported to them.

- (2) communicates in writing all matters discussed above with those charged with governance
- (3) obtains the concurrence of those charged with governance with our determination that actions can be taken to satisfactorily address the consequences of the breach.

Scenario 2

When:

- the Ethics and Independence Partner, in conjunction with the engagement partner, determines that actions cannot be taken to satisfactorily address the consequences of a breach of independence, or
- those charged with governance do not concur with our conclusion that actions can satisfactorily address the consequences of a breach of independence,

the engagement partner:

- (1) takes steps to withdraw from the engagement in accordance with any applicable legal or regulatory requirements
- (2) communicates the withdrawal to those charged with governance.

[Group Audit | What do we communicate to those charged with governance when there is a breach by a non-KPMG component auditor?](#) [ISA | 1237.160143]

We consult with the Ethics and Independence Partner when a non-KPMG component auditor reports an independence breach that impacts the group audit. We then discuss with those charged with governance the component auditor firm's evaluation of the significance of the breach and its impact on the component auditor firm's objectivity, including the nature and duration of the breach, and the action that can be or has been taken. We discuss whether 1) the action taken has or will address the consequences of the breach or 2) we will use other means to obtain the necessary audit evidence on the component's financial information. We discuss these matters as soon as possible unless alternative timing has been agreed for less significant breaches.

We also communicate in writing to those charged with governance all matters discussed regarding the breach at the non-KPMG component auditor. We then obtain the concurrence of those charged with governance with our determination that the action taken will satisfactorily address the consequences of the breach.

If those charged with governance do not concur that the action taken satisfactorily addresses the consequences of the breach, we do not use the work of the component auditor for the purposes of the group audit, and use other means to obtain the necessary audit evidence.

[What is the role of the Ethics and Independence Partner regarding independence breaches?](#) [ISA | 1237.10231]

The Ethics and Independence Partner is responsible for evaluating all breaches of independence rules and will coordinate with the engagement partner to determine whether the matter needs to be communicated to those charged with governance and when.

[Where can we find additional information on the communication requirements related to breaches of independence?](#) [ISA | 1237.1400]

Refer to [Policy 12.18.1 of the Global Quality & Risk Management Manual](#) <https://www.gqrm-prod.kworld.kpmg.com/G/0/Content/231?m=256-policy-19271> for additional information on breaches of independence, timing of communications with those charged with governance and other related matters.

1.3 Non-listed Entity | Communicate other independence matters, where appropriate [ISA | 7590]

What do we do?

Consider whether to communicate other independence matters to those charged with governance.

Why do we do this?

Communicating to those charged with governance relationships that may reasonable be thought to bear on independence helps them to exercise their oversight responsibilities and prevents inadvertent non-compliance with independence requirements.

Execute the audit

[Are we required to communicate other independence matters to those charged with governance in addition to breaches of independence?](#) [ISA | 7590.10402]

No, except for matters related to breaches of independence, we are not required to communicate other independence matters to those charged with governance when the non-listed entity is not a public interest entity, as defined by the IESBA Code.

When the non-listed entity is a public interest entity as defined by the IESBA Code and the Global Quality and Risk Management Manual (GQ&RMM), we communicate the following with those charged with governance, in accordance with GQ&RMM 12.20.7:

- Fees for the audit of the financial statements:
 - (a) fees paid or payable to the firm or member firms for the audit of the financial statements on which the firm expresses an opinion, and
 - (b) whether the threats created by the level of those fees are at an acceptable level, including, when applicable, any actions the firm has taken or proposes to take to reduce threats to an acceptable level.
- Fees for other services:
 - (a) fees charged to the entity (and its related entities over which the client has direct and indirect control that are consolidated in the financial statements on which the firm will express an opinion) for the provision of all other services by the firm or member firms during the period covered by the financial statements on which the firm will express an opinion, and
 - (b) where the proportion of fees charged for services other than audit to the audit fee has been determined to impact the level of the self-interest threat or where an intimidation threat has been identified, whether such threats are at an acceptable level, including, when applicable, any actions taken or proposed to take to reduce such threats to an acceptable level.
- Fee dependency, if applicable:
 - (a) the facts that fee dependency exists when the total fees from an audit client that is a public interest entity represent, or are likely to represent, more than 15% of the total fees received by the firm,

- (b) whether this situation is likely to continue,
- (c) the safeguards applied to address the threats created by the fee dependency, and
- (d) any proposal to continue as the auditor after five consecutive years of fee dependency.

See GQ&RMM 12.20.7 for additional information.

May we choose to communicate other independence matters to those charged with governance in addition to breaches of independence? [ISA | 7590.10403]

Yes. Although the auditor's report affirms our independence, in certain situations, we may choose to communicate with those charged with governance certain independence matters, in addition to breaches of independence.

In which situations may it be appropriate to communicate to those charged with governance other independence matters? [ISA | 7590.10404]

It may be particularly appropriate to communicate other independence matters in audits of entities of significant public interest.

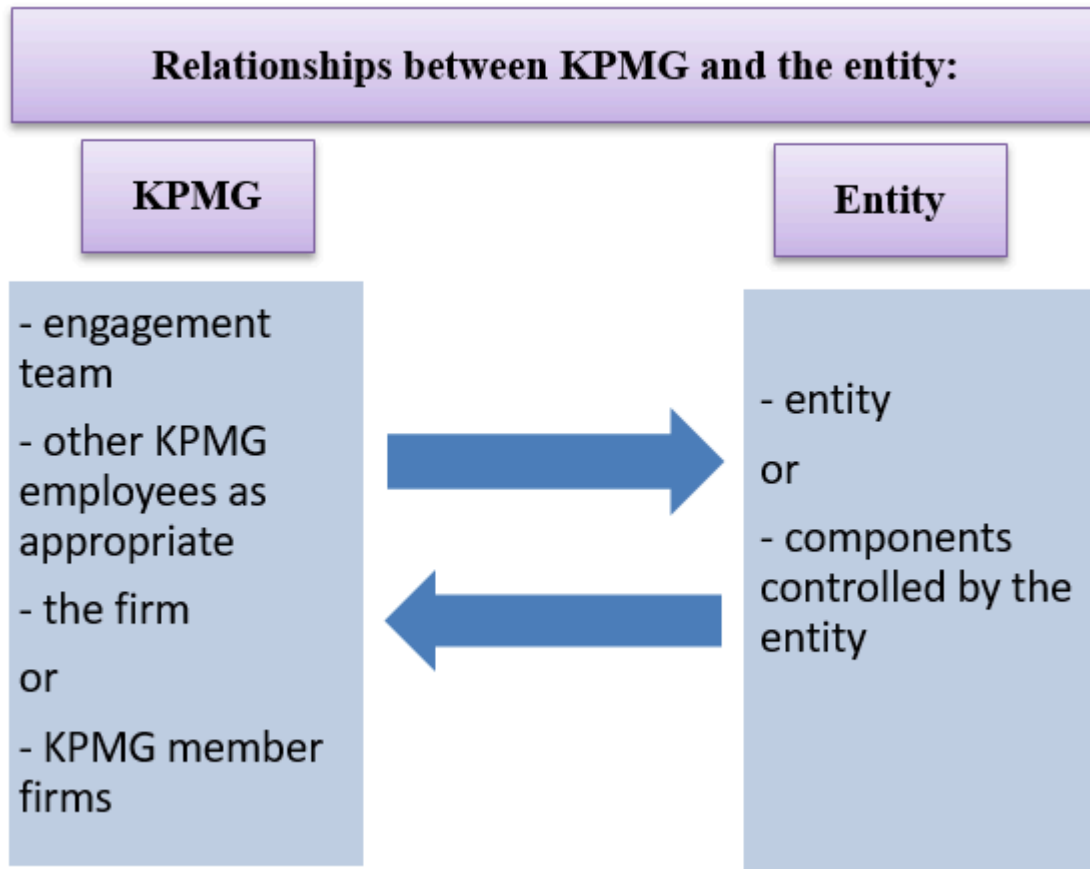
What are entities of significant public interest? [ISA | 7590.10405]

Entities may be considered of significant public interest because they have a large number and wide range of stakeholders or because of the nature and size of the business.

