

## STANDARDS DISCUSSED

CAS 260, Communication with those charged with governance

CAS 265, Communicating deficiencies in internal control to those charged with governance and management

# Client Briefing for Auditors

## The Importance of Effective Two-Way Communication Between the Auditor and the Client (i.e., Those Charged with Governance)

### Purpose of this publication

This *Client Briefing for Auditors* has been developed to provide an auditor with a document for discussion with clients. It explains the importance of effective two-way communication between the auditor and those responsible for the oversight of the financial reporting process, highlights what actions clients can take to help their auditor with his responsibility to achieve such effective two-way communication for the purpose of the audit and what benefits an adequate communication process could have for the clients.

### About this publication

The Canadian Institute of Chartered Accountants (CICA) through its Guidance and Support group undertakes initiatives to support practitioners and their clients in the implementation of standards. As part of these initiatives, the CICA has created the Advisory Group on Implementation of Canadian Auditing Standards to advise in the identification of issues related to the implementation of the Canadian Auditing Standards (CASs) and in the development of non-authoritative implementation guidance related to these issues.

This publication has been prepared by the CICA's Guidance and Support group staff with the advice of the advisory group. It provides non-authoritative guidance and has not been adopted, endorsed, approved or otherwise acted upon by the Auditing and Assurance Standards Board, any CICA board or committee, the governing body or membership of the CICA or any provincial institute/Ordre or the organizations represented by the advisory group members.

Auditors are expected to use professional judgment in determining whether the material in this publication is both appropriate and relevant to the circumstances of each audit engagement. This publication is based on the CASs as updated in May 2011.

The CICA expresses its appreciation to the members of the Advisory Group on Implementation of Canadian Auditing Standards and to CICA staff for preparing this publication.



Gordon Beal, CA  
Director, Guidance and Support group  
The Canadian Institute of Chartered Accountants

### Advisory Group on Implementation of Canadian Auditing Standards

Julie Cordenz CA  
Deloitte LLP

Johanna Field, CA  
Grant Thornton LLP

Stacy Hammett, CA  
PwC LLP

Nazia Lakhani, CA  
BDO Canada LLP

Anilisa Sainani, CA  
Ernst & Young LLP

Robert G. Young, FCA  
KPMG LLP

Andrée Lavigne, CA  
CICA

Hélène Marcil, CA  
CICA

Eric R. Turner, CA  
CICA

### Why should the auditor discuss this *Briefing* with the client?

This briefing document will be important to you, the client, for example, if:

- You are an owner-manager of a small entity and therefore have both management and governance responsibilities; or
- You are a member of an audit committee of a small not-for-profit organization.

Because you have a governance role, your auditor is required to communicate certain matters of audit relevance with you.

You can contribute significantly to the establishment of an effective communication process. The actions that you can take don't necessarily need to be complicated. An adequate communication process can assist you in fulfilling your oversight responsibility for the financial reporting process and in issuing financial statements that meet user needs.

Your auditor cannot perform an audit effectively without communicating with you!

**Table—The role of the client (i.e., TCWG) and the responsibility of the auditor in an effective two-way communication process for the purpose of the audit**

The role of the client (TCWG*) is to:	The responsibility of the auditor is to:
<ul style="list-style-type: none"> <li>✓ oversee the financial reporting process;</li> <li>✓ assist the auditor in identifying sources of audit evidence and in overcoming difficulties encountered during the audit;</li> <li>✓ ask management to correct all uncorrected misstatements, including those communicated by the auditor;</li> <li>✓ facilitate frank discussion with the auditor without management present;</li> <li>✓ take appropriate and timely actions in response to any matters raised by the auditor.</li> </ul>	<ul style="list-style-type: none"> <li>✓ form and express an opinion on the financial statements;</li> <li>✓ identify the appropriate persons within the entity's governance structure with whom to communicate;</li> <li>✓ communicate required matters with TCWG on a timely basis;</li> <li>✓ take appropriate steps to achieve effective two-way communication;</li> <li>✓ establish and evaluate the adequacy of the communication process for the purpose of the audit.</li> </ul>
<p><b>An effective two-way communication can assist:</b></p> <ul style="list-style-type: none"> <li>✓ in developing a constructive working relationship between the auditor and TCWG;</li> <li>✓ in setting clear expectations for the auditor and TCWG regarding communication of matters of audit relevance;</li> <li>✓ the auditor in obtaining from TCWG information relevant to the audit;</li> <li>✓ the auditor and TCWG in having common understanding of the facts and circumstances relevant to specific transactions or events;</li> <li>✓ the auditor in providing TCWG with timely observations arising from the audit that are significant and relevant to TCWG's responsibility for overseeing the financial reporting process;</li> <li>✓ TCWG in better understanding the audit and what to expect from it;</li> <li>✓ in opening up a dialogue between the auditor and TCWG on areas where there are significant risks of material misstatements (e.g., significant accounting estimates);</li> <li>✓ TCWG in taking timely and appropriate actions to prevent or detect and correct material misstatement in the financial statements; and</li> <li>✓ TCWG in staying current on the accounting practices of their entity and those applied by their industry.</li> </ul>	
<p><b>The role of management is to:</b></p> <ul style="list-style-type: none"> <li>✓ prepare the financial statements;</li> <li>✓ determine internal control necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;</li> <li>✓ provide the auditor with access to all information relevant for the purpose of the audit, as well as unrestricted access to persons within the entity in order to obtain audit evidence.</li> </ul>	

