

**PHC-RP-3.1: *Government Auditing Standards* Report on Internal Control over Financial Reporting and on Compliance and Other Matters—With No Material Weaknesses, Significant Deficiencies, or Reportable Instances of Noncompliance or Other Matters Identified—Periods Ending before December 15, 2021
(Before Implementation of New Reporting SASs)
(Report Drafting Illustration)**

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*^{a, b}

To the [Identify the body charged with governance.]^c
[Name of Nonprofit Health Care Entity]
[City, State]

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*^d issued by the Comptroller General of the United States, the financial statements of [Name of Nonprofit Health Care Entity] (a nonprofit health care entity), which comprise the statements of financial position as of [Date] and [Years], and the related statements of operations, changes in net assets, and cash flows^e for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated [Report Date].^{f, g}

Internal Control over Financial Reporting^h

In planning and performing our audit of the financial statements, we considered [Name of Nonprofit Health Care Entity]'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of [Name of Nonprofit Health Care Entity]'s internal control. Accordingly, we do not express an opinion on the effectiveness of [Name of Nonprofit Health Care 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.ⁱ

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 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^j

As part of obtaining reasonable assurance about whether [Name of Nonprofit Health Care 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 financial statements. 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.^k 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^l

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.

[Firm's Signature]

[Location of Firm (City, State)]

[Report Date] ^m

Notes:

- ^a Authority—Adapted from Chapter 4, Appendix, Example 4-3 of the GAS/SA Audit Guide. This is an example of a report on internal control over financial reporting and on compliance and other matters based on an audit of the financial statements of a nonprofit health care entity performed in accordance with *Government Auditing Standards*.

Caution for Audits of Financial Statements for Periods Ending on or after December 15, 2021—Reporting SASs: Please note this report is for use prior to the implementation of the following:

- SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, as amended.
- SAS No. 137, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*, as amended.
- SAS No. 138, *Amendments to the Description of the Concept of Materiality*, as amended.
- SAS No. 139, *Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes From SAS No. 134*, as amended.
- SAS No. 140, *Amendments to AU-C Sections 725, 730, 930, 935, and 940 to Incorporate Auditor Reporting Changes From SAS Nos. 134 and 137*, as amended.

On May 1, 2020, the AICPA issued SAS No. 141, *Amendment to the Effective Dates of SAS Nos. 134–140*, to defer the effective dates of SAS Nos. 134 through 140 for one year and to permit early implementation of all of these SASs. (SAS No. 141 is effective upon issuance.) The revised effective dates are for audits of financial statements for periods ending on or after December 15, 2021. Due to the delayed effective dates of SAS Nos. 134 and 137–140, this report does not incorporate these amendments.

Because of these delayed effective dates, the 2020 edition of the AICPA's Audit Guide, *Government Auditing Standards and Single Audits* (GAS/SA Audit Guide), was not updated to incorporate the new reporting standards. Auditors should be alert for the 2021 edition of the GAS/SA Audit Guide, which is expected to be released in early summer of 2021. Among other changes, the 2021 edition of the GAS/SA Audit Guide will include the requirements and guidance for these standards, including updated reporting guidance and illustrations. The AICPA plans to release updated report illustrations (financial statements and supplementary schedule of expenditures of federal awards, Yellow Book, and single audit reports) for periods ending on or after December 15, 2021, in the fall of 2020. This report should not be used after implementation of SAS No. 134 and the related SASs without considering the amendments made by the AICPA to report illustrations. (Updated reporting guidance and illustrations are generally released on the AICPA's Government Audit Quality Center website at www.aicpa.org/interestareas/governmentalauditquality.html or in an updated GAS/SA Audit Guide.) The next edition of these *Practice Aids* will incorporate the provisions of the new reporting standards and updated AICPA report illustrations.

- ^b The report addresses both internal control over financial reporting and compliance and other matters at the financial statement level. The auditor may refer to the illustrated reports and notes at PHC-RP-3.2,

PHC-RP-3.3, and PHC-RP-3.4 and modify the report for any material weaknesses, significant deficiencies, reportable instances of noncompliance, and other matters identified, or lack thereof, based on the specific circumstances and results of the audit.

- c The report is addressed the same as the report on the financial statements.
- d The report for an audit performed in accordance with the Yellow Book refers to the financial audit standards in *Government Auditing Standards* as well as to auditing standards generally accepted in the United States of America. The reference to financial audit standards is made to distinguish them from the attestation and performance audit standards, which are also contained in *Government Auditing Standards*.

Paragraphs 4.78 and 4.79 of the GAS/SA Audit Guide state that in some cases the audit of a portion of the reporting entity (e.g., an affiliated entity) is not required to be and is not performed in accordance with *Government Auditing Standards* even though the audit of the reporting entity is required to be performed in accordance with *Government Auditing Standards*. Paragraph 4.80 of the GAS/SA Audit Guide states that the auditor should modify the opening auditor's responsibility paragraph to indicate the portion of the entity that was not audited in accordance with *Government Auditing Standards*. In those instances, the first paragraph should be replaced with the following:

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 [Name of Nonprofit Health Care Entity] (a nonprofit health care entity) which comprise the statements of financial position as of [Date] and [Years], and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated [Report Date]. The financial statements of [Identify entity, function, or activity.] were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with [Identify entity, function, or activity.].

Also, see note e.

- e If the entity's basic financial statements include a statement of functional expenses, the report should be adapted by referring to "the related statements of operations, functional expenses, changes in net assets, and cash flows" in the first sentence of the report.
- f If the auditor expressed a modified opinion on the financial statements (e.g., qualified or adverse opinion, or a disclaimer of opinion), the auditor should include a statement describing the nature of the modification. When the auditor's report on the financial statements included additional communications that are not modifications to the auditor's opinion, the additional communications may be included in this auditor's report.
- g If the group auditor's report on the financial statements refers to component auditors, the GAS/SA Audit Guide, Paragraph 4.82, indicates that the group auditor should acknowledge the involvement of other auditors in the report on internal control over financial reporting and compliance and other matters. The GAS/SA Audit Guide provides two reporting options in this circumstance: the *reference* and the *inclusion* options. Chapter 4, Appendix, Examples 4-4 and 4-6, of the GAS/SA Audit Guide illustrates reporting under the *reference* option and the *inclusion* option, respectively.

If the auditor is using the reference option, the following should be added at the end of the first paragraph:

Our report includes a reference to other auditors who audited the financial statements of [Identify entity, function, or activity.], as described in our report on [Name of Nonprofit Health Care Entity]'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 are reported on separately by those auditors.

If the auditor is using the inclusion option, the following should be added at the end of the first paragraph:

Our report includes a reference to other auditors who audited the financial statements of [Identify entity, function, or activity.], as described in our report on [Name of Nonprofit Health Care Entity]'s financial statements. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

If the other auditors' audits were not performed under *Government Auditing Standards*, this paragraph should be modified (regardless of whether the auditor uses the reference option or the inclusion option). An additional sentence may be added as follows:

The financial statements of [Identify entities, functions, or activities audited by other auditors that were not performed under *Government Auditing Standards*.] were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with [Name of Fund or Component Unit] or that are reported on separately by those auditors who audited the financial statements of [Identify organization, function, or activity.].