Examples of significant public interest entities may include financial institutions – such as banks, insurance companies, and pension funds – and other entities such as charities.

Which independence matters may we consider communicating to those charged with governance? [ISA | 7590.10406]

We may choose to communicate with those charged with governance circumstances or relationships that may reasonably be thought to bear on independence.



What process may help the engagement partner to determine the relationships to communicate? [ISA | 7590.10408]

When we choose to communicate to those charged with governance relationships that may reasonably be thought to bear on independence, the engagement partner may follow the following step-by-step process to determine the relationships to communicate:

- The engagement partner prepares a list of all known present and recently historic relationships between the firm (the engagement team, other KPMG employees as appropriate, the firm or other KPMG member firms) and the entity or components controlled by the entity.
- The past and present relationships include:
 - engagements to provide professional services. Sentinel is the primary source of information regarding audit and non-assurance services;
 - employment relationships;
 - business relationships; and
 - in the case of a new audit client, financial relationships.
- The engagement partner requests any relevant tax, advisory or other audit partners to review the list for completeness;
- The engagement partner discusses the list with the entity's management to confirm completeness; and
- Once the list is complete, the engagement partner determines those relationships that may reasonably be thought to bear on independence.

What may the engagement partner think about to determine whether the relationships may reasonably be thought to bear on independence? [ISA | 7590.10409]

The engagement partner may determine the relationships that may reasonably be thought to bear on independence based on:

- professional judgment taking into account all relevant facts and circumstances:
 - passage of time (i.e. a relationship that existed during the current audit period may be more likely to bear on independence than a relationship that ended before that time)
 - nature of the relationship
- how a reasonable and informed third party would view the relationship.

Only in exceptional circumstances a terminated relationship is communicated.

Normally, if an ongoing relationship has been disclosed in a prior communication and:

- the nature of the relationship and potential effects on independence remain substantially unchanged; and
- the make-up of those charged with governance remains unchanged,

we do not repeat the disclosure.

1.4 IESBA Independence Rules | Communicate non-assurance services to obtain concurrence [ISA |

8013]

What do we do?

We communicate and obtain concurrence (approval) from those charged with governance before providing a non-assurance service to a public interest entity audit client and any entity that directly or indirectly controls or is controlled by the public interest entity audit client.

Why do we do this?

Communicating to those charged with governance helps enable them to have effective oversight of the independence of the firm that audits the financial statements as it relates to non-assurance services.

Execute the audit

What is required prior to providing a non-assurance service? [ISA | 8013.157550]

Prior to providing a non-assurance service to a public interest entity audit client, we obtain concurrence from those charged with governance that provision of the service does not threaten the firm's independence. The approach to communicating and obtaining concurrence may be either on an individual engagement basis where each service is to be individually approved, or under a general policy where specific services or categories of services are permitted to be provided without the need to obtain concurrence on an individual engagement basis.

To which entities do the requirements for communicating and obtaining concurrence apply? [ISA | 8013.157551]

We communicate to those charged with governance to obtain their concurrence before we accept a non-assurance service for:

- (1) an audit client that is a public interest entity;
- (2) any entity that controls, directly or indirectly, that public interest entity; or
- (3) any entity that is controlled directly or indirectly by that public interest entity.

What information do we communicate regarding non-assurance services? [ISA | 8013.157552]

To obtain concurrence (for a non-assurance service that is not covered by a general pre-approval policy), we communicate the firm's determination that providing the non-assurance service:

- (1) Is not prohibited and
- (2) Will not create a threat to the firm's independence or that any identified threat is at an acceptable level or will be reduced to an acceptable level, or the circumstance creating the threat will be eliminated.

We provide sufficient information to enable those charged with governance to make an informed assessment about the impact of the provision of the non-assurance service on the firm's independence.

What do those charged with governance concur with? [ISA | 8013.157553]

We ask those charged with governance to concur with the provision of the non-assurance service, including our conclusion that providing the service will not create a threat to our independence as the auditor (or that any identified threat is at an acceptable level or, if not, the threat will be eliminated or reduced to an acceptable level).

When do we communicate with those charged with governance for approval of a non-assurance service?

[ISA | 8013.157554]

We communicate before we accept an engagement for a non-assurance service and we obtain concurrence before we begin the non-assurance service.

Such communication may not be necessary on an individual engagement basis when those charged with governance have agreed and documented a process addressing communication on proposed non-assurance services, and the specific service to be provided has been identified as being permissible and without need of specific approval of those charged with governance.

What do we document? [ISA | 8013.157555]

We document our communication with those charged with governance and their concurrence with our determination that the service is not prohibited.

When those charged with governance have a process addressing communication and the non-assurance service was identified as being pre-approved without need of specific concurrence of those charged with governance, we attach the general policy in the audit engagement file.

Where can we find additional information? [ISA | 8013.157556]

Refer to Section 11.3 of the Global Quality and Risk Management Manual for guidance on communication with and concurrence from those charged with governance related to providing non-assurance services.

Examples

The Communication Process and Documentation

International Standards on Auditing: ISA 260.18-23

The Communication Process

Establishing the Communication Process

18. The auditor shall communicate with those charged with governance the form, timing and expected general content of communications. (Ref: Para. A37 - A45)

Forms of Communication

19. The auditor shall communicate in writing with those charged with governance regarding significant findings from the audit if, in the auditor's professional judgment, oral communication would not be adequate. Written communications need not include all matters that arose during the course of the audit. (Ref: Para. A46 - A48)

20. The auditor shall communicate in writing with those charged with governance regarding auditor independence when required by paragraph 17.

Timing of Communications

21. The auditor shall communicate with those charged with governance on a timely basis. (Ref: Para. A49 - A50)

Adequacy of the Communication Process

22. The auditor shall evaluate whether the two-way communication between the auditor and those charged with governance has been adequate for the purpose of the audit. If it has not, the auditor shall evaluate the effect, if any, on the auditor's assessment of the risks of material misstatement and ability to obtain sufficient appropriate audit evidence, and shall take appropriate action. (Ref: Para. A51 - A53)

Documentation

23. Where matters required by this ISA to be communicated are communicated orally, the auditor shall include them in the audit documentation, and when and to whom they were communicated. Where matters have been communicated in writing, the auditor shall retain a copy of the communication as part of the audit documentation.² (Ref: Para. A54)

² ISA 230, *Audit Documentation*, paragraphs 8 - 11, and A6

ISA Application and Other Explanatory Material: ISA 260.A37-A54

The Communication Process

Establishing the Communication Process (Ref: Para. 18)

A37. Clear communication of the auditor's responsibilities, the planned scope and timing of the audit, and the expected general content of communications helps establish the basis for effective two-way communication.

