

Rural Utilities Service, USDA

§ 1773.31

(6) Any disagreements with management, whether or not satisfactorily resolved, concerning matters that individually or in the aggregate may be significant to the borrower's financial statements or the auditor's report, report on compliance, report on compliance and on internal controls over financial reporting, or management letter;

(7) Significant matters that were the subject of consultations with other accountants;

(8) Significant issues discussed with management with regard to the initial or recurring retention of the CPA; and

(9) Any serious difficulties encountered in dealing with management during the performance of the audit.

[56 FR 63360, Dec. 3, 1991, as amended at 59 FR 659, Jan. 6, 1994]

§ 1773.21 Borrower's review and submission of the auditor's report, report on compliance, report on compliance and on internal controls over financial reporting, and management letter.

(a) The borrower's board of directors should note and record receipt of the auditor's report, report on compliance, report on compliance and on internal controls over financial reporting, and management letter and any action taken in response to the reports or management letter in the minutes of the board meeting at which such reports and management letter are presented.

(b) The borrower must furnish RUS with three copies of the auditor's report, report on compliance, report on compliance and on internal controls over financial reporting, and management letter within 120 days of the as of audit date. Any provision in RUS's security instrument that requires such documents to be furnished to RUS in a shorter period of time may be disregarded.

(c) The borrower must furnish RUS with three copies of its plan for corrective action, if any, within 180 days of the as of audit date.

(d) The borrower must furnish RUS, within 120 days of the as of audit date, with a copy of each special report, summary of recommendations or simi-

lar communications, if any, received from the CPA as a result of the audit.

[56 FR 63360, Dec. 3, 1991, as amended at 59 FR 659, Jan. 6, 1994]

§§ 1773.22–1773.29 [Reserved]

Subpart D—RUS Reporting Requirements

§ 1773.30 General.

(a) The CPA must prepare the following:

(1) An auditor's report, examples of which are set forth in appendixes A, exhibit 1 (Electric), and B, exhibit 1 (Telephone) of this part 1773;

(2) A report on compliance and on internal control over financial reporting, examples of which are set forth in appendixes A, exhibits 2 and 3 (Electric) and B, exhibits 4 and 5 (Telecommunications) of this part 1773; and

(3) A management letter, an example of which is set forth in appendix C of this part 1773.

(b) The CPA should deliver the auditor's report, report on compliance, report on compliance and on internal controls over financial reporting, and management letter (with copies as required in §1773.20) to the borrower as soon as possible after completion of the audit but not more than 90 days after the as of audit date.

[56 FR 63360, Dec. 3, 1991, as amended at 63 FR 38723, July 17, 1998]

§ 1773.31 Auditor's report.

The CPA must prepare a written report on comparative balance sheets, statements of revenue and patronage capital (or income and retained earnings, depending upon the structure of the borrower) and statements of cash flows. This report must be signed by the CPA, cover all statements presented, and refer to the separate reports on internal controls and on compliance with laws and regulations issued in conjunction with the auditor's report. This report must be signed by the CPA, cover all statements presented, and refer to the separate report on compliance and on internal control

§ 1773.32

over financial reporting issued in conjunction with the auditor's report.

[61 FR 108, Jan. 3, 1996, as amended at 63 FR 38723, July 17, 1998]

§ 1773.32 Report on compliance and on internal control over financial reporting.

As required by GAGAS, the CPA must prepare a written report on the tests performed for compliance with applicable laws, regulations, contracts, and grants, and on the borrower's internal control structure and on the assessment of control risk made as part of the financial statement audit. This report must be signed by the CPA and must include, as a minimum:

(a) The scope of the CPA's work to obtain an understanding of the borrower's internal control structure and in assessing the control risk;

(b) A description of the reportable conditions noted which include material weaknesses identified as a result of the CPA's work in understanding and assessing control risk;

(c) If no reportable instances of non-compliance and no reportable conditions were found, the CPA must issue a report as illustrated in appendix A, exhibit 2 (Electric), and appendix B, exhibit 4 (Telecommunications) of this part 1773;

(d) If material instances of non-compliance and reportable conditions are identified, the CPA must issue a report as illustrated in appendix A, exhibit 3 (Electric), and appendix B, exhibit 5 (Telecommunications) of this part 1773;

(e) Other nonmaterial instances of noncompliance should not be disclosed in the report on compliance and on internal control over financial reporting, but should be reported in a separate communication to the board of directors, preferably in writing. All such communications must be documented in the workpapers and submitted to RUS in compliance with § 1773.21.

(f) If the CPA has issued a separate letter detailing immaterial instances of noncompliance, the report on compliance and on internal control over financial reporting must be modified to include a statement such as:

We noted certain immaterial instances of noncompliance that we have reported to the

7 CFR Ch. XVII (1-1-01 Edition)

management of (borrower's name) in a separate letter dated (month, day, year).

(g) If the CPA has issued a separate letter to management to communicate other matters involving the design and operation of the internal control over financial reporting, the report on compliance and on internal control over financial reporting must be modified to include a statement such as:

However, we noted other matters involving the internal control over financial reporting that we have reported to the management of (borrower's name) in a separate letter dated (month, day, year).

(h) The report must contain the status of known but uncorrected significant or material findings and recommendations from prior audits that affect the current audit objective.

[63 FR 38723, July 17, 1998]

§ 1773.33 Management letter.

The CPA must prepare a management letter that includes, at a minimum, comments on:

(a) *Audit procedures.* State whether the audit has been performed in accordance with this part;

(b) *Special reports.* State whether any special reports, summaries of recommendations, or similar communications were furnished to the borrower's management during the course of the audit or during interim audit work, and provide a description of the information furnished;

(c) *Accounting and records.* Comment on the adequacy and effectiveness of the borrower's accounting procedures, discuss the general condition of the records, and outline any recommendations for improvement. Comment on the adequacy and fairness of the methods used in accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts, and where appropriate, include:

(1) Whether subsidiary plant records agree with the controlling general ledger plant accounts;

(2) Whether construction clearing accounts are cleared promptly of costs of completed construction to the proper classified plant accounts and whether