

Communications of Audit Matters with Those Charged with Governance

This Singapore Standard on Auditing was approved by the Institute of Certified Public Accountants of Singapore in January 2001.

Auditors are required to comply with the auditing standards contained in this SSA in respect of audits of financial statements for periods beginning on or after 1 April 2001.

This SSA 260 supersedes SSA 260 of the same title (approved in January 2001) in June 2004. No substantive changes have been made to the original approved text and all cross references have been updated, as appropriate.

This revised SSA 260 supersedes the SSA of the same title in June 2005.

The Audit Risk Standards, comprising SSA 315 “Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement”, SSA 330 “The Auditor’s Procedures in Response to Assessed Risks” and SSA 500 (Revised) “Audit Evidence” gave rise to conforming amendments in this SSA. These amendments are effective for audits of financial statements for periods beginning on or after 15 December 2004.

Singapore Standards on Auditing (SSAs) are to be applied in the audit of financial statements. SSAs are also to be applied, adapted as necessary, to the audit of other information and to related services.

SSAs contain the basic principles and essential procedures (identified in bold type black lettering) together with related guidance in the form of explanatory and other material. The basic principles and essential procedures are to be interpreted in the context of the explanatory and other material that provide guidance for their application.

To understand and apply the basic principles and essential procedures together with the related guidance, it is necessary to consider the whole text of the SSA including explanatory and other material contained in the SSA, not just that text which is black lettered.

In exceptional circumstances, an auditor may judge it necessary to depart from an SSA in order to more effectively achieve the object of an audit. When such a situation arises, the auditor should be prepared to justify the departure.

SSAs need only be applied to material matters.

The Public Sector Perspective (PSP) issued is set out at the end of an SSA. Where no PSP is added, the SSA is applicable in all material respects to the public sector.

CONTENTS

	Paragraphs
Foreword	
Introduction	1 - 4
Relevant Persons	5 - 10
Audit Matters of Governance Interest to be Communicated	11 - 12
Timing of Communications	13 - 14
Forms of Communications	15 - 17
Other Matters	18 - 19
Confidentiality	20
Laws and Regulations	21
Effective Date	22

SINGAPORE STANDARD ON AUDITING

SSA 260

Communications of Audit Matters with Those Charged with Governance

Foreword

This Standard is based on International Standard on Auditing 260.

Introduction

1. This purpose of this Singapore Standard on Auditing (SSA) is to establish standards and provide guidance on communication of audit matters arising from the audit of financial statements between the auditor and those charged with governance of an entity. These communications relate to audit matters of governance interest as defined in this SSA. This SSA does not provide guidance on communications by the auditor to parties outside the entity, for example, external regulatory or supervisory agencies.
2. **The auditor should communicate audit matters of governance interest arising from the audit of financial statements with those charged with governance of an entity.**
3. For the purposes of this SSA, “governance” is the term used to describe the role of persons entrusted with the supervision, control and direction of an entity.¹ Those charged with governance ordinarily are accountable for ensuring that the entity achieves its objectives, with regard to reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws, and reporting to interested parties. Those charged with governance include management only when it performs such functions.
4. For the purpose of this SSA, “audit matters of governance interest” are those that arise from the audit of financial statements and, in the opinion of the auditor, are both important and relevant to those charged with governance in overseeing the financial reporting and disclosure process. Audit matters of governance interest include only those matters that have come to the attention of the auditor as a result of the performance of the audit. The auditor is not required, in an audit in accordance with SSAs, to design audit procedures for the specific purpose of identifying matters of governance interest.

Relevant Persons

5. **The auditor should determine the relevant persons who are charged with governance and with whom audit matters of governance interest are communicated.**
6. The structures of governance vary from country to country reflecting cultural and legal backgrounds. For example, in some countries, the supervision function, and the management function are legally separated into different bodies, such as a supervisory (wholly or mainly non-executive) board and a management (executive) board. In other countries, both functions are the

¹ Principles of corporate governance have been developed by many countries as a point of reference for the establishment of good corporate behaviour. Such principles generally focus on publicly traded companies; however, they may also serve to improve governance in other forms of entities. There is no single model of good corporate governance. Board structures and practices vary from country to country. A common principle is that the entity should have in place a governance structure which enables the board to exercise objective judgement on corporate affairs, including financial reporting, independent in particular from management.

legal responsibility of a single, unitary board, although there may be an audit committee that assists that board in its governance responsibilities with respect to financial reporting.

7. This diversity makes it difficult to establish a universal identification of the persons who are charged with governance and with whom the auditor communicates audit matters of governance interest. The auditor uses judgement to determine those persons with whom audit matters of governance interest are communicated, taking into account the governance structure of the entity, the circumstances of the engagement and any relevant legislation. The auditor also considers the legal responsibilities of those persons. For example, in entities with supervisory boards or with audit committees, the relevant persons may be those bodies. However, in entities where a unitary board has established an audit committee, the auditor may decide to communicate with the audit committee, or with the whole board, depending on the importance of the audit matters of governance interest.
8. When the entity's governance structure is not well defined, or those charged with governance are not clearly identified by the circumstances of the engagement, or by legislation, the auditor comes to an agreement with the entity about with whom audit matters of governance interest are to be communicated. Examples include some owner-managed entities, some not for profit organisations, and some governance agencies.
9. To avoid misunderstandings, an audit engagement letter may explain that the auditor will communicate only those matters of governance interest that come to attention as a result of the performance of an audit and that the auditor is not required to design audit procedures for the specific purpose of identifying matters of governance interest. The engagement letter may also:
 - Describe the form in which any communications on audit matters of governance interest will be made;
 - Identify the relevant persons with whom such communications will be made;
 - Identify any specify audit matters of governance interest which it has been agreed are to be communicated.
10. The effectiveness of communications is enhanced by developing a constructive working relationship between the auditor and those charged with governance. This relationship is developed while maintaining an attitude of professional independence and objectivity.