A38. Matters that may also contribute to effective two-way communication include discussion of:

- The purpose of communications. When the purpose is clear, the auditor and those charged with governance are better placed to have a mutual understanding of relevant issues and the expected actions arising from the communication process.
- The form in which communications will be made.
- The person(s) in the engagement team and among those charged with governance who will communicate regarding particular matters.
- The auditor's expectation that communication will be two-way, and that those charged with governance will communicate with the auditor matters they consider relevant to the audit, for example, strategic decisions that may significantly affect the nature, timing and extent of audit procedures, the suspicion or the detection of fraud, and concerns with the integrity or competence of senior management.
- The process for taking action and reporting back on matters communicated by the auditor.
- The process for taking action and reporting back on matters communicated by those charged with governance.

A39. The communication process will vary with the circumstances, including the size and governance structure of the entity, how those charged with governance operate, and the auditor's view of the significance of matters to be communicated. Difficulty in establishing effective two-way communication may indicate that the communication between the auditor and those charged with governance is not adequate for the purpose of the audit (see paragraph A52).

Considerations Specific to Smaller Entities

A40. In the case of audits of smaller entities, the auditor may communicate in a less structured manner with those charged with governance than in the case of listed or larger entities.

Communication with Management

A41. Many matters may be discussed with management in the ordinary course of an audit, including matters required by this ISA to be communicated with those charged with governance. Such discussions recognize management's executive responsibility for the conduct of the entity's operations and, in particular, management's responsibility for the preparation of the financial statements.

A42. Before communicating matters with those charged with governance, the auditor may discuss them with management, unless that is inappropriate. For example, it may not be appropriate to discuss questions of management's competence or integrity with management. In addition to recognizing management's executive responsibility, these initial discussions may clarify facts and issues, and give

management an opportunity to provide further information and explanations. Similarly, when the entity has an internal audit function, the auditor may discuss matters with the internal auditor before communicating with those charged with governance.

Communication with Third Parties

A43. Those charged with governance may be required by law or regulation, or may wish, to provide third parties, for example, bankers or certain regulatory authorities, with copies of a written communication from the auditor. In some cases, disclosure to third parties may be illegal or otherwise inappropriate. When a written communication prepared for those charged with governance is provided to third parties, it may be important in the circumstances that the third parties be informed that the communication was not prepared with them in mind, for example, by stating in written communications with those charged with governance:

- (a) That the communication has been prepared for the sole use of those charged with governance and, where applicable, the group management and the group auditor, and should not be relied upon by third parties;
- (b) That no responsibility is assumed by the auditor to third parties; and
- (c) Any restrictions on disclosure or distribution to third parties.

A44. In some jurisdictions the auditor may be required by law or regulation to, for example:

- Notify a regulatory or enforcement body of certain matters communicated with those charged with governance. For example, in some countries the auditor has a duty to report misstatements to authorities where management and those charged with governance fail to take corrective action;
- Submit copies of certain reports prepared for those charged with governance to relevant regulatory or funding bodies, or other bodies such as a central authority in the case of some public sector entities; or
- Make reports prepared for those charged with governance publicly available.

A45. Unless required by law or regulation to provide a third party with a copy of the auditor's written communications with those charged with governance, the auditor may need the prior consent of those charged with governance before doing so.

Forms of Communication (Ref: Para. 19)

A46. Effective communication may involve structured presentations and written reports as well as less structured communications, including discussions. The auditor may communicate matters other than those identified in paragraphs 19 - 20 either orally or in writing. Written communications may include an engagement letter that is provided to those charged with governance.

A47. In addition to the significance of a particular matter, the form of communication (e.g., whether to communicate orally or in writing, the extent of detail or summarization in the communication, and whether to communicate in a structured or unstructured manner) may be affected by such factors as:

- Whether a discussion of the matter will be included in the auditor's report. For example, when key audit matters are communicated in the auditor's report, the auditor may consider it necessary to communicate in writing about the matters determined to be key audit matters.
- Whether the matter has been satisfactorily resolved.
- Whether management has previously communicated the matter.

- The size, operating structure, control environment, and legal structure of the entity.
- In the case of an audit of special purpose financial statements, whether the auditor also audits the entity's general purpose financial statements.
- Legal requirements. In some jurisdictions, a written communication with those charged with governance is required in a prescribed form by local law.
- The expectations of those charged with governance, including arrangements made for periodic meetings or communications with the auditor.
- The amount of ongoing contact and dialogue the auditor has with those charged with governance.
- Whether there have been significant changes in the membership of a governing body.

A48. When a significant matter is discussed with an individual member of those charged with governance, for example, the chair of an audit committee, it may be appropriate for the auditor to summarize the matter in later communications so that all of those charged with governance have full and balanced information.

Timing of Communications (Ref: Para. 21)

A49. Timely communication throughout the audit contributes to the achievement of robust two-way dialogue between those charged with governance and the auditor. However, the appropriate timing for communications will vary with the circumstances of the engagement. Relevant circumstances include the significance and nature of the matter, and the action expected to be taken by those charged with governance. For example:

- Communications regarding planning matters may often be made early in the audit engagement and, for an initial engagement, may be made as part of agreeing the terms of the engagement.
- It may be appropriate to communicate a significant difficulty encountered during the audit as soon as practicable if those charged with governance are able to assist the auditor to overcome the difficulty, or if it is likely to lead to a modified opinion. Similarly, the auditor may communicate orally to those charged with governance as soon as practicable significant deficiencies in internal control that the auditor has identified, prior to communicating these in writing as required by ISA 265.²⁶
- When ISA 701 applies, the auditor may communicate preliminary views about key audit matters when discussing the planned scope and timing of the audit (see paragraph A13), and the auditor also may have more frequent communications to further discuss such matters when communicating about significant audit findings.
- Communications regarding independence may be appropriate whenever significant judgments are made about threats to independence and how threats to independence that are not at an acceptable level will be addressed, for example, when accepting an engagement to provide non-audit services, and at a concluding discussion.
- Communications regarding findings from the audit, including the auditor's views about the qualitative aspects of the entity's accounting practices, may also be made as part of the concluding discussion.
- When auditing both general purpose and special purpose financial statements, it may be appropriate to coordinate the timing of communications.

²⁶ ISA 265, paragraphs 9 and A14

A50. Other factors that may be relevant to the timing of communications include:

- The size, operating structure, control environment, and legal structure of the entity being audited.
- Any legal obligation to communicate certain matters within a specified timeframe.
- The expectations of those charged with governance, including arrangements made for periodic meetings or communications with the auditor.
- The time at which the auditor identifies certain matters, for example, the auditor may not identify a particular matter (e.g., noncompliance with a law) in time for preventive action to be taken, but communication of the matter may enable remedial action to be taken.

