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Governing Your Business and Your Audit

By Bill Jenczyk, CPA

SAS 114, or *Statement on Auditing Standards No. 114, The Auditor's Communication with Those Charged With Governance*, was issued in response to perceived audit weaknesses that arose after the accounting scandals of the 1990's and early 2000's. SAS 114 is intended to ensure better communication between auditors and those charged with the governance in relation to an audit of financial statements.

SAS 114 defines those charged with governance as "the person(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity". In some cases, they are the same individuals as those who manage the entity. In other cases, they are not. So this term is important to define because SAS 114 requires that communications take place between the auditors and those charged with governance throughout the audit.

Items which the auditor is required to communicate with those charged with governance under SAS 114 include:

- A discussion of the auditor's responsibilities under generally accepted auditing standards
- An overview of the planned scope and timing of the audit
- Significant findings from the audit

These communications may be either oral or written. However, the auditor is required to communicate in writing significant findings from the audit when, in the opinion of the auditor, oral communications would not be adequate to properly explain significant findings. That written communication is referred to as a "SAS 114 letter".

This letter is sent after your audit is complete and your financial statements have been delivered. It simply documents that the required communications have taken place and it highlights certain aspects of the audit.

If you would like to discuss the SAS 114 requirements and letter further, contact Bill Jenczyk at wjenczyk@dgccpa.com.