**THIS GAGAS LETTER SHELL IS INTENDED FOR USE ONLY WITH AUDIT PERIODS ENDING PRIOR TO 12-31-21. THIS GAGAS LETTER SHELL SHOULD NOT BE USED FOR 12-31-21 & SUBSEQUENT FYEs.**

**AU-C 265 GAGAS Report Letter**

**Report on Internal Control over Financial Reporting**

**and on Compliance and Other Matters Required by**

***Government Auditing Standards***

***Revised October 2021 for clerical corrections.***

***~~Revised December 2020 – modified endnote 3 for AOS Regulatory examples~~***

Instructions: Use the example on the next page when there are **no** material weaknesses, significant deficiencies **or** reportable instances of noncompliance or other matters.

If you report significant deficiencies / material weaknesses / reportable noncompliance or other matters, replace (i.e., cut and paste) the modified section(s) of the report from the examples following the first example report.

***COVID-19 Guidance:***

**A related disclosure, emphasis-of-matter paragraph, and GAGAS opening paragraph sentence regarding COVID-19 should be considered when appropriate.**

**No Reportable Instances of Noncompliance or Other Matters with No Material Weaknesses or Significant Deficiencies**

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER**

**FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS**

**REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Click [here](https://ohioauditor.gov/ocs/2021/Instruction%20on%20how%20to%20Fill%20in%20Entity%20Specific%20Parameters%20within%20Word.docx) for instructions on how to fill in entity specific parameters within this document

[ENTITY NAME][[1]](#endnote-1) << (notes 1 – 4 in this “No reportable instances” example appear as *endnotes* at the end of this document)

[COUNTY NAME]

[STREET ADDRESS]

[CITY], Ohio [ZIP CODE]

To the [GOVERNING BODY]:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States’ *Government Auditing Standards*, the financial statements **of the** **governmental activities, the business-type activities, the [aggregate] discretely presented component unit(s), each major fund, and the aggregate remaining fund information** of the [ENTITY NAME], [COUNTY NAME], (the Government) as of and for the year ended [FYE DATE], and the related notes to the financial statements, **which collectively comprise the Government’s basic financial statements[[2]](#endnote-2)** and have issued our report thereon dated [REPORT DATE].**[[3]](#endnote-3)**,[[4]](#endnote-4)

***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Government’s internal control over financial reporting (internal control) as a basis for designing audit procedures appropriate in the circumstances to the extent necessary to support our opinion**(s)** on the financial statements, but not to the extent necessary to opine on the effectiveness of the Government’s internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Government’s financial statements. 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.

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 internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

***Compliance and Other Matters***

As part of reasonably assuring whether the Government’s financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the financial statements. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Government’s internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Government’s internal control and compliance. Accordingly, this report is not suitable for any other purpose.

[AUDITOR NAME]

[CITY, STATE]

[REPORT DATE]

**EXAMPLE: SIGNIFICANT DEFICIENCY(IES) *BUT NO* MATERIAL WEAKNESSES**

*Replace the last paragraph in the internal control section with this paragraph:*

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 internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify (a) certain deficiency(ies) in internal control, described in the accompanying schedule of findings that we consider (a) significant deficiency(ies). We consider finding(s) 20XX-001 through 20XX-004 and 20XX-007 to be (a) significant deficiency(ies).

**>>> If the report includes auditee responses, remember to insert the “response” paragraph from the material noncompliance example in the compliance section, even if there was no material noncompliance. If the auditee chooses not to respond, insert in the *Schedule of Findings “We did not receive a response f*rom Officials to this finding,” as the *Officials’ Response*. EXAMPLE: MATERIAL WEAKNESSES, *BUT NO* SIGNIFICANT DEFICIENCIES**

*Replace the last paragraph in the internal control section with this paragraph:*

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 internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify (a) certain deficiency(ies) in internal control, described in the accompanying schedule of findings that we consider (a) material weakness(es). We consider finding**(s)** 20XX-001 through 20XX-004 and 20XX-007 to be (a) material weakness(es).