The GAS/SA Audit Guide also provides reporting guidance (1) when certain organizational units are not required to have a Yellow Book audit and (2) when there are multiple other auditors, and some of the other auditors' audits were not performed under the Yellow Book.

- h This section of the report addresses internal control over financial reporting based on AU-C 265B and the Yellow Book. AU-C 265B allows the auditor to communicate that no material weaknesses were identified as part of the audit of the financial statements, but prohibits the auditor from issuing a report stating that no significant deficiencies were identified. Also, the Yellow Book permits, but does not require, auditors to express an opinion on internal control over financial reporting or on compliance if sufficient work was performed.
- i Footnotes to GAS/SA Audit Guide, Paragraph 4.54g, and in the applicable report illustrations in Chapter 4, clarify that the definition of *significant deficiency* is not required to be included in the report when no such deficiencies were identified. Thus, this sentence may be omitted when none have been identified. However, the definitions of *deficiency in internal control* and *material weakness* must be included in the report. (The illustrative reports presented in the GAS/SA Audit Guide and in PHC-RP-3.1 through PHC-RP-3.4 of these *Practice Aids* include the definition of a *significant deficiency* regardless of whether a significant deficiency was identified.)
- j *Other matters* are certain findings of fraud. According to industry practice, the reference to "other matters" in the heading of this section and the reference to "other matters" in the paragraph below the heading typically appear in all reports, even in situations where (a) the report does not present or refer to findings of fraud or (b) the only findings of fraud are presented in or referred to from the internal control over financial reporting section.
- k This section of the report addresses material misstatement at the financial statement level. It clearly states that an opinion on compliance is not being expressed. However, the Yellow Book permits, but does not require, auditors to express an opinion on compliance if sufficient work was performed.
- l This section reflects the requirements of AU-C 905B, *Alert that Restricts the Use of the Auditor's Written Communication*. AU-C 905B.11 requires a "purpose" alert rather than a "restricted use" alert for certain communications issued under *Government Auditing Standards*.
- m The report date should be the same as the date of the auditor's report on the financial statements.

**PHC-RP-3.2: *Government Auditing Standards* Report on Internal Control over Financial Reporting and on Compliance and Other Matters—With No Material Weaknesses Identified, but with Significant Deficiencies, Reportable Instances of Noncompliance, or Other Matters Identified—Periods Ending before December 15, 2021 (Before Implementation of New Reporting SASs)
(Report Drafting Illustration)**

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*^{a, b}

To the [Identify the body charged with governance.]
[Name of Nonprofit Health Care Entity]
[City, State]

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 [Name of Nonprofit Health Care Entity] (a nonprofit health care entity), which comprise the statements of financial position as of [Date] and [Years], and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated [Report Date].

Internal Control over Financial Reporting^{c, d}

In planning and performing our audit of the financial statements, we considered [Name of Nonprofit Health Care Entity]'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of [Name of Nonprofit Health Care Entity]'s internal control. Accordingly, we do not express an opinion on the effectiveness of [Name of Nonprofit Health Care 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.

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 control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses^e as items [List the finding reference numbers, for example, 20X1-003 and 20X1-004.] that we consider to be significant deficiencies.

Compliance and Other Matters^f

As part of obtaining reasonable assurance about whether [Name of Nonprofit Health Care 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 financial statements. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items [List the finding reference numbers, for example, 20X1-001 and 20X1-002.].

[Name of Nonprofit Health Care Entity] 's Response to Findings^{e, 9}

[Name of Nonprofit Health Care Entity] 's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. [Name of Nonprofit Health Care Entity] 's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

[Firm's Signature]

[Location of Firm (City, State)]

[Report Date]

Notes:

- ^a Authority—Adapted from Chapter 4, Appendix, Example 4-5 of the GAS/SA Audit Guide. This example of a report on internal control over financial reporting and on compliance and other matters based on an audit of the financial statements of a nonprofit health care entity performed in accordance with *Government Auditing Standards* illustrates reporting instances of noncompliance and other matters and significant deficiencies, but no material weaknesses. If conditions believed to be material weaknesses are identified, refer to the report at PHC-RP-3.3 or PHC-RP-3.4.

Caution for Audits of Financial Statements for Periods Ending on or after December 15, 2021—Reporting SASs: Please note this report is for use prior to the implementation of the following:

- SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, as amended.
- SAS No. 137, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*, as amended.
- SAS No. 138, *Amendments to the Description of the Concept of Materiality*, as amended.
- SAS No. 139, *Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes From SAS No. 134*, as amended.
- SAS No. 140, *Amendments to AU-C Sections 725, 730, 930, 935, and 940 to Incorporate Auditor Reporting Changes From SAS Nos. 134 and 137*, as amended.

On May 1, 2020, the AICPA issued SAS No. 141, *Amendment to the Effective Dates of SAS Nos. 134–140*, to defer the effective dates of SAS Nos. 134 through 140 for one year and to permit early implementation of all of these SASs. (SAS No. 141 is effective upon issuance.) The revised effective dates are for audits of financial statements for periods ending on or after December 15, 2021. Due to the delayed effective dates of SAS Nos. 134 and 137–140, this report does not incorporate these amendments.

Because of these delayed effective dates, the 2020 edition of the AICPA's Audit Guide, *Government Auditing Standards and Single Audits* (GAS/SA Audit Guide), was not updated to incorporate the new reporting standards. Auditors should be alert for the 2021 edition of the GAS/SA Audit Guide, which is expected to be released in early summer of 2021. Among other changes, the 2021 edition of the GAS/SA Audit Guide will include the requirements and guidance for these standards, including updated reporting guidance and illustrations. The AICPA plans to release updated report illustrations (financial statements and supplementary

schedule of expenditures of federal awards, Yellow Book, and single audit reports) for periods ending on or after December 15, 2021, in the fall of 2020. This report should not be used after implementation of SAS No. 134 and the related SASs without considering the amendments made by the AICPA to report illustrations. (Updated reporting guidance and illustrations are generally released on the AICPA's Government Audit Quality Center website at www.aicpa.org/interestareas/governmentalauditquality.html or in an updated GAS/SA Audit Guide.) The next edition of these *Practice Aids* will incorporate the provisions of the new reporting standards and updated AICPA report illustrations.