Audit Matters of Governance Interest to be Communicated

11. **The auditor should consider audit matters of governance interest that arise from the audit of the financial statements and communicate them with those charged with governance.** Ordinarily such matters include:²
 - The general approach and overall scope of the audit, including any expected limitations thereon, or any additional requirements;
 - The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the entity's financial statements;
 - The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements;
 - Audit adjustments, whether or not recorded by the entity that have, or could have, a material effect on the entity's financial statements;
 - Material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern;
 - Disagreements with management about matters that, individually or in aggregate, could be significant to the entity's financial statements or the auditor's report. These communications include consideration of whether the matter has, or has not, been resolved and the significance of the matter;
 - Expected modifications to the auditor's report;

² The list of matters below is not intended to be all-inclusive. In addition, other SSAs discuss specific situations where the auditor is required to communicate certain matters with those charged with governance.

- Other matters warranting attention by those charged with governance, such as material weaknesses in internal control, questions regarding management integrity, and fraud involving management;
 - Any other matters agreed upon in the terms of the audit engagement.
- 11(a). **The auditor should inform those charged with governance of those uncorrected misstatements aggregated by the auditor during the audit that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.**
- 11(b). The uncorrected misstatement communicated to those charged with governance need not include the misstatement below a designated amount.
12. As part of the auditor's communications, those charged with governance are informed that:
- The auditor's communications of matters include only those audit matters of governance interest that have come to the attention of the auditor as a result of the performance of the audit; and
 - an audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters.

Timing of Communications

13. **The auditor should communicate audit matters of governance interest on a timely basis.** This enables those charged with governance to take appropriate action.
14. In order to achieve timely communications, the auditor discusses with those charged with governance the basis and timing of such communications. In certain cases, because of the nature of the matter, the auditor may communicate that matter sooner than previously agree.

Forms of Communications

15. The auditor's communications with those charged with governance may be made orally or in writing. The auditor's decision whether to communicate orally or in writing is affected by factors such as:
- The size, operating structure, legal structure, and communications processes of the entity being audited;
 - The nature, sensitivity and significance of the audit matters of governance interest to be communicated;
 - The arrangements made with respect to periodic meetings or reporting audit matters of governance interest;
 - The amount of on-going contact and dialogue the auditor has with those charged with governance.
16. When audit matters of governance interest are communicated orally, the auditor documents in the working papers the matters communicated and any responses to those matters. This documentation may take the form of a copy of the minutes of the auditor's discussion with those charged with governance. In certain circumstances, depending on the nature, sensitivity, and significance of the matter, it may be advisable for the auditor to confirm in writing with those charged with governance any oral communications on audit matters of governance interest.
17. Ordinarily, the auditor initially discusses audit matters of governance interest with management, except where those matters relate to questions of management competence or integrity. These initial discussions with management are important in order to clarify facts and issues, and to give management an opportunity to provide further information. If management agrees to communicate a matter of governance interest with those charged with governance, the auditor may not need to repeat the communications, provided that the auditor is satisfied that such communications have effectively and appropriately been made.

Other Matters

18. If the auditor considers that a modification of the auditor's report on the financial statements is required, as described in SSA 700, "The Auditor's Report on Financial Statements," communications between the auditor and those charged with governance cannot be regarded as a substitute.
19. The auditor considers whether audit matters of governance interest previously communicated may have an effect on the current year's financial statements. The auditor considers whether the point continues to be a matter of governance interest and whether to communicate the matter again with those charged with governance.

Confidentiality

20. The requirements of national professional accountancy bodies, legislation or regulation may impose obligations of confidentiality that restrict the auditor's communications of audit matters of governance interest. The auditor refers to such requirements, laws and regulations before communicating with those charged with governance. In some circumstances, the potential conflicts with the auditor's ethical and legal obligations of confidentiality and reporting may be complex. In these cases, the auditor may wish to consult the legal counsel.

Laws and Regulations

21. The requirements of national professional accountancy bodies, legislation or regulation may impose obligations on the auditor to make communications on governance related matters. These additional communications requirements are not covered by this SSA; however, they may affect the content, form and timing of communications with those charged with governance.

Effective Date

22. This SSA is effective for audits of financial statements for periods beginning on or after 1 April 2001.

The conforming amendments are effective for audits of financial statements for periods beginning on or after December 15, 2004.

Public Sector Perspective

1. *While the basic principles contained in this SSA apply to the audit of financial statements in the public sector, the legislation giving rise to the audit mandate may specify the nature, content and form of the communications with those charged with governance of the entity.*
2. *For public sector audits, the types of matters that may be of interest to the governing body may be broader than the types of matters discussed in the SSA, which are directly related to the audit of financial statements. Public sector auditors' mandates may require them to report matters that come to their attention that relate to:*
 - Compliance with legislative or regulatory requirements and related authorities;
 - Adequacy of internal control; and
 - Economy, efficiency and effectiveness of programmes, projects and activities.
3. *For public sector auditors, the auditors' written communications may be placed on the public record. For that reason, the public sector auditor needs to be aware that their written communications may be distributed to a wider audience than solely those persons charged with governance of the entity.*