Standard

Audit and Assurance

Financial Reporting Council

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International Standard on Auditing (UK and Ireland) 260

Communication with those charged with governance

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INTERNATIONAL STANDARD ON AUDITING (UK AND IRELAND) 260 (REVISED SEPTEMBER 2014)

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

(Effective for audits of financial statements for periods commencing on or after 1 October 2014)

CONTENTS

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

Introduction

Scope of this ISA (UK and Ireland)

1. This International Standard on Auditing (UK and Ireland) (ISA (UK and Ireland)) deals with the auditor's responsibility to communicate with those charged with governance in an audit of financial statements. Although this ISA (UK and Ireland) 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 (UK and Ireland) 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 (UK and Ireland) 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 (UK and Ireland) 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 (UK and Ireland), are identified in other ISAs (UK and Ireland) (see Appendix 1). In addition, ISA (UK and Ireland) 265[1] 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 (UK and Ireland), 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 (UK and Ireland) precludes the auditor from communicating any other matters to those charged with governance. (Ref: Para. A24-A27)

The Role of Communication

4. This ISA (UK and Ireland) 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;

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[1] ISA (UK and Ireland) 265, "Communicating Deficiencies in Internal Control to Those Charged with Governance and Management."

(b) The auditor in obtaining from those charged with governance information relevant to the audit[1a]. 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 (UK and Ireland), 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 (UK and Ireland) is an integral part of every audit. ISAs (UK and Ireland) do not, however, require the auditor to perform procedures specifically to identify any other matters to communicate with those charged with governance.

7. Law or regulation may restrict the auditor's communication of certain matters with those charged with governance. For example, laws or regulations may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act. In some circumstances, potential conflicts between the auditor's obligations of confidentiality and obligations to communicate may be complex. In such cases, the auditor may consider obtaining legal advice.

Effective Date

8. This ISA (UK and Ireland) is effective for audits of financial statements for periods commencing on or after 1 October 2014.

Objectives

9. The objectives of the auditor are:

[1a] Sections 499 and 500 of the Companies Act 2006 set legal requirements in relation to the auditor's right to obtain information. For the Republic of Ireland, relevant requirements are set out in Sections 193(3) and 196, Companies Act 1990.

(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 (UK and Ireland), the following terms have the meanings attributed below:

(a) Those charged with governance – The person(s) or organization(s) (for example, 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.

In the UK and Ireland, those charged with governance include the directors (executive and non-executive) of a company and the members of an audit committee where one exists. For other types of entity it usually includes equivalent persons such as the partners, proprietors, committee of management or trustees.

(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.

In the UK and Ireland, management will not normally include non-executive directors.

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 (UK and Ireland) 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)

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[1b] 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)

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. (Ref: Para. A11-A15)

Significant Findings from the Audit

16. The auditor shall communicate with those charged with governance: (Ref: Para. A16)

    (a) The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and

[1b] In the UK and Ireland those charged with governance are responsible for the preparation of the financial statements.

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. A17)

(b) Significant difficulties, if any, encountered during the audit; (Ref: Para. A18)

(c) Unless all of those charged with governance are involved in managing the entity:

  (i) Significant matters, if any, arising from the audit that were discussed, or subject to correspondence with management; and (Ref: Para. A19)

  (ii) Written representations the auditor is requesting; and

(d) Other matters, if any, arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process. (Ref: Para. A20)

Entities that Report on Application of the UK Corporate Governance Code

16-1. In the case of entities that are required[1c], and those that choose voluntarily, to report on how they have applied the UK Corporate Governance Code, or to explain why they have not, the auditor shall communicate to the audit committee the information that the auditor believes will be relevant to: (Ref: Para. A20-1)

- The board (in the context of fulfilling its responsibilities under Code provisions C.1.1, C.1.3, C.2.1, C.2.2 and C.2.3) and, where applicable, the audit committee (in the context of fulfilling its responsibilities under Code provision C.3.4); and

- The audit committee (in the context of fulfilling its responsibilities under Code provision C.3.2) in order to understand the rationale and the supporting evidence the auditor has relied on when making significant professional judgments in the course of the audit and in reaching an opinion on the financial statements.

