

INTOSAI



*Practice Note to ISA 260*

---

## *Communication with Those Charged with Governance*

# INTOSAI



INTOSAI General Secretariat - RECHNUNGSHOF  
(Austrian Court of Audit)  
DAMPFSCHIFFSTRASSE 2  
A-1033 VIENNA  
AUSTRIA

Tel.: ++43 (1) 711 71 • Fax: ++43 (1) 718 09 69

E-MAIL: [intosai@rechnungshof.gv.at](mailto:intosai@rechnungshof.gv.at);  
WORLD WIDE WEB: <http://www.intosai.org>

*Practice Note to International Standard on Auditing (ISA) 260 (Revised)*

---

# Communication with Those Charged with Governance

## Background

This Practice Note provides supplementary guidance on ISA 260 (Revised) – Communication with Those Charged with Governance. It is read together with the ISA. ISA 260 (Revised) is effective for audits of financial statements for periods ending on or after December 15, 2016. The Practice Note is effective the same date as the ISA.

## Introduction to the ISA

ISA 260 (Revised) deals with the auditor's responsibility to communicate with those charged with governance in an audit of financial statements. Although the ISA applies irrespective of an entity's governance structure or size, particular considerations apply where all of those charged with governance are involved in managing an entity, and for listed entities. The ISA does not establish requirements regarding the auditor's communication with an entity's management or owners unless they are also charged with a governance role.

Recognizing the importance of effective two-way communication in an audit of financial statements, this ISA provides an overarching framework for the auditor's communication with those charged with governance, and identifies some specific matters to be communicated with them. Additional matters to be communicated, which complement the requirements of ISA 260 (Revised), are identified in other ISAs (see Appendix 1 of the ISA). In addition, ISA 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 ISAs, may be required to be communicated by law or regulation, by agreement with the entity, or by additional requirements applicable to the engagement, for example, the standards of a national professional accountancy body. Nothing in ISA 260 (Revised) precludes the auditor from communicating any other matters to those charged with governance.

---

<sup>1</sup> ISA 265, "Communicating Deficiencies in Internal Control to Those Charged with Governance and Management."

## Content of the Practice Note

- P1. The Practice Note follows the headings of the ISA and provides additional guidance for public sector auditors related to:
- (a) Overall Considerations.
  - (b) Those Charged with Governance.
  - (c) Matters to Be Communicated.
  - (d) The Communication Process.

## Applicability of the ISA in Public Sector Auditing

- P2. ISA 260 (Revised) is applicable to auditors of public sector entities in their role as auditors of the financial statements.

## Additional Guidance on Public Sector Issues

### Overall Considerations

- P3. The objectives of a financial statement audit in the public sector are often broader than to express an opinion whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework (i.e. the scope of the ISAs). The audit mandate, or obligations for public sector entities, arising from legislation, regulation, ministerial directives, government policy requirements, or resolutions of the legislature may result in additional objectives. These additional objectives may include audit and reporting responsibilities, for example, relating to reporting whether the auditor found any instances of non-compliance with authorities including budget and accountability and/or reporting on the effectiveness of internal control. Paragraph 3 of ISA 260 (Revised) acknowledges that further matters not required by this or other ISAs may be required to be communicated to those charged with governance as a result of law or regulation, by agreement with the entity, or by additional requirements applicable to the engagement.

### Those Charged with Governance

- P4. Paragraph 11 of the ISA requires the auditor to determine the appropriate person(s) within the entity's governance structure with whom to communicate. In the public sector, governance responsibilities may exist at several organizational levels as well as in several functions (i.e. vertically or horizontally). As a result, there may be instances where there are several distinct groups which are identified as those charged with governance. Furthermore, an audit in the public sector might involve both financial statement objectives as well as compliance objectives and in some cases that may involve separate governance bodies.

- P5. In situations where matters are communicated to subgroups of those charged with governance, as discussed in paragraph 12 of the ISA, public sector auditors may need to convey the information, in full or in summary, to the governing body as a whole. This is particularly relevant in the public sector where it is not uncommon for those charged with governance to be involved in managing the entity. Public sector auditors need to be particularly sensitive to meet the needs and expectations of the legislature or appropriate regulators about matters communicated to other governance levels, particularly where the matters may be of broad public interest or speculation.

## Matters to Be Communicated

- P6. Paragraph 15 of the ISA requires the auditor to communicate with those charged with governance an overview of the planned scope and timing of the audit. In the public sector, this requirement may be achieved by various means. For example, the scope and timing of the audit may be defined in relevant legislation or the audit mandate, or public sector auditors may communicate an overview of the planned scope and timing of the audit in the engagement letter.
- P7. Paragraph A11 (b) of the ISA states that communication regarding the planned scope and timing of the audit may assist the auditor to better understand the entity and its environment. Public sector auditors may find it helpful to communicate their understanding of which components' financial information should be included in the entity's financial statements and to use the entity's response to verify their understanding. For example, it may be difficult to determine if, and to what extent, joint ventures (including private and public sector entities) are to be included in the entity's consolidated financial statements of an audited entity. Consistent with guidance in ISSAI 1210.A23a, public sector auditors electing to communicate key audit matters in audits of entities other than listed entities may find it helpful to make reference to the possibility of communicating key audit matters in the auditor's report when communicating with those charged with governance
- P8. Paragraph 16 of the ISA lists the significant findings from the audit that the auditor is required to communicate to those charged with governance. Public sector auditors are often the mandated auditors of the whole, or parts, of the government and its administration. In this situation, public sector auditors may have access to information from other entities and their audits, which might be of relevance to those charged with governance. Examples of this might include material errors in transactions with the audited entity which also affect other entities, or designs of relevant controls which have provided efficiency gains in other entities. Communicating this type of information to those charged with governance may add value to the audit when circumstances permit. However, laws, regulations or ethical requirements may prohibit communicating this type of information.

- P9. Public sector auditors' independence and objectivity are critical to their ability (a) to hold governments accountable to legislatures and the public, and (b) to help identify threats to the good stewardship of public funds, such as corruption. The requirement relating to listed entities contained in paragraph 17 of the ISA to communicate compliance with relevant ethical requirements regarding independence may also apply to public sector auditors where it is in the public interest to so report. In addition to the matters in the Code of Ethics for Professional Accountants issued by the International Federation of Accountants (IFAC), matters in the INTOSAI Code of Ethics, such as political neutrality, may be of particular importance in the public sector context.

## The Communication Process

- P10. Paragraph 22 of the ISA requires the auditor to evaluate whether the two-way communication between the auditor and those charged with governance has been adequate for the purpose of the audit. If the two-way communication is not adequate, the ISA requires the auditor to take appropriate action. In the public sector, appropriate action may include communicating with the legislature or the appropriate regulators, or funding agencies.