

Communicating deficiencies in I.C. to TCWG & Mgt.

- The auditors may identify deficiencies in I.C. not only during the risk assessment process but also at any other stage of audit.

Q-1(A) → Deficiency in internal control exist when:

- i) Control designed — unable to prevent, detect misstatements in f/s on timely basis
- ii) Control not designed — to prevent, detect or correct misstatement

Q-1(B) → What is a significant deficiency?

A deficiency in internal control that, in the auditor's professional judgement, is of sufficient importance to merit the attention of TCWG.

Q-2(A) → Matters considered to determine whether a deficiency is a significant deficiency.

- i) Susceptibility to loss or fraud
Eg: Access control designed — but theft by employee
 - ii) Subjectivity & complexity of estimated amounts
Eg: Complex procedures — mistake in estimation
 - iii) Amounts in f/s exposed to deficiencies
 - iv) Volume of activity exposed to deficiencies
 - v) Cause & frequency
 - vi) Interaction of deficiency with other deficiencies
- } Eg: Revenue A/c

Q-2(B) → Examples of significant deficiencies:

- i) Law requirement → control → fail
- ii) Control made to prevent fraud → fail
- iii) Risk → control → fail → Impact on other A/c
- iv) Control → fail → compensating control → fail
- v) Control for related party trans. → fail
- vi) Control for significant trans. outside normal course of business → fail

Q-3(A) → Examples of indicators of significant deficiencies in I.C.

- i) Evidence of ineffective control environment
- ii) Absence of RAP
- iii) Evidence of ineffective RAP
- iv) Ineffective response to identified significant risks
- v) Miss statement detected by auditor — not prevented or corrected by I.C.
- vi) Mgt's inability to oversee preparation of f/s

Q-3(B) → Examples of ineffective control environment:

- i) Trans, in which mgt is financially interested — not scrutinised appropriately by TCWG.
(Mgt ke Kharche ko iski se verify nahi kar raha hai)
- ii) Mgt. fraud, whether material or not — not prevented by I.C.
- iii) Mgt. failed to take remedial action (appropriate) on significant deficiencies previously communicated.

* Determination of significant deficiencies —

- 1) whether auditor has identified one or more deficiencies in I.C. → Deficiency mili?
- 2) If identified, whether they constitute significant ~~deficiency~~ deficiency → significant hai?
- 3) ~~And~~ If significant, communicate with TCWG in writing.

Q-4 → What shall auditor include in the written communication of significant deficiencies in internal control?

or
Draft a letter of weakness of internal control.

- a) Description of significant deficiency & other deficiencies and explanation of their potential effects
- b) A sufficient information to understand the content of communication.
In particular, auditor shall explain that:
 - i) The purpose of audit was for the auditor to express an opinion on the financial statements
 - ii) The audit included consideration of internal control relevant to preparation of f/s.
 - iii) The matters reported are limited to those deficiencies that the auditor has identified.