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## Appendix B—Illustrative Auditor’s Report Under Circular A-133\* That Reflects Updated Reporting on the Schedule of Expenditures of Federal Awards under SAS No. 119

This appendix contains an example 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), that has been modified to reflect revisions made to the schedule of expenditures of federal awards reporting in order to comply with the requirements of Statement on Auditing Standards No. 119, *Supplementary Information in Relation to the Financial Statements as a Whole* (AICPA, *Professional Standards*, AU sec. 551). Such revisions can be found in footnote 7 of this appendix.

<i>Example No.</i>	<i>Title</i>
13-1A	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> )

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\* This report is based on example 13-1 found in the preceding appendix A. References to report examples within this appendix are to those found in appendix A. Example 13-1A has been modified for situations where (a) the report on the schedule of expenditures of federal awards is included in this report, and (b) the auditor has implemented Statement on Auditing Standards (SAS) No. 119, *Supplementary Information in Relation to the Financial Statements as a Whole* (AICPA, *Professional Standards*, AU sec. 551). See footnote \* in paragraph 13.03 for more information on SAS No. 119.

## Example 13-1A

### Report on Compliance With Requirements That Could Have a Direct and Material<sup>†</sup> 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)<sup>1</sup>

#### Independent Auditor's Report

[Addressee]

#### Compliance<sup>2</sup>

We have audited Example Entity's compliance with the types of compliance requirements<sup>3</sup> 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

<sup>†</sup> 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 the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (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.

<sup>1</sup> 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 13-1–13-5. 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.

<sup>2</sup> 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 Circular A-133 and *Government Auditing Standards* reports in whichever sequence better meets their needs.

<sup>3</sup> 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.<sup>4</sup>

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*,<sup>5</sup> 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].<sup>6</sup>

### 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

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<sup>4</sup> 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].

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

<sup>6</sup> 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.<sup>7</sup>

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<sup>7</sup> 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, as updated for the requirements of SAS No. 119, would be as follows:

Schedule of Expenditures of Federal Awards

We have audited the 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 which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

For audits of governmental entities and as updated for the requirements of SAS No. 119, the wording of this new section would be 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 which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise Example Entity's 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

(continued)

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.<sup>8,9</sup>

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.<sup>10</sup>

[*Signature*]

[*Date*]

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(*footnote continued*)

See paragraph 7.37 in appendix C of chapter 7, "Schedule of Expenditures of Federal Awards," of this guide for information related to a change in the requirements for dating the "in relation to" reporting on the schedule of expenditures of federal awards under SAS No. 119. Additionally, when reporting on the supplementary information, the auditor should consider the effect of any modifications to the report on the financial statements (for example, a qualified opinion, a modification as to 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 9–13 of SAS No. 119.

<sup>8</sup> 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.

<sup>9</sup> 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.

<sup>10</sup> 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.