- b The report addresses internal control over financial reporting and compliance and other matters at the financial statement level. The auditor should also refer to the illustrated reports and notes at PHC-RP-3.1, PHC-RP-3.3, and PHC-RP-3.4 and modify the report based on the specific circumstances and results of the audit.
- c This section of the report addresses internal control over financial reporting based on AU-C 265B and the Yellow Book. AU-C 265B allows the auditor to communicate that no material weaknesses were identified as part of the audit of the financial statements, but prohibits the auditor from issuing a report stating that no significant deficiencies were identified.
- d Except for the third paragraph of the section, the wording in this section is the same as the report illustrated in PHC-RP-3.1. The third paragraph has been modified to list the reference numbers of the findings that are considered significant deficiencies.
- e In addition to the considerations in the notes to PHC-RP-3.1, the references to the schedule of findings and responses could be replaced with a description of the findings. If findings and responses are included in the body of the report, the first sentence of the section “ [Name of Nonprofit Health Care Entity] ’s Response to Findings” should be replaced with—

[Name of Nonprofit Health Care Entity] ’s response to the findings identified in our audit is described previously.
- f The wording in this section differs from the report illustrated in PHC-RP-3.1. The last sentence of this section has been modified to list the reference numbers of the findings (from the schedule of findings and responses) that must be reported under the 2018 Yellow Book. Paragraph 4.63 of the GAS/SA Audit Guide indicates that findings of fraud should be presented in or referred to in the compliance and other matters section of the Yellow Book report unless the primary nature of the finding is a material weakness or significant deficiency in internal control. If the finding of fraud is a material weakness or significant deficiency in internal control, it should be presented in or referred to in the internal control section. If the finding of fraud relates to both internal control over financial reporting and to compliance, Paragraph 4.62 of the GAS/SA Audit Guide recommends that the finding be presented in or referred to in both sections (Internal Control over Financial Reporting and Compliance and Other Matters). However, the findings may be summarized in one section, with a reference to detailed reporting in the other section.
- 9 This section reflects Yellow Book requirements to obtain and report the views of responsible officials concerning the auditor's findings, conclusions, and recommendations, as well as their planned corrective actions. According to AU-C 265B.A33, if management prepares a written response that is included in a document containing the auditor's communication of significant deficiencies or material weaknesses to management and those charged with governance, the auditor may disclaim an opinion on this information. Paragraph 4.55 of the GAS/SA Audit Guide also allows an auditor to include this section to clarify that the auditor is not providing an opinion on management's response.

**PHC-RP-3.3: *Government Auditing Standards* Report on Internal Control over Financial Reporting and on Compliance and Other Matters—With Material Weaknesses Identified, No Significant Deficiencies Identified, Reportable Instances of Noncompliance and Other Matters Identified—Periods Ending before December 15, 2021 (Before Implementation of New Reporting SASs)
(Report Drafting Illustration)**

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*^{a, b}

To the [Identify the body charged with governance.]
[Name of Nonprofit Health Care Entity]
[City, State]

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 [Name of Nonprofit Health Care Entity] (a nonprofit health care entity), which comprise the statements of financial position as of [Date] and [Years], and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated [Report Date].

Internal Control over Financial Reporting^c

In planning and performing our audit of the financial statements, we considered [Name of Nonprofit Health Care Entity]'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of [Name of Nonprofit Health Care Entity]'s internal control. Accordingly, we do not express an opinion on the effectiveness of [Name of Nonprofit Health Care 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.

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 control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses^d as items [List the finding reference numbers, for example, 20X1-003 and 20X1-004.] that we consider to be material weaknesses.

Compliance and Other Matters^e

As part of obtaining reasonable assurance about whether [Name of Nonprofit Health Care 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 financial statements. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses^d as items [List the finding reference numbers, for example, 20X1-001 and 20X1-002.].

[Name of Nonprofit Health Care Entity] 's Response to Findings^{d, f}

[Name of Nonprofit Health Care Entity] 's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. [Name of Nonprofit Health Care Entity] 's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

[Firm's Signature]

[Location of Firm (City, State)]

[Report Date]

Notes:

- ^a Authority—Adapted from Chapter 4, Appendix, Example 4-7 of the GAS/SA Audit Guide. This example of a report on internal control over financial reporting and on compliance and other matters based on an audit of the financial statements of a nonprofit health care entity performed in accordance with *Government Auditing Standards* illustrates reporting material weaknesses and instances of noncompliance and other matters but no significant deficiencies. If conditions believed to be significant deficiencies are identified, refer to the report at PHC-RP-3.2 or PHC-RP-3.4.

Caution for Audits of Financial Statements for Periods Ending on or after December 15, 2021—Reporting SASs: Please note this report is for use prior to the implementation of the following:

- SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, as amended.
- SAS No. 137, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*, as amended.
- SAS No. 138, *Amendments to the Description of the Concept of Materiality*, as amended.
- SAS No. 139, *Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes From SAS No. 134*, as amended.
- SAS No. 140, *Amendments to AU-C Sections 725, 730, 930, 935, and 940 to Incorporate Auditor Reporting Changes From SAS Nos. 134 and 137*, as amended.

On May 1, 2020, the AICPA issued SAS No. 141, *Amendment to the Effective Dates of SAS Nos. 134–140*, to defer the effective dates of SAS Nos. 134 through 140 for one year and to permit early implementation of all of these SASs. (SAS No. 141 is effective upon issuance.) The revised effective dates are for audits of financial statements for periods ending on or after December 15, 2021. Due to the delayed effective dates of SAS Nos. 134 and 137–140, this report does not incorporate these amendments.

Because of these delayed effective dates, the 2020 edition of the AICPA's Audit Guide, *Government Auditing Standards and Single Audits* (GAS/SA Audit Guide), was not updated to incorporate the new reporting standards. Auditors should be alert for the 2021 edition of the GAS/SA Audit Guide, which is expected to be released in early summer of 2021. Among other changes, the 2021 edition of the GAS/SA Audit Guide will include the requirements and guidance for these standards, including updated reporting guidance and illustrations. The AICPA plans to release updated report illustrations (financial statements and supplementary

schedule of expenditures of federal awards, Yellow Book, and single audit reports) for periods ending on or after December 15, 2021, in the fall of 2020. This report should not be used after implementation of SAS No. 134 and the related SASs without considering the amendments made by the AICPA to report illustrations. (Updated reporting guidance and illustrations are generally released on the AICPA's Government Audit Quality Center website at www.aicpa.org/interestareas/governmentalauditquality.html or in an updated GAS/SA Audit Guide.) The next edition of these *Practice Aids* will incorporate the provisions of the new reporting standards and updated AICPA report illustrations.

- b The report addresses internal control over financial reporting and compliance and other matters at the financial statement level. The auditor may refer to the illustrated reports and notes at PHC-RP-3.1, PHC-RP-3.2, and PHC-RP-3.4 and modify the report based on the specific circumstances and results of the audit.
- c Except for the third paragraph of the section, the wording in this section is the same as the report illustrated in PHC-RP-3.1. The third paragraph has been modified to indicate that (1) material weaknesses may exist that were not identified, (2) material weaknesses were identified, and (3) to list the reference numbers of the findings that are considered material weaknesses.
- d In addition to the considerations in the notes to PHC-RP-3.1, the reference to the schedule of findings and responses could be replaced with a description of the findings. If findings and responses are included in the body of the report, the first sentence of the “ [Name of Nonprofit Health Care Entity] ’s Response to Findings” section should be replaced with—

[Name of Nonprofit Health Care Entity] ’s response to the findings identified in our audit is described previously.