If not already covered by communications under paragraphs 15 and 16 above and paragraph 23 of ISA (UK and Ireland) 570, "Going Concern", this information shall include the auditor's views: (Ref: Para. A20-2 – A20-5)

(a) About business risks relevant to financial reporting objectives, the application of materiality and the implications of their judgments in relation to these for the overall audit strategy, the audit plan and the evaluation of misstatements identified;

(b) On the significant accounting policies (both individually and in aggregate);

[1c] In the UK, these include companies with a Premium listing of equity shares regardless of whether they are incorporated in the UK or elsewhere. In Ireland, these include Irish incorporated companies with a primary or secondary listing of equity shares on the Irish Stock Exchange.

(c) On management's valuations of the entity's material assets and liabilities and the related disclosures provided by management;

(d) Without expressing an opinion on the effectiveness of the entity's system of internal control as a whole, and based solely on the audit procedures performed in the audit of the financial statements, about:

(i) The effectiveness of the entity's system of internal control relevant to risks that may affect financial reporting; and

(ii) Other risks arising from the entity's business model and the effectiveness of related internal controls to the extent, if any, the auditor has obtained an understanding of these matters;

(e) About the robustness of the directors' assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity and its outcome, including the related disclosures in the annual report confirming that they have carried out such an assessment and describing those risks and explaining how they are being managed or mitigated (in accordance with Code provision C.2.1);

(f) About the directors' explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate (in accordance with Code provision C.2.2), and their statements:

(i) in the financial statements, as to whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, including any related disclosures identifying any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements (in accordance with Code provision C.1.3); and

(ii) in the annual report as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions (in accordance with Code provision C.2.2); and

(g) On any other matters identified in the course of the audit that the auditor believes will be relevant to the board or the audit committee in the context of fulfilling their responsibilities referred to above.

The auditor shall include with this communication sufficient explanation to enable the audit committee to understand the context within which the auditor's views relating to the matters in paragraph (d) above are expressed, including the extent to which the auditor has developed an understanding of these matters in the course of the audit and, if not already communicated to the audit committee, that the audit included consideration of internal control relevant to the preparation of the financial statements only in order to design audit procedures that are appropriate in the circumstances, and not for the purpose of expressing an opinion on the effectiveness of internal control.

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[1d]; and

    (b) (i) All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may 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) The related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level. (Ref: Para. A21-A23)

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. A28-A36)

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. A37-A39)

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

[1d] In the UK and Ireland, auditors are subject to ethical requirements from two sources: the APB's Ethical Standards for Auditors (ESs), including ES 1 (Revised), "Integrity, Objectivity and Independence," and the ethical pronouncements established by the auditor's relevant professional body. In the case of listed companies, ES 1 (Revised) specifies information to be communicated to those charged with governance (see Para A21-1 in this ISA (UK and Ireland)).

Timing of Communications

21. The auditor shall communicate with those charged with governance on a timely basis. (Ref: Para. A40 - A41-1)

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. A42-A44)

Documentation

23. Where matters required by this ISA (UK and Ireland) 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. A45)

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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.

[2] ISA (UK and Ireland) 230, "Audit Documentation," paragraphs 8-11, and paragraph A6.

- In some cases, those charged with governance are responsible for approving[3] the entity's financial statements (in other cases management has this responsibility).

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 (UK and Ireland) 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 (UK and Ireland) 315 (Revised June 2013)[4] is relevant. The appropriate person(s) with whom to communicate may vary depending on the matter to be communicated.

A4. ISA (UK and Ireland) 600 includes specific matters to be communicated by group auditors with those charged with governance.[5] When the entity is a component of a group, 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 (for example, common board of directors), duplication may be avoided by dealing with these components concurrently for the purpose of communication.

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[3] As described at paragraph A40 of ISA 700, "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.

In the UK and Ireland, those charged with governance are responsible for the approval of the financial statements.