**>>> If the report includes auditee responses, remember to insert the “response” paragraph from the material noncompliance example in the compliance section, even if there was no material noncompliance. If the auditee chooses not to respond, insert in the *Schedule of Findings* “We did not receive a response from Officials to this finding,” as the *Officials’ Response*.**

**EXAMPLE: MATERIAL WEAKNESSES, *AND* SIGNIFICANT DEFICIENCIES**

*There is no revision to the first paragraph. Replace the last two paragraphs with these paragraphs:*

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider (a) material weakness(es) and (a) significant deficiency(ies).

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Government’s financial statements. We consider finding**(s)** 20XX-001 through 20XX-004 and 20XX-007 described in the accompanying schedule of findings to be (a) material weakness(es).

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding**(s)** 20XX-006 and 20XX-008 through 20XX-010 described in the accompanying schedule of findings to be (a) significant deficiency(ies).

**>>> If the report includes auditee responses, remember to insert the “response” paragraph from the material noncompliance example in the compliance section, even if there was no material noncompliance. If the auditee chooses not to respond, insert in the *Schedule of Findings* “We did not receive a response from Officials to this finding,” as the *Officials’ Response*. See AOSAM 38100.38--39.**

**EXAMPLE: MATERIAL NONCOMPLIANCE**

As part of reasonably assuring whether the Government’s financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the financial statement. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed **(an)** instance**(s)** of noncompliance or other matters we must report under *Government Auditing Standards* which **(is/are)** described in the accompanying schedule of findings as item**(s)** [List related finding reference numbers, for example, 20XX-001 and 20XX-005].

**Government*’s Response to Findings***

The Government’s response**(s)** to the finding**(s)** identified in our audit **is[are]** described in the accompanying schedule of findings **and / or corrective action plan**. (omit reference to corrective action plan if not part of the audit report) We did not subject the Government’s response**(s)** to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on **it [them]**. **<<INCLUDE PARAGRAPH ONLY IF THE REPORT INCLUDES RESPONSES TO GAGAS CONTROL OR NONCOMPLIANCE FINDINGS. See footnote *[[5]](#footnote-1)* below if the client chooses not to respond.**

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Government’s internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Government’s internal control and compliance. Accordingly, this report is not suitable for any other purpose.

***Other Important Guidance from the GAGAS / Single Audit Guide***

* **4.62** in the AICPA’s *Government Auditing Standards and Single Audits* requires auditors to report noncompliance findings that also relate to control deficiencies in both (1) the internal control and (2) the compliance sections of the GAGAS report. Several Revised Code sections mandate governments to implement internal controls, such as budgetary. ***However****, unless noncompliance with these mandated controls contributes to misstatements or potential misstatements, auditors should not report them under AU-C 265.*
* **4.63** Auditors should present or refer to findings of fraud in the *compliance and other matters* section of the report, unless the primary nature of the finding is a significant deficiency or material weakness in internal control. Auditors should also present or refer to findings of fraud that represent significant deficiencies or material weaknesses in internal control in the internal control section. (Note: When the AOS issues a finding for recovery resulting from fraud, we would include a noncompliance finding. However, per this guidance, we should also consider if the fraud resulted from a significant deficiency or material weakness. If it does, we should also include the finding number in the GAGAS report internal control section.)
* **13.35(c)** Audit findings that relate to both the financial statements (i.e. that we report as GAGAS findings) and the federal awards (i.e. that require reporting per 2 CFR 200.516(a)) should be reported in both the GAGAS and Federal sections of the schedule of findings and questioned costs. However, the reporting in one section of the schedule may be in summary form, with a reference to a detailed reporting in the other section of the schedule. For example, we should usually report a material weakness in internal control that affects the financial statements as a whole, including its federal awards, in detail in the section of the schedule of findings and questioned costs related to the financial statements, with a summary identification and reference given in the federal awards section. Conversely, we should report a finding of noncompliance with a federal program law that also is material to the financial statements in detail in the federal awards section of the schedule, with a summary identification and reference given in the financial statement section.

***Endnotes***

1. The addressee is the same as the financial statement opinion addressee. [↑](#endnote-ref-1)
2. The opinion unit **(red font)** language applies only to GASB 34 / 35 entities (including 34 OCBOA). Delete inapplicable opinion units. If we combine the discrete CU’s and RFI as permitted in limited circumstances by Footnote 7 to SLG Exhibit 4.1, conclude as follows: . . . **and the aggregate discretely presented component unit and remaining fund information of** [↑](#endnote-ref-2)
3. **Referring to Opinion Modifications**

   The first ¶ of the GAGAS report must briefly describe any departure from the standard financial statement opinion (e.g., qualified or adverse opinions, disclaimer of opinion, and /or explanatory paragraphs (such as “going concerns,” accounting changes, reference to other auditors, implementation of new accounting standard, etc.)). See Endnote 4 below for reference to other auditors.