Adequacy of the Communication Process (Ref: Para. 22)

A51. The auditor need not design specific procedures to support the evaluation of the two-way communication between the auditor and those charged with governance; rather, that evaluation may be based on observations resulting from audit procedures performed for other purposes. Such observations may include:

- The appropriateness and timeliness of actions taken by those charged with governance in response to matters raised by the auditor. Where significant matters raised in previous communications have not been dealt with effectively, it may be appropriate for the auditor to inquire as to why appropriate action has not been taken, and to consider raising the point again. This avoids the risk of giving an impression that the auditor is satisfied that the matter has been adequately addressed or is no longer significant.
- The apparent openness of those charged with governance in their communications with the auditor.
- The willingness and capacity of those charged with governance to meet with the auditor without management present.
- The apparent ability of those charged with governance to fully comprehend matters raised by the auditor, for example, the extent to which those charged with governance probe issues, and question recommendations made to them.
- Difficulty in establishing with those charged with governance a mutual understanding of the form, timing and expected general content of communications.
- Where all or some of those charged with governance are involved in managing the entity, their apparent awareness of how matters discussed with the auditor affect their broader governance responsibilities, as well as their management responsibilities.
- Whether the two-way communication between the auditor and those charged with governance meets applicable legal and regulatory requirements.

A52. As noted in paragraph 4, effective two-way communication assists both the auditor and those charged with governance. Further, ISA 315 (Revised) identifies participation by those charged with governance, including their interaction with internal audit, if any, and external auditors, as an element of the entity's control environment.²⁷ Inadequate two-way communication may indicate an unsatisfactory control environment and influence the auditor's assessment of the risks of material misstatement. There is also a risk that the auditor may not have obtained sufficient appropriate audit evidence to form an opinion on the financial statements.

27 ISA 315 (Revised), paragraph A78

A53. If the two-way communication between the auditor and those charged with governance is not adequate and the situation cannot be resolved, the auditor may take such actions as:

- Modifying the auditor's opinion on the basis of a scope limitation.
- Obtaining legal advice about the consequences of different courses of action.
- Communicating with third parties (e.g., a regulator), or a higher authority in the governance structure that is outside the entity, such as the owners of a business (e.g., shareholders in a general meeting), or the responsible government minister or parliament in the public sector.
- Withdrawing from the engagement, where withdrawal is possible under applicable law or regulation.

Documentation (Ref: Para. 23)

A54. Documentation of oral communication may include a copy of minutes prepared by the entity retained as part of the audit documentation where those minutes are an appropriate record of the communication.

How do we comply with the Standards? [ISA | KAEGHDWC]

1 Set up the communication process [ISA | 1255]

What do we do?

Set up the communication process.

Why do we do this?

Setting up a communication process fosters professional effective communications and avoids confusion.

Execute the Audit

[How do we set up a communication process?](#) [ISA | 1255.1400]

We set up a communication process by:

- [Establishing a two-way communication process](#)
- [Determining the form of the communication](#)
- [Documenting the communication](#)
- [Determining the timing of the communication](#)
- [Determining the adequacy of the two-way communication and responding appropriately](#)

1.1 Establish a two-way communication process [ISA |

1256]

What do we do?

Establish a two-way communication process with those charged with governance by communicating the form, timing, and expected general content of communications.

Why do we do this?

We establish effective two-way communication between those charged with governance and us throughout the audit because both those charged with governance and we benefit from a meaningful exchange of information regarding significant risks of material misstatement and other matters that may affect the financial statements. Those charged with governance benefit from the information we provide and we benefit with the information they provide.

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When do we communicate with those charged with governance the form, timing and general content of our communications? [ISA | 1256.1300]

We communicate with those charged with governance the form, timing and general content of our communications at the beginning of our audit.

How else may we establish an effective two-way communication process? [ISA | 1256.1400]

Another way to promote an effective two-way communication may be by discussing in advance with those charged with governance about:

- the purpose of communications - the main objective of our communications is to help those charged with governance to exercise their oversight of the financial reporting process;
- our expectation that the communications will be two-way, and that those charged with governance are expected to communicate with us matters that they consider relevant to the audit;
- the person(s) in the engagement team who will perform the communications; and
- the process for taking action and reporting back on matters communicated by those charged with governance or us.

This discussion is most effective when performed at the beginning of our audit. We may communicate this as part of our communication of the form, timing and general content of our communications.

We may also promote an effective two-way communication by communicating matters that are tailored to the circumstances and informative, rather than "boiler-plate" or standardized. Tailored and informative communications enable a constructive and practical dialogue.

1.2 Determine the form of the communication [ISA | 1259]

What do we do?

Determine the form of the communication.

Why do we do this?

The form of communications relates to whether we communicate orally or in writing. Our communication with those charged with governance may involve many forms, such as presentations, charts, written documents, or robust discussions.

Execute the Audit

What form of communication do we use when communicating with those charged with governance? [ISA | 1259.1300]

We communicate with those charged with governance either orally or in writing, depending on the circumstances, unless specifically stated.

Even if we communicate in writing, having a dialogue with those charged with governance is a key factor in effective two-way communications. Therefore, even written communications are accompanied by an active two-way discussion with those charged with governance.

What factors do we think about in determining the form of the communications, when we have an option? [ISA | 1259.1400]

When we have an option, we may think about the following factors in determining the form of the communications:

- how significant the matter is;
- whether the matter will be included in the auditor's report;
- whether the matter has been satisfactorily resolved;
- whether management has previously communicated the matter;
- the expectations and desires of those charged with governance, including arrangements made for periodic meetings or communications with us;
- the amount of ongoing contact and dialogue we have with those charged with governance;
- whether there have been significant turnover within those charged with governance;
- whether the nature of the matter is complex - for example, information about critical accounting estimates is usually a complex matter;
- our experience with the past effectiveness of oral and written communications with those charged with governance; and
- whether, in our professional judgment, oral communication is inadequate based on the circumstances. For example, we may consider that written communications of significant findings from the audit are more appropriate than oral communications.

In the case of audits of smaller entities, we may communicate with those charged with governance in a less structured manner than in the case of larger entities.

What tools are available in communicating with those charged with governance? [ISA | 1259.1500]

When we communicate in writing, the [Audit Committee Communication toolkit](https://alex.kpmg.com/AROWeb/document/top/Intl_AuditCommitteeToolkit) https://alex.kpmg.com/AROWeb/document/top/Intl_AuditCommitteeToolkit is available. Member firms may also have communication templates in accordance with local law or regulation.

1.3 Determine the timing of the communications [ISA |

1262]

What do we do?

Communicate with those charged with governance on a timely basis.

Why do we do this?

Timely communication throughout the audit contributes to an effective two-way dialogue between those charged with governance and us. Timely and professional communications may also help meet client expectations.

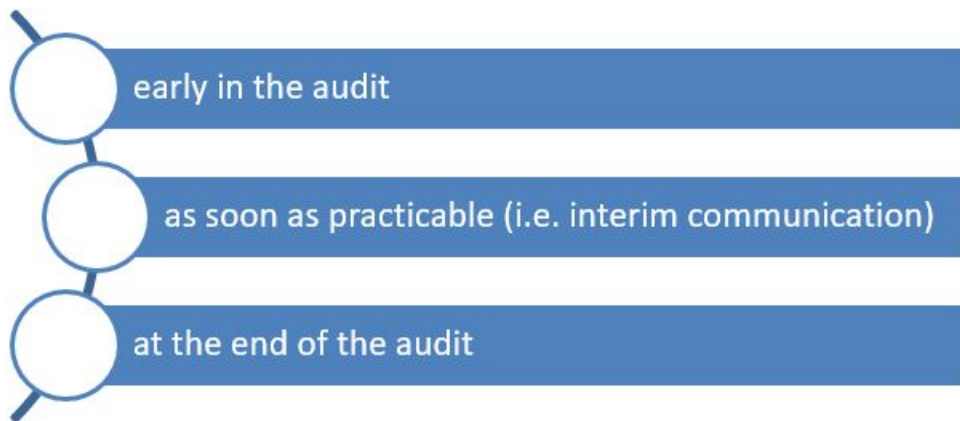
Execute the Audit

When do we communicate with those charged with governance? [ISA | 1262.1300]

If there are specific timing requirements, we follow those requirements. If there are no specific timing requirements, we communicate in a timely manner.

