



By e-mail < Edcomments@ifac.org >

21 May 2008

Our Ref.: C/AASC

Executive Director, Professional Standards
International Auditing and Assurance Standards Board,
International Federation of Accountants,
545 Fifth Avenue, 14th Floor,
New York 10017, USA.

Dear Sir,

[IAASB Exposure Draft of proposed ISA 265 Communicating Deficiencies in Internal Control](#)

The Hong Kong Institute of Certified Public Accountants is the only statutory licensing body of accountants in Hong Kong responsible for the professional training, development and regulation of the accountancy profession. The HKICPA sets auditing and assurance standards, ethical standards and financial reporting standards in Hong Kong. We welcome the opportunity to provide you with our comments on the captioned IAASB Exposure Draft.

Before we comment on the subject IAASB Exposure Draft, we would like to take this opportunity to reiterate a point made by us in our submission dated 28 March 2006 on the IAASB Exposure Draft on Improving the Clarity of IAASB Standards. We are of the view that the IAASB should approach the development of the objectives of each ISA together rather than on a piecemeal ISA-by-ISA basis as it works through the clarity project. Accordingly, we strongly recommend that the IAASB commences to look at the objectives in all ISAs and link them to the objective in the proposed ISA 200.

Notwithstanding our above comment, we support the proposed ISA and consider that generally the objective to be achieved by the auditor, as stated in the proposed ISA, is appropriate. Furthermore, the criteria identified by the IAASB for determining a requirement has been applied appropriately and consistently such that the resulting requirements will promote consistency and the use of professional judgement by auditors. Our comments on the significant proposal in the proposed ISA are set out in the attachment.

We trust that our comments are of assistance to you. If you require any clarifications on our comments, please do not hesitate to contact me at ong@hkicpa.org.hk.

Yours faithfully,

Steve Ong, FCA, FCPA
Deputy Director, Standard Setting

SO/ac
Encl.



ATTACHMENT

**HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' COMMENTS ON THE IAASB
EXPOSURE DRAFT OF ISA 265 COMMUNICATING
DEFICIENCIES IN INTERNAL CONTROL**

Requests for Specific Comments

1. Is the objective to be achieved by the auditor, stated in the proposed ISA, appropriate?

This new proposed standard is intended to deal with the auditor's responsibility to communicate to management and those charged with governance deficiencies in internal control that have been identified by the auditor during the audit. It distinguishes between significant and other deficiencies in order to establish requirements to communicate to the appropriate levels within the audited entity.

For significant deficiencies, they are to be communicated to those charged with governance in writing and made clear to those charged with governance that the auditor has not performed audit procedures to obtain reasonable assurance and is not providing any assurance, on the effectiveness of internal control. For other deficiencies, the auditor is to communicate to management at an appropriate level of responsibility.

Therefore, we believe that the objective is appropriate.

2. Are the proposed requirements appropriate responses to the objective?

We believe that the proposed requirements are appropriate responses to the objective.

3. Guidance in paragraph A12

The proposed ISA recognizes that in discussing the auditor's findings regarding suspected deficiencies with management (paragraphs A1-A3), the auditor may be informed by management of the existence of other controls that management may assert would prevent, or detect and correct, misstatements arising from the identified deficiencies. The proposed ISA makes it clear that the auditor is not required to obtain audit evidence regarding the design and operating effectiveness of these other controls (unless otherwise necessary for the purposes of the audit), although the auditor may choose to do so (paragraph A3). The IAASB determined that, in such cases the auditor should communicate identified deficiencies to management *unless* the auditor has obtained sufficient appropriate audit evidence about the operating effectiveness of other controls that would prevent, or detect and correct, misstatements arising from the identified deficiencies (paragraph 9(a)). The IAASB believes that, without such audit evidence about the *operating effectiveness* of these other controls, the auditor does not have sufficient audit evidence to conclude that a deficiency in internal control does not exist. The IAASB has therefore taken the view that audit evidence regarding the effective design and implementation of such other controls is not in itself sufficient to support a conclusion that a deficiency does not exist (paragraph A12); and this is the case even though the auditor's view that there is a deficiency may be based solely on evidence about the design or implementation of a control.

We agree with the IAASB's view that audit evidence regarding the effective design and implementation of other controls (which would prevent, or detect and correct, misstatements arising from the identified deficiencies) is not itself sufficient to support a conclusion that a deficiency does not exist.



Other Comments

4. Communication of Deficiencies to Management

We are of the view that the proposed ISA, as currently drafted, provides insufficient guidance on communication of deficiencies in internal control to management. It is not clear from paragraph 9 on the form of communication with management. Additional guidance should be given on the forms of communication with management in paragraph A10. The guidance in A10 seems to suggest that communication is in writing though in the Explanatory Memorandum, it is indicated that to communicate all identified deficiencies formally to management in writing could place an undue and excessive documentation burden on the auditor.

In addition, we believe some of the guidance in paragraphs 11(b), A17, A19 to A21 would also apply to communication with management.

We therefore recommend the IAASB to consider providing additional guidance on communication of deficiencies to management.

~ END ~