

## **Communication with Those Charged with Governance**

SSA 260 was updated in January 2010 following a clarity consistency review of various SSAs.

SSA 610 (Revised 2013), *Using the Work of Internal Auditors* gave rise to conforming amendments in SSA 260 in November 2013.

This SSA was revised in July 2015. SSA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information* gave rise to conforming amendments in this SSA in November 2015. This SSA was amended in January 2016 relating to *Addressing Disclosures in the Audit of Financial Statements*. These amendments are effective for audits of financial statements for periods ending on or after 15 December 2016.

SSA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures* gave rise to conforming amendments in SSA 260 in August 2019.

SSA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements* gave rise to conforming amendments in this SSA in November 2020. These amendments are effective for audits of financial statements for periods beginning on or after 15 December 2020.

The revised ACRA *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* (ACRA Code) and ISCA *Code of Professional Conduct and Ethics* (ISCA Code) gave rise to conforming amendments in SSA 260 (Revised) in December 2021. These amendments are effective as of 1 December 2021.

SSA 315 (Revised 2021), *Identifying and Assessing the Risks of Material Misstatement* gave rise to conforming amendments in SSA 260 (Revised) in December 2021. These amendments are effective for audits of financial statements for periods beginning on or after 15 December 2021.

The new and revised quality management standards gave rise to conforming amendments in SSA 260 (Revised) in December 2022. These amendments are effective for audits of financial statements for periods beginning on or after 15 December 2022.

Updates to SFRS(I) 1-1 and FRS 1 gave rise to conforming amendments in SSA 260 (Revised) in July 2023. These amendments are effective for audits of financial statements for periods beginning on or after 1 January 2023.

SSA 600 (Revised), *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* gives rise to conforming amendments in SSA 260 (Revised) in December 2023. These amendments are effective for audits of financial statements for periods beginning on or after 15 December 2023.

The revised ACRA *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* (ACRA Code) and ISCA *Code of Professional Conduct and Ethics* (ISCA Code) give rise to conforming amendments in SSA 260 (Revised) in December 2024. These amendments are effective for audits of financial statements for periods beginning on or after 15 December 2024.

The “Addressing Disclosures in the Audit of Financial Statements” is based on Addressing Disclosures in the Audit of Financial Statements – Revised ISAs and Related Conforming Amendments, July 2015 of the International Auditing and Assurance Standards Board (IAASB), published by the International Federation of Accountants (IFAC) in July 2015 and is used with permission of IFAC.

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# SINGAPORE STANDARD ON AUDITING 260 (REVISED) COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

(Effective for audits of financial statements for periods beginning on or after 15 December 2024)

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

## Foreword

This Standard is based on International Standard on Auditing 260 (Revised), with such amendments as were considered appropriate for local adoption.

## Introduction

### Scope of this SSA

1. This Singapore Standard on Auditing (SSA) deals with the auditor's responsibility to communicate with those charged with governance in an audit of financial statements. Although this SSA 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 SSA 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 SSA 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. Recognising the importance of effective two-way communication in an audit of financial statements, this SSA 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 SSA, are identified in other SSAs (see Appendix 1). In addition, SSA 265<sup>1</sup> 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 SSAs, 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 SSA precludes the auditor from communicating any other matters to those charged with governance. (Ref: Para. A33–A36)

### The Role of Communication

4. This SSA 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

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<sup>1</sup> SSA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

- (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 SSA, 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 SSAs is an integral part of every audit. SSAs 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 SSA is effective for audits of financial statements for periods beginning on or after 15 December 2024.

## **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 SSAs, the following terms have the meanings attributed below:
- (a) Those charged with governance – The person(s) or organisation(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.