   **Example 1:**

   **If a government (a) is not required to follow GAAP**

   **and (b) uses the AOS accounting basis**:

   We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States’ *Government Auditing Standards*, the financial statements of the cash balances, receipts, and disbursements for each governmental and proprietary fund type and the fiduciary fund type combined total as of and for the year ended December 31, 2020 and for each governmental, proprietary and fiduciary fund type as of and for the year ended December 31, 2019, and related notes of the [ENTITY NAME], [COUNTY NAME], (the Entity) and have issued our report thereon dated [REPORT DATE], wherein we noted the Government followed financial reporting provisions Ohio Rev. Code § 117.38 and Ohio Admin. Code 117-2-03(C) permit.

   **Example 1a:**

   **If a government (a) is required to follow GAAP**

   **and (b) uses the AOS accounting basis**:

   We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States’ Government Auditing Standards, the financial statements of the [ENTITY NAME], [COUNTY NAME], (the Government) as of and for the year ended [FYE DATE], and the related notes to the financial statements and have issued our report thereon dated [REPORT DATE], wherein we issued an adverse opinion on the Government’s financial statements because the Government did not follow accounting principles generally accepted in the United States of America as required by Ohio Admin. Code 117-2-03.

   **Example 2:**

   **If a government (whether or not required to follow GAAP) uses an OCBOA Special Purpose Framework, replace the first shell paragraph with the following:**

   We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States’ *Government Auditing Standards*, the modified cash-basis financial statements of the governmental activities, the business-type activities, the **[aggregate]** discretely presented component unit**(s)**, each major fund, and the aggregate remaining fund information of the [ENTITY NAME], [COUNTY NAME], (the Government) as of and for the year ended [FYE DATE], and the related notes to the financial statements, which collectively comprise the Government’s basic financial statements and have issued our report thereon dated [REPORT DATE], wherein we noted the Government uses a special purpose framework other than generally accepted accounting principles.

   **Example 3:**

   **If the opinion on an opinion unit is qualified (including a scope limitation),**

   **modify the first paragraph as follows:**

   We qualified our opinion on **[DESCRIBE OPINION UNIT (or fund type for AOS basis) AFFECTED BY THE QUALIFICATION / SCOPE RESTRICTION]** because **[DESCRIBE REASON FOR SCOPE RESTRICTION]**.

   (THIS IS JUST AN EXAMPLE TO ADD TO THE END OF THE FIRST PARAGRAPH)

   **Example 4:**

   **If we disclaim an opinion on an opinion unit, the Yellow Book still requires the**

   **auditor to report on internal control and compliance. However,**

   **modify the first paragraph as follows:**

   We were engaged to audit the [list the opinion unit we disclaim]. We did not opine on **[DESCRIBE OPINION UNIT (or fund type for AOS basis) AFFECTED BY THE DISCLAIMER]** because **[DESCRIBE REASON FOR DISCLAIMER]**.

   (THIS IS JUST AN EXAMPLE TO ADD TO THE END OF THE FIRST PARAGRAPH)

   Generally, the other “boilerplate” paragraphs are not affected. **If we disclaim on the entire financial statements, this report requires additional revision consistent with the Example 4-9 in the AICPA Single Audit Guide Chapter 4 as noted in Example 5.**

   **Example 5:**

   **If we disclaim an opinion on the financial statements as a whole, the Yellow Book still requires the auditor to report on internal control and compliance. However,**

   **modify the first paragraph as follows:**

   We were engaged to audit ~~have audited~~, in accordance with **…**  We did not opine on these financial statements because **[DESCRIBE REASON FOR DISCLAIMER]**.

   (THIS IS JUST AN EXAMPLE TO ADD TO THE BEGINNING AND THE END OF THE FIRST PARAGRAPH)

   **REMINDER:** Change ‘audit’ to ‘engagement’, where applicable, in the remaining GAGAS letter paragraphs. See AICPA Single Audit Guide Example 4-9.

