

1989

Report on the internal control structure in audits of investment companies; Statement of position 89-7;

American Institute of Certified Public Accountants. Investment Companies Committee

Follow this and additional works at: https://egrove.olemiss.edu/aicpa_sop

Part of the [Accounting Commons](#), and the [Taxation Commons](#)

Recommended Citation

American Institute of Certified Public Accountants. Investment Companies Committee, "Report on the internal control structure in audits of investment companies; Statement of position 89-7;" (1989). *Statements of Position*. 193.
https://egrove.olemiss.edu/aicpa_sop/193

This Article is brought to you for free and open access by the American Institute of Certified Public Accountants (AICPA) Historical Collection at eGrove. It has been accepted for inclusion in Statements of Position by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.

**Statement of
Position**

89-7

**Report on
the Internal Control
Structure in Audits
of Investment Companies**

December 29, 1989

**Amendment to
AICPA Audit and Accounting Guide
*Audits of Investment Companies***

Prepared by the Investment Companies Committee

**American Institute of
Certified Public Accountants**

AICPA

NOTE

This statement of position presents the recommendations of the AICPA Investment Companies Committee regarding the application of generally accepted auditing standards to reports on the internal control structure in audits of investment companies. It represents the considered opinion of the committee on the best auditing practice in the industry and has been reviewed by members of the AICPA Auditing Standards Board for consistency with existing auditing standards. AICPA members may have to justify departures from the recommendations in this statement if their work is challenged.

*Copyright © 1989 by the
American Institute of Certified Public Accountants, Inc.
1211 Avenue of the Americas, New York, N.Y. 10036-8775*

1 2 3 4 5 6 7 8 9 0 AccS 89

Report on the Internal Control Structure in Audits of Investment Companies

Introduction

1. In 1987, a revised edition of the audit and accounting guide *Audits of Investment Companies* was issued. Paragraph 9.11 of that guide illustrates a report covering the review of the system of internal accounting control required as an exhibit to accompany the year-end report on Form N-SAR filed with the Securities and Exchange Commission (SEC), based on the guidance in paragraphs 47 through 53 of Statement on Auditing Standards (SAS) No. 30, *Reporting on Internal Accounting Control*.

2. In April 1988, the AICPA's Auditing Standards Board issued SAS No. 60, *Communication of Internal Control Structure Related Matters Noted in an Audit*, which supersedes paragraphs 47 through 53 of SAS No. 30. This statement of position amends *Audits of Investment Companies* in response to the changes required by SAS No. 60; the guidance in paragraph 3 of this statement supersedes paragraph 9.11 of the guide. The revised report presented below does not change the independent auditor's responsibilities to report material weaknesses as described in the instructions to Form N-SAR.

Report on Internal Control Required by the SEC

3. The following is an illustration of the independent auditor's report on a management investment company's internal control structure based on the results of procedures performed in obtaining an understanding of the internal control structure and assessing control risk. These procedures should include the review, study, and evaluation of the accounting system, internal accounting controls, and

procedures for safeguarding securities required by the instructions to Form N-SAR.

Board of Directors
XYZ Investment Company

In planning and performing our audit of the financial statements of XYZ Investment Company for the year ended December 31, 19X1, we considered its internal control structure, including procedures for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and to comply with the requirements of Form N-SAR, not to provide assurance on the internal control structure.

The management of XYZ Investment Company is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. Two of the objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in conformity with generally accepted accounting principles.

Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that it may become inadequate because of changes in conditions or that the effectiveness of the design and operation may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control structure, including procedures

for safeguarding securities, that we consider to be material weaknesses as defined above as of December 31, 19X1.*

This report is intended solely for the information and use of management and the Securities and Exchange Commission.

Accounting Firm
New York, New York
February 15, 19X2

Effective Date

4. This statement is effective for audits of financial statements for periods beginning on or after January 1, 1989, with early application permissible.

* If conditions believed to be material weaknesses are disclosed, the report should describe the weaknesses that have come to the auditor's attention and may state that these weaknesses do not affect the report on the financial statements. The last sentence of the fourth paragraph of the report should be modified as follows:

However, we noted the following matters involving the (control environment, accounting system, control procedures, or procedures for safeguarding securities) and its (their) operation that we consider to be material weaknesses as defined above. These conditions were considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the financial statements of XYZ Investment Company for the year ended December 31, 19X1, and this report does not affect our report thereon dated February 15, 19X2. *[A description of the material weaknesses that have come to the auditor's attention would follow. Also, Sub-item 77B of the instructions to Form N-SAR says "(d)isclosure of a material weakness should include an indication of any corrective action taken or proposed.]*

Investment Companies Committee
(1988–1989)

JERRY A. DAVIS, *Chairman*
STEVEN E. BULLER
M. CHRISTOPHER CANAVAN, JR.
NICHOLAS P. CONSTANTAKIS
ROBERT F. GUNIA
PAUL A. KELLER
JAMES F. MAHONEY
RICHARD P. MEYEROWICH
PAUL R. NEVIERA
DAVID M. TAYLOR
FREDERICK M. WERBLOW

JONATHAN F. ZESCHIN

DAN M. GUY,
Vice President, Auditing
PATRICK L. MCNAMEE,
Director
Audit and Accounting Guides
DIONNE D. MCNAMEE,
Technical Manager
Accounting Standards

014838