

13.56

Appendix A—Illustrative Auditor’s Reports Under Circular A-133

This appendix contains examples of the report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance issued under Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (Circular A-133), in various circumstances for a Circular A-133 compliance audit as discussed in this chapter. The following table lists the illustrative reports. Auditors, using professional judgment, may adapt these examples to other situations not specifically addressed in this guide.

<i>Example No.</i>	<i>Title</i>
13-1	Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 (<i>Unqualified Opinion on Compliance; No Material Weaknesses or Significant Deficiencies in Internal Control Over Compliance Identified</i>)
13-2	Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 (<i>Unqualified Opinion on Compliance; Significant Deficiencies in Internal Control Over Compliance Identified</i>)
13-3	Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 (<i>Qualified Opinion on Compliance; Material Weaknesses and Significant Deficiencies in Internal Control Over Compliance Identified</i>)
13-4	Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 (<i>Qualified Opinion on Compliance—Scope Limitation for One Major Program; Unqualified Opinion on Compliance for the Other Major Programs; Significant Deficiencies in Internal Control Over Compliance Identified</i>)
13-5	Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 (<i>Adverse Opinion on Compliance for One Major Program; Unqualified Opinion on Compliance for the Other Major Programs; Material Weaknesses and Significant Deficiencies in Internal Control Over Compliance Identified</i>)
13-6	Schedule of Findings and Questioned Costs

In a single audit, auditors also are required to issue (a) an opinion (or disclaimer of opinion) on the financial statements and on the supplementary schedule of expenditures of federal awards and (b) a report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. Appendix A in chapter 4, "Auditor Reporting Requirements and Other Communication Considerations of *Government Auditing Standards*," of this guide and paragraphs 13.12–.13 illustrate those reports. Appendix A in chapter 14, "Program-Specific Audits," of this guide illustrates the reports issued for a program-specific audit.

Example 13-1

Report on Compliance With Requirements That Could Have a Direct and Material* Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 (Unqualified Opinion on Compliance; No Material Weaknesses or Significant Deficiencies in Internal Control Over Compliance Identified)¹

Independent Auditor's Report

[Addressee]

Compliance²

We have audited Example Entity's compliance with the types of compliance requirements³ described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Example Entity's major federal programs for the year ended June 30, 20X1. Example Entity's major

* AU section 801, *Compliance Audits* (AICPA, *Professional Standards*), defines *applicable compliance requirements* as the compliance requirements that are subject to the compliance audit. According to Section 505 of Circular A-133, the auditor's report on compliance with laws, regulations, and the provisions of contracts or grant agreements should include an opinion (or disclaimer of opinion) regarding whether the auditee complied with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program. Therefore, in a Circular A-133 compliance audit, the *applicable compliance requirements*, as the term is used in AU section 801, are those that could have a direct and material effect on a major program. Accordingly, for the purpose of adapting AU section 801 to a Circular A-133 compliance audit, the term *applicable* has been replaced by *direct and material* when referencing such compliance requirements in this report. See also footnote 3 of this appendix for a discussion related to the determination of material noncompliance.

¹ The portions of examples 13-1–13-5 relating to compliance and internal control over compliance may be used in drafting a report for situations that are not addressed in the illustrative reports. For example, if the auditor is expressing an unqualified opinion on compliance and has identified significant deficiencies, but no material weaknesses, the compliance section of examples 13-1 or 13-2 may be used along with the internal control section of examples 13-2 or 13-4. Alternatively, if the auditor is expressing a modified opinion on compliance and has not identified significant deficiencies, the internal control section of this report may be used along with the compliance section of examples 13-3–13-5. For situations in which the auditor has identified material weaknesses, the internal control section of example 13-3 or 13-5 may be used. See also paragraph 13.38 concerning the need to modify this report if the federal awards section of the schedule of findings and questioned costs includes abuse findings.

² This report sequences the reporting on compliance before the reporting on internal control over compliance. However, *Government Auditing Standards* reports in appendix A in chapter 4, "Auditor Reporting Requirements and Other Communication Considerations of Government Auditing Standards," of this guide sequence the reporting on internal control over financial reporting before the reporting on compliance and other matters. Auditors may present the internal control over compliance and compliance sections of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (Circular A-133) and *Government Auditing Standards* reports in whichever sequence better meets their needs.