The FRC has not promulgated ISA 700 as issued by the IAASB for application in the UK and Ireland. In the UK and Ireland the applicable auditing standard is ISA (UK and Ireland) 700, "The Independent Auditor's Report on Financial Statements."

[4] ISA (UK and Ireland) 315 (Revised June 2013), "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment."

[5] ISA (UK and Ireland) 600, "Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)," paragraphs 46-49.

A4-1. In the UK and Ireland there are statutory obligations on corporate subsidiary undertakings, and their auditors and other parties, to provide the auditor of a corporate parent undertaking with such information and explanations as that auditor may reasonably require for the purposes of the audit[5a]. Where there is no such statutory obligation (e.g. for non corporate entities), permission may be needed by the auditors of the subsidiary undertakings, from those charged with governance of the subsidiary undertakings, to disclose the contents of any communication to them to the auditor of the parent undertaking and also for the auditor of the parent undertaking to pass those disclosures onto those charged with governance of the parent undertaking. The auditor of the parent undertaking seeks to ensure that appropriate arrangements are made at the planning stage for these disclosures. Normally, such arrangements for groups are recorded in the instructions to the auditors of subsidiary undertakings and relevant engagement letters.

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

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[5a] In the UK, Section 499 of the Companies Act 2006 specifies that the auditor of a company may require any subsidiary undertaking of the company which is a body corporate incorporated in the UK, and any officer, employee or auditor of any such subsidiary undertaking or any person holding or accountable for any books, accounts or vouchers of any such subsidiary undertaking, to provide him with such information or explanations as he thinks necessary for the performance of his duties as auditor. If a parent company has a subsidiary undertaking that is not a body corporate incorporated in the UK, Section 500 of the Companies Act 2006 specifies that the auditor of the parent company may require it to take all such steps as are reasonably open to it to obtain from the subsidiary undertaking, any officer, employee or auditor of the undertaking, or any person holding or accountable for any of the undertaking's books, accounts or vouchers, such information and explanations as he may reasonably require for the purposes of his duties as auditor. Similar obligations regarding companies incorporated in the Republic of Ireland are set out in Section 196, Companies Act 1990.

regulation, the auditor retains the right to communicate directly with the governing body.

A6-1. Audit committees report to the board on various matters related to the discharge of their responsibilities, including those related to the financial statements, the annual report and the audit process (see paragraph A20-1 below). The auditor, when assessing whether there is a need to communicate with the full board regarding matters communicated by the auditor to the audit committee, takes into consideration the adequacy of the communications between the audit committee and the board, including whether they appropriately address relevant matters communicated to the audit committee by the auditor. This may be achieved in one or more ways including: where judged appropriate attending the relevant part of a board meeting where the audit committee reports to the board, holding discussions with individual board members, or reviewing any written reports from the audit committee to the board.

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 (for example, one responsible for marketing) may be unaware of significant matters discussed with another director (for example, one responsible for the preparation of the financial statements).

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. 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 (UK and Ireland), which is directed towards the expression of an opinion on the financial statements. The matters that ISAs (UK and Ireland) require to be communicated, therefore, include significant matters arising from the audit of the financial statements that are relevant to those charged with governance in overseeing the financial reporting process.

- The fact that ISAs (UK and Ireland) do not require the auditor to design procedures for the purpose of identifying supplementary matters to communicate with those charged with governance.

- 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.

A9-1. The provision of copies of the audit engagement letter to the audit committees of listed companies facilitates their review and agreement of the audit engagement letter as recommended by the FRC Guidance on Audit Committees. As part of their review, the guidance further recommends the audit committee to consider whether the audit engagement letter has been updated to reflect changes in circumstances since the previous year.

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.

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[5b]; and

(b) Assist the auditor to understand better the entity and its environment.

[5b] The UK Corporate Governance Code and the FRC Guidance on Audit Committees contain, inter alia, recommendations about the audit committee's relationship with the auditor

A11-1. The communication of the planned scope of the audit includes, where relevant, any limitations on the work the auditor proposes to undertake (e.g. if limitations are imposed by management)[5c].

