

# SAS112

Responsibility for establishing and maintaining internal controls  
and for the fair presentation of financial statements

➡ Statement on Auditing Standards No. 112

# SAS112

Statement on Auditing Standards No. 112

## Background

SAS 112 and its interpretive guidance emphasize that you, the Trustees of the Plan, are responsible for establishing and maintaining internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows, including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. The Trustees are also responsible for management decisions and functions; for designating individuals with suitable skill, knowledge and experience to oversee accounting and reporting functions, any outsourced services and for evaluating the adequacy and results of those services and accepting responsibility for them.



A component of the Trustees management function will be to review, approve, and accept responsibility for their financial statements accompanying the audit prior to the Trust's issuance; however, the Trustees do not perform nor are they usually capable of performing a detailed (technical) review of the financial statements. Under the new standards the absence of this control procedure is now considered a **material weakness** because the potential exists that a material misstatement of the financial statements could occur and not be prevented or detected by the entity's internal control. **In summary, if the auditors prepare the financial statements including the footnotes a control weakness is deemed to exist.**

The existence of significant deficiencies or material weaknesses, such as the above, may already be known to you and may represent a conscious decision by you or those charged with governance within the Trust to accept that degree of risk because of cost or other considerations. The Trustees are responsible for making decisions concerning costs to be incurred and related benefits. Auditors are responsible to communicate significant deficiencies and material weaknesses in accordance with professional standards regardless of the Trustee's decisions.



# SAS112

Statement on Auditing Standards No. 112

## As the Pronouncement Relates to Our Clients

As a result of SAS 112 we expect to see more citations of control deficiencies and severe deficiencies than have been reported in the past. SAS 112 lowers the threshold for conditions and practices that, heretofore were communicated verbally, must now be transmitted in writing. Responsibility for complete and accurate books and financial statements is placed squarely on the Trustees. In order to discharge your duties as Trustees under the requirements promulgated under SAS 112 by the Financial Accounting Standards Board, you can request that we, on your behalf, establish and maintain effective **Review Policies and Procedures** for the Trust and perform the following functions:

- » Reconcile general ledger amounts to the financial statements.
- » Prepare and review all supporting documentation and explanations for audit adjusting journal entries proposed and approve the entries, if any.
- » Prepare the financial statement footnotes and disclosures and complete or review a disclosure checklist provided by your auditor.
- » Prepare, review and approve schedules and calculations supporting amounts included in the financial statements and notes.
- » Prepare, review and approve the cash flow worksheet used in preparing the statement of cash flows.
- » Apply analytic procedures to the draft financial statements.
- » Perform other procedures as considered necessary by us, the Trustees or the auditors.

You may also choose to have a second auditing firm provide these services or choose to have a material weakness in internal accounting controls noted in your management letter.

As you can see, there is a shift in responsibility based upon the implementation of this new standard. The Trustees may ask us to perform additional services that:

- Will allow the auditors to remain independent
- Will avoid the issuance of a "material weakness" comment in a management letter

**This is an opportunity for us to provide new services to the Trust and the Trustees in assisting you with discharging your fiduciary duty.**