³ Under Section 510(a) of Circular A-133, the auditor's determination of whether a noncompliance with the provisions of laws, regulations, contracts, or grant agreements is material for the purpose of reporting an audit finding is in relation to a type of compliance requirement for a major program or an audit objective identified in the *OMB Circular A-133 Compliance Supplement* (*Compliance Supplement*). Further, the auditor's determination of whether a deficiency in internal control over compliance is a significant deficiency or material weakness for the purpose of reporting an audit finding is also in relation to a type of compliance requirement for a major program or an audit objective identified in the *Compliance Supplement*. The reference to "type of compliance requirements" used here and elsewhere in this report illustration refers to the 14 types of compliance requirements (identified as "A" through "N") described in Part 3 of the *Compliance Supplement*. For purposes of reporting audit findings, auditors are alerted that certain of the types of compliance requirements may include multiple compliance requirements with multiple audit objectives (for example, compliance requirement "G" covers three separate requirements [matching, level of effort, and earmarking], and "N" covers separate requirements specific to each individual special test and provision).

federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Example Entity's management. Our responsibility is to express an opinion on Example Entity's compliance based on our audit.⁴

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*,⁵ issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Example Entity's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Example Entity's compliance with those requirements.

In our opinion, Example Entity complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 20X1. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items [*list the reference numbers of the related findings, for example, 20X1-3 and 20X1-6*].⁶

Internal Control Over Compliance

Management of Example Entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Example Entity's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control

⁴ As discussed in paragraph 13.32 and in chapter 6, "Planning Considerations of Circular A-133," of this guide, there are situations in which the audit of federal awards may not encompass the entirety of the auditee's operations. In this case, the operations that are not included should be identified in a separate paragraph following the first paragraph of the report. An example of such a paragraph follows:

Example Entity's basic financial statements include the operations of the [*identify component organization, such as a component unit or department*], which received [*include dollar amount*] in federal awards which is not included in the schedule during the year ended June 30, 20X1. Our audit, described below, did not include the operations of [*identify component organization*] because [*state the reason for the omission, such as the component unit engaged other auditors to perform an audit in accordance with Circular A-133*].

⁵ The standards applicable to financial audits are the general, fieldwork, and reporting standards described in chapters 3–5 of *Government Auditing Standards*.

⁶ When there are no such instances of noncompliance identified in the schedule of findings and questioned costs, the last sentence would be omitted.

over compliance. Accordingly, we do not express an opinion on the effectiveness of Example Entity's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.⁷

⁷ As discussed in paragraphs 13.14 and 13.24, there may be instances in which it would be appropriate to report on the schedule of expenditures of federal awards in this report (that is, a separate single audit package is issued). In such a circumstance, a new section would be added immediately following this paragraph. For audits of not-for-profit entities, the wording of the new section is as follows:

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of Example Entity as of and for the year ended June 30, 20X1, and have issued our report thereon dated August 15, 20X1. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

For audits of governmental entities, the wording of this new section is as follows:

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Example Entity as of and for the year ended June 30, 20X1, and have issued our report thereon dated August 15, 20X1. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise Example Entity's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

See paragraph 13.30 for guidance on dating of reports when the reporting on the schedule of expenditures of federal awards is included in this report. Additionally, when reporting on the supplementary information, the auditor should consider the effect of any modifications to the report on the basic financial statements (for example, a qualified opinion, a modification regarding consistency because of a change in accounting principle, or a reference to the report of other auditors). Furthermore, if the report on supplementary information is other than unqualified, this paragraph should be modified accordingly. Guidance for reporting in these circumstances is described in paragraphs .09–.11 and .13–.14 of AU section 551A, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents* (AICPA, *Professional Standards*). See footnote * in paragraph 13.03 for information on Statement on Auditing Standards (SAS) No. 119, *Supplementary Information in Relation to the Financial Statements as a Whole* (AICPA, *Professional Standards*, AU sec. 551), which will supersede this guidance upon its effective date. In addition, example 13-1A in appendix B of this chapter provides updated illustrative wording to reflect SAS No. 119 requirements when the schedule of expenditures of federal awards is reported on in the Circular A-133 report *Report on Compliance*

Example Entity's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Example Entity's responses and, accordingly, we express no opinion on the responses.^{8 9}

This report is intended solely for the information and use of management, [identify the body or individuals charged with governance], others within the entity, [identify the legislative or regulatory body], federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.¹⁰

[Signature]

[Date]

With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With Circular A-133.