A12. Care is required 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.

A13. Matters communicated may include:

- How the auditor proposes to address the significant risks of material misstatement, whether due to fraud or error.
- The auditor's approach to internal control relevant to the audit.
- The application of the concept of materiality in the context of an audit.[6]

A13-1. The nature and detail of the planning information communicated will reflect the size and nature of the entity and the manner in which those charged with governance operate.

A13-2 In any particular year, the auditor may decide that there are no significant changes in the planned scope and timing of the audit that have been communicated previously and judge that it is unnecessary to remind those charged with governance of all or part of that information. In these circumstances, the auditor need only make those charged with governance aware that the auditor has no new matters to communicate concerning the planned scope and timing of the audit. Matters that are included in the audit engagement letter need not be repeated.

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 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.[7]

[5c] ISA (UK and Ireland) 210, "Agreeing the Terms of Audit Engagements," paragraph 7 requires that if management or those charged with governance impose a limitation on the scope of the auditor's work in the terms of a proposed audit engagement such that the auditor believes the limitation will result in the auditor disclaiming an opinion on the financial statements, the auditor shall not accept such a limited engagement as an audit engagement, unless required by law or regulation to do so.

[6] ISA (UK and Ireland) 320, "Materiality in Planning and Performing an Audit."

[7] ISA (UK and Ireland) 610 (Revised June 2013), "Using the Work of Internal Auditors", paragraphs 20 and 31.
The use of internal auditors to provide direct assistance is prohibited in an audit conducted in accordance with ISAs (UK and Ireland) – see ISA (UK and Ireland) 610 (Revised June 2013), paragraph 5-1.

- The views of those charged with governance of:
    - 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 with 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.
- The responses of those charged with governance to previous communications with the auditor.

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.

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

A16. 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.

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

A17. Financial reporting frameworks ordinarily allow for the entity to make accounting estimates, and judgments about accounting policies and financial statement disclosures. Open and constructive communication about significant qualitative aspects of the entity's accounting practices may include comment on the acceptability of significant accounting practices. Appendix 2 identifies matters that may be included in this communication.

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

A18. Significant difficulties encountered during the audit may include such matters as:

- Significant delays in management providing required information.
- An unnecessarily 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.[8]

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

A19. Significant matters discussed, or subject to correspondence with management may include such matters as:

- 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.

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[8] ISA (UK and Ireland) 705, "Modifications to the Opinion in the Independent Auditor's Report."

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

A20. Other significant matters arising from 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 fact or material inconsistencies in information accompanying the audited financial statements that have been corrected.

Entities that Report on Application of the UK Corporate Governance Code (Ref: Para. 16-1)

A20-1. Under the UK Corporate Governance Code, the responsibilities of the directors under Code provision C.1.1 include making a statement that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's position and performance, business model and strategy. The responsibilities of the audit committee under Code provision C.3.4 include, where requested by the board, providing advice in relation to that statement[8a]. The responsibilities of the board under Code provision C.2.3 include monitoring the entity's risk management and internal control systems and, at least annually, carrying out a review of their effectiveness and reporting on that review in the annual report[8b]. The responsibilities of the board under Code provisions C.1.3, C.2.1 and C.2.2 are described in paragraphs 16-1 (e) and (f). The responsibilities of the audit committee under Code provision C.3.2 include: monitoring the integrity of the financial statements of the entity and any formal announcements relating to the entity's financial performance, reviewing significant financial reporting judgments contained in them; reviewing the entity's internal financial controls and, unless expressly addressed by a separate board risk committee composed of independent directors or by the board itself, the entity's internal control and risk management systems[8c]; review and monitor the effectiveness of the audit process; and reporting to the board on how it has discharged its responsibilities. The supporting Guidance on Audit Committees indicates that the report to the board should include, inter alia[8d]:

- The significant issues that the audit committee considered in relation to the financial statements and how these issues were addressed; and

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[8a] Responsibility for ensuring the annual report is fair, balanced and understandable rests with the board as a whole. The board may ask the audit committee to provide advice on this.

