
Policy 2310 –Reporting Identified Audit Issues

BACKGROUND

Audit issues identified during an audit can be reported as findings, management letters, exit items, or verbal comments, depending on such things as the significance, materiality, pervasiveness and frequency of the issues identified. (Audits that follow performance audit standards, and some attestation engagements, do not use these reporting-level distinctions.)

Reporting level is a matter of professional judgment about the significance of an issue in relation to the audit objective. The general guidance presented in the [Reporting Level Matrix](#) in the Auditor Reference Guide provides an important framework for considering at what level to report an audit issue. For certain audits, professional standards or the engagement letter may provide further guidance on materiality or thresholds for reporting a finding.

TAS/QA specialists, audit and program managers, and assistant directors play an important role in ensuring audit results are reported at the appropriate level and as consistently as possible statewide.

REQUIREMENTS

- ✓ 1. **When auditors identify potentially reportable deficiencies, audit procedures will be planned and performed to develop the elements of a finding that are relevant and necessary to achieve the audit objectives.**
- ✓ 2. **Audit issues identified during audits and attestation engagements will be reported at any of four reporting levels, as required or as appropriate for the circumstances (See the [Reporting Level Matrix](#) in the Auditor Reference Guide).**
 - a. A **finding** in an audit report is used to disclose significant results of the audit, such as significant deficiencies and material weaknesses in internal controls, misappropriation, material abuse, and instances of material noncompliance. Standards or requirements generally describe the types of issues that must be reported as findings.
 - b. **Management letters** are formal letters addressed to management and the governing body to communicate issues that are important, but that do not rise to the level of a finding. These issues include control deficiencies, non-compliance, or abuse found during the audit that has a less-than-material effect on the financial statements or other issues significant to the audit objectives. A reference to the management letter is included in the report; however, the actual letter is not included.
 - c. **Exit items** communicate minor issues found during the audit that management should address but that do not warrant the attention of those charged with governance. These include insignificant, immaterial control deficiencies or non-compliance, or errors with an insignificant, immaterial effect on the financial statements. What separates exit

items from verbal comments is that such issues may lead to bigger problems over time if not corrected. Exit items are referenced at the exit conference, but generally are not discussed unless the entity requests it, or unless the audit manager, assistant director or director deems it appropriate under the circumstances.

- d. **Verbal comments** are used to communicate the inconsequential, immaterial and isolated errors, unsupported transactions or one-time occurrences or anomalies identified during the audit. They also can include minor suggestions for process improvements. These comments generally are of such a low level that they often are made to the appropriate department-level or supervisory staff during the audit, rather than to entity management.

- ✓ 3. **To help ensure appropriate and consistent reporting levels statewide, local and state audit issues will be reviewed and approved as follows:**
 - a. **Findings for local and state financial and accountability audits and attestation engagements** will be reviewed for appropriate and consistent reporting levels by the appropriate program manager and assistant director.
 - b. **All local and state single audit issues** will be reviewed for appropriate and consistent reporting levels by the single audit program manager.
 - c. **The use of a management letter to report single audit issues** must be approved by the appropriate director or designee. Refer to Audit Policy 5410.
 - d. **All single audit findings** will be reviewed for technical accuracy—including the use of correct citations, references and criteria—by the TAS/QA single audit specialist before the single audit report is issued. The TAS/QA single audit specialist is also the primary resource for technical questions on single audits throughout the audit.
- ✓ 4. **Before the exit conference is conducted, local and state audit managers will ensure findings and management letter items are reviewed by the following people:**
 - Program manager or designee
 - The applicable director or designee
 - Assistant Director of Communications
 - The Director of Legal Affairs or designee, if legal review is necessary. The Director of Legal Affairs will determine whether it is necessary to have those items reviewed by the appropriate Attorney General's Office representative.
- ✓ 5. **Findings and management letters will be reported according to the guidelines in the Audit Report Standards Manual.**
- ✓ 6. **Local and state audit managers and principal auditors are responsible for informing auditees before reports with findings are issued.**

Audit reports with findings may be particularly sensitive to state agencies and local

governments. An audit report becomes a public document on the day of official release and is immediately available to the news media and other interested parties. Because governments do not always know in advance when the Office will release their audit report, it is Office policy to notify a state or local government with audit report findings before the pending release date.

REFERENCES

Government Auditing Standards (2018 Yellow Book) ¶ 6.17, 6.39–.44, 7.19, 7.42, 7.44–.45, 8.116