



May 23, 2008

Mr. Jim Sylph  
Executive Director, Professional Standards  
International Federation of Accountants  
545 Fifth Avenue, 14th Floor  
New York, NY 10017

Dear Mr. Sylph:

We appreciate this opportunity to comment on proposed International Standard on Auditing (ISA) 265, Communicating Deficiencies in Internal Control (the “proposed standard”), and Related Conforming Amendments to Other ISAs (the “proposed confirming amendments”), as developed by the International Auditing and Assurance Standards Board (IAASB).

**RESPONSES TO THE APPLICATION OF THE CLARITY DRAFTING CONVENTIONS:**

Is the objective for the proposed ISA appropriate, and are the proposed requirements appropriate responses to that objective?

*Yes, we believe that both the objective and the requirements are appropriate.*

**RESPONSES TO SPECIFIC QUESTIONS:**

Do you agree with the guidance that:

- the auditor is not required to obtain audit evidence regarding the design and operating effectiveness of “other controls” that management has asserted would prevent, or detect and correct, misstatements arising from identified deficiencies, unless otherwise necessary for the purposes of the audit (paragraph A3); but
- the auditor should communicate the identified deficiencies to management unless the auditor has obtained sufficient appropriate audit evidence about the operating effectiveness of those other controls (paragraph 9(a)); and

- audit evidence regarding the design and implementation of such other controls is not in itself sufficient to support a conclusion that a deficiency does not exist (paragraph A12).

*Yes, we agree with the guidance in these paragraphs, but do suggest that a reference to paragraph A12 be included at the end of paragraph A3, so that the reader can realize that there is a strong interrelationship between these two paragraphs.*

### **COMMENTS BY PARAGRAPH:**

- **Paragraph 3:**

We suggest including application material related to paragraph 3 which provides examples of control matters that are “not relevant to the audit,” for example, those regarding effectiveness and efficiency of operations.

- **Paragraph 6(a):**

We suggest including application material related to paragraph 6(a) which provides more guidance on the differences between “deficiency in design” and “deficiency in implementation or operation.” For example:

**A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met.**

**A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.**

- **Paragraph A3:**

As noted in our comment above under “Responses to Specific Questions,” we recommend that a reference to paragraph A12 be included at the end of paragraph A3, so that the reader can realize that there is a strong interrelationship between these two paragraphs.

- **Paragraph A10:**

Paragraph A10 discussed how the method and communication of a deficiency may differ depending on whether the auditor has communicated such deficiency in a previous audit or not. However, the proposed standard is not clear on the auditor’s

responsibility to follow up in the current year on deficiencies or significant deficiencies identified and communicated in the prior year. We suggest that guidance on this topic be provided in the application material.

- **Proposed Conforming Amendment to ISA 260, paragraph 12(c):**

We suggest that “significant deficiency” be added to the list of items that should be communicated to those charged with governance, *replacing* the extant “material weakness,” instead of simply *deleting* it, and that a reference to ISA 265 also be added.

We would be pleased to discuss our letter with you or your staff at your convenience. If you have any questions, please contact Jens Simonsen, Director of Global Audit Services at + 1 212 492 3689 or John Fogarty, Chairman – DTT Assurance Technical Policies and Methodologies Group at + 1 203 761 3227.

Very truly yours,

A handwritten signature in black ink, appearing to read "Jens Simonsen". The signature is written in a cursive style with a large, looped initial "J".