   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 Government'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. (AICPA Single Audit Guide Ch 4, fn33)

   This would also include communications about accounting changes, implementations of new accounting standards, etc. The following is an example of such reference at the end of the introductory GAGAS paragraph when the opinion includes an emphasis of matter for implementation of a new accounting standard. This language should be modified specific to your opinion communication.

   We [also] noted the Government adopted new accounting guidance in Governmental Accounting Standards Board Statement XX, [include name of GASB in italics].

   AOS auditors should also review guidance in AOSAM 37300 (Going Concern Considerations / AU-C 570) and AOSAM 40000.14 - .15 (Emphasis of Matter and Other Matter Paragraphs AU-C 706). [↑](#endnote-ref-3)
4. **Guidance when other auditors perform part of the AOS audit:**

   GAGAS / Single Audit Guide paragraph 4.82 states:

   **4.82** When a group auditor refers to the work of a component auditor in the report on an Government's financial statements, the group auditor also should acknowledge the involvement of the component auditor in the report on internal control over financial reporting and compliance and other matters issued as part of the financial statement audit performed in accordance with *Government Auditing Standards.* The group auditor has two options for making such an acknowledgement:

   1. Referring to the component auditor's involvement in the group auditor's report and indicating that the results of the component audit is not included—***the reference option****.*
   2. Referring to the component auditor's involvement in the group auditor's report and including the results of the component audit (for example, material weaknesses, material instances of noncompliance, and significant deficiencies)— ***the inclusion option****.*

   Regardless of which of the preceding options is chosen by the auditor, the group auditor is not responsible for the specific findings of component auditors.

   |  |  |  |
   | --- | --- | --- |
   | **Financial opinion** | **GAGAS report** | **Schedule of Findings** |
   | Refers to other auditors | Refer to other auditors and use Reference method  * Indicate results of the other audits are not included | Do not report other findings |
   | Does not refer to other auditors | Do not refer to other auditors. \*  Auditor **must** use Inclusion method. | Report other auditor’s findings (significant deficiencies, material weaknesses, and material noncompliance) that are material \*\* to PG. |

   \* If we do **not** refer to other auditors in the opinion, then we must evaluate their findings and determine which findings are material to our GAGAS report. (In other words, this method is identical to the *inclusion* method, **except** we do not mention the other auditors in the financial opinion or GAGAS report.)

   \*\* See AOSAM 30900 and the *GAGAS / Single Audit Guide* paragraphs 4.86b and Table 4-3 for guidance on evaluating if findings are material to the PG.

   ***Important:* When we refer to a component auditor in our report on the group financial statements, the Auditor of State will use the *reference* option.**

   If we **do** refer to other auditors in our financial opinion and they followed GAGAS, we use the ***reference*** method and do **not** include their GAGAS findings, per the first row in the table above (also see AOSAM 30900). Use the following as the first GAGAS paragraph:

   Our report refers to other auditors who audited the financial statements of the [**NAME OF FUND, DEPARTMENT OR COMPONENT UNIT** **<<PLEASE BE CLEAR AS TO WHICH OPINION UNIT THIS REFERS]**, as described in our report on the Government’s financial statements. This report does not include the results of the other auditors’ testing of internal control over financial reporting or compliance and other matters that those auditors separately reported.

   (THIS IS JUST AN EXAMPLE TO ADD TO THE END OF THE FIRST PARAGRAPH)

   * If other auditors did not follow GAGAS, please use this example:

   Our report refers to other auditors who audited the financial statements of the [**NAME OF FUND, DEPARTMENT OR COMPONENT UNIT** **<<PLEASE BE CLEAR AS TO WHICH OPINION UNIT THIS REFERS]**, as described in our report on the Government’s financial statements. This report does not include the results of the other auditors’ testing of internal control over financial reporting or compliance and other matters that those auditors separately reported. The financial statements of **[NAME OF FUND, DEPARTMENT OR COMPONENT UNIT <<PLEASE BE CLEAR AS TO WHICH OPINION UNIT THIS REFERS]** were not audited in accordance with *Government Auditing Standards*.

   (THIS IS JUST AN EXAMPLE TO ADD TO THE END OF THE FIRST PARAGRAPH) [↑](#endnote-ref-4)
5. If the auditee chooses not to respond, insert in the *Schedule of Findings* “We did not receive a response from Officials to this finding,” as the *Officials’ Response*. [↑](#footnote-ref-1)