

Statement on Auditing Standard No. 114  
The Auditor's Communication with Those Charged with Governance

This audit standard provides guidance to auditors on matters to be communicated with those charged with governance and is effective for audit periods beginning on or after December 15, 2006, which will include most audits of 2007 financial statements.

The SAS identifies specific matters to be communicated and provides guidance on the communication process. Specifically, the SAS:

- Describes the principal purposes of communication with those charged with governance and stresses the importance of effective two-way communication. It also requires the auditor to evaluate the adequacy of the two-way communication.
- Requires the auditor to determine the appropriate person(s) with whom to communicate particular matters.
- Recognizes the unique considerations for communicating when all of those charged with governance are involved in managing the entity. This may be the case with some small entities.
- Adds requirements to communicate an overview of the planned scope and timing of the audit and any representations the auditor is requesting from management.
- Provides additional guidance on the communication process, including the forms and timing of communication.
- Significant audit issues or results are required to be communicated in writing. Some examples include uncorrected misstatements (both known & likely), material corrected misstatements, significant difficulties encountered during the audit and disagreements with management and their resolution.
- Difficulties to be communicated to the governing body can include significant delays in receiving information or evidence (intentional or unintentional), short timeframes for completing the audit, extensive effort required to obtain evidence, restrictions imposed on auditors by management or an unwillingness by management to be open or honest on certain inquiries, topics or representations.

Many state and local governments will not notice much change in the level of communications if their governing body is already actively involved in the audit process. However, others may notice increased communication between the auditor and the governing body during the audit. For instance, although one member of the governing board may attend the entrance or exit conference, SAS 114 requires auditors to communicate with all members of the governing board or audit committee. Therefore, notification of the planned audit scope and audit results will be mailed directly to all governing board or audit committee members following the entrance or exit conferences. Also, because we are often issuing multiple audit reports during the course of one audit, we may request to meet with a governing body more than once.

Auditors will discuss the required communications with management during the entrance and exit conferences.

If you have questions or need further guidance, please contact your local Audit Manager at the State Auditor's Office or reference the AICPA Web site at: [www.aicpa.org](http://www.aicpa.org). From the menu on the left select: Professional Resources | Accounting and Auditing | Audit and Attest Standards. Choose the blue box that says, "Authoritative Standards for Non-Issuers" and then "Statements on Auditing Standards (SASs)".