[8b] In addition, FCA Rule DTR 7.2.5 R requires companies to describe the main features of the internal control and risk management systems in relation to the financial reporting process.

[8c] The FRC issues 'Guidance on Risk Management and Internal Control and Related Financial and Business Reporting' for directors on their responsibilities under the UK Corporate Governance Code. The guidance indicates that it is for the board to decide what arrangements to put in place to enable it to exercise its responsibilities. The guidance also indicates the nature of the information the board may include in its narrative statement about these matters. Supplementary considerations for the banking sector are provided in 'Guidance for Directors of Banks on Solvency and Liquidity Risk Management and the Going Concern Basis of Accounting'.

[8d] The Guidance on Audit Committees also sets out other matters the audit committee should consider in relation to the annual audit cycle, including in relation to the audit plan and the auditor's findings.

- The basis for its advice, where requested by the board, that the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy.

A20-2. In fulfilling these responsibilities, the audit committee and the board will be assisted by an understanding of:

(a) Issues that involve significant judgment; and

(b) Other matters communicated to them by the auditor relevant to those responsibilities.

This will include an understanding of the rationale and supporting evidence for the auditor's significant professional judgments made in the course of the audit and in reaching the opinion on the financial statements, and of other matters communicated to the audit committee by the auditor in accordance with the requirements of paragraph 16-1, including relevant information communicated in accordance with the requirements of paragraphs 15 and 16. The auditor's communications include information regarding separate components of a group where relevant. In fulfilling its responsibilities set out above, the board will be assisted by the report from the audit committee on how the audit committee has discharged its responsibilities.

A20-3. The audit procedures that the auditor designs as part of the audit of the financial statements are not designed for the purpose of expressing an opinion on the effectiveness of the entity's system of internal control as a whole and accordingly the auditor does not express such an opinion on the basis of those procedures. However, communication of the auditor's views about the effectiveness of elements of the entity's system of internal control, based on the audit procedures performed in the audit of the financial statements, may help the audit committee and the board fulfil their respective responsibilities with respect to the entity's internal control and risk management systems.

A20-4. The auditor's understanding of the entity includes the entity's objectives and strategies and those related business risks that may result in risks of material misstatement, obtained in compliance with ISA (UK and Ireland) 315 (Revised June 2013)[8e], and may also include other risks arising from the entity's business model that are relevant to an understanding of that model and the entity's strategy. To the extent that the auditor has obtained an understanding of such risks and the effectiveness of the entity's system of internal control in addressing them, communicating its views on those matters may be helpful to the audit committee and the board in their evaluation of whether the annual report is fair, balanced and understandable and provides the information necessary for users to assess the entity's position and performance, business model and strategy. However, the auditor is not required to design and perform audit procedures expressly for the

[8e] ISA (UK and Ireland) 315 (Revised June 2013), paragraph 11(d).

purpose of forming views about the effectiveness of the entity's internal control in addressing such risks. Accordingly, to the extent applicable, the auditor may communicate that they have not obtained an understanding of, and therefore are not able to express views about, such risks and related aspects of the entity's internal control.

A20-5. The auditor's communication of views about the effectiveness of the entity's internal control may include, or refer to, the communication of significant deficiencies in internal control, if any, that is required by ISA (UK and Ireland) 265. However, views about effectiveness can go beyond just identifying such deficiencies. For example they may include views about such matters as the entity's strategies for identifying and responding quickly to significant new financial or operational risks; the quality of the reports that the board receives to provide them with information about risks and the operation of internal control; or how the entity's systems compare in general terms with those of other relevant entities of which the auditor has knowledge, such as the impact on internal control effectiveness that may result from different approaches to maintaining an appropriate control environment. The auditor's communications include its views relating to separate components of a group where relevant.