⁸ If, as noted in footnote 6, there are no findings referred to in this report (or identified in the schedule of findings and questioned costs), this paragraph would be omitted.

⁹ Although the auditor does not audit management's responses to identified findings, the auditor does have certain responsibilities related to reporting the views of responsible officials under *Government Auditing Standards*. As noted in paragraph 5.32 of *Government Auditing Standards*, auditors should obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as planned corrective actions. See paragraph 13.36 for further information.

¹⁰ This paragraph conforms to AU section 532, *Restricting the Use of an Auditor's Report* (AICPA, *Professional Standards*). See AU section 532 for additional guidance on restricted-use reports.

Example 13-2

Report on Compliance With Requirements That Could Have a Direct and Material* Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 (Unqualified Opinion on Compliance; Significant Deficiencies in Internal Control Over Compliance Identified)¹¹

Independent Auditor's Report

[Addressee]

Compliance¹²

We have audited Example Entity's compliance with the types of compliance requirements¹³ described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Example Entity's major federal programs for the year ended June 30, 20X1. Example Entity's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Example Entity's management. Our responsibility is to express an opinion on Example Entity's compliance based on our audit.¹⁴

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*,¹⁵ issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Example Entity's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Example Entity's compliance with those requirements.

In our opinion, Example Entity complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 20X1. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items [list the reference numbers of the related findings, for example, 20X1-3 and 20X1-6].¹⁶

* See footnote * in example 13-1.

¹¹ See footnote 1.

¹² See footnote 2.

¹³ See footnote 3.

¹⁴ See footnote 4.

¹⁵ See footnote 5.

¹⁶ See footnote 6.

Internal Control Over Compliance

Management of Example Entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Example Entity's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Example Entity's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items [list the reference numbers of the related findings, for example, 20X1-7, 20X1-8, and 20X1-9]. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.¹⁷

Example Entity's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Example Entity's responses and, accordingly, we express no opinion on the responses.¹⁸

This report is intended solely for the information and use of management, [identify the body of individuals charged with governance], others within the entity, [identify the legislative or regulatory body], federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.¹⁹

[Signature]

[Date]

¹⁷ See footnote 7.

¹⁸ See footnote 9.

¹⁹ See footnote 10.

Example 13-3

Report on Compliance With Requirements That Could Have a Direct and Material* Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 (*Qualified Opinion on Compliance; Material Weaknesses and Significant Deficiencies in Internal Control Over Compliance Identified*)²⁰

Independent Auditor's Report

[Addressee]

Compliance²¹

We have audited Example Entity's compliance with the types of compliance requirements²² described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Example Entity's major federal programs for the year ended June 30, 20X1. Example Entity's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Example Entity's management. Our responsibility is to express an opinion on Example Entity's compliance based on our audit.²³

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*,²⁴ issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Example Entity's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Example Entity's compliance with those requirements.

As described in item(s) [list the reference numbers of the related findings, for example, 20X1-10 and 20X1-4] in the accompanying schedule of findings and questioned costs, Example Entity did not comply with requirements regarding [identify the type(s) of compliance requirement] that are applicable to its [identify the major federal program]. Compliance with such requirements is necessary, in our opinion, for Example Entity to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Example Entity complied, in all material respects, with the compliance

* See footnote * in example 13-1.

²⁰ See footnote 1.

²¹ See footnote 2.

²² See footnote 3.

²³ See footnote 4.

²⁴ See footnote 5.

requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 20X1.²⁵

Internal Control Over Compliance

Management of Example Entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Example Entity's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Example Entity's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.²⁶

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items [list the reference numbers of the related findings, for example 20X1-8 and 20X1-9] to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of

²⁵ When other instances of noncompliance are identified in the schedule of findings and questioned costs as required by Circular A-133, the following sentence may be added:

The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items [list the reference numbers of the related findings, for example, 20X1-3, and 20X1-6].