What is the appropriate timing for the communications with those charged with governance when there are no specific timing requirements? [ISA | 1262.1400]

The appropriate timing for communications varies with the circumstances of the engagement. The communication may be:



We perform some communications early in the audit and others at the end of the audit. However, sometimes, we may consider it necessary to communicate certain matters as soon as we identify them or, as soon as practicable after we identify them (i.e. interim communication).

Consider a situation in which a student is receiving bad grades and may fail the class if his performance continues. The teacher may decide that communicating the student's performance to his parents sooner rather than later may be beneficial so that they are able to help their child to improve. Communicating the child's grades to the parents through the report card at the end of the school period may be too late to enable the parents to assist.

Similarly, communicating certain matters to those charged with governance during the course of the audit rather than at the end of the engagement may enable them to take corrective action as soon as possible. At the end of the engagement, it may be too late.

What are some examples of communications with those charged with governance and their associated timing?

The table shows some examples of when it may be the best timing for certain communications.

Example communication	When it may be appropriate to communicate
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Planning matters	Early in the engagement, which may help in obtaining additional relevant information from those charged with governance that may be helpful to perform the audit.
Our evaluation of the qualitative aspects of the entity's accounting policies and practices	At a concluding discussion, after we performed our test work on the financial statements.
Significant difficulties encountered during the audit	As soon as practicable, especially if those charged with governance will be able to assist us to overcome the difficulty, or if the matter is likely to lead to a modified opinion.

What factors do we think about when determining whether to perform an interim communication? [ISA | 1262.1500]

Factors we may think about when determining whether to issue an interim communication are:

- **Significance:** the significance and nature of the matters noted;
- **Urgency for correction:** the urgency with which those charged with governance need to correct the matter;
- **Additional information needed:** whether we obtain additional information about the matter from those charged with governance;
- **The awareness of those charged with governance:** whether those charged with governance are already aware of the matter and have begun corrective action; and
- **Oversight responsibilities:** whether the communication will be an important factor in enabling those charged with governance to discharge their oversight responsibilities; and
- **The expectations of those charged with governance:** the expectations of those charged with governance, including arrangements made for periodic meetings or communications with us.

Do we compile or summarize all prior communications at the end of the audit when we communicate matters at an interim date? [ISA | 1262.1600]

No. When we communicate matters at an interim date, we do not compile or summarize all prior communications at the end of the audit.

1.4 Determine adequacy of two-way communication and respond appropriately [ISA | 1263]

What do we do?

Evaluate whether the two-way communication between those charged with governance and us has been adequate AND if not, evaluate the effect on our audit and take appropriate action.

Why do we do this?

Inadequate two-way communication may indicate an unsatisfactory control environment and influence our assessment of the risks of material misstatement. There is also a risk that we may not have obtained sufficient appropriate audit evidence to form an opinion on the financial statements.

The auditing standards encourage effective two-way communication between those charged with governance and us throughout the audit because both those charged with governance and we benefit from a meaningful exchange of information regarding significant risks of material misstatement and other matters that may affect the financial statements.

Execute the Audit

How do we evaluate the adequacy of the two-way communication process between those charged with governance and us? [ISA | 1263.1300]

The adequacy of the two-way communication process is evaluated based on observations resulting from performing the audit. We do not design specific procedures in performing our evaluation of the two-way communication between those charged with governance and us.

Such observations may include:

- the appropriateness and timeliness of actions taken by those charged with governance in response to matters raised by us;
- the apparent openness of those charged with governance in their communications with us;
- the willingness and capacity of those charged with governance to meet with us without management present;
- the apparent ability of those charged with governance to fully comprehend matters raised by us;
- difficulty in establishing with those charged with governance a mutual understanding of the form, timing and expected general content of communications;
- where all or some of those charged with governance are involved in managing the entity, their apparent awareness of how matters discussed with us affect their broader governance responsibilities;
- whether the two-way communication between those charged with governance and us meets applicable legal and regulatory requirements.

What do we do when the two-way communication between those charged with governance and us is not adequate? [ISA | 1263.11160]

Given the nature and extent of client acceptance and continuance procedures followed with respect to our audit clients, we expect inadequate two-way communication to be rare. However, if it happens, we:

- evaluate the effect, if any, on our assessment of the risks of material misstatement and ability to obtain sufficient appropriate audit evidence and
- take appropriate action.

Procedure	Guidance
Evaluate the effect, if any, on our assessment of the risks of material misstatement and ability	<p>Inadequate two-way communication may indicate an unsatisfactory control environment.</p> <p>A control deficiency in the control environment may mean that we:</p>

to obtain sufficient appropriate audit evidence	<ul style="list-style-type: none"> re-assess the risks of material misstatement, including the risks of fraud; and determine whether we perform additional procedures to obtain sufficient appropriate audit evidence to form an opinion on the financial statements.
Take appropriate action	<p>If there is a deficient control environment and we are unable to obtain sufficient appropriate audit evidence to form an opinion on the financial statements, we may:</p> <ul style="list-style-type: none"> obtain legal advice (in the US, contact OGC; non-US teams contact the International Office of General Counsel) about the consequences of different courses of action; modify our opinion on the basis of a scope limitation; communicate with third parties - e.g. a regulator - or a higher authority, if any; or withdraw from the engagement, where withdrawal is possible under applicable law or regulation.

1.5 Document the communications [ISA | 1260]

What do we do?

Document the communications based on whether we communicate orally or in writing.

Why do we do this?

We document our communication with those charged with governance to enable an experienced auditor, having no previous connection with the engagement, to understand the communications made.

Execute the Audit

[How do we document our communications with those charged with governance?](#) [ISA | 1260.1300]

Even though we document our communications with those charged with governance regardless of the form of communication, the documentation varies depending on whether we communicate orally or in writing.

	How we document the communications
Communications made in writing	When we communicate in writing, we include a copy of the written communications in the audit documentation.
Communications made orally	When we communicate orally, we include in the audit documentation:

	<ul style="list-style-type: none"> • what we communicated • when we communicated and • to whom we communicated. <p>We include sufficient information in the audit documentation to enable an experience auditor, having no previous connection with the engagement, to understand the communications made.</p> <p>Audit documentation of oral communications may include, depending on the circumstances:</p> <ul style="list-style-type: none"> • a memorandum; • PowerPoint presentations; • a bullet point agenda. We may document just the areas discussed when efforts to capture the details of oral communication in writing may be incomplete and subject to varying interpretations. • a copy of minutes of those charged with governance's meetings prepared by the entity. <p>If we include in our audit documentation a copy of minutes of those charged with governance's meetings, those minutes contain an accurate description of the communications performed.</p> <p>Inconsistencies between the minutes prepared by the entity and what we communicated may cause us to perform an additional communication with those charged with governance, to the extent considered necessary in the circumstances.</p>
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2 Listed Entity | Communicate a statement about independence, relationships and safeguards [ISA | 1238]

What do we do?