- e The wording in this section differs from the report illustrated in PHC-RP-3.1. The last sentence of this section has been modified to list the reference numbers of the findings (from the schedule of findings and responses) that must be reported under the 2018 Yellow Book. Paragraph 4.63 of the GAS/SA Audit Guide indicates that findings of fraud should be presented in or referred to in the compliance and other matters section of the Yellow Book report unless the primary nature of the finding is a material weakness or significant deficiency in internal control. If the finding of fraud is a material weakness or significant deficiency in internal control, it should be presented in or referred to in the internal control section. If the finding of fraud relates to both internal control over financial reporting and to compliance, Paragraph 4.62 of the GAS/SA Audit Guide recommends that the finding be presented in both sections (Internal Control over Financial Reporting and Compliance and Other Matters). However, the findings may be summarized in one section, with a reference to detailed reporting in the other section.
- f This section reflects Yellow Book requirements to obtain and report the views of responsible officials concerning the auditors’ findings, conclusions, and recommendations, as well as their planned corrective actions. According to AU-C 265B.A33, if management prepares a written response that is included in a document containing the auditors’ communication of significant deficiencies or material weaknesses to management and those charged with governance, the auditor may disclaim an opinion on this information. Paragraph 4.55 of the GAS/SA Audit Guide also allows an auditor to include this section to clarify that the auditor is not providing an opinion on management’s response.

**PHC-RP-3.4: *Government Auditing Standards* Report on Internal Control over Financial Reporting and on Compliance and Other Matters—With Material Weaknesses Identified, Significant Deficiencies, Reportable Instances of Noncompliance, and Other Matters Identified—Periods Ending before December 15, 2021 (Before Implementation of New Reporting SASs)
(Report Drafting Illustration)**

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*^{a, b}

To the [Identify the body charged with governance.]
[Name of Nonprofit Health Care Entity]
[City, State]

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 [Name of Nonprofit Health Care Entity] (a nonprofit health care entity), which comprise the statements of financial position as of [Date] and [Years], and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated [Report Date].

Internal Control over Financial Reporting^c

In planning and performing our audit of the financial statements, we considered [Name of Nonprofit Health Care Entity]'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of [Name of Nonprofit Health Care Entity]'s internal control. Accordingly, we do not express an opinion on the effectiveness of [Name of Nonprofit Health Care Entity]'s internal control.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses,^d we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses^d as items [List the finding reference numbers, for example, 20X1-001, 20X1-003, and 20X1-004.] to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses^d as items [List the finding reference numbers, for example, 20X1-002 and 20X1-005.] to be significant deficiencies.

Compliance and Other Matters^e

As part of obtaining reasonable assurance about whether [Name of Nonprofit Health Care 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 financial statements. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which

are described in the accompanying schedule of findings and responses as items [List the finding reference numbers, for example, 20X1-006 and 20X1-007.] .

[Name of Nonprofit Health Care Entity] 's Response to Findings^{d, f}

[Name of Nonprofit Health Care Entity] 's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. [Name of Nonprofit Health Care Entity] 's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

[Firm's Signature]

[Location of Firm (City, State)]

[Report Date]

Notes:

- ^a Authority—Adapted from Chapter 4, Appendix, Example 4-8 of the GAS/SA Audit Guide. This is an example of a report on internal control over financial reporting and on compliance and other matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards*. It illustrates reporting instances of noncompliance and other matters, significant deficiencies, and material weaknesses.

Caution for Audits of Financial Statements for Periods Ending on or after December 15, 2021—Reporting SASs: Please note this report is for use prior to the implementation of the following:

- SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, as amended.
- SAS No. 137, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*, as amended.
- SAS No. 138, *Amendments to the Description of the Concept of Materiality*, as amended.
- SAS No. 139, *Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes From SAS No. 134*, as amended.
- SAS No. 140, *Amendments to AU-C Sections 725, 730, 930, 935, and 940 to Incorporate Auditor Reporting Changes From SAS Nos. 134 and 137*, as amended.

On May 1, 2020, the AICPA issued SAS No. 141, *Amendment to the Effective Dates of SAS Nos. 134–140*, to defer the effective dates of SAS Nos. 134 through 140 for one year and to permit early implementation of all of these SASs. (SAS No. 141 is effective upon issuance.) The revised effective dates are for audits of financial statements for periods ending on or after December 15, 2021. Due to the delayed effective dates of SAS Nos. 134 and 137–140, this report does not incorporate these amendments.

Because of these delayed effective dates, the 2020 edition of the AICPA's Audit Guide, *Government Auditing Standards and Single Audits* (GAS/SA Audit Guide), was not updated to incorporate the new reporting standards. Auditors should be alert for the 2021 edition of the GAS/SA Audit Guide, which is expected to be released in early summer of 2021. Among other changes, the 2021 edition of the GAS/SA Audit Guide will include the requirements and guidance for these standards, including updated reporting guidance and

illustrations. The AICPA plans to release updated report illustrations (financial statements and supplementary schedule of expenditures of federal awards, Yellow Book, and single audit reports) for periods ending on or after December 15, 2021, in the fall of 2020. This report should not be used after implementation of SAS No. 134 and the related SASs without considering the amendments made by the AICPA to report illustrations. (Updated reporting guidance and illustrations are generally released on the AICPA's Government Audit Quality Center website at www.aicpa.org/interestareas/governmentauditquality.html or in an updated GAS/SA Audit Guide.) The next edition of these *Practice Aids* will incorporate the provisions of the new reporting standards and updated AICPA report illustrations.

- b The report addresses internal control over financial reporting and compliance and other matters at the financial statement level. The auditor should also refer to the illustrated reports and notes at PHC-RP-3.1, PHC-RP-3.2, and PHC-RP-3.3 and modify the report based on the specific circumstances and results of the audit.
- c The second, third, and fourth paragraphs of this section differ from the report illustrated in PHC-RP-3.2. The second paragraph was moved to precede the paragraph that defines a control deficiency and a material weakness. The second paragraph was also modified to state that the auditor identified material weaknesses in internal control. The third paragraph has been modified to (a) list the reference numbers of findings that are considered material weaknesses and (b) delete the definition of a significant deficiency. The fourth paragraph has been added, includes the definition of a significant deficiency, and lists the reference numbers of the findings that are considered significant deficiencies.
- d In addition to the considerations in the notes to PHC-RP-3.1, the references to the schedule of findings and responses could be replaced with a description of the findings. If findings and responses are included in the body of the report, the first sentence of the section “ [Name of Nonprofit Health Care Entity] ’s Response to Findings” should be replaced with—

[Name of Nonprofit Health Care Entity] ’s response to the findings identified in our audit is described previously.

