

## SAS 112

The AICPA issued a new auditing standard, which we will be required for audits ending on or after December 15, 2006.

This standard may result in a client receiving a letter from our firm formally communicating significant deficiencies or material weaknesses in internal controls.

The new standard (SAS No. 112, *Communicating Internal Control Related Matters in an Audit*) provides guidance to an auditor on communicating internal control matters to the governing body, board of directors or equivalent body.

This standard and its interpretive guidance emphasizes that management is responsible for establishing and maintaining internal controls, including monitoring, 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.

At times, management may choose to outsource certain accounting functions due to cost or training considerations. Such accounting functions and service providers must be governed by the control policies and procedures of the company. Management is as responsible for outsourced functions performed by a service provider as it is for your personnel.

Management is also responsible for management decisions and functions; for designating an individual with suitable skill, knowledge, or experience to oversee any outsourced services and for evaluating the adequacy and results of those services and accepting responsibility for them.

The existence of significant deficiencies or material weaknesses may already be known to management and may represent a conscious decision by management or those charged with governance to accept that degree of risk because of cost or other considerations. Management is responsible for making decisions concerning costs to be incurred and related benefits. Krouse, Kern & Co., Inc. is responsible for communicating significant deficiencies and material weaknesses in accordance with professional standards regardless of management's decisions.

In order to provide oversight of the financial statement preparation services at an appropriate level, management can establish effective review policies and procedures including the performance of the following functions:

- Reconcile general ledger amounts to the draft financial statements utilizing grouping schedules provided by us.
- Review all supporting documentation and explanations for journal entries we propose and approve the entries.
- Review the adequacy of financial statement disclosures by completing a disclosure checklist or reviewing and approving the completed disclosure checklist we will provide to you.
- Review and approve schedules and calculations supporting amounts included in the notes to financial statements.
- 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 management.