Communicate with those charged with governance in writing that we have complied with independence requirements, all relationships that may reasonably be thought to bear on independence and safeguards applied to eliminate or reduce threats.

Why do we do this?

Communicating to those charged with governance relationships that may reasonable be thought to bear on independence helps them to exercise their oversight responsibilities and prevents inadvertent non-compliance with independence requirements.

Execute the Audit

What do we communicate to those charged with governance in audits of financial statements of listed entities? [ISA | 1238.1300]

In the case of listed entities, we communicate with those charged with governance, in writing:

- a statement that we and other KPMG employees as appropriate, the firm and, when applicable, other KPMG member firms have complied with relevant ethical requirements regarding independence;
- all relationships and other matters between the firm, other KPMG member firms, and the entity that, in our professional judgment, may reasonably be thought to bear on independence.

This includes total fees charged during the period covered by the financial statements for audit and services other than audit provided by the firm and other KPMG member firms to the entity and components controlled by the entity.

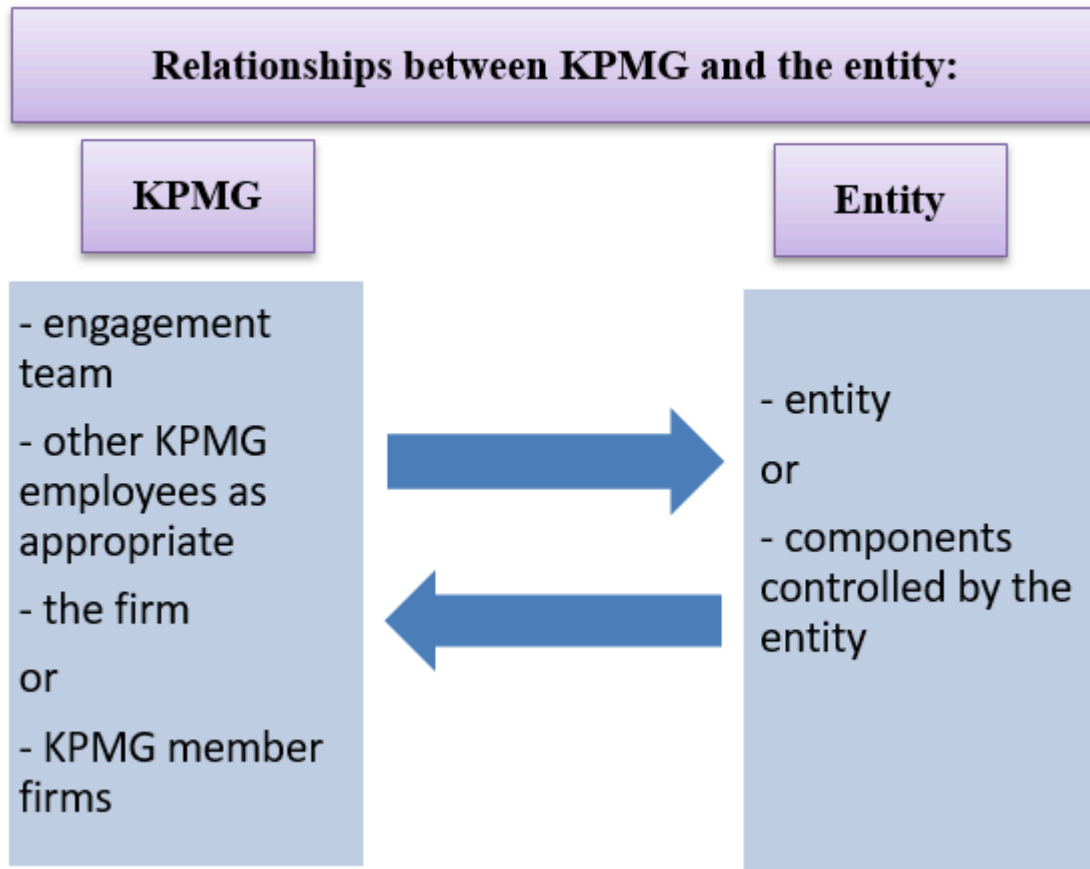
These fees are allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on our independence, as follows:

- (a) fees paid or payable to the firm or member firms for the audit of the financial statements on which the firm expresses an opinion, and
- (b) fees charged to the entity and components controlled by the entity (which is substantially equivalent to and complies with the IESBA requirement for all PIEs which includes fees charged to the entity and its related entities over which the client has direct and indirect control that are consolidated in the financial statements on which the firm will express an opinion) for the provision of all other services by the firm or member firms during the period covered by the financial statements on which the firm will express an opinion.
- threats to independence that are not at an acceptable level, the actions taken to address the threats, including actions that were taken to eliminate the circumstances that create the threats or applying safeguards to reduce the threats to an acceptable level.
- in relation to threats from fees specifically, we communicate:
 - (a) Whether the threats created by the level of those fees are at an acceptable level, including, when applicable, any actions the firm has taken or proposes to take to reduce threats to an acceptable level, and
 - (b) where the proportion of fees charged for services other than audit to the audit fee has been determined to impact the level of the self-interest threat or where an intimidation threat has been identified, whether such threats are at an acceptable level, including, when applicable, any actions taken or proposed to take to reduce such threats to an acceptable level.
- notification where fee dependency (i.e., where the total fees from an audit client that is a public interest entity represent, or are likely to represent, more than 15% of the total fees received by the firm) exists and whether this situation is likely to continue.

This includes communication of the safeguards applied to address the threats created by the fee dependency and any proposal to continue as the auditor after five consecutive years of fee dependency.

[What relationships do we communicate to those charged with governance?](#) [ISA | 1238.10239]

We disclose to those charged with governance those relationships that may reasonably be thought to bear on independence:



What process may help the engagement partner to determine the relationships to communicate? [ISA | 1238.1400]

The engagement partner may follow the following step-by-step process to determine the relationships to communicate:

- The engagement partner prepares a list of all known present and recently historic relationships between the firm (the engagement team, other KPMG employees as appropriate, the firm or other KPMG member firms) and the entity or components controlled by the entity.

The past and present relationships include:

- engagements to provide professional services. Sentinel is the primary source of information regarding audit, assurance and non-assurance services;
- employment relationships;
- business relationships; and
- in the case of a new audit client, financial relationships.
- The engagement partner requests any relevant tax, advisory or other audit partners to review the list for completeness;
- The engagement partner discusses the list with the entity's management to confirm completeness; and
- Once the list is complete, the engagement partner determines those relationships that may reasonably be thought to bear on independence.

What does the engagement partner think about to determine whether the relationships may reasonably be thought to bear on independence? [ISA | 1238.10240]

We determine the relationships that may reasonably be thought to bear on independence based on:

- professional judgment taking into account all relevant facts and circumstances:
 - passage of time (i.e. a relationship that existed during the current audit period may be more likely to bear on independence than a relationship that ended before that time)
 - nature of the relationship
- how a reasonable and informed third party would view the relationship.

Only in exceptional circumstances does a terminated relationship need to be disclosed.

Normally, if an ongoing relationship has been disclosed in a prior communication and:

- the nature of the relationship and potential effects on independence remain substantially unchanged; and
- the make-up of those charged with governance remains unchanged,

we do not repeat the disclosure. We may discuss with the EQCR when there are questions regarding disclosure of relationships to those charged with governance.