## 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 SSA 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 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, which includes communicating about the significant risks identified by the auditor. (Ref: Para. A11–A16)

### *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 judgement, are relevant to the oversight of the financial reporting process. (Ref: Para. A26–A28)

### *Auditor Independence*

- 16A. The auditor shall communicate with those charged with governance the relevant ethical requirements, including those related to independence, that the auditor applies for the audit engagement, including if applicable in the circumstances, any independence requirements specific to audits of financial statements of certain entities. (Ref: Para. A29)
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 judgement, 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) 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. A30–A32)

## **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 judgement, 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 SSA 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.<sup>2</sup> (Ref: Para. A54)

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<sup>2</sup> SSA 230, *Audit Documentation*, paragraphs 8–11, and A6

## 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 approving<sup>3</sup> 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 SSA 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 organisations, 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 SSA 315 (Revised 2021)<sup>4</sup> is relevant. The appropriate person(s) with whom to communicate may vary depending on the matter to be communicated.
- A4. SSA 600 (Revised) includes specific matters to be communicated by the group auditor with those charged with governance of the group.<sup>5</sup> 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.<sup>6</sup> 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 entities or business units may be conducting the same businesses within the same system of internal control and using the same accounting practices. Where those charged with

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<sup>3</sup> As described in paragraph A68 of SSA 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.

<sup>4</sup> SSA 315 (Revised 2021), *Identifying and Assessing the Risks of Material Misstatement*

<sup>5</sup> SSA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 57

<sup>6</sup> SSA 600 (Revised), paragraph 45(i)

governance of those entities or business units are the same (e.g., common board of directors), duplication may be avoided by dealing with these entities or business units concurrently for the purpose of communication.

*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 recognise 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).

## 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.<sup>7</sup> 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 SSAs, which is directed towards the expression of an opinion on the financial statements. The matters that SSAs 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 SSAs do not require the auditor to design procedures for the purpose of identifying supplementary matters to communicate with those charged with governance.
  - When SSA 701<sup>8</sup> 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.
- 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; 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.

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<sup>7</sup> See paragraph 10 of SSA 210, *Agreeing the Terms of Audit Engagements*.

<sup>8</sup> SSA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

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.<sup>9</sup>
- The nature and extent of specialised skill or knowledge needed to perform the planned audit procedures or evaluate the audit results, including the use of an auditor's expert.<sup>10</sup>
- When SSA 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.

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.<sup>11</sup>
- 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,

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<sup>9</sup> SSA 320, *Materiality in Planning and Performing an Audit*

<sup>10</sup> See SSA 620, *Using the Work of an Auditor's Expert*.

<sup>11</sup> SSA 610 (Revised 2013), *Using the Work of Internal Auditors*, paragraphs 20 and 31

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 SSA 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.

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.

#### *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 SSA 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.<sup>12</sup>

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

A19. Financial reporting frameworks ordinarily allow for the entity to make accounting estimates, and judgements about accounting policies and financial statement disclosures, for example, in relation to the use of key assumptions in the development of accounting estimates. In addition, law, regulation or financial reporting frameworks may require disclosure of material accounting policy information 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 judgements 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

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<sup>12</sup> SSA 701, paragraphs 9–10

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 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.<sup>13</sup>

#### 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.

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<sup>13</sup> SSA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

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

- A23. SSA 210 requires the auditor to agree the terms of the audit engagement with management or those charged with governance, as appropriate.<sup>14</sup> 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.<sup>15</sup> 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.
- 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 SSAs, 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 SSA 705 (Revised).<sup>16</sup>
  - A material uncertainty related to going concern is reported in accordance with SSA 570 (Revised).<sup>17</sup>
  - Key audit matters are communicated in accordance with SSA 701.<sup>18</sup>
  - The auditor considers it necessary to include an Emphasis of Matter paragraph or Other Matters paragraph in accordance with SSA 706 (Revised)<sup>19</sup> or is required to do so by other SSAs.
  - The auditor has concluded that there is an uncorrected material misstatement of the other information in accordance with SSA 720 (Revised).<sup>20</sup>

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.

- 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 SSA 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.<sup>21</sup>

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

- A26. SSA 300<sup>22</sup> 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.

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<sup>14</sup> SSA 210, paragraph 9

<sup>15</sup> SSA 210, paragraph 10

<sup>16</sup> SSA 705 (Revised), paragraph 30

<sup>17</sup> SSA 570 (Revised), *Going Concern*, paragraph 25(d)

<sup>18</sup> SSA 701, paragraph 17

<sup>19</sup> SSA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraph 12

<sup>20</sup> SSA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, paragraph 18(a)

<sup>21</sup> SSA 700 (Revised), paragraphs 46 and A63

<sup>22</sup> SSA 300, *Planning an Audit of Financial Statements*, paragraph A13

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.