- e The wording in this section differs from the report illustrated in PHC-RP-3.1. The last sentence of this section has been modified to list the reference numbers of the findings (from the schedule of findings and responses) that must be reported under the Yellow Book. Paragraph 4.63 of the GAS/SA Audit Guide indicates that findings of fraud should be presented in or referred to in the compliance and other matters section of the Yellow Book report unless the primary nature of the finding is an internal control related matter. If the finding of fraud is an internal control deficiency, it should be presented in or referred to in the internal control section. If the finding of fraud relates to both internal control over financial reporting and to compliance, Paragraph 4.62 of the GAS/SA Audit Guide recommends that the finding be presented in both sections (Internal Control over Financial Reporting and Compliance and Other Matters). However, the findings may be summarized in one section, with a reference to detailed reporting in the other section.
- f This section reflects Yellow Book requirements to obtain and report the views of responsible officials concerning the auditor's findings, conclusions, and recommendations, as well as their planned corrective actions. According to AU-C 265B.A33, if management prepares a written response that is included in a document containing the auditor's communication of significant deficiencies or material weaknesses to management and those charged with governance, the auditor may disclaim an opinion on this information. Paragraph 4.55 of the GAS/SA Audit Guide also allows an auditor to include this section to clarify that the auditor is not providing an opinion on management's response.

**PHG-RP-4: Government Auditing Standards Report on Internal Control over Financial Reporting and on Compliance and Other Matters—with No Material Weaknesses, Significant Deficiencies, or Reportable Instances of Noncompliance or Other Matters Identified—Periods Ending before December 15, 2021
(Before Implementation of New Reporting SASs)
(Report Drafting Illustration)**

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS^{a, b}

To the [Identify the body charged with governance.]

[Name of Governmental Health Care Entity]

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*^c issued by the Comptroller General of the United States, the financial statements of [Name of Governmental Health Care Entity], as of and for the year ended [Date], and the related notes to the financial statements, which collectively comprise [Name of Governmental Health Care Entity]'s basic financial statements as listed in the table of contents, and have issued our report thereon dated [Report Date].^d

Internal Control over Financial Reporting^e

In planning and performing our audit of the financial statements, we considered [Name of Governmental Health Care Entity]'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of [Name of Governmental Health Care Entity]'s internal control. Accordingly, we do not express an opinion on the effectiveness of [Name of Governmental Health Care 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.^f

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 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^g

As part of obtaining reasonable assurance about whether [Name of Governmental Health Care 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 financial statements. 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.^h 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 Reportⁱ

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.

[Firm Signature]

[Location of Firm (City, State)]

[Report Date] j

Notes:

- ^a Authority—Adapted from Chapter 4, Appendix, Example 4-3 of the GAS/SA AICPA Audit Guide. This is an example of a report on internal control over financial reporting and on compliance and other matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards*.

The report addresses internal control over financial reporting and compliance and other matters at the financial statement level. The auditor should also refer to the illustrated reports and notes at PHG-RP-5, PHG-RP-6, and PHG-RP-7 and modify the report for any material weaknesses, significant deficiencies, reportable instances of noncompliance, and other identified matters, or lack thereof, based on the specific circumstances and results of the audit.

Caution for Audits of Financial Statements for Periods Ending on or after December 15, 2021—Reporting SASs: Please note this report is for use prior to the implementation of the following:

- SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, as amended.
- SAS No. 137, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*, as amended.
- SAS No. 138, *Amendments to the Description of the Concept of Materiality*, as amended.
- SAS No. 139, *Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes From SAS No. 134*, as amended.
- SAS No. 140, *Amendments to AU-C Sections 725, 730, 930, 935, and 940 to Incorporate Auditor Reporting Changes From SAS Nos. 134 and 137*, as amended.

On May 1, 2020, the AICPA issued SAS No. 141, *Amendment to the Effective Dates of SAS Nos. 134–140*, to defer the effective dates of SAS Nos. 134 through 140 for one year and to permit early implementation of all of these SASs. (SAS No. 141 is effective upon issuance.) The revised effective dates are for audits of financial statements for periods ending on or after December 15, 2021. Due to the delayed effective date of SAS Nos. 134 and 137–140, this report does not incorporate these amendments.

Because of these delayed effective dates, the 2020 edition of the AICPA's Audit Guide, *Government Auditing Standards and Single Audits* (GAS/SA Audit Guide), was not updated to incorporate the new reporting standards. Auditors should be alert for the 2021 edition of the GAS/SA Audit Guide, which is expected to be released in early summer of 2021. Among other changes, the 2021 edition of the GAS/SA Audit Guide will include the requirements and guidance for these standards, including updated reporting guidance and illustrations. The AICPA plans to release updated report illustrations (financial statements and supplementary schedule of expenditures of federal awards, Yellow Book, and single audit reports) for periods ending on or after December 15, 2021, in the fall of 2020. This report should not be used after implementation of SAS No. 134 and the related SASs without considering the amendments made by the AICPA to report illustrations. (Updated reporting guidance and illustrations are generally released on the AICPA's Government Audit Quality Center website at www.aicpa.org/interestareas/governmentauditquality.html or in an updated GAS/SA Audit Guide.) The next edition of these *Practice Aids* will incorporate the provisions of the new reporting standards and updated AICPA report illustrations.

- b The report addresses internal control over financial reporting and compliance and other matters at the financial statement level.
- c The report for an audit performed in accordance with the Yellow Book refers to the financial audit standards in *Government Auditing Standards* as well as to auditing standards generally accepted in the United States of America. The reference to financial audit standards is made to distinguish them from the attestation and performance audit standards, which are also contained in *Government Auditing Standards*.

Paragraphs 4.78 and 4.79 of the GAS/SA AICPA Audit Guide state that, in some cases, the audit of a material component unit or fund is not required to be and is not performed in accordance with *Government Auditing Standards* even though the audit of the reporting entity is required to be performed in accordance with *Government Auditing Standards*. Paragraph 4.80 of the GAS/SA AICPA Audit Guide states that the auditor should modify the opening auditor's responsibility paragraph to indicate the portion of the entity that was not audited in accordance with *Government Auditing Standards*. In those instances, the first paragraph should be replaced with the following:

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 [Name of Governmental Health Care Entity], as of and for the year ended [Date], and the related notes to the financial statements, which collectively comprise [Name of Governmental Health Care Entity]'s basic financial statements as listed in the table of contents, and have issued our report thereon dated [Report Date]. The financial statements of [Name of Fund or Component Unit] were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with [Name of Fund or Component Unit].