\*TCWG: those charged with governance

As you can see from the table above, in addition to promoting effective two-way communication, the auditor has other responsibilities in terms of communication, such as determining the appropriate persons within the entity's governance structure with whom to communicate, establishing and evaluating the adequacy of the communication process and communicating with you about matters required by Canadian Auditing Standards on a timely basis. Your auditor can assist you in fulfilling your oversight responsibility for the financial reporting process, as more fully discussed below.

## **How can the auditor help you fulfill your oversight responsibility for the financial reporting process?**

Your auditor will make timely observations arising from the audit that are significant and relevant to your responsibility for overseeing the financial reporting process.

- For example, learning about significant deficiencies in internal control can assist you in taking timely remedial action to prevent or detect and correct misstatements in the financial statements.
- Being informed of uncorrected misstatements identified by the auditor and how they affect, individually or in the aggregate, the opinion in the auditor's report will help you decide whether or not to recommend approval of the financial statements.
- An auditor's views on significant qualitative aspects of your entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures, can help you remain well informed about significant accounting matters and industry accounting practices.
- You might learn about certain related parties or significant related party transactions that you may not have previously been aware of, which may not have been appropriately authorized or approved, or which indicate non-compliance with applicable laws or regulations prohibiting or restricting specific types of related party transactions.
- If your auditor identifies or suspects fraud, he needs to communicate that with you on a timely basis. If the suspected fraud involves management, the auditor is required to communicate these suspicions and discuss with you the nature, timing and extent of audit procedures necessary to complete the audit.

Talk to your auditor to find out how an adequate communication process can assist you in fulfilling your governance responsibilities for your entity!

## How can you help enhance your communication with the auditor?

You can take appropriate and timely actions in response to any matters the auditor has raised, as well as probe any issues and question any recommendations the auditor has made. You can play an important role in achieving effective two-way communications with your auditor in the following ways:

You can discuss the form and timing of communication with the auditor in:	<ul style="list-style-type: none"> <li>✓ making arrangements for periodic meetings or communications with the auditor;</li> <li>✓ discussing your preference for written or oral communication (when your auditor has a choice as to the form of communication);</li> <li>✓ requesting that, on certain matters, you would like to be informed as soon as practicable to allow you to take appropriate and timely action.</li> </ul>
You can assist the auditor in:	<ul style="list-style-type: none"> <li>✓ understanding your entity and its environment;</li> <li>✓ identifying appropriate sources of audit evidence;</li> <li>✓ providing information about specific transactions or events;</li> <li>✓ overcoming difficulties encountered during an audit (e.g., restrictions management may have imposed on the auditor).</li> </ul>
You can ask management to correct all uncorrected misstatements, including those communicated by the auditor.	This encourages management to maintain accurate accounting books and records and reduces the risks of material misstatement of future financial statements because of the cumulative effect of immaterial uncorrected misstatements related to prior periods.

You can state your views about planning matters, such as:

- ✓ the appropriate persons in your governance structure with whom to communicate;
- ✓ the allocation of responsibilities between you and management;
- ✓ the entity's objectives and strategies, and the related business risks that may result in material misstatements;
- ✓ matters you believe warrant particular attention during an audit, and any areas where you might want the auditor to carry out additional procedures;
- ✓ significant communications with regulators;
- ✓ other matters you think might influence the audit of the financial statements.

You can facilitate a frank discussion between you and the auditor by:

- ✓ meeting with the auditor without management present.

The auditing standards recognize the participation of those charged with governance, and their interaction with the auditor, as an important element of an entity's control environment. Inadequate two-way communication between you and your auditor may indicate an unsatisfactory control environment and have implications for the audit. Accordingly, if your auditor has concerns about the communication process, the standards require the auditor to take appropriate action to resolve those concerns.

This publication was originally published by The Canadian Institute of Chartered Accountants (CICA) in 2012. It has been reissued by the Chartered Professional Accountants of Canada (CPA Canada) as originally published non-authoritative guidance.

CPA Canada and the authors do not accept any responsibility or liability that might occur directly or indirectly as a consequence of the use, application or reliance on this material.