²⁶ If no significant deficiencies were identified, this sentence would read as follows:

However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

findings and questioned costs as items *[list the reference numbers of the related findings, for example 20X1-6 and 20X1-7]* to be significant deficiencies.^{27 28}

Example Entity's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Example Entity's responses and, accordingly, we express no opinion on the responses.²⁹

This report is intended solely for the information and use of management, *[identify the body or individuals charged with governance]*, others within the entity, *[identify the legislative or regulatory body]*, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.³⁰

[Signature]

[Date]

²⁷ See footnote 7.

²⁸ If no significant deficiencies were identified, this paragraph would be deleted.

²⁹ See footnote 9.

³⁰ See footnote 10.

Example 13-4**Report on Compliance With Requirements That Could Have a Direct and Material* Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 (*Qualified Opinion on Compliance—Scope Limitation for One Major Program; Unqualified Opinion on Compliance for the Other Major Programs; Significant Deficiencies in Internal Control Over Compliance Identified*)^{31,32}**Independent Auditor's Report

[Addressee]

Compliance³³

We have audited Example Entity's compliance with the types of compliance requirements³⁴ described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Example Entity's major federal programs for the year ended June 30, 20X1. Example Entity's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Example Entity's management. Our responsibility is to express an opinion on Example Entity's compliance based on our audit.³⁵

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*,³⁶ issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Example Entity's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Example Entity's compliance with those requirements.

As described in item(s) [*list the reference numbers of the related findings, for example, 20X1-10 and 20X1-4*] in the accompanying schedule of findings and questioned costs, we were unable to obtain sufficient documentation supporting the compliance of Example Entity with [*identify the major federal program*] regarding [*identify the type(s) of compliance requirement*], nor were we able to

* See footnote * in example 13-1.

³¹ See footnote 1.

³² Although this report identifies a significant deficiency, circumstances may warrant a material weakness to be reported. Please refer to examples 13-3 and 13-5 for illustrations on how to report material weaknesses.

³³ See footnote 2.

³⁴ See footnote 3.

³⁵ See footnote 4.

³⁶ See footnote 5.

satisfy ourselves as to Example Entity's compliance with those requirements by other auditing procedures.

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding Example Entity's compliance with the requirements of [*identify the major federal program*] regarding [*identify the type(s) of compliance requirement*], Example Entity complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 20X1.³⁷

Internal Control Over Compliance

Management of Example Entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Example Entity's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Example Entity's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items [list the reference numbers of the related findings, for example, 20X1-7, 20X1-8, and 20X1-9]. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.³⁸

Example Entity's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not

³⁷ See footnote 25.

³⁸ See footnote 7.

audit Example Entity's responses and, accordingly, we express no opinion on the responses.³⁹

This report is intended solely for the information and use of management, *[identify the body or individuals charged with governance]*, others within the entity, *[identify the legislative or regulatory body]*, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.⁴⁰

[Signature]

[Date]

³⁹ See footnote 9.

⁴⁰ See footnote 10.

Example 13-5

Report on Compliance With Requirements That Could Have a Direct and Material* Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 (*Adverse Opinion on Compliance for One Major Program; Unqualified Opinion on Compliance for the Other Major Programs; Material Weaknesses and Significant Deficiencies in Internal Control Over Compliance Identified*)⁴¹

Independent Auditor's Report

[Addressee]

Compliance⁴²

We have audited Example Entity's compliance with the types of compliance requirements⁴³ described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Example Entity's major federal programs for the year ended June 30, 20X1. Example Entity's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Example Entity's management. Our responsibility is to express an opinion on Example Entity's compliance based on our audit.⁴⁴

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*,⁴⁵ issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Example Entity's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Example Entity's compliance with those requirements.

As described in items [list the reference numbers of the related findings, for example, 20X1-10, 20X1-11, and 20X1-12] in the accompanying schedule of findings and questioned costs, Example Entity did not comply with requirements regarding [identify the types of compliance requirements] that are applicable to its [identify the major federal program]. Compliance with such requirements is necessary, in our opinion, for Example Entity to comply with requirements applicable to that program.

