



CANADIAN PUBLIC ACCOUNTABILITY BOARD  
CONSEIL CANADIEN SUR LA REDDITION DE COMPTES

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April 30, 2008

Mr. Jim Sylph, CA  
Executive Director, Professional Standards  
International Federation of Accountants  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, NY 10017  
USA

Dear Mr. Sylph:

**Re: Exposure Draft (ED), ISA 265, *Communicating internal control deficiencies***

The Canadian Public Accountability Board (CPAB) is pleased to respond to this ED.

### ***General comments***

In general we believe this proposed ISA is a sound standard, but we have several specific concerns and comments. In particular, we believe that deficiencies should be reported to management in writing; that when deficiencies are reported to management but not to those charged with governance, the latter should be so informed; and that matters previously reported to those charged with governance should be repeated annually if they still exist.

### **Comments on the explanatory Memorandum**

- We agree with the approach taken to communication of significant deficiencies to those charged with governance.
- We strongly disagree with not requiring communication of deficiencies to management to be in writing. The argument that this would place an undue and excessive documentation burden is not in our view convincing. These matters would need to be documented anyway, so it is simply a question of transmitting the documentation to management. The communication need not be “formal”, as implied in the Explanatory Memorandum, but could simply be a copy of the auditor’s own documentation.
- We accept the rationale for not defining material weakness.
- We agree with the guidance on material weaknesses as set out in paragraph A8.
- We believe the guidance on determining when identified deficiencies constitute significant deficiencies is useful and appropriate.
- We agree with the objective and orientation.

### Comments on the Request for Specific Comments

- We agree that the auditor does not need to obtain evidence concerning the design and operating effectiveness of other controls in the context of Paragraph A3.
- We agree that in order to justify not reporting a deficiency to management, the auditor must obtain evidence of the operating effectiveness of compensating controls.

### *Specific comments on the ED text*

Paragraph reference	Comment
6(b), 8, 10 and A4 to A7	A significant deficiency is defined as a deficiency that the auditor judges should be reported to those charged with governance. Paragraph 10 then says that significant deficiencies should be reported to those charged with governance, which appears completely circular. In fact, there are some good criteria set out in paragraphs A4 to A7 for determining when a deficiency is a significant deficiency. To avoid the appearance of circularity, the essence of the criteria in at least A6 should be incorporated into paragraph 8.
9	As noted above, we believe strongly that management communications must be in writing.
11(b)(iii)	The auditor should also specifically state (if it is the case) that other deficiencies have been reported to management. The risk here is pressure from management on the auditor to not report deficiencies to those charged with governance. So if there are deficiencies reported to management that have been withheld from those charged with governance, the latter should at least be made aware of this .
A10 to A12 and A14 to A18	We strongly agree with paragraphs A10 to A12, which clearly set out that deficiencies that have been previously reported, or that management is already aware of, need to be reported if they still exist. However, we believe these matters relate equally to reporting to those charged with governance, and should be related to both and included in A14 to A18.

A13	It would be preferable for the guidance to suggest what the auditor does in this circumstance. Presumably, the primary option is to report to those charged with governance. Assuming this would be the case, we believe this paragraph would be better placed in the next section dealing with communication with those charged with governance.
A17	We are not sure why the size of the entity affects the level of detail at which to communicate deficiencies. And if it does, we are not sure whether the intention is that smaller size suggests more, or less, detail. In smaller entities with less experienced members of governance bodies it may be appropriate to provide more explanatory detail. Is that what is intended?
Conforming amendment to ISA 600	We do not understand why the same reporting requirements would not apply to those charged with governance.

If you wish to discuss any of the above comments please contact Ken Vallillee at (416) 913-8260 extension 4175.

Yours very truly,



Keith Boocock  
Chief Executive Officer

cc. Mr. Greg Shields, CA  
Director, Auditing and Assurance Standards  
Canadian Institute of Chartered Accountants