- d If the auditor expressed a modified opinion on the financial statements (i.e., qualified or adverse opinion or a disclaimer of opinion), the auditor should include a statement describing the nature of the modification. When the auditor's report on the financial statements included additional communications that are not modifications to the auditor's opinion, the additional communications may be included in this auditor's report. For example, if the auditor's report on the financial statements included an emphasis-of-matter paragraph because of an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time, the auditor may mention the additional communication here.
- e This section of the report addresses internal control over financial reporting based on AU-C 265B and the Yellow Book. AU-C 265B allows the auditor to communicate that no material weaknesses were identified as part of the audit of the financial statements but prohibits the auditor from issuing a report stating that no significant deficiencies were identified. Also, the Yellow Book permits, but does not require, auditors to express an opinion on internal control over financial reporting or on compliance if sufficient work was performed.
- f Footnotes to GAS/SA Audit Guide, Paragraph 4.54g, and in the applicable report illustrations in Chapter 4, clarify that the definition of *significant deficiency* is not required to be included in the report when no such deficiencies were identified. Thus, the sentence containing the definition of significant deficiency may be omitted when none have been identified. However, the definitions of *deficiency in internal control* and *material weakness* must be included in the report. (The illustrative reports presented in the GAS/SA Audit Guide and PHG-RP-4 through PHG-RP-7 include the definition of a significant deficiency regardless of whether a significant deficiency was identified.)
- g *Other matters* are certain findings of fraud. According to industry practice, the heading and the reference to "other matters" in the paragraph below the heading typically appear in all reports, even in situations where (1) the report does not present or refer to findings of fraud or (2) the only findings of fraud are presented in or referred to from the Internal Control over Financial Reporting section.

- h This section of the report addresses material misstatement at the financial statement level. It clearly states that an opinion on compliance is not being expressed. However, the Yellow Book permits, but does not require, auditors to express an opinion on compliance if sufficient work was performed.
- i This section reflects the requirements of AU-C 905B, *Alert that Restricts the Use of the Auditor's Written Communication*. AU-C 905B.11 requires a "purpose" alert rather than a "restricted use" alert for certain communications issued under *Government Auditing Standards*.
- j The report date should be the same as the date of the auditor's report on the financial statements. Section 1100 of *PPC's Guide to Audits of Local Governments* discusses the dating of reports.

**PHG-RP-5: Government Auditing Standards Report on Internal Control over Financial Reporting and on Compliance and Other Matters—With No Material Weaknesses, but with Significant Deficiencies, Reportable Instances of Noncompliance, and Other Matters Identified—Periods Ending before December 15, 2021 (Before Implementation of New Reporting SASs)
(Report Drafting Illustration)**

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS^{a, b}

To the [Identify the body charged with governance.]

[Name of Governmental Health Care Entity]

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 [Name of Governmental Health Care Entity], as of and for the year ended [Date], and the related notes to the financial statements, which collectively comprise [Name of Governmental Health Care Entity]'s basic financial statements as listed in the table of contents, and have issued our report thereon dated [Report Date].

Internal Control over Financial Reporting^c

In planning and performing our audit of the financial statements, we considered [Name of Governmental Health Care Entity]'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of [Name of Governmental Health Care Entity]'s internal control. Accordingly, we do not express an opinion on the effectiveness of [Name of Governmental Health Care 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.

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 control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses^d as items [List the finding reference numbers, for example, 20X1-003 and 20X1-004.] that we consider to be significant deficiencies.

Compliance and Other Matters^e

As part of obtaining reasonable assurance about whether [Name of Governmental Health Care 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 financial statements. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses^d as items [List finding reference numbers, for example, 20X1-001 and 20X1-002.]

[Name of Governmental Health Care Entity] 's Response to Findings^{d, f}

[Name of Governmental Health Care Entity] 's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. [Name of Governmental Health Care Entity] 's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

[Firm Signature]

[Location of Firm (City, State)]

[Report Date]

Notes:

- ^a Authority—Adapted from Chapter 4, Appendix, Example 4-5 of the GAS/SA AICPA Audit Guide. This example of a report on internal control over financial reporting and on compliance and other matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards* illustrates reporting instances of noncompliance and other matters and significant deficiencies, but no material weaknesses. If conditions believed to be material weaknesses are identified, refer to the reports at PHG-RP-6 and PHG-RP-7.

Caution for Audits of Financial Statements for Periods Ending on or after December 15, 2021—Reporting SASs: Please note this report is for use prior to the implementation of the following:

- SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, as amended.
- SAS No. 137, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*, as amended.
- SAS No. 138, *Amendments to the Description of the Concept of Materiality*, as amended.
- SAS No. 139, *Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes From SAS No. 134*, as amended.
- SAS No. 140, *Amendments to AU-C Sections 725, 730, 930, 935, and 940 to Incorporate Auditor Reporting Changes From SAS Nos. 134 and 137*, as amended.

On May 1, 2020, the AICPA issued SAS No. 141, *Amendment to the Effective Dates of SAS Nos. 134–140*, to defer the effective dates of SAS Nos. 134 through 140 for one year and to permit early implementation of all of these SASs. (SAS No. 141 is effective upon issuance.) The revised effective dates are for audits of financial statements for periods ending on or after December 15, 2021. Due to the delayed effective date of SAS Nos. 134 and 137–140, this report does not incorporate these amendments.

Because of these delayed effective dates, the 2020 edition of the AICPA's Audit Guide, *Government Auditing Standards and Single Audits* (GAS/SA Audit Guide), was not updated to incorporate the new reporting standards. Auditors should be alert for the 2021 edition of the GAS/SA Audit Guide, which is expected to be released in early summer of 2021. Among other changes, the 2021 edition of the GAS/SA Audit Guide will include the requirements and guidance for these standards, including updated reporting guidance and illustrations. The AICPA plans to release updated report illustrations (financial statements and supplementary schedule of expenditures of federal awards, Yellow Book, and single audit reports) for periods ending on or after

December 15, 2021, in the fall of 2020. This report should not be used after implementation of SAS No. 134 and the related SASs without considering the amendments made by the AICPA to report illustrations. (Updated reporting guidance and illustrations are generally released on the AICPA's Government Audit Quality Center website at www.aicpa.org/interestareas/governmentalauditquality.html or in an updated GAS/SA Audit Guide.) The next edition of these *Practice Aids* will incorporate the provisions of the new reporting standards and updated AICPA report illustrations.

- b The report addresses internal control over financial reporting and compliance and other matters at the financial statement level. The auditor should also refer to the illustrated reports and notes at PHG-RP-4, PHG-RP-6, and PHG-RP-7 and modify the report based on the specific circumstances and results of the audit.
- c Except for the third paragraph of this section, the wording in this section is the same as the report illustrated in PHG-RP-4. The third paragraph has been modified to list the reference numbers of the findings that are considered significant deficiencies.
- d The reference to the schedule of findings and responses could be replaced with a description of the findings. If findings and responses are included in the body of the report, the first sentence of the “ [Name of Governmental Health Care Entity] ’s Response to Findings” section should be replaced with:

[Name of Governmental Health Care Entity] ’s response to the findings identified in our audit is described previously.

