

**Note: The 2018 Yellow Book became effective for June 30, 2020, year-end financial audits and resulted in slight revisions to the chapter 4 GAS-SA Guide illustrations. As a member service, we are providing below a red-lined version of Example 4-3 to more easily identify what has changed. These same changes were made to illustrative reports 4-4 through 4-9. Purchase the 2020 edition of the GAS-SA Guide to access the full set of examples without the markup.**

### Example 4-3

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters <sup>fn 298</sup> Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards (for a Governmental Entity)* <sup>fn 3029</sup>**

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<sup>fn 265</sup> See [footnote 143](#).

<sup>fn 276</sup> See [footnote 154](#).

<sup>fn 287</sup> See [footnote 165](#).

<sup>fn 298</sup> [Chapter 2](#), "*Government Auditing Standards — Ethics, ~~al Principles and General Standards~~ Independence, Professional Judgment, Competence, Continuing Professional Education, Quality Control and Peer Review*," and [chapter 3](#), "Planning and Performing a Financial Statement Audit in Accordance With *Government Auditing Standards*," of this guide discuss the auditor's consideration of internal control over financial reporting and of fraud; and noncompliance with provisions of laws, regulations, contracts, and grant agreements, ~~and abuse~~.

<sup>fn 3029</sup> This illustration assumes that Example Entity is a governmental entity. If Example Entity is an NFP, the wording in the first paragraph of this report should be modified using the following wording. Additionally, the first sentence under the heading "Internal Control over Financial Reporting" would be revised to refer to "our opinion" instead of "our opinions."

***(No Material Weaknesses Identified; No Significant Deficiencies Identified; No Reportable Instances of Noncompliance or Other Matters Identified)*** <sup>fn 319</sup>

### Independent Auditor's Report

[Appropriate Addressee]

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, <sup>fn 324</sup> the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Example Entity, as of and for the year ended June 30, 20X1, and the related notes to the financial statements, which collectively comprise Example Entity's basic financial statements, and have issued our report thereon dated August 15, 20X1. <sup>fn 332</sup>

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We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Example Entity, which comprise the consolidated statement of financial position as of June 30, 20X1, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 15, 20X1.

<sup>fn 319</sup> Auditors may use portions of various illustrations included in this appendix to draft reports that apply to a specific audited entity situation. For example, if the auditor has identified significant deficiencies but has not identified instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, the internal control section of [example 4-5](#) may be used along with the compliance and other matters section of [example 4-3](#). Alternatively if the auditor has not identified significant deficiencies but has identified instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, the internal control section of [example 4-3](#) may be used along with the compliance section of [example 4-5](#). See [examples 4-7-4-9](#) for illustrative reporting for situations in which the auditor has identified material weaknesses.

<sup>fn 324</sup> See [footnote 76](#). Additionally, if the financial statements include organizational units that are not required to have a *Government Auditing Standards* audit, the auditor should consider modifying this paragraph. See [paragraph 4.8077](#).

<sup>fn 332</sup> If the auditor expressed a modified opinion on the financial statements (that is, a qualified opinion, an adverse opinion, or a disclaimer of opinion), the auditor should include a statement describing the nature of the modification. The auditor may include certain additional communications when the auditor included such additional communications in the auditor's report on the financial statements that are not modifications to the auditor's opinion. For example, if the auditor included an emphasis-of-matter paragraph in the auditor's report on the financial statements because of an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time, the auditor may also include mention of the additional communication here.

## Internal Control Over Financial Reporting<sup>fn 343</sup> <sup>fn 354</sup>

In planning and performing our audit of the financial statements, we considered Example Entity's internal control over financial reporting (internal control) ~~to determine the~~ a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions<sup>fn 365</sup> on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Example Entity's internal control. Accordingly, we do not express an opinion on the effectiveness of Example Entity's internal control.

*A 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 a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is 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.<sup>fn 376</sup>

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal

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<sup>fn 343</sup> *Government Auditing Standards* permits, but does not require, auditors to express an opinion on internal control over financial reporting or on compliance if sufficient work was performed. See also [footnote 154](#).

<sup>fn 354</sup> This report sequences the reporting on internal control over financial reporting before the reporting on compliance and other matters. However, the Uniform Guidance reports in the [appendix](#) in chapter 13 and the [appendix](#) in chapter 14, "Program-Specific Audits," of this guide sequence the reporting on compliance before the reporting on internal control over compliance. Auditors may present the internal control and compliance sections of the *Government Auditing Standards* and compliance audit reports in whichever sequence better meets their needs.

<sup>fn 365</sup> See [footnote 3029](#).

<sup>fn 376</sup> Although the definitions of *deficiency in internal control* and *material weakness* are required in all reporting, the definition of *significant deficiency* is not required to be included in the report when no significant deficiencies have been identified. However, for clarity purposes, the definition of *significant deficiency* is included in the example reports found in this appendix regardless of the type of deficiencies identified. The definitions included in all example reports are based on the definitions found in [AU-C section 265](#), *Communicating Internal Control Related Matters Identified in an Audit*.

control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters <sup>fn 387</sup> <sup>fn 398</sup>

As part of obtaining reasonable assurance about whether Example Entity's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the ~~determination of financial statements~~ ~~s-amounts~~. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. <sup>fn 4039</sup>

[Auditor's signature]

[Auditor's city and state] <sup>fn 410</sup>

[Date of the auditor's report] <sup>fn 421</sup>

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<sup>fn 387</sup> *Other matters* are certain findings of fraud ~~or abuse~~. As per industry practice, the reference to "other matters" in both the heading and the following paragraph typically appears in all reports, even if the report does not present or refer to findings of fraud ~~or abuse~~ or even if the only findings of fraud ~~or abuse~~ are presented in or referred to from the section on internal control over financial reporting. See [paragraph 4.639](#).

<sup>fn 398</sup> Paragraph [6.444.26](#) of *Government Auditing Standards* notes that when auditors ~~identify or suspect~~ ~~detect instances of~~ noncompliance with provisions of ~~laws, regulations, contracts, and~~ ~~or~~ grant agreements ~~or abuse~~ that ~~have~~ an effect on the financial statements that ~~is~~ ~~are~~ less than material but warrants the attention of those charged with governance, they should communicate those findings in writing to audited entity officials. See [paragraph 4.763](#).

<sup>fn 4039</sup> This paragraph conforms to [paragraph .11](#) of AU-C section 905, *Alert That Restricts the Use of the Auditor's Written Communication*, which provides for a "purpose" alert in lieu of a "restricted use" alert for certain communications issued under *Government Auditing Standards*. See [AU-C section 905](#) for additional guidance.