* See footnote * in example 13-1.

⁴¹ See footnote 1.

⁴² See footnote 2.

⁴³ See footnote 3.

⁴⁴ See footnote 4.

⁴⁵ See footnote 5.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, Example Entity did not comply in all material respects, with the requirements referred to above that could have a direct and material effect on [*identify the major federal program*]. Also, in our opinion, Example Entity complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs for the year ended June 30, 20X1.⁴⁶

Internal Control Over Compliance

Management of Example Entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Example Entity's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Example Entity's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies⁴⁷

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items [*list the reference numbers of the related findings, for example 20X1-8 and 20X1-9*] to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of

⁴⁶ See footnote 25.

⁴⁷ See footnote 26.

findings and questioned costs as items *[list the reference numbers of the related findings, for example, 20X1-7 and 20X1-10]* to be significant deficiencies.^{48 49}

Example Entity's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Example Entity's responses and, accordingly, we express no opinion on the responses.⁵⁰

This report is intended solely for the information and use of management, *[identify the body or individuals charged with governance]*, others within the entity, *[identify the legislative or regulatory body]*, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.⁵¹

[Signature]

[Date]

⁴⁸ See footnote 7.

⁴⁹ See footnote 28.

⁵⁰ See footnote 9.

⁵¹ See footnote 10.

Example 13-6**Schedule of Findings and Questioned Costs**
Section I—Summary of Auditor's Results*Financial Statements*

Type of auditor's report issued [*unqualified, qualified, adverse, or disclaimer*]:⁵²

Internal control over financial reporting:

- Material weakness(es) identified? ___ yes ___ no
- Significant deficiency(ies) identified? ___ yes ___ none reported

Noncompliance material to financial statements noted? ___ yes ___ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ___ yes ___ no
- Significant deficiency(ies) identified? ___ yes ___ none reported

Type of auditor's report issued on compliance for major programs [*unqualified, qualified, adverse, or disclaimer*]:⁵³

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? ___ yes ___ no

Identification of major programs:⁵⁴

⁵² As explained in the AICPA Audit and Accounting Guide *State and Local Governments*, the auditor generally expresses or disclaims an opinion on a government's basic financial statements by providing an opinion or disclaimer of opinion on each opinion unit required to be presented in those financial statements. Therefore, there could be multiple responses to this question for audits of a government's basic financial statements.

⁵³ If the audit report for one or more major programs is other than unqualified, indicate the type of report issued for each program. For example, if the audit report on major program compliance for an auditee having five major programs includes an unqualified opinion for three of the programs, a qualified opinion for one program, and a disclaimer of opinion for one program, the response to this question could be as follows: "Unqualified for all major programs except for [*name of program*], which was qualified and [*name of program*], which was a disclaimer."

⁵⁴ Major programs generally would be identified in the same order as reported on the schedule of expenditures of federal awards.

CFDA Number(s) ⁵⁵ <hr style="border: 0; border-top: 1px solid black; margin: 5px 0;"/> <hr style="border: 0; border-top: 1px solid black; margin: 5px 0;"/> <hr style="border: 0; border-top: 1px solid black; margin: 5px 0;"/>	Name of Federal Program or Cluster ⁵⁶ <hr style="border: 0; border-top: 1px solid black; margin: 5px 0;"/> <hr style="border: 0; border-top: 1px solid black; margin: 5px 0;"/> <hr style="border: 0; border-top: 1px solid black; margin: 5px 0;"/>
Dollar threshold used to distinguish between type A and type B programs:	\$ _____
Auditee qualified as low-risk auditee?	____ yes ____ no

Section II—Financial Statement Findings

This section should identify the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements for which Government Auditing Standards requires reporting in a Circular A-133 audit. (See paragraphs 13.15 and 13.35.) Auditors may refer to chapter 4 of this guide for a discussion of the Government Auditing Standards requirements for presenting findings.

