

## COMMUNICATING DEFICIENCIES IN INTERNAL CONTROL TO THOSE CHARGED WITH GOVERNANCE AND MANAGEMENT: CAS 265

### Objective

- The objective of the auditor is to communicate to those charged with governance and management deficiencies in internal control identified during the audit and that are of sufficient importance
- Deficiency in internal control can happen in two ways
  - When a control is not **designed, implemented, or operated** in a way to prevent, detect, or correct misstatements in the f/s
  - When a controls are missing

### Requirements

- If the auditor identified deficiencies in internal control, determine if the deficiencies are **significant deficiencies**
  - Significant deficiencies may exist even though the auditor has not identified misstatements during the audit (i.e. If the control is not designed properly)
- **Factors** to consider when deciding if deficiency is significant:
  - Likelihood of the deficiencies leading to material misstatements in the f/s
  - Susceptibility to fraud
  - Subjectivity (bias) and complexity of determining estimated amounts (i.e. Accounting estimates)
  - The importance of the controls to the financial reporting process
- Indicators of significant deficiency in internal controls:
  - Significant transactions not being scrutinized by those charged with governance
  - Management fraud (material or immaterial) not caught by internal controls
  - Absence of or ineffective risk assessment process within the entity
  - Evidence of an ineffective response to identified significant risks
- **Significant deficiencies** in internal control identified during the audit should be communicated to those charged with governance **in writing** on a **timely manner**
- Communicate to management at an appropriate level of responsibility on a timely basis:
  - In **writing, significant deficiencies** in internal control that the auditor has or will communicate to those charged with governance, unless it would be inappropriate to communicate directly to management
  - **Other deficiencies** in internal control identified during the audit that have not been communicated to management by other parties and that are of sufficient importance (this could be in writing or done verbally)
- Written communication of significant deficiencies in internal control should include:
  - A **description of the deficiencies** and an explanation of their potential effects
  - Sufficient information to help understand the context of the communication:
    - The **purpose of the audit** was for the auditor to express an opinion on the F/S
    - The audit considered **internal control relevant to the preparation of the F/S** in order to design audit procedures, but not for the purpose of expressing an opinion on the effectiveness of internal control
    - The **matters being reported are limited** to deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance