BULLETIN

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Subject: **Relationship of SAS 112 and SAS 115 "Communicating Internal Control Related Matters Identified in an Audit" and SAS 114 "The Auditor's Communication With Those Charged With Governance" to 25 C.F.R. § 571.13, "Copies of Audit Reports."**

This Bulletin provides guidance on the relationship between the submission of audit report(s) and management letter(s) to the National Indian Gaming Commission (NIGC) as required under 25 C.F.R. § 571.13[1] and new auditing standards.

In May 2006 and October 2008, the American Institute of Certified Public Accountants (AICPA), the national professional organization for certified public accountants, issued Statement on Auditing Standards (SAS) No. 112 and SAS No. 115[2] *Communicating Internal Control Related Matters Identified in an Audit*, respectively. In December 2006, SAS 114[3] *The Auditor's Communication With Those Charged With Governance* was issued. Both SAS 112 and SAS 114 statements apply to audits of financial statements for periods ending on or after December 15, 2006 and SAS 115 applies to audits of financial statements for periods ending on or after December 15, 2009. Although SAS 115 will

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[1] A tribe shall submit to the Commission a copy of the report(s) and management letter(s) setting forth the results of each annual audit within 120 days after the end of each fiscal year of the gaming operation.

[2] SAS 115 - 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.* For additional information click on the following link http://www.aicpa.org/download/members/Div/auditstd/Summary_SAS_No115.pdf

[3] SAS 114 – The Auditing Standards Board has issued Statement on Auditing Standards (SAS) No. 114, *The Auditor's Communication with Those Charged with Governance.* SAS No. 114 supersedes SAS No. 61. For additional information click on the following link http://www.aicpa.org/download/members/div/auditstd/AU-00325.PDF

supersede SAS 112 and apply to all financial statements after December 15, 2009, the core standards included in 112 are retained; however, the definitions have been revised. SAS 112 and 115 establish standards and provide guidance on communicating matters related to an entity's internal control over financial reporting identified in an audit of financial statements. SAS 114 establishes standards and provides guidance on the auditor's communication with those charged with governance in relation to an audit of financial statements. The noted standards are applicable whenever an auditor expresses an opinion on financial statements (including a disclaimer of opinion).

In accordance with 25 C.F.R. §571.13, reports documenting SAS 112, SAS 114 or SAS 115 findings must be communicated to the NIGC.

Definitions – SAS 115

The following are definitions included in SAS 115, effective December 15, 2009:

Deficiency in Internal Control – exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on timely basis.

Deficiency in Design – exists when a control necessary to meet the control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met.

Deficiency in Operation – exists when a properly designed control does not operate as designed or the person performing the control does not possess the necessary authority or competence to perform the control effectively.

Material Weakness – a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility[4] that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Significant Deficiency – 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.

Excerpt from the Written Communication Requirements of SAS 115:

Deficiencies identified during the audit that upon evaluation are considered significant deficiencies or material weaknesses under this SAS should be communicated, in writing, to management and to those charged with governance as a part of each audit, including significant deficiencies and material weaknesses that were communicated to management and those charged with governance in previous audits and have not yet been remediated. Significant deficiencies and material weaknesses that previously were communicated and

[4] 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 the Financial Accounting Standards Board Statement No. 5, *Accounting for Contingencies*.

have not yet been remediated may be communicated, in writing, by referring to the previously issued written communication and the date of that communication.

Definitions – SAS 114

The following are definitions included in SAS 114, effective December 15, 2006:

Those Charged with Governance – the person(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting and disclosure process. In some cases, those charged with governance are responsible for approving the financial statements (in other cases, management has this responsibility). For entities with a board of directors, this term encompasses the term *board of directors or audit committees* expressed elsewhere in the Statements on Auditing Standards.[5]

Management – the person(s) responsible for achieving the objectives of the entity and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for the financial statements, including designing, implementing, and maintaining effective internal control over financial reporting.

Excerpt from The Auditor's Communication With Those Charged With Governance Requirements of SAS 114[6]:

This section establishes standards and provides guidance on the auditor's communication with those charged with governance in relation to an audit of financial statements.[7] Although this section applies regardless of an entity's governance structure or size, particular considerations apply where all of those charged with governance are involved in managing an entity. This section does not establish requirements regarding the auditor's communication with an entity's management or owners unless they are also charged with a governance role.

More on SAS 112, SAS 114 and SAS 115

Additional information pertaining to SAS 112, SAS 114 and SAS 115 can be obtained by contacting your CPA or clicking on the following link: http://www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/Authoritative+Standards+and+Related+Guidance+for+Non-Issuers/auditing_standards.htm

[5] Paragraph .03(a) of SAS 114, AU Section 380, The Auditor's Communication With Those Charged With Governance

[6] SAS 114 - The Auditing Standards Board has issued Statement on Auditing Standards (SAS) No. 114, *The Auditor's Communication With Those Charged With Governance*. For additional information click on the following link https://www.aicpa.org/download/members/div/auditstd/AU-00380.PDF

[7] The provisions of this section apply to audits of financial statements prepared either in accordance with generally accepted accounting principles or in accordance with a comprehensive basis of accounting other than generally accepted accounting principles. References in this section to generally accepted accounting principles are intended to also refer to other comprehensive bases of accounting when the reference is relevant to the basis of accounting used.