SA-265 Communicating Deficiencies in Internal Control to TCWG

Scope

- Deficiencies in I.C. that auditor thinks are of Sufficient Importance
- SA do not Impose Add. responsibilities in obtaining Understanding of I.C (DOT) over & above requirements of SA 315 & 330.

Auditor's Objective

To communicate appropriately

Deficiency in I. Controls

OR

Control designed ✓ → But unable to Prevent or Detect & Correct Misstatements in Fin St. on timely basis

Control is Missing

REQUIREMENTS

↳ Identification of deficiencies in I.C

- On basis of Audit Work performed → whether identified one or more deficiencies in I.C.

↓ Yes

Determine whether Individually / In Combination they Constitute Significant Deficiencies.

* NOT only Occurence but also Likelihood that Misstatement Could Occur.

∴ Significant deficiencies may exist even though the auditor has NOT identified misstatements during Audit.

↳ Indicators of Significant Deficiencies

1. Evidence of Ineffective aspects of Control Env.
2. Entity's RAP – Absent / Ineffective
3. Ineffective response to Identified Significant Risks.
4. Correction of Prior period misstatements due to fraud / Error
5. Mgt. Inability to oversee F.S. preparation
6. Misstatements detected by A. Procedure were NOT prevented / Detected & Corrected by Entity's I.C.

Communication of deficiencies in I.C

- In writing the Significant deficiencies in I.C. on a timely basis to TCWG
- Also Communicate to Mgt. at appropriate Level of responsibility on timely basis

→ Significant deficiencies in I.C. which was Communicated

or

Intends to Communicate

To TCWG

Unless Inappropriate to directly Communicate to mgt.

→ Other deficiencies in I.C. which was NOT communicated to mgt. by other parties & in his Judgement are of sufficient importance to merit Mgt.'s Attention.

Contents of written Communication of Significant deficiencies in I. Control

a.) Deficiencies → Description
→ potential Effects

b.) Sufficient Info. to TCWG & Mgt. :-

→ Purpose of Audit was to express Opinion on F.S.

→ Audit Includes only those I.C. relevant to preparation of F.S. in order to "Design A. Procedures" but NOT for purpose of expressing an Opinion on Effectiveness of I. Control.

→ Matters being Reported are LIMITED to those deficiencies that Auditor has Identified during Audit & Concluded are of Sufficient importance to TCWG.