

September 2009

BASIS FOR CONCLUSIONS
CANADIAN AUDITING STANDARD (CAS) 265,
Communicating Deficiencies in Internal Control to Those Charged with
Governance and Management

This Basis for Conclusions has been prepared by staff of the Auditing and Assurance Standards Board (AASB). It relates to, but does not form part of, Canadian Auditing Standard (CAS) 265, “Communicating Deficiencies in Internal Control to Those Charged with Governance and Management.”

Background

In December 2007, the International Auditing and Assurance Standards Board (IAASB) issued its Exposure Draft of International Standard on Auditing (ISA) 265, “Communicating Deficiencies in Internal Control” (ED-ISA 265). The IAASB approved final ISA 265 in December 2008 subject to confirmation by the Public Interest Oversight Board (PIOB) that due process was followed. This confirmation was received in February 2009.

In February 2008, the AASB issued its Exposure Draft to adopt proposed ISA 265 as CAS 265 (ED-CAS 265) to replace Section 5220, INTERNAL CONTROL IN THE CONTEXT OF AN AUDIT — WEAKNESSES IN INTERNAL CONTROL. There were 7 respondents to ED-CAS 265 (identified below).

The AASB approved CAS 265 in January 2009. The Auditing and Assurance Standards Oversight Council reviewed due process followed by the AASB in the development of this CAS prior to its issuance in the CICA Handbook – Assurance.

Purpose of this Basis for Conclusions

This Basis for Conclusions has been prepared to make Canadian stakeholders aware of the following.

- (a) A Basis for Conclusions prepared by IAASB staff for ISA 265 is available on the [IAASB web site](#), and provides information on how the IAASB dealt with comments received on significant matters in response to the ED-ISA 265.
- (b) Information on how the AASB dealt with significant matters arising from comments received in response to its ED-CAS 265 is also available. This information is set out below.

Significant Matters

AASB's Consideration of Amendments to ISA Wording

1. CAS 265 contains no amendment to the ISA wording. This is consistent with the position taken by the AASB in ED-CAS 265.

Changes in Terminology

2. ED-CAS 265 proposed that the term “significant deficiency”, as defined in CAS 265 replace the term “material weakness” in all CASs. The ED also proposed that the terms and definitions, including “material weakness” and its definition, be retained in Section 5925, AN AUDIT OF INTERNAL CONTROL OVER FINANCIAL REPORTING THAT IS INTEGRATED WITH AN AUDIT OF FINANCIAL STATEMENTS. Respondents expressed overall support for the proposals noted above.
3. However, one respondent suggested that an explanation be provided for the use and non-use of the term “material weakness” and that CAS 265 include a cross-reference to Section 5925 and to any known regulatory requirements that require reporting of material weaknesses. The AASB concluded that these suggestions should not be adopted. CAS 265 and ISA 265 recognize (in paragraph A9) that terminology used to describe problems regarding internal control, and the relative magnitude of these problems, will vary by jurisdiction. In Section 5925 the relationship between a “significant deficiency” and a “material weakness” is clear, and having these distinctions is useful and appropriate for an audit for internal control over financial reporting. In addition, the AASB noted that is highly desirable, in the North American marketplace, to maintain consistency between Section 5925 and the PCAOB’s corresponding Auditing Standard No. 5 (AS 5). The AASB also decided that the CAS should not refer to known regulatory requirements because it would be impracticable to ensure that such referencing remained current and complete.

Other Matters

None.

List of Respondents to ED-CAS 265

Auditor General of Alberta
BDO Dunwoody LLP
Canadian Public Accountability Board
Deloitte & Touche LLP
Institute of Chartered Accountants of British Columbia
Ordre des comptables agréés du Québec
Provincial Auditor Saskatchewan