

Statement of Auditing Standards No. 114, *The Auditor's Communication With Those Charged With Governance*

Issue Date: December 19, 2006

Effective Date: This SAS is effective for periods beginning on or after December 15, 2006. Early application is permitted.

Product Number: 060709

Executive Summary

Statement on Auditing Standards (SAS) No. 114 supersedes SAS No. 61, *Communication With Audit Committees*, as amended. This SAS establishes standards and provides guidance to an auditor on matters to be communicated with those charged with governance.

In the wake of well-publicized audit failures and emerging best practices in corporate governance, expectations have increased for auditors to communicate openly and candidly with those charged with governance regarding significant findings and issues related to the audit. The Auditing Standards Board (ASB) believes SAS is responsive to the issues and expectations in the U.S. nonissuer community and will improve audit practice and serve the public interest.

In developing this SAS, the ASB considered the communication requirements of the Proposed International Standard on Auditing 260 (Revised), *The Auditor's Communication with Those Charged with Governance*, which was issued by the International Auditing and Assurance Standards Board in March 2005.

SAS No. 61 established communication requirements applicable to entities that either have an audit committee or that have otherwise formally designated oversight of the financial reporting process to a group equivalent to an audit committee. SAS No. 114 broadens the applicability of the SAS to audits of the financial statements of all nonissuers and establishes a requirement for the auditor to communicate with those charged with governance certain significant matters related to the audit.

The SAS uses the term *those charged with governance* to refer to those with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity, including overseeing the entity's financial reporting process. It uses the term *management* to refer to those who are responsible for achieving the objectives of the enterprise and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for the entity's financial statements.

The SAS identifies specific matters to be communicated, many of which are generally consistent with the requirements in SAS No. 61. However, the SAS includes certain additional matters to be communicated and provides additional guidance on the communication process.

In particular, the SAS:

- Describes the principal purposes of communication with those charged with governance and stresses the importance of effective two-way communication.
- Requires the auditor to determine the appropriate person(s) in the entity's governance structure with whom to communicate particular matters. That person may vary depending on the nature of the matter to be communicated.
- Recognizes the diversity in governance structures among entities (including the existence of audit committees or other subgroups charged with governance) and encourages the use of professional judgment in deciding with whom to communicate particular matters.
- Recognizes the unique considerations for communicating with those charged with governance when all of those charged with governance are involved in managing the entity, which may be the case with some small entities.
- Adds requirements to communicate:
 - An overview of the planned scope and timing of the audit.
 - Representations the auditor is requesting from management.
- Provides additional guidance on the communication process, including the forms and timing of communication. Significant findings from the audit should be in writing when, in the auditor's professional judgment, oral communication would not be adequate. Other communications may be oral or in writing,
- Requires the auditor to evaluate the adequacy of the two-way communication between the auditor and those charged with governance.
- Establishes a requirement to document required communications with those charged with governance.