

Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit*

Issue Date: October 2008

Effective Date: This SAS is effective for audits of financial statements for periods ending on or after December 15, 2009. Earlier implementation is permitted.

Product Number: 060710

Executive Summary

The Auditing Standards Board has issued Statement on Auditing Standards (SAS) No. 115, *Communicating Internal Control Related Matters Identified in an Audit*. SAS No. 115 supersedes SAS No. 112 of the same title and was issued to eliminate differences within the AICPA's Audit and Attest Standards resulting from the issuance of Statement on Standards for Attestation Engagements (SSAE) No. 15, *An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements*. SSAE No. 15 establishes standards and provides guidance to practitioners performing an examination of a nonissuer's internal control over financial reporting in the context of an integrated audit. SSAE No. 15 aligns the definitions of the various kinds of deficiencies in internal control and the related guidance for evaluating such deficiencies with the definitions and guidance in Public Company Accounting Oversight Board Auditing Standards No. 5, *An Audit of Internal Control That is Integrated with an Audit of Financial Statements*. SAS No. 115, in turn, aligns the definitions and related guidance for evaluating deficiencies in internal control with the definitions and guidance in SSAE No. 15.

SAS No. 115:

- contains the following revised definitions of the terms *material weakness* and *significant deficiency*:

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility¹ that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

- revises the list of deficiencies in internal control that are indicators of material weaknesses to consist of
 - identification of fraud, whether or not material, on the part of senior management;

¹ In this SAS, a reasonable possibility exists when the likelihood of the event is either *reasonably possible* or *probable* as those terms are used in Financial Accounting Standards Board Statement No. 5, *Accounting for Contingencies*.

- restatement of previously issued financial statements to reflect the correction of a material misstatement due to error or fraud;
 - identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected by the entity's internal control; and
 - ineffective oversight of the entity's financial reporting and internal control by those charged with governance.
- no longer includes a list of deficiencies that ordinarily would be considered at least significant deficiencies
- contains a revised illustrative written communication to management and those charged with governance of material weaknesses and significant deficiencies.