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7 CFR Ch. XVII (1–1–11 Edition)

of directors and the manager. Further, three copies must be provided to the borrower for transmittal to RUS.

(b) *Communication with the board of directors.* In addition to providing sufficient copies of the auditor's report, report on compliance and on internal control over financial reporting, and management letter for each member of the borrower's board of directors, RUS requires that the CPA report all audit findings to the borrower's board of directors. RUS recommends that audit findings be communicated orally; however, the communication may be oral or written, at the borrower's discretion. If the information is communicated orally, the CPA must document the communication by appropriate memoranda or notations in the workpapers. If the CPA communicates in writing, a copy of the written communication must be included in the CPA's audit workpapers or permanent file.

(c) *Matters to be communicated.* Matters communicated to the board of directors must include, but are not limited to the matters to be communicated to the audit committee as prescribed in SAS No. 61, entitled "Communication with Audit Committee".:

(1) The initial selection of and changes in significant accounting policies;

(2) The methods used to account for significant or unusual transactions and the effects of significant accounting policies in controversial or emerging areas;

(3) The process utilized by management to formulate significant accounting estimates and the basis for the CPA's conclusions regarding the reasonableness of these estimates;

(4) Audit findings and recommendations, including audit adjustments that either individually or in the aggregate have a significant effect on the borrower's financial statements;

(5) The CPA's responsibility for other information presented with the audited financial statements, any audit procedures performed, and the results thereof;

(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 and on internal control 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; 66 FR 27835, May 21, 2001]

§ 1773.21 Borrower's review and submission of the auditor's report, report on compliance and on internal control 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 and on internal control 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 and on internal control 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 similar communications, if any, received from the CPA as a result of the audit.

(e) All required submissions to RUS described in paragraphs (a) through (d) of this section should be sent to: Assistant Administrator, Program Accounting and Regulatory Analysis,

Rural Utilities Service, USDA

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Stop 1523, 1400 Independence Ave., SW,
Washington, DC 20250-1523.

[56 FR 63360, Dec. 3, 1991, as amended at 59
FR 659, Jan. 6, 1994; 66 FR 27835, 27836, May
21, 2001]

§§ 1773.22-1773.29 [Reserved]

Subpart D—RUS Reporting Requirements

§ 1773.30 General.

(a) The CPA must prepare the following (examples of which are set forth in RUS Bulletin 1773-1):

(1) An auditor's report;

(2) A report on compliance and on internal control over financial reporting; and

(3) A management letter.

(b) The CPA should deliver the auditor's report, report on compliance and on internal control 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; 66 FR 27835, 27836,
May 21, 2001]

§ 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 report on compliance and on internal control over financial reporting issued in conjunction with the auditor's report. The auditor's report should also state that the report on compliance and on internal control over financial reporting is an integral part of a GAGAS audit, and in considering the results of the audit, this report should be read along with the auditor's report on the financial statements.

[66 FR 27836, May 21, 2001]

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

As required by GAGAS, the CPA must prepare a written report describing the auditors testing of compliance with applicable laws, regulations, contracts, and grants, and on internal control over financial reporting and present the results of those tests. This report must be signed by the CPA and must include, as a minimum:

(a) The scope of the CPA's testing of compliance with laws and regulations and internal control over financial reporting including whether or not the tests performed provided sufficient evidence to support an opinion on compliance or internal control over financial reporting and whether the CPA is providing such opinions;

(b) If conditions believed to be material weaknesses considered to be reportable conditions are disclosed, the report should identify the material weaknesses that have come to the CPA's attention;

(c) If no reportable instances of non-compliance and no reportable conditions were found, the CPA must issue a report as illustrated in RUS Bulletin 1773-1.

(d) If material instances of non-compliance and reportable conditions are identified, the CPA must issue a report as illustrated in RUS Bulletin 1773-1.

(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, which we have reported to the 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