



Date: February 12, 2008

To: Washington State and Local Governments

Subject: Statement on Auditing Standard No. 114 - *The Auditor's Communication With Those Charged With Governance*

We want to bring your attention to a new auditing standard called Statement on Auditing Standards (SAS) 114, *The Auditor's Communication With Those Charged With Governance*. SAS 114 is effective for audit periods beginning on or after December 15, 2006, which will include most audits of 2007 financial statements. This audit standard provides guidance to auditors on matters to be communicated with those charged with governance.

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 between the auditor and those charged with governance.
- Requires the auditor to determine the appropriate person(s) in the entity's governance structure 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. 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, material corrected misstatements, significant difficulties encountered during the audit and disagreements with management and their resolution.

Some state and local governments may 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 our Office 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 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)".

Sincerely,

A handwritten signature in black ink, appearing to read "Chuck Pfeil". The signature is written in a cursive, flowing style.

Chuck Pfeil, CPA  
Director of State and Local Audits  
Washington State Auditor's Office