

Financial Bulletin

STATEMENT ON AUDITING STANDARDS NO. 112

In May, 2006, the Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA) issued the Statement on Auditing Standards No. 112, *Communicating Internal Control Related Matters Identified in an Audit* (SAS No. 112)

SAS No. 112 establishes standards, responsibilities and guidance for auditors during a financial statement audit engagement for identifying and evaluating a client's internal controls over financial reporting. This standard requires the auditor to report, in writing, to management and the governing body any control deficiencies found during the audit that are considered significant deficiencies and/or material weaknesses.

Specifically, SAS No. 112 does the following:

- Defines the following terms: control deficiency, significant deficiency and material weakness.
- Provides guidance for evaluating the severity of control deficiencies identified in an audit of financial statements.
- Requires the auditor to communicate, in writing, to management and those charged with governance, significant deficiencies and material weaknesses identified in the audit.

Impact of SAS No. 112 on Financial Statements

Many organizations have their independent auditors prepare the financial statements (including the related footnotes) which they subsequently audit. This may create an independence issue for the auditor and could possibly result in communication, in writing, to Fund Trustees highlighting a significant deficiency and a material weakness in Fund internal controls.

Does this mean that your auditors can no longer prepare your financial statements? No. However, if your staff does not have the knowledge or expertise needed to prepare the financial statements, a significant deficiency likely exists.

Some organizations have taken the position that there are sufficient internal controls because they rely upon their auditors' knowledge and expertise to prepare the proper financial statements. By doing this, they have made their auditors part of the

internal control system; this impairs the auditors' independence and results in a control deficiency. This is where Alicare, a state of the art, high quality, Third Party Administrator can assist you.

Alicare has the expertise to prepare and review the financial statements and related footnotes in sufficient detail to assume responsibility and prevent and detect misstatements.

Alicare stands ready to assist you and your staff in the administration of your health and/or pension fund. For more information on how we can help you in your financial reporting needs, please call John Thornton, Executive Vice President Sales and Marketing at 914-367-5511.

About Alicare

Alicare, an affiliate of Amalgamated Life Insurance Company, serves more than 55 self-insured union and union-related employee benefit plans nationally. We have proudly served the unique needs of the Taft-Hartley marketplace for over 65 years by providing customized solutions for benefit plan administration.

About Amalgamated Life Insurance Company

Amalgamated Life Insurance, America's Labor Insurance Company®, was founded in 1943, to protect the financial well being of working men and women and their families. The Company has received an "A" (Excellent) rating from A.M. Best Company for 34 consecutive years.

Amalgamated Life and its affiliates are full-service providers of insured and self-insured employee benefit plans with over \$800 million in annual premium equivalencies and fee-for service revenues.

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