Auditor Independence (Ref: Para. 17)

A21. The auditor is required to comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements.[9]

A21-1 In the UK and Ireland, auditors are subject to ethical requirements from two sources: the APB's Ethical Standards for Auditors (ESs), including ES 1 (Revised), "Integrity, Objectivity and Independence," and the ethical pronouncements established by the auditor's relevant professional body. In the case of listed companies ES 1 (Revised) requires that:

"The audit engagement partner shall ensure that those charged with the governance of the audited entity are appropriately informed on a timely basis of all significant facts and matters that bear upon the auditor's objectivity and independence." and

"In the case of listed companies, the audit engagement partner shall ensure that the audit committee is provided with:

(a) a written disclosure of relationships (including the provision of non-audit services) that bear on the auditor's objectivity and independence, the threats to auditor independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable the auditor's objectivity and independence to be assessed;

[9] ISA (UK and Ireland) 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing," paragraph 14.

(b) details of non-audit services provided to the audited entity and the fees charged in relation thereto;

(c) written confirmation that the auditor is independent;

(d) details of any inconsistencies between APB Ethical Standards and the company's policy for the supply of non-audit services by the audit firm and any apparent breach of that policy.

(e) an opportunity to discuss auditor independence issues."

A22. The relationships and other matters, and safeguards to be communicated, vary with the circumstances of the engagement, but generally address:

(a) Threats to independence, which may be categorized as: self-interest threats, self-review threats, advocacy threats, familiarity threats, and intimidation threats; and

(b) Safeguards created by the profession, legislation or regulation, safeguards within the entity, and safeguards within the firm's own systems and procedures.

The communication required by paragraph 17(a) may include an inadvertent violation of relevant ethical requirements as they relate to auditor independence, and any remedial action taken or proposed.

A23. The communication requirements relating to auditor independence that apply in the case of listed entities may also be relevant in the case of some other entities, particularly those that may be of significant public interest because, as a result of their business, their size or their corporate status, they have a wide range of stakeholders. Examples of entities that are not listed entities, but where communication of auditor independence may be appropriate, include public sector entities, credit institutions, insurance companies, and retirement benefit funds. 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.

Supplementary Matters (Ref: Para. 3)

A24. 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.

A25. 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.

A26. 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.

A27. 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.

The Communication Process

Establishing the Communication Process (Ref: Para. 18)

A28. 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.

A29. 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 amongst 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.

A30. 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 A44).

Considerations Specific to Smaller Entities

A31. 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

A32. Many matters may be discussed with management in the ordinary course of an audit, including matters required by this ISA (UK and Ireland) 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.

A33. 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 appropriate individuals within the function before communicating with those charged with governance.

Communication with Third Parties

A34. Those charged with governance 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.

A35. 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.

A36. 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. 19-20)

A37. 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 and 20 either orally or in writing. Written communications may include an engagement letter that is provided to those charged with governance.

A37-1. The auditor discusses issues clearly and unequivocally with those charged with governance so that the implications of those issues are likely to be fully comprehended by them.

A38. In addition to the significance of a particular matter, the form of communication (for example, 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 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.

A38-1. The judgment of whether to communicate significant matters orally or in writing may also be affected by the evaluation, required by paragraph 22, of whether the two-way communication between the auditor and those charged with governance has been adequate for the purpose of the audit. The auditor may judge also that for effective communication a written communication is issued even if its content is limited to explaining that there is nothing the auditor wishes to draw to the attention of those charged with governance. To avoid doubt where there are no matters the auditor wishes to communicate in writing, the auditor may communicate that fact in writing to those charged with governance.

A39. 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)

A40. 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 (UK and Ireland) 265.[10] Communications regarding independence may be appropriate whenever significant judgments are made about threats to

[10] ISA (UK and Ireland) 265, paragraphs 9 and A14.

independence and related safeguards, for example, when accepting an engagement to provide non-audit services, and at a concluding discussion. A concluding discussion may also be an appropriate time to communicate findings from the audit, including the auditor's views about the qualitative aspects of the entity's accounting practices.

- When auditing both general purpose and special purpose financial statements, it may be appropriate to coordinate the timing of communications.

