Comments on ED Amendments to AU-C Sections 725, 730, 930, 935, and 940

Comments on AU-C Section 935
1. AU-C 935.A38 (prior paragraph .A36) is unclear in terms of Uniform Guidance (UG) audits. The paragraph is deficient and needs to be rewritten to clearly cover the following three circumstances: (i) when the Views of Responsible Officials (VRO) are not included in the Corrective Action Plan (CAP); (ii) when the text of the VRO is included in the auditor’s finding; and (iii) when the auditor references the CAP for the VRO.

a. I agree the auditor has no responsibility and a disclaimer is appropriate for a CAP which is not referenced in the auditor’s finding as the VRO.

b. The standard does not address the situation where the VRO is physically located in the CAP (an auditee prepared document) and incorporated into the auditor's finding by reference.

c. For consistency, I believe the VRO must be considered part of the auditor’s finding for purposes of Government Auditing Standards (GAS) paragraph 6.59 regardless of whether located within the auditor’s finding or located in the CAP and incorporated by reference into the auditor’s finding. The location of the VRO should not change the auditor’s responsibility.

d. When the VRO is included in the auditor’s finding or the auditor’s finding references the CAP as the VRO, the auditor must perform procedures to comply with GAS 6.59 in which case the example disclaimer phrase “was not subjected to the auditing procedures applied in the audit” is misleading. Audit resolution officials at Federal agencies and pass-through entities rely upon the auditor having performed the required GAS 6.59 procedures. The example disclaimer language is incomplete as implies the auditor has no responsibility under GAS for the VRO. This may confuse report users and cause auditors to inappropriately ignore their GAS responsibility.

2. A suggested rewriting of .A38 follows for the three circumstances:

VRO not in the CAP
a. If a governmental audit requirement requires the entity to prepare a separate document responding to auditor’s findings and the governmental audit requirement and Government Auditing Standards do not require the auditor to perform any procedures on such document, the auditor may add a paragraph to the auditor’s written communication paragraph disclaiming an opinion on such information. Following is an example of such a paragraph:

Example Entity’s [name of document required by the governmental audit requirement] was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the [name of document].
VRO in the Auditor’s Finding or the Auditor’s Finding References CAP for VRO

b. If the text of the views of responsible officials is included in an auditor-prepared document (e.g., schedule of findings and questioned costs required by the Uniform Guidance) or the views of responsible officials are in a separate auditee-prepared document required by the governmental audit requirement (e.g., corrective action plan required by the Uniform Guidance) which is incorporated by reference in an auditor-prepared document; the auditor may add a paragraph to the auditor’s written communication disclaiming an opinion on such information in the context of the requirements of Government Auditing Standards. Following is an example of such a paragraph:

We are required by Government Auditing Standards to read Example Entity’s response to the [insert type of findings such as noncompliance or internal control over compliance] identified in our compliance audit as described in the accompanying [insert name of document] for inconsistencies or conflicts with our findings, conclusions, or recommendations; to evaluate the validity of Example Entity’s responses; and take appropriate action. However, Example Entity’s response was not subjected to the other auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

3. AU-C 935.A37 – This paragraph should be expanded to explain the auditor’s responsibility under GAS 6.59 consistent with the optional paragraph explaining what the auditor is and is not responsible for. Following is a suggested addition:

Government Auditing Standards require the auditor to read the views of responsible officials for inconsistencies or conflicts with auditor’s findings, conclusions, or recommendations; to evaluate the validity of the views of responsible officials; and take appropriate actions.

4. Edit – At end of .36 appears extra word “audit” and should read “during the compliance audit” instead of “during the audit compliance audit.”

Answers to Questions related to AU –C Section 935

1. I have no suggested changes to the revised appendix to AU-C Section 935.
2. I agree with revising the standard to reflect that a combined compliance and internal control over compliance report is the default form of report.

Thank you for your consideration. Please contact me if you need clarification of my comments.

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