- e The wording in this section differs from the report illustrated in PHG-RP-4. The last sentence of this section has been modified to list the reference numbers of the findings (from the schedule of findings and responses) that must be reported under the Yellow Book. Paragraph 4.63 of the GAS/SA AICPA Audit Guide indicates that findings of fraud should be presented in or referred to in the compliance and other matters section of the Yellow Book report unless the primary nature of the finding is a material weakness or significant deficiency in internal control. If the finding of fraud is a material weakness or significant deficiency in internal control, it should be presented in or referred to in the internal control section. If the finding of fraud relates to both internal control over financial reporting and to compliance, Paragraph 4.62 of the GAS/SA AICPA Audit Guide recommends that the finding be presented in or referred to in both sections (Internal Control over Financial Reporting and Compliance and Other Matters).
- f This section reflects Yellow Book requirements to obtain and report the views of responsible officials concerning the auditors’ findings, conclusions, and recommendations, as well as their planned corrective actions. According to AU-C 265B.A33, if management prepares a written response that is included in a document containing the auditors’ communication of significant deficiencies or material weaknesses to management and those charged with governance, the auditor may disclaim an opinion on this information. Paragraph 4.55 of the GAS/SA Audit Guide also allows an auditor to include this section to clarify that the auditor is not providing an opinion on management’s response.

**PHG-RP-6: Government Auditing Standards Report on Internal Control over Financial Reporting and on Compliance and Other Matters—with Material Weaknesses Identified, No Significant Deficiencies Identified, and Reportable Instances of Noncompliance and Other Matters Identified—Periods Ending before December 15, 2021 (Before Implementation of New Reporting SASs)
(Report Drafting Illustration)**

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS^{a, b}

To the [Identify the body charged with governance.]

[Name of Governmental Health Care Entity]

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 the [Name of Governmental Health Care Entity] as of and for the year ended [Date], and the related notes to the financial statements, which collectively comprise [Name of the Governmental Health Care Entity]'s basic financial statements as listed in the table of contents, and have issued our report thereon dated [Report Date].

Internal Control over Financial Reporting^c

In planning and performing our audit of the financial statements, we considered the [Name of Governmental Health Care Entity]'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the [Name of Governmental Health Care Entity]'s internal control. Accordingly, we do not express an opinion on the effectiveness of the [Name of Governmental Health Care 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.

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 control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses^d as items [List the finding reference numbers, for example, 20X1-003 and 20X1-004.] that we consider to be material weaknesses.

Compliance and Other Matters^e

As part of obtaining reasonable assurance about whether the [Name of Governmental Health Care 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 financial statements. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses^d as items [List finding reference numbers, for example, 20X1-001 and 20X1-002.]

[Name of Governmental Health Care Entity] 's Response to Findings^{d, f}

[Name of Governmental Health Care Entity] 's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. [Name of Governmental Health Care Entity] 's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

[Firm's Signature]

[Location of Firm (City, State)]

[Report Date]

Notes:

- ^a Authority—Adapted from Chapter 4, Appendix, Example 4-7 of the GAS/SA Audit Guide. This example of a report on internal control over financial reporting and on compliance and other matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards* illustrates reporting instances of noncompliance and other matters and material weaknesses, but no significant deficiencies. If conditions believed to be significant deficiencies are identified, refer to the report at PHG-RP-7.

Caution for Audits of Financial Statements for Periods Ending on or after December 15, 2021—Reporting SASs: Please note this report is for use prior to the implementation of the following:

- SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, as amended.
- SAS No. 137, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*, as amended.
- SAS No. 138, *Amendments to the Description of the Concept of Materiality*, as amended.
- SAS No. 139, *Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes From SAS No. 134*, as amended.
- SAS No. 140, *Amendments to AU-C Sections 725, 730, 930, 935, and 940 to Incorporate Auditor Reporting Changes From SAS Nos. 134 and 137*, as amended.

On May 1, 2020, the AICPA issued SAS No. 141, *Amendment to the Effective Dates of SAS Nos. 134–140*, to defer the effective dates of SAS Nos. 134 through 140 for one year and to permit early implementation of all of these SASs. (SAS No. 141 is effective upon issuance.) The revised effective dates are for audits of financial statements for periods ending on or after December 15, 2021. Due to the delayed effective date of SAS Nos. 134 and 137–140, this report does not incorporate these amendments.

Because of these delayed effective dates, the 2020 edition of the AICPA's Audit Guide, *Government Auditing Standards and Single Audits* (GAS/SA Audit Guide), was not updated to incorporate the new reporting standards. Auditors should be alert for the 2021 edition of the GAS/SA Audit Guide, which is expected to be released in early summer of 2021. Among other changes, the 2021 edition of the GAS/SA Audit Guide will include the requirements and guidance for these standards, including updated reporting guidance and illustrations. The AICPA plans to release updated report illustrations (financial statements and supplementary schedule of expenditures of federal awards, Yellow Book, and single audit reports) for periods ending on or after

December 15, 2021, in the fall of 2020. This report should not be used after implementation of SAS No. 134 and the related SASs without considering the amendments made by the AICPA to report illustrations. (Updated reporting guidance and illustrations are generally released on the AICPA's Government Audit Quality Center website at www.aicpa.org/interestareas/governmentalauditquality.html or in an updated GAS/SA Audit Guide.) The next edition of these *Practice Aids* will incorporate the provisions of the new reporting standards and updated AICPA report illustrations.

- b The report addresses internal control over financial reporting and compliance and other matters at the financial statement level. The auditor should also refer to the illustrated reports and notes at PHG-RP-4, PHG-RP-5, and PHG-RP-7 and modify the report based on the specific circumstances and results of the audit.
- c Except for the third paragraph of this section, the wording in this section is the same as the report illustrated in PHG-RP-5. The third paragraph has been modified to remove the second sentence and list the reference numbers of the findings that are considered material weaknesses.
- d The reference to the schedule of findings and responses could be replaced with a description of the findings. If findings and responses are included in the body of the report, the first sentence of the “ [Name of Governmental Health Care Entity] ’s Response to Findings” section should be replaced with:

[Name of Governmental Health Care Entity] ’s response to the findings identified in our audit is described previously.
- e The wording in this section differs from the report illustrated in PHG-RP-4. The last sentence of this section has been modified to list the reference numbers of the findings (from the schedule of findings and responses) that must be reported under the Yellow Book. Paragraph 4.63 of the GAS/SA AICPA Audit Guide indicates that findings of fraud should be presented in or referred to in the compliance and other matters section of the Yellow Book report unless the primary nature of the finding is a material weakness or significant deficiency in internal control. If the finding of fraud is a material weakness or significant deficiency in internal control, it should be presented in or referred to in the internal control section. If the finding of fraud relates to both internal control over financial reporting and to compliance, Paragraph 4.62 of the GAS/SA AICPA Audit Guide recommends that the finding be presented in or referred to in both sections (Internal Control over Financial Reporting and Compliance and Other Matters).
- f This section reflects Yellow Book requirements to obtain and report the views of responsible officials concerning the auditors’ findings, conclusions, and recommendations, as well as their planned corrective actions. According to AU-C 265B.A33, if management prepares a written response that is included in a document containing the auditors’ communication of significant deficiencies or material weaknesses to management and those charged with governance, the auditor may disclaim an opinion on this information. Paragraph 4.55 of the GAS/SA Audit Guide also allows an auditor to include this section to clarify that the auditor is not providing an opinion on management’s response.

