

Example B

**Independent Auditor's Report on Internal Control
Combined Report Applicable to Internal Control over Financial Reporting Based on an Audit
of Financial Statements and Internal Control Over Compliance for HUD-Assisted Programs
Significant Deficiencies were Noted--No Material Weaknesses**

[Addressee]

We have audited the financial statements of [the Entity] as of and for the year ended [Date] and have issued our report thereon dated [Date]. We have also audited [the Entity's] compliance with requirements applicable to major¹ HUD-assisted programs and have issued our reports thereon dated [Date].

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Consolidated Audit Guide for Audits of HUD Programs* (the "Guide"), issued by the U.S. Department of Housing and Urban Development, Office of the Inspector General. Those standards and the Guide require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether [the Entity] complied with laws and regulations, noncompliance with which would be material to a major HUD-assisted program.

The management of [the Entity] is responsible for establishing and maintaining effective internal control. In planning and performing our audit of the financial statements and compliance, we considered [the Entity's] internal control over financial reporting and its internal control over compliance with requirements that could have a direct and material effect on a major HUD-assisted program in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance, but not for the purpose of expressing an opinion on the effectiveness of [the Entity's] internal control. Accordingly, we do not express an opinion on the effectiveness of [the Entity's] internal control over financial reporting and internal control over compliance.

Our consideration of internal control over financial reporting and internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.²

¹ The reference to major HUD-assisted programs here and throughout this report is referred to because the auditor's opinion on compliance runs to the major programs. However, when required by the *HUD Consolidated Audit Guide*, the auditor still has the responsibility to test compliance with specific requirements applicable to non-major HUD-assisted program transactions and to issue the related non-major report, "Report on Compliance with Specific Requirements Applicable to Non-Major HUD-Assisted Programs."

² When the auditor also identifies material weaknesses during the audit, this sentence should be replaced with language such as the following:

A control deficiency 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 on a timely basis misstatements or noncompliance with applicable requirements of a HUD-assisted program. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles or to administer a HUD-assisted program such that there is more than a remote likelihood that (a) a misstatement of the entity's financial statements, or (b) noncompliance with applicable requirements of a HUD-assisted program, that is more than inconsequential will not be prevented or detected. We consider the deficiencies described below to be significant deficiencies.

[Include paragraphs to describe the significant deficiencies noted.]³

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that (a) a material misstatement of the financial statements, or (b) material noncompliance with applicable requirements of a HUD-assisted program, will not be prevented or detected. We did not consider any of the significant deficiencies described above *[or in the accompanying schedule of findings]* to be material weaknesses.⁴

[The Entity's] response to the findings identified in our audit are described above *[or in the accompanying schedule of findings]*. We did not audit [the Entity's] response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, *[identify the body or individuals charged with governance]*, others within the entity, and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

[Signature]

[Date]

However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and others that we consider to be material weaknesses.

³ If the auditor includes the findings in a separate schedule versus in the body of the report, the last sentence of the previous paragraph should be replaced with language similar to the following: We consider the deficiencies in internal control described in the accompanying schedule of findings as items *[list the reference numbers of the related findings, for example, findings No. 1, 2, and 3]* to be significant deficiencies.

⁴ When the auditor identifies material weaknesses during the audit, this sentence should be replaced with language such as the following:

Of the significant deficiencies described above *[or in the accompanying schedule of findings]*, we consider findings 1, and 3 *[identify by references to the enumerated significant deficiencies above or in the accompanying schedule]* to be material weaknesses.