#### *Auditor Independence (Ref: Para. 16A–17)*

A29. The auditor is required to comply with relevant ethical requirements, including those related to independence, relating to financial statement audit engagements<sup>23</sup> and to communicate with those charged with governance about the requirements the auditor applies. Relevant ethical requirements may:

- Establish independence requirements that are specific to audits of financial statements of certain entities specified in the relevant ethical requirements, such as the independence requirements for audits of financial statements of public interest entities in the Accounting and Corporate Regulatory Authority (ACRA) *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* (ACRA Code). If applicable in the circumstances of the audit engagement, this SSA requires that the auditor also communicates with those charged with governance that the auditor applies such independence requirements.
- Require the auditor to publicly disclose when the auditor applied independence requirements specific to audits of financial statements of certain entities specified in the relevant ethical requirements.<sup>24</sup> SSA 700 (Revised) addresses the requirements for the auditor's report relating to the auditor's independence and the relevant ethical requirements the auditor applied.<sup>25</sup>
- Require or encourage the auditor to determine whether it is appropriate to apply independence requirements that are specific to audits of financial statements of certain entities to audits of financial statements of other entities not specified in the relevant ethical requirements.<sup>26</sup> If this is the case and the auditor is required to publicly disclose when the auditor applied such independence requirements, the auditor may discuss with management of those charged with governance whether there is a risk of misunderstanding the nature of the entity and any need for additional disclosure.

A30. The communication about relationships and other matters, and how threats to independence that are not at an acceptable level have been addressed varies 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 ACRA 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.<sup>27</sup>

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

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<sup>23</sup> SSA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Singapore Standards on Auditing*, paragraph 14

<sup>24</sup> See, for example, the public disclosure requirements in the ACRA Code, paragraphs R400.25–R400.26.

<sup>25</sup> SSA 700 (Revised), paragraph 28(c)

<sup>26</sup> See, for example, encouragement in the application material in the ACRA Code, paragraph 400.24A1.

<sup>27</sup> See for example, paragraphs R400.80–R400.82 and R400.84 of the ACRA Code.

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.

### *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 authorisation.
- 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.

## **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 SSA to be communicated with those charged with governance. Such discussions recognise 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 recognising 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 summarisation 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 summarise 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 SSA 265.<sup>28</sup>
- When SSA 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 judgements 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.

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.

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<sup>28</sup> SSA 265, paragraphs 9 and A14

- 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, SSA 315 (Revised 2021) 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.<sup>29</sup> 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.
- 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.

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<sup>29</sup> SSA 315 (Revised 2021), Appendix 3

## **Specific Requirements in SSQM 1 and Other SSAs that Refer to Communications with Those Charged With Governance**

This appendix identifies paragraphs in SSQM 1<sup>1</sup> and other SSAs 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 SSAs.

- SSQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* – paragraph 34(e)
- SSA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* – paragraphs 21, 38(c)(i) and 40-42
- SSA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements* – paragraphs 14, 19 and 22–24
- SSA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management* – paragraph 9
- SSA 450, *Evaluation of Misstatements Identified during the Audit* – paragraphs 12-13
- SSA 505, *External Confirmations* – paragraph 9
- SSA 510, *Initial Audit Engagements—Opening Balances* – paragraph 7
- SSA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures* – paragraph 38
- SSA 550, *Related Parties* – paragraph 27
- SSA 560, *Subsequent Events* – paragraphs 7(b)-(c), 10(a), 13(b), 14(a) and 17
- SSA 570 (Revised), *Going Concern* – paragraph 25
- SSA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* – paragraph 57
- SSA 610 (Revised 2013), *Using the Work of Internal Auditors* – paragraphs 20 and 31
- SSA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* – paragraph 46
- SSA 701, *Communicating Key Audit Matters in the Independent Auditor's Report* – paragraph 17
- SSA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report* – paragraphs 12, 14, 23 and 30
- SSA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* – paragraph 12

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<sup>1</sup> SSQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

- SSA 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements* – paragraph 18
- SSA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information* – paragraphs 17–19

## **Qualitative Aspects of Accounting Practices**

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 material accounting policies as well as information on accounting policies used by similar entities.
- The initial selection of, and changes in, material 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 material 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 SSA 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 judgements 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 recognised 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.