

14.18

Appendix A—Illustrative Auditor’s Reports for Program-Specific Audits

The illustrative reports in this appendix are examples of the reports issued under Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, for a program-specific audit. These reports have been updated for the guidance in AU section 801, *Compliance Audits* (AICPA, *Professional Standards*). The following table lists the illustrative reports. Auditors should exercise professional judgment in any situation not specifically addressed in these illustrations. (As discussed in paragraph 14.11, the auditor should, in certain circumstances, issue these program-specific audit reports as well as a separate *Government Auditing Standards* report. Appendix A in chapter 4, "Auditor Reporting Requirements and Other Communication Considerations of Government Auditing Standards," of this guide illustrates the *Government Auditing Standards* report.)

<i>Example No.</i>	<i>Title</i>
14-1	Unqualified Opinion on the Financial Statement of a Federal Program in Accordance With the Program-Specific Audit Option Under OMB Circular A-133
14-2	Report on Compliance with Requirements That Could Have a Direct and Material Effect on the Federal Program and on Internal Control Over Compliance in Accordance With the Program-Specific Audit Option Under OMB Circular A-133 (<i>Unqualified Opinion on Compliance; No Material Weaknesses or Significant Deficiencies in Internal Control Over Compliance Identified</i>)

Example 14-1**Unqualified Opinion on the Financial Statement of a Federal Program in Accordance With the Program-Specific Audit Option Under OMB Circular A-133**Independent Auditor's Report

We have audited the accompanying schedule of expenditures of federal awards for the [identify the federal program] of Example Entity for the year ended June 30, 20X1. This financial statement is the responsibility of Example Entity's management. Our responsibility is to express an opinion on the financial statement of the program based on our audit.¹

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*,² 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 the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the schedule of expenditures of federal awards referred to above³ presents fairly, in all material respects, the expenditures of federal awards under the [identify the federal program] in conformity with accounting principles generally accepted in the United States of America.^{4,5}

[Signature]

[Date]

¹ In many cases, the financial statements of the program consist only of the schedule of expenditures of federal awards (and notes to the schedule), which is the minimum financial statement presentation required by Section 235 of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (Circular A-133). If the auditee issues financial statements that consist of more than the schedule, this paragraph would be modified to describe the financial statements. Paragraph 14.11 discusses the possible need to issue a separate report to meet the reporting requirements of *Government Auditing Standards*.

² The standards applicable to financial audits are the general, fieldwork, and reporting standards described in chapters 3–5 of *Government Auditing Standards*.

³ If the auditee issues financial statements that consist of more than the schedule, this sentence should be modified to identify the results displayed in the financial presentation.

⁴ AU section 623, *Special Reports* (AICPA, *Professional Standards*), provides requirements and guidance when the auditee prepares the financial statement of the program in conformity with a basis of accounting other than generally accepted accounting principles.

⁵ If a separate report is issued to meet the reporting requirements of *Government Auditing Standards* (see paragraph 14.11), an additional paragraph would be added after the opinion paragraph as follows:

In accordance with *Government Auditing Standards*, we have also issued our report dated [date of report] on our consideration of Example Entity's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The second sentence of this paragraph should be modified if the auditor is providing an opinion on internal control over financial reporting or on compliance.

Example 14-2

Report on Compliance With Requirements That Could Have a Direct and Material⁶ Effect on the Federal Program and on Internal Control Over Compliance in Accordance With the Program-Specific Audit Option Under OMB Circular A-133⁷ (*Unqualified Opinion on Compliance; No Material Weaknesses or Significant Deficiencies in Internal Control Over Compliance Identified*)⁸

Independent Auditor's Report

[Addressee]

Compliance⁹

We have audited Example Entity's compliance with the types of compliance requirements¹⁰ described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on its [identify the federal program] for the year ended June 30, 20X1. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is

⁶ 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 10 of this appendix for a discussion related to the determination of material noncompliance.

⁷ This is an example of a report on a program-specific audit under Circular A-133 when no federal audit guide applicable to the program being audited is available. When a federal audit guide applicable to the program is available, Circular A-133 requires that the auditor follow the reporting requirement of that federal audit guide. (Paragraph 14.04 discusses the auditor's responsibility when a program-specific audit guide is not current.)

⁸ If issuing a qualified or adverse opinion on compliance, the auditor may modify the compliance opinion section of this report. Additionally, if reporting significant deficiencies or material weaknesses, the auditor also may modify the internal control section of this report. The portions of examples 13-2-13-5 in appendix A in chapter 13, "Auditor Reporting Requirements and Other Communication Considerations in a Single Audit," of this guide that apply to a specific auditee situation in a single audit may be useful in modifying this report. See also paragraph 14.12 concerning the need to modify this report if the schedule of finding and questions costs includes abuse findings.

⁹ This report sequences the reporting on compliance before the reporting on internal control over compliance. However, the *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.

¹⁰ 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 material weakness or significant deficiency 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*. This 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).

the responsibility of Example Entity's management. Our responsibility is to express an opinion on Example Entity's compliance based on our audit.

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*,¹¹ 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 [identify the 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 its [identify the federal program] 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, 20X1-1 and 20X1-2].¹²

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 its [identify the 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

¹¹ See footnote 2.

¹² When no such instances of noncompliance are identified in the schedule of findings and questioned costs, the last sentence would be omitted.

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.

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.^{13,14}

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], the federal awarding agency, and the pass-through entity and is not intended to be and should not be used by anyone other than these specified parties.¹⁵

[Signature]

[Date]

¹³ If, as noted in footnote 12, no findings are referred to in this report (or identified in the schedule of findings and questioned costs), this paragraph would be omitted.

¹⁴ 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.

¹⁵ 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.