What do we do when we are uncertain about what relationships to communicate? [ISA | 1238.10242]

When we are uncertain about what relationships to communicate, we consult with the Ethics and Independence Partner.

What do we include in our communication regarding threats to independence that were initially assessed as not at an acceptable level? [ISA | 1238.1500]

For threats to independence that are initially assessed as not at an acceptable level, we communicate the actions taken to address the threats, including actions that were taken to eliminate the circumstances that created the threats, or safeguards applied to reduce the threats to an acceptable level.

Safeguards are actions, individually or in combination, that the KPMG professional or member firm takes that effectively reduce threats to independence to an acceptable level.

Refer to applicable sections of the [Global Quality and Risk Management Manual](https://www.gqrm-prod.kworld.kpmg.com/G/0/Content/231) <https://www.gqrm-prod.kworld.kpmg.com/G/0/Content/231> (e.g., Section 6.7 and Chapters 11 and 12) for examples of safeguards.

The safeguards generally address threats to independence, which may be categorized as:

- *Self-interest*: the threat to our objectivity due to financial or other self-interests.
- *Self-review*: the threat to our objectivity caused by a self-review of services performed by us or the firm during the audit.
- *Advocacy*: the threat to our objectivity if we become an advocate for (or against) the entity's position.
- *Familiarity or trust*: the threat of our becoming too trusting of the entity and, therefore, not maintaining appropriate professional skepticism.
- *Intimidation*: the threat of our becoming intimidated or threatened by overbearing or dominating members of management.

What is the form of our communication of independence matters? [ISA | 1238.1600]

We communicate independence matters to those charged with governance in writing.

When do we communicate independence matters? [ISA | 1238.1700]

We communicate independence matters on a timely basis. In particular, communications regarding independence may be appropriate whenever significant judgments are made.

For example, we may communicate when accepting an engagement to provide non-assurance services or in a concluding meeting.

The timing of the independence communications may be required by local standards, laws or regulations.

Group Audit | Who communicates group independence matters in a group audit? [ISA | 1238.1800]

The responsibility to comply with the communications about independence matters rests solely with the group auditor. The group engagement team's communication to those charged with governance includes all relevant relationships of all KPMG member firms participating in the audit.

Group Audit | What if the group auditor relies on the work of non-KPMG component auditors? [ISA | 1238.10243]

If the group auditor is relying on the work of non-KPMG component auditors, the group auditor's communication to those charged with governance generally does not address the non-KPMG component auditors' relationships and states that it does not do so. However, we may provide such information to those charged with governance at their request.

Specific Requirements in ISQC 1 and Other ISAs that Refer to Communications with Those Charged With Governance

International Standards on Auditing: ISA 260.Appendix 1 Appendix 1 Specific Requirements in ISQM 1 and Other ISAs that Refer to Communications with Those Charged With Governance

(Ref: Para. 3)

This appendix identifies paragraphs in ISQM 1²⁸ and other ISAs that require communication of specific matters with those charged with governance. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs.

- ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* - paragraph 34(e)

- ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* - paragraphs 21, 38(c)(i) and 40-42
- ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements* - paragraphs 14, 19 and 22 - 24
- ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management* - paragraph 9
- ISA 450, *Evaluation of Misstatements Identified during the Audit* - paragraphs 12-13
- ISA 505, *External Confirmations* - paragraph 9
- ISA 510, *Initial Audit Engagements - Opening Balances* - paragraph 7
- ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures* - paragraph 38
- ISA 550, *Related Parties* - paragraph 27
- ISA 560, *Subsequent Events* - paragraphs 7(b)-(c), 10(a), 13(b), 14(a) and 17
- ISA 570 (Revised), *Going Concern* - paragraph 25
- ISA 600 (Revised), *Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)* - paragraph 57
- ISA 610 (Revised), *Using the Work of Internal Auditors* - paragraph 18; ISA 610 (Revised 2013), *Using the Work of Internal Auditors* - paragraphs 20 and 31
- ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* - paragraph 46
- ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report* - paragraph 17
- ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report* - paragraphs 12, 14, 23 and 30
- ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* - paragraph 12
- ISA 710, *Comparative Information - Corresponding Figures and Comparative Financial Statements* - paragraph 18
- ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information* - paragraph 17 - 19

28 ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

How do we comply with the Standards? [ISA | KAEGHDWC]

1 Communicate with those charged with governance [ISA | 1219]

What do we do?

Communicate with those charged with governance.

Why do we do this?

Effective two-way communications are beneficial to both those charged with governance and us. Two-way communication assists those charged with governance in fulfilling their responsibility to oversee the

financial reporting process, thereby reducing the risks of material misstatement of the financial statements and improving financial reporting to the benefit of users [of the financial statements].

Our communications with those charged with governance provides insight with respect to our views on accounting and disclosure matters, including our evaluation of the matters that are significant to the financial statements.

Our communications also allow us to perform a more efficient and effective audit because effective two-way communications assist us in obtaining insights and information that help us to identify and assess risks, and setting the audit strategy/audit plan.

Execute the Audit

[What does communicating with those charged with governance entail?](#) [ISA | 1219.1500]

At a high level, we communicate with those charged with governance by performing the following activities:

- [Determine who those charged with governance are;](#)
- Communicate the following matters:
 - [Communicate the identity and role of the partner and our responsibilities;](#)
 - [Communicate planned scope and timing of the audit;](#)
 - [Communicate significant findings from the audit;](#)
 - [Communicate independence matters;](#)
- [Set up the communication process.](#)

[Are there other matters we communicate?](#) [ISA | 1219.11039]

Yes. Other standards identify additional matters that we communicate to those charged with governance - for example, control deficiencies, related-party matters and fraud-related matters. See other chapters in this manual for further communications.

[Can we communicate additional matters?](#) [ISA | 1219.11042]

Yes. We may choose to communicate matters identified during our audit that go beyond the specific items from the audit standards.

For example, we may choose to communicate matters such as significant issues regarding governance structures or processes or significant decisions or actions by senior management that lack appropriate authorization.

[What do we do when we communicate additional matters with those charged with governance?](#) [ISA | 1219.11043]

When we communicate additional matters, we may make those charged with governance aware that:

- identification and communication of those matters goes beyond the purpose of the audit, which is to form an opinion on the financial statements;
- we did not carry out procedures with respect to those matters, other than any procedures necessary to form an opinion on the financial statements; and
- we did not carry out procedures to determine whether other additional matters exist.

Do we perform specific procedures to identify matters to communicate to those charged with governance?

[ISA | 1219.11044]

No. We do not perform specific procedures to identify additional matters to communicate. All of our communications are related to matters that arise during the performance of our audit.

Is it appropriate to discuss with management certain matters before communicating with those charged with governance? [ISA | 1219.11045]

Not always. In certain circumstances, discussing matters with management before communicating them to those charged with governance may be inappropriate.

For example, it is not appropriate to discuss with management:

- questions around management's competence or integrity; or
- instances of identified or suspected fraud involving senior management

before communicating them to those charged with governance.

When it is appropriate, we may decide to discuss certain matters with management or other parties, such as the entity's internal auditors, before communicating with those charged with governance. This not only fosters a good professional relationship with management, but recognizes management's responsibility for the preparation and fair presentation of the financial statements. In addition, these initial discussions may clarify facts and issues and give management an opportunity to provide further information and explanations.