A41. 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 (for example, noncompliance with a law) in time for preventive action to be taken, but communication of the matter may enable remedial action to be taken.

A41-1. Findings from the audit that are relevant to the financial statements, including the auditor's views about the qualitative aspects of the entity's accounting and financial reporting, are ordinarily communicated to those charged with governance before they approve the financial statements.

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

A42. 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.

A43. As noted in paragraph 4, effective two-way communication assists both the auditor and those charged with governance. Further, ISA (UK and Ireland) 315 (Revised June 2013) identifies participation by those charged with governance, including their interaction with the internal audit function, if any, and external auditors, as an element of the entity's control environment.[11] Inadequate two-way communication may indicate an unsatisfactory control environment and influence the auditor's assessment of the risks of material misstatements. There is also a risk that the auditor may not have obtained sufficient appropriate audit evidence to form an opinion on the financial statements.

A44. 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 (for example, a regulator), or a higher authority in the governance structure that is outside the entity, such as the owners of a business (for example, 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)

A45. 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.

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[11] ISA (UK and Ireland) 315 (Revised June 2013), paragraph A77.

Appendix 1

(Ref: Para. 3)

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

This appendix identifies paragraphs in ISQC (UK and Ireland) 1[12] and other ISAs (UK and Ireland) in effect for audits of financial statements for periods ending on or after 15 December 2010 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 (UK and Ireland).

- ISQC (UK and Ireland) 1, "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" – paragraph 30(a)
- ISA (UK and Ireland) 240, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements" – paragraphs 21, 38(c)(i) and 40-42
- ISA (UK and Ireland) 250, "Consideration of Laws and Regulations in an Audit of Financial Statements" – paragraphs 14, 19 and 22-24
- ISA (UK and Ireland) 265, "Communicating Deficiencies in Internal Control to Those Charged with Governance and Management" – paragraph 9
- ISA (UK and Ireland) 450, "Evaluation of Misstatements Identified during the Audit" – paragraphs 12-13
- ISA (UK and Ireland) 505, "External Confirmations" – paragraph 9
- ISA (UK and Ireland) 510, "Initial Audit Engagements—Opening Balances" – paragraph 7
- ISA (UK and Ireland) 550, "Related Parties" – paragraph 27
- ISA (UK and Ireland) 560, "Subsequent Events" – paragraphs 7(b)-(c), 10(a), 13(b), 14(a) and 17
- ISA (UK and Ireland) 570, "Going Concern" – paragraph 23
- ISA (UK and Ireland) 600, "Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)" – paragraph 49

[12] ISQC (UK and Ireland) 1, "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements."

- ISA (UK and Ireland) 610 (Revised June 2013), "Using the Work of Internal Auditors" – paragraphs 20 and 31
- ISA (UK and Ireland) 705, "Modifications to the Opinion in the Independent Auditor's Report" – paragraphs 12, 14, 19(a) and 28
- ISA (UK and Ireland) 706, "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report" – paragraph 9
- ISA (UK and Ireland) 710, "Comparative Information—Corresponding Figures and Comparative Financial Statements" – paragraph 18
- ISA (UK and Ireland) 720, "The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements" – paragraphs 10, 13 and 16

Appendix 2

(Ref: Para. 16(a), A17)

Qualitative Aspects of Accounting Practices

The communication required by paragraph 16(a), and discussed in paragraph A17, 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

- For items for which estimates are significant, issues discussed in ISA (UK and Ireland) 540,[13] including, for example:

  - Management's identification of accounting estimates.

  - Management's process for making accounting estimates.

  - Risks of material misstatement.

  - Indicators of possible management bias.

  - Disclosure of estimation uncertainty in the financial statements.

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[13] ISA (UK and Ireland) 540, ''Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures.''

Financial Statement Disclosures

- The issues involved, and related judgments made, in formulating particularly sensitive financial statement disclosures (for example, 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 unusual transactions, including non-recurring amounts recognized during the period, and the extent to which such transactions are separately disclosed in the financial statements.

- 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.

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