



July 31, 2005

Mr. Jim Sylph
Technical Director
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017

Dear Mr. Sylph:

We appreciate this opportunity to comment on the proposed revised International Standard on Auditing (ISA) 260 (revised), *The Auditor's Communication with Those Charged with Governance*, (the "proposed standard") as developed by the International Auditing and Assurance Standards Board (IAASB). We are supportive of the development of this guidance and believe that it has adequately addressed considerations related to audits of small entities and public sector entities. However, we do have one significant concern related to paragraphs 46-48, as well as other recommendations for clarifying the proposed standard, as described below. Throughout our comments, editorial additions are shown in bold underline and deletions in double-strike through.

COMMENT OF SIGNIFICANCE:

• **Paragraph 22(e), and related paragraphs 46-48**

We believe that the "other matters" to be communicated, as first mentioned in paragraph 22(e) and then more fully described in paragraphs 46 through 48, may be interpreted as going above and beyond the responsibilities of the auditor. The proposed standard does not provide any basis on which the auditor may make the judgment as to what is "serious and relevant to the responsibilities of those charged with governance" and we strongly believe that the auditor does not have an obligation to perform specific procedures to uncover these matters. Despite the existence of caveat-type language in paragraph 48, we highly recommend that paragraphs 22(e), 46, 47 and 48 be deleted from this proposed standard. We believe that paragraph 32(d) is sufficient to cover the auditor's communication responsibilities related to other matters arising from the audit.

OTHER COMMENTS:

- **Paragraph 7**

We believe that those charged with governance are accountable to shareholders, regulators and other stakeholders, and recommend that this be included in the definition of “those charged with governance” in bullet “a.”

- **Paragraph 15**

The last sentence in paragraph 15 states that, “in some circumstances” the auditor may also need to communicate with the governing body as a whole. For clarification purposes, we recommend that the IAASB include an example of one such circumstance in this paragraph.

- **Paragraph 18**

We recommend that the last sentence in paragraph 18, relating to communicating to those charged with governance comments made by management or the internal auditor or actions that management has indicated it will take, be deleted from this paragraph. In spite of the word “ordinarily,” the sentence may imply a communication requirement and we believe that in some jurisdictions it may not be appropriate for the auditor to communicate such matters, as it would be the responsibility of management. The important issue in paragraph 18 is to clarify facts and issues with management before communicating with those charged with governance.

- **Paragraph 41**

We believe that paragraph 41 should be limited to “material” corrected misstatements, instead of “all” corrected misstatements. Additionally, because the concepts in this paragraph apply equally to “corrected” and “uncorrected” misstatements, we recommend the following edits to the first sentence of paragraph 41 (additions are noted in bold underline and deletions are noted in double-strike through):

41. **In addition to communicating uncorrected misstatements,** ~~€~~communication of **material** corrected misstatements identified as a result of audit procedures is **also** important in assisting those charged with governance to fulfill their responsibility to oversee the financial reporting and disclosure process.

- **Paragraph 49(b)(i)**

Paragraph 49(b)(i) contains the requirement for the auditor to communicate audit fees to those charged with governance. We recommend that additional guidance related to this requirement be included in the proposed standard, which suggests that this type of communication may be

beneficial during the planning stages of the audit, for example when discussing the planned scope and timing of the audit (paragraph 27), or even prior to this as part of the approval process. This is especially important because if auditor independence is in question, this should be identified at the beginning of the audit, not at the end.

Additionally, we recommend the following editorial revisions to paragraph 49(b)(i);

49(b)(i) All relationships and other matters between the firm, network firms and the entity that in the auditor's professional judgment may reasonably be thought to bear on independence, including total fees charged in the preceding 12 months for audit and for non-audit services provided by the firm and network firms to the entity and components included in its financial statements, ~~allocated to appropriate categories~~ **in sufficient detail to enable those charged with governance to assess the impact of such services on the independence of the auditor;** and

• **Paragraph 56**

The last sentence of paragraph 56 implies that it may be satisfactory for matters which were communicated orally to be recorded in *management's* minutes of the discussion, as opposed to in the *auditor's* working papers. If this is what was intended by the IAASB, we recommend that the phrase "management's" be inserted before the word "minutes" to properly clarify this position, and that the word "appropriately" be inserted before "recorded" to convey that the auditor should determine that management's description is accurate (see Option A below). Alternatively, if this was not the IAASB's intent, we recommend the edits suggested in Option B below:

Option A:

56. ...Where matters relevant to the responsibilities of those charged with governance were communicated orally, the auditor should be satisfied that they are **appropriately** recorded in **management's** minutes of the discussion or in the audit working papers. **In order to determine whether management's minutes appropriately record such matters, the auditor ordinarily reviews a draft of such minutes.**

Option B:

56. ...Where matters relevant to the responsibilities of those charged with governance were communicated orally, the auditor should be satisfied that they are recorded in minutes of the discussion ~~or~~ **contained in** the audit working papers.

Additionally, for clarification purposes, we recommend the following edits to the second sentence of paragraph 56:

56. The auditor should issue a written communication to those charged with governance regarding significant matters arising from the conduct of, and findings from the audit.

This **written** communication need not include all matters that arose during the course of the audit that were ~~raised with~~ **communicated to** those charged with governance but have subsequently been satisfactorily resolved...

• **Paragraph 61**

For clarification purposes, we recommend the following editorial changes to the last sentence of paragraph 61:

61. the auditor may require the prior **written** consent of those charged with governance before doing so.

• **Paragraph 65**

We recommend that the IAASB include “on a timely basis” in the bold text in paragraph 65 to indicate that the evaluation of the two-way communication is made sufficiently early to allow the auditor to discuss any concerns as described in our suggested revision to paragraph 67. The suggestion revision to paragraph 65 is as follows:

65. The auditor should evaluate, **on a timely basis**, whether the two-way communication between the auditor and those charged with governance has been adequate for the purpose of the audit and, if it has not, should take appropriate action as required.

Paragraph 67

The black lettering in paragraph 65 states that the auditor should evaluate the adequacy of the two-way communication and should take appropriate action as required if it has not been adequate. Paragraph 67 then provides examples of “appropriate actions” such as obtaining legal advice. We believe that, before the auditor goes so far as obtaining legal advice, the auditor would ordinarily first discuss the situation with a senior member of those charged with governance, for example, the chair of the Board of Directors or the chair of the entity. Accordingly, we recommend the following revision to paragraph 67:

67. If the two-way communication between the auditor and those charged with governance is not adequate for an effective audit, there is a risk the auditor may not have obtained all the audit evidence required to form an opinion on the financial statements. Consequently, **the auditor discusses the situation with a senior member of those charged with governance. If the situation cannot be resolved in this manner,** the auditor takes actions such as:

- Modifying the auditor’s report on the basis of a scope limitation.
- **Considering o**btaining 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 minority owners of a small private business, or the responsible government minister or Parliament in the public sector.
- Withdrawing from the engagement where permitted in the relevant jurisdiction.

We would be pleased to discuss our letter with you or your staff at your convenience. If you have any questions, please contact P. Nicholas Fraser at + 1 (212) 492-4118.

Very truly yours,

/s/ Deloitte Touche Tohmatsu