Do we communicate with those charged with governance matters already communicated to them by management? [ISA | 1219.11046]

Yes. Management's communications to those charged with governance about matters we are required to communicate does not relieve us of our responsibility to make those communications.

However, management's communication of these matters may affect the form or timing of our communication with those charged with governance.

For example, if management has thoroughly communicated certain matters, we may:

- simply acknowledge that we have nothing to add or communicate, or
- communicate only what is incremental.

What do we do when those charged with governance are required to provide third parties with our written communications? [ISA | 1219.11047]

When those charged with governance are required by law or regulation to provide third parties - e.g. bankers or certain regulatory authorities - with copies of our written communications, refer to [GQ&RMM Section 10.6.3](https://www.gqrrmm-prod.kworld.kpmg.com/G/0/Content/83) <https://www.gqrrmm-prod.kworld.kpmg.com/G/0/Content/83> or any local risk management policies and procedures for further guidance.

Are we prohibited by law or regulation to communicate certain matters with those charged with governance? [ISA | 1219.11053]

We may be. For example, in some jurisdictions, laws or regulations may restrict our communication to management and/or those charged with governance, or other related action, of certain misstatements to avoid harming an investigation into an illegal act by an appropriate authority. For example, laws or regulations may specifically prohibit alerting the entity when we are required to report to an appropriate authority in accordance with anti-money laundering legislation.

See question '[What do we do if law or regulation prohibits communicating misstatements?](#)'.

Qualitative Aspects of Accounting Practices

International Standards on Auditing: ISA 260.Appendix 2

Appendix 2 Qualitative Aspects of Accounting Practices

(Ref: Para. 16(a), A19 - A20)

The communication required by paragraph 16(a), and discussed in paragraphs A19 - A20, may include such matters as:

Accounting Policies

- The appropriateness of the accounting policies to the particular circumstances of the entity, having regard to the need to balance the cost of providing information with the likely benefit to users of the entity's financial statements. Where acceptable alternative accounting policies exist, the communication may include identification of the financial statement items that are affected by the choice of significant accounting policies as well as information on accounting policies used by similar entities.
- The initial selection of, and changes in, significant accounting policies, including the application of new accounting pronouncements. The communication may include: the effect of the timing and method of adoption of a change in accounting policy on the current and future earnings of the entity; and the timing of a change in accounting policies in relation to expected new accounting pronouncements.
- The effect of significant accounting policies in controversial or emerging areas (or those unique to an industry, particularly when there is a lack of authoritative guidance or consensus).
- The effect of the timing of transactions in relation to the period in which they are recorded.

Accounting Estimates

Appendix 2 of ISA 540 (Revised) includes matters that the auditor may consider communicating with respect to significant qualitative aspects of the entity's accounting practices related to accounting estimates and related disclosures.

Financial Statement Disclosures

- The issues involved, and related judgments made, in formulating particularly sensitive financial statement disclosures (e.g., disclosures related to revenue recognition, remuneration, going concern, subsequent events, and contingency issues).
- The overall neutrality, consistency and clarity of the disclosures in the financial statements.

Related Matters

- The potential effect on the financial statements of significant risks, exposures and uncertainties, such as pending litigation, that are disclosed in the financial statements.
- The extent to which the financial statements are affected by significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual. This communication may highlight:
 - The non-recurring amounts recognized during the period.
 - The extent to which such transactions are separately disclosed in the financial statements.
 - Whether such transactions appear to have been designed to achieve a particular accounting or tax treatment, or a particular legal or regulatory objective.
 - Whether the form of such transactions appears overly complex or where extensive advice regarding the structuring of the transaction has been taken.
 - Where management is placing more emphasis on the need for a particular accounting treatment than on the underlying economics of the transaction.
- The factors affecting asset and liability carrying values, including the entity's bases for determining useful lives assigned to tangible and intangible assets. The communication may explain how factors affecting carrying values were selected and how alternative selections would have affected the financial statements.
- The selective correction of misstatements, for example, correcting misstatements with the effect of increasing reported earnings, but not those that have the effect of decreasing reported earnings.

29 ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

How do we comply with the Standards? [ISA | KAEGHDWC]

1 Communicate our views about significant qualitative aspects of accounting practices [ISA | 1248]

What do we do?

Communicate with those charged with governance our views about significant qualitative aspects of the entity's accounting practices.

Why do we do this?

Communicating to those charged with governance the significant findings from the audit helps them to exercise their oversight responsibilities. In addition, this communication provides an opportunity for us to request further information from those charged with governance in order to follow up on the audit evidence obtained or obtain additional audit evidence.

Execute the Audit

What do we communicate regarding our views about significant qualitative aspects of the entity's accounting practices? [ISA | 1248.1300]

We communicate with those charged with governance our views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

We explain to those charged with governance why we consider a significant accounting practice, that is acceptable under the applicable financial reporting framework, not to be the most appropriate to the particular circumstances of the entity when this situation exists.

Where does the information to communicate our views about significant qualitative aspects of the entity's accounting practices come from? [ISA | 1248.1400]

We gather the information to communicate our views about significant qualitative aspects of the entity's accounting practices while performing procedures specified in [ISA 700.12](#) and [ISA 540.32](#).

What may those charged with governance be interested in specific to accounting for estimates and related disclosures? [ISA | 1248.159600]

Those charged with governance may be interested in our views on the degree to which complexity, subjectivity, or other inherent risk factors affect the selection or application of the methods, assumptions, and data used in making a significant accounting estimate, as well as our evaluation of whether management's point estimate and related disclosures in the financial statements are reasonable in the context of the applicable financial reporting framework. Open and constructive communication about qualitative aspects of the entity's significant accounting practices may also include comment on the acceptability of significant accounting practices and the quality of the disclosures. When applicable, this may include whether a significant accounting practice of the entity relating to accounting estimates is considered by us to not be the most appropriate to the particular circumstances of the entity, for example, when an alternative acceptable method for making an accounting estimate would, in our judgment, be more appropriate.

[Appendix 2 of ISA 540](#), "Auditing Accounting Estimates and Related Disclosures," includes matters specific to accounting estimates that we may consider communicating to those charged with governance.

Is management present in our discussions with those charged with governance when we communicate our views about the significant qualitative aspects of the entity's accounting practices? [ISA | 1248.1500]

Since management has the primary responsibility for establishing an entity's accounting practices, they are an active participant in our discussions with those charged with governance when we communicate our views about the significant qualitative aspects of the entity's accounting practices.

What matters may we include in our communication to those charged with governance regarding our views about the significant qualitative aspects of the entity's accounting practices? [ISA | 1248.1600]

[Appendix 2 of ISA 260](#) identifies matters that we may include in our communication about the significant qualitative aspects of the entity's accounting practices.

Do we perform communications about accounting estimates to other third parties? [ISA | 1248.1700]

In certain circumstances, we are required by law or regulation to communicate about accounting estimates directly with other relevant parties, such as regulators or prudential supervisors.

Such communication may be useful throughout the audit or at particular stages, such as when planning the audit or when finalizing the auditor's report.

For example, in some jurisdictions, financial institution regulators seek to cooperate with auditors to share information about the operation and application of controls over financial instrument activities, challenges in valuing financial instruments in inactive markets, expected credit losses, and insurance reserves while other regulators may seek to understand our views on significant aspects of the entity's operations including the entity's costs estimates. This communication may be helpful to us in identifying, assessing and responding to risks of material misstatement.

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