

Category of Audit Finding	Relative Importance	Definition	Comments
Material Weakness	Highest Importance	<p>A material weakness involves a risk that an entity's objectives in one or more of three broad categories may not be met.</p> <ul style="list-style-type: none"> • Operations - Effectiveness and efficiency of operations • Reporting - Reliability of reporting for internal and external use • Compliance - Compliance with applicable laws and regulations <p>Adapted from the Government Accountability Office (GAO) "Green Book" https://www.gao.gov/assets/670/665712.pdf.</p>	<p>In all instances involving audit findings, consultation with your CPA is most important.</p> <p>Audit findings, especially those categorized as a "material weakness," can be extremely significant. The degree of importance is judgmentally determined by the CPA. Although professional standards for your CPA provide guidance and reporting requirements, no precise standard exists.</p>
Significant Deficiency	Next Highest Importance	<p>"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."</p> <p>source: AICPA</p>	<p>As a result, the importance of an audit finding still relates very much to the nature of weakness involved, and the risk of undesirable outcomes occurring in the absence of appropriate corrective action.</p>
Control Weakness	Important	<p>A control weakness is a deficiency that involves the design and or operation of an internal control. It may involve operations, reporting, and or compliance.</p>	
Best Practices		<p>Based upon professional judgment and common sense.</p>	<p>Audit findings categorized as "Best Practices" may be provided verbally, or in writing. Many times, an audit will end without issuance of any "best practices." Usually, they relate to matters of less risk and less importance, but can still be valuable when used to improve internal controls or operations.</p>
Compliance Weakness	Varies	<p>Usually involves noncompliance with statutes, contracts, grants, bond covenants, or other similar requirements.</p>	<p>The importance of an audit finding will vary according to the nature of the finding. Federal noncompliance may be very important. Similarly, statutory noncompliance can be very important as well.</p>