

SA 265 - Communicating Deficiencies in Internal Control to Those Charged with Governance and Management

Select True or False:

1. SA 265 precludes the auditor from communicating to those charged with governance and management, other internal control matters that the auditor has identified during the audit.
 - a) True
 - b) False
2. A deficiency in internal control on its own is sufficiently important to constitute a significant deficiency.
 - a) True
 - b) False
3. The requirements of this SA remain applicable notwithstanding that law or regulation may require the auditor to use specific terms or definitions.
 - a) True
 - b) False
4. Where the jurisdiction has established specific terms for the types of deficiency in internal control to be communicated but has not defined such terms, it may be necessary for the auditor to use judgment to determine the matters to be communicated further to the legal or regulatory requirement.
 - a) True
 - b) False
5. The auditor is required to quantify the potential effects of the significant deficiencies in internal control while communicating the same to those charged with governance.
 - a) True
 - b) False
6. Regardless of the timing of the written communication of significant deficiencies, the auditor may communicate significant deficiencies orally in the first instance to management and, when appropriate, to those charged with governance to assist them in taking timely remedial action to minimize the risks of material misstatement. Doing so, relieves the auditor of the responsibility to communicate the significant deficiencies in writing.
 - a) True
 - b) False

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7. Auditor is not required to communicate significant deficiency in internal control to those charged with governance if cost involved in remediation of such significant deficiency is very high.
 - a) True
 - b) False
8. Auditor should communicate other deficiencies in internal control along with significant deficiencies to those charged with governance.
 - a) True
 - b) False
9. If the auditor has communicated deficiencies in internal control other than significant deficiencies to management in a prior period and management has chosen not to remedy them for cost or other reasons, the auditor need not repeat the communication in the current period.
 - a) True
 - b) False
10. Where the auditor has discussed the facts and circumstances of the auditor's findings with management, the auditor may consider an oral communication of the other deficiencies to have been made to management at the time of these discussions. Accordingly, a formal communication need not be made subsequently.
 - a) True
 - b) False
11. If the auditor communicated a significant deficiency to those charged with governance and management in a previous audit, he need not repeat the communication in current period even if remedial action has not yet been taken.
 - a) True
 - b) False
12. If the auditor considers it appropriate to inform those charged with governance of the communication of the other deficiencies to management, the auditor may report orally or in writing to those charged with governance as appropriate.
 - a) True
 - b) False
13. Significant deficiencies in internal control may exist even though the auditor has not identified misstatements during the audit.
 - a) True
 - b) False

Fill in the blanks:

14. The objective of the auditor is to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified during the audit and that, in the _____ are of sufficient importance to merit their respective attentions.
- a) Management's terms and conditions
 - b) Auditor's professional judgment
 - c) Management's Control
15. Significant deficiency is a deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of _____:
- a) Management
 - b) Those Charged with Governance
 - c) Employees
 - d) Internal Audit Team
16. This SA specifies which _____ the auditor is required to communicate to those charged with governance and management.
- a) Deficiencies
 - b) Identified deficiencies
 - c) Significant deficiencies

Choose the correct option from the following:

17. Scope of SA 265 includes:
- a) Auditor's responsibility to communicate appropriately to those charged with governance and management deficiencies in internal control identified by the auditor
 - b) Obtaining an understanding of internal controls, designing and performing tests of controls
 - c) Reporting on the effectiveness of the internal controls
 - d) All of the above
18. The auditor can identify deficiencies in internal control at:
- a) Planning Stage
 - b) Execution Stage
 - c) Reporting Stage
 - d) Follow up Stage
 - e) All of the above

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19. The auditor is required to obtain an understanding of internal control relevant to the audit when identifying and assessing the risks of:
- a) Fraud
 - b) Material Misstatements
 - c) Prevention and Detection
 - d) Control
20. Deficiency in internal control as per SA 265 exists when:
- a) A control is ineffective
 - b) A control is duplicate
 - c) A control is missing
 - d) (a) and (c)
 - e) All of the above
21. The significance of a deficiency or a combination of deficiencies in internal control depends on:
- a) Actual occurrence of a misstatement
 - b) Likelihood that a misstatement could occur
 - c) Both of the above
 - d) None of the above
22. The auditor shall communicate significant deficiencies in internal control identified during the audit to those charged with governance in:
- a) Writing
 - b) Oral form only
 - c) Writing or Oral
 - d) Not required to communicate
23. Which of the following statements is correct regarding reporting of other deficiencies in internal control other than significant deficiencies:
- a) Required to be communicated to those charged with governance always
 - b) Required to be communicated to management always
 - c) Required to be communicated to management, if in the auditor's professional judgment, they are of sufficient importance to merit management's attention
 - d) Required to be communicated to both management and those charged with governance

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24. Factors that the auditor may consider in determining the appropriate level of detail for communication of significant deficiencies under SA 265 depends upon:
- I. Nature, size and complexity of the entity
 - II. Nature of the significant deficiencies identified
 - III. Estimated time required by management to resolve the deficiency
 - IV. Fees charged from the client

Solution:

- a) I and II
 - b) I, II and III
 - c) III and IV
 - d) All of the above
25. The auditor shall also, communicate the deficiencies in internal control to management at an appropriate level of responsibility:
- a) On a timely basis
 - b) Whenever the management asks for it
 - c) At the Conclusion Stage
 - d) At the Planning Stage

Choose the incorrect option from the following:

26. Which of the following statements is incorrect regarding the content of the written communication of the significant deficiencies in internal control as per SA 265:
- a) The communication should include quantification of the significant deficiencies.
 - b) The communication may also include suggestions for remedial action for significant deficiencies.
 - c) The auditor should explain that the matters being reported are limited to those deficiencies that the auditor has identified and concluded to be of sufficient importance to merit being reported to those charged with governance.
 - d) The auditor should explain that purpose of the audit was for the auditor to express an opinion on the financial statements.