**PHG-RP-7: Government Auditing Standards Report on Internal Control over Financial Reporting and on Compliance and Other Matters—with Material Weaknesses, Significant Deficiencies, and Reportable Instances of Noncompliance, and Other Matters Identified—Periods Ending before December 15, 2021 (Before Implementation of New Reporting SASs)
(Report Drafting Illustration)**

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS^{a, b}

To the [Identify the body charged with governance.]

[Name of Governmental Health Care Entity]

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 [Name of Governmental Health Care Entity], as of and for the year ended [Date], and the related notes to the financial statements, which collectively comprise [Name of Governmental Health Care Entity]'s basic financial statements as listed in the table of contents, and have issued our report thereon dated [Report Date].

Internal Control over Financial Reporting^c

In planning and performing our audit of the financial statements, we considered [Name of Governmental Health Care Entity]'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of [Name of Governmental Health Care Entity]'s internal control. Accordingly, we do not express an opinion on the effectiveness of [Name of Governmental Health Care Entity]'s internal control.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses,^d we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses^d as items [List the finding reference numbers, for example, 20X1-001, 20X1-003, and 20X1-004.] to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses^d as items [List the finding reference numbers, for example, 20X1-002 and 20X1-005.] to be significant deficiencies.

Compliance and Other Matters^e

As part of obtaining reasonable assurance about whether [Name of Governmental Health Care 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 financial statements. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which

are described in the accompanying schedule of findings and responses^d as items [List finding reference numbers, for example, 20X1-006 and 20X1-007.] .

[Name of Governmental Health Care Entity] 's Response to Findings^{d, f}

[Name of Governmental Health Care Entity] 's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. [Name of Governmental Health Care Entity] 's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

[Firm Signature]

[Location of Firm (City, State)]

[Report Date]

Notes:

- ^a Authority—Adapted from Chapter 4, Appendix, Example 4-8 of the GAS/SA AICPA Audit Guide. This example of a report on internal control over financial reporting and on compliance and other matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards* illustrates reporting instances of noncompliance and other matters, significant deficiencies, and material weaknesses.

Caution for Audits of Financial Statements for Periods Ending on or after December 15, 2021—Reporting SASs: Please note this report is for use prior to the implementation of the following:

- SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, as amended.
- SAS No. 137, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*, as amended.
- SAS No. 138, *Amendments to the Description of the Concept of Materiality*, as amended.
- SAS No. 139, *Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes From SAS No. 134*, as amended.
- SAS No. 140, *Amendments to AU-C Sections 725, 730, 930, 935, and 940 to Incorporate Auditor Reporting Changes From SAS Nos. 134 and 137*, as amended.

On May 1, 2020, the AICPA issued SAS No. 141, *Amendment to the Effective Dates of SAS Nos. 134–140*, to defer the effective dates of SAS Nos. 134 through 140 for one year and to permit early implementation of all of these SASs. (SAS No. 141 is effective upon issuance.) The revised effective dates are for audits of financial statements for periods ending on or after December 15, 2021. Due to the delayed effective date of SAS Nos. 134 and 137–140, this report does not incorporate these amendments.

Because of these delayed effective dates, the 2020 edition of the AICPA's Audit Guide, *Government Auditing Standards and Single Audits* (GAS/SA Audit Guide), was not updated to incorporate the new reporting standards. Auditors should be alert for the 2021 edition of the GAS/SA Audit Guide, which is expected to be released in early summer of 2021. Among other changes, the 2021 edition of the GAS/SA Audit Guide will include the requirements and guidance for these standards, including updated reporting guidance and

illustrations. The AICPA plans to release updated report illustrations (financial statements and supplementary schedule of expenditures of federal awards, Yellow Book, and single audit reports) for periods ending on or after December 15, 2021, in the fall of 2020. This report should not be used after implementation of SAS No. 134 and the related SASs without considering the amendments made by the AICPA to report illustrations. (Updated reporting guidance and illustrations are generally released on the AICPA's Government Audit Quality Center website at www.aicpa.org/interestareas/governmentalauditquality.html or in an updated GAS/SA Audit Guide.) The next edition of these *Practice Aids* will incorporate the provisions of the new reporting standards and updated AICPA report illustrations.

- b The report addresses internal control over financial reporting and compliance and other matters at the financial statement level. The auditor should also refer to the illustrated reports and notes at PHG-RP-4, PHG-RP-5, and PHG-RP-6 and modify the report based on the specific circumstances and results of the audit.
- c The second, third, and fourth paragraphs of this section differ from the report illustrated in PHG-RP-5. The second paragraph was moved to precede the paragraph that defines a control deficiency and a material weakness. The second paragraph was also modified to state that the auditor identified material weaknesses in internal control. The third paragraph has been modified to (1) list the reference numbers of findings that are considered material weaknesses and (2) delete the definition of a significant deficiency. The fourth paragraph has been added and includes the definition of a significant deficiency and lists the reference numbers of the findings that are considered significant deficiencies.
- d The reference to the schedule of findings and responses could be replaced with a description of the findings. If findings and responses are included in the body of the report, the first sentence of the “ [Name of Governmental Health Care Entity] ’s Response to Findings” section should be replaced with:

[Name of Governmental Health Care Entity] ’s response to the findings identified in our audit is described previously.

- e The wording in this section differs from the report illustrated in PHG-RP-4. The last sentence of this section has been modified to list the reference numbers of the findings (from the schedule of findings and responses) that must be reported under the Yellow Book. Paragraph 4.63 of the GAS/SA AICPA Audit Guide indicates that findings of fraud should be presented in or referred to in the compliance and other matters section of the Yellow Book report unless the primary nature of the finding is an internal control related matter. If the finding of fraud is an internal control deficiency, it should be presented in or referred to in the internal control section. If the finding of fraud relates to both internal control over financial reporting and to compliance, Paragraph 4.62 of the GAS/SA AICPA Audit Guide recommends that the finding be presented in or referred to in both sections (Internal Control over Financial Reporting and Compliance and Other Matters).
- f This section reflects Yellow Book requirements to obtain and report the views of responsible officials concerning the auditors’ findings, conclusions, and recommendations, as well as their planned corrective actions. According to AU-C 265B.A33, if management prepares a written response that is included in a document containing the auditors’ communication of significant deficiencies or material weaknesses to management and those charged with governance, the auditor may disclaim an opinion on this information. Paragraph 4.55 of the GAS/SA Audit Guide also allows an auditor to include this section to clarify that the auditor is not providing an opinion on management’s response.