Audit findings that relate to both the financial statements and federal awards should be reported in both section II and section III. However, the reporting in one section may be in summary form with a reference to a detailed reporting in the other section of the schedule. For example, a material weakness in internal control that affects an entity as a whole, including its federal awards, generally would be reported in detail in this section. Section III would then include a summary identification of the finding and a reference back to the specific finding in this section.

Identify each finding with a reference number.⁵⁷ If there are no findings, this section could state that no matters were reported. Alternatively, this section could be omitted without confusing the schedule's users because the summary of auditor's results section would indicate that there are no findings. Each finding should be presented in the level of detail shown in the following listing, as applicable. Auditors also may refer to chapter 4 of this guide for a discussion of the Government Auditing Standards requirements for presenting findings.

- *Criteria or specific requirement*
- *Condition*

⁵⁵ When the *Catalog of Federal Domestic Assistance* (CFDA) number is not available, include other identifying number, if applicable.

⁵⁶ The name of the federal program or cluster should be the same as that listed in the schedule of expenditures of federal awards. For clusters, auditors are required only to list the name of the cluster and not each individual award or program within the cluster.

⁵⁷ One option for assigning reference numbers is to use the fiscal year being audited as the beginning digits of each reference number, followed by a numeric sequence. For example, findings identified and reported in the audit of fiscal year 20X1 would be assigned reference numbers of 20X1-1, 20X1-2, and so forth.

- *Context*⁵⁸
- *Effect*
- *Cause*
- *Recommendation*
- *Views of responsible officials and planned corrective actions*⁵⁹

Section III—Federal Award Findings and Questioned Costs

This section should identify the audit findings required to be reported by Section 510(a) of Circular A-133 (for example, significant deficiencies, material weaknesses, and material instances of noncompliance, including questioned costs—see paragraph 13.37) as well as any abuse findings involving federal awards that is material to a major program (see paragraph 13.38). Where practical, findings should be organized by federal agency or pass-through entity.

Audit findings that relate to both the financial statements and federal awards should be reported in both section II and section III. However, the reporting in one section may be in summary form with a reference to a detailed reporting in the other section of the schedule. For example, a finding of noncompliance with a federal program law that is also material to the financial statements generally would be reported in detail in this section. Section II would then include a summary identification of the finding and a reference back to the specific finding in this section.

Identify each finding with a reference number.⁶⁰ If there are no findings, this section could state that no matters were reported. Alternatively, this section could be omitted without confusing the schedule's users because the summary of auditor's results section would indicate that there are no findings. Each finding should be presented in the level of detail shown in the following listing, as applicable. Auditors also may refer to chapter 4 of this guide for a discussion of the Government Auditing Standards requirements for presenting findings.

- *Information on the federal program*^{61,†}
- *Criteria or specific requirement (including statutory, regulatory, or other citation)*

⁵⁸ Describe the work performed that resulted in the finding, and provide sufficient information for judging the prevalence and consequences of the finding, such as the relation to the population or universe of costs or the number of cases examined as well as quantification of audit findings in dollars.

⁵⁹ Paragraphs 13.36 and 13.40 and chapter 4 of this guide provide guidance on reporting views of responsible officials and planned corrective action.

⁶⁰ See footnote 57.

⁶¹ Provide the federal program (CFDA number and title) and agency, the federal award's number and year, and the name of the pass-through entity, if applicable. When this information is not available, provide the best information available to describe the federal award.

[†] For findings related to American Recovery and Reinvestment Act of 2009 (Recovery Act) funds, the auditor should include in the audit findings detail of the schedule of findings and questioned costs explicit identification of applicable Recovery Act programs. This requirement of separate identification of findings related to Recovery Act funds can be found in Appendix 7 of the *Compliance Supplement*. See paragraphs 13.54–.55 for more information on considerations related to Recovery Act funds.

- *Condition*⁶²
- *Questioned costs*⁶³
- *Context*⁶⁴
- *Effect*
- *Cause*
- *Recommendation*
- *Views of responsible officials and planned corrective actions*⁶⁵

⁶² Include facts that support the deficiency identified in the audit finding.

⁶³ Identify questioned costs as required by Sections 510(a)(3) and 510(a)(4) of Circular A-133.

⁶⁴ See footnote 58.

⁶⁵ See footnote 59.