

AT-C Section 9205

Examination Engagements: Attestation Interpretations of Section 205

1. Reporting on Attestation Engagements Performed in Accordance With Government Auditing Standards¹

.01 Question—Chapter 5, "Standards for Attestation Engagements," of the 2011 revision of *Government Auditing Standards* (referred to herein as the Yellow Book) sets forth additional fieldwork and reporting standards for attestation engagements performed pursuant to generally accepted government auditing standards (GAGAS). Practitioners performing attestation engagements under GAGAS are also required to follow the general standards set forth in chapter 3, "General Standards," of the Yellow Book, as well as the guidance and requirements in chapter 1, "Government Auditing: Foundation and Ethical Principles," and chapter 2, "Standards for Use and Application of GAGAS." For examination attestation engagements performed pursuant to GAGAS, paragraph 5.18 of the Yellow Book prescribes additional reporting standards² that go beyond the standards of reporting set forth in section 205, *Examination Engagements*, and section 210, *Review Engagements*.³ When a practitioner performs an attestation examination in accordance with GAGAS, how should the report be modified?

.02 Interpretation—The practitioner should modify the scope paragraph of the attestation report to indicate that the examination or review was "conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States."

.03 Additionally, GAGAS requires the practitioner's attestation report to disclose any matters (often referred to as *findings*) that are set forth in paragraphs 5.20–.26 of the Yellow Book. Paragraphs 5.27–.28 of the Yellow Book set forth the presentation requirements that the practitioner should use, to the extent possible, in reporting a finding. The following illustration is a standard examination report modified to make reference to a schedule of findings when any of the matters set forth in paragraphs 5.20–.26 have been identified. This

¹ Although separate interpretations for other AT-C sections have not been issued to address attestation engagements performed in accordance with *Government Auditing Standards*, a practitioner may use this guidance to help the practitioner appropriately modify an attestation report pursuant to other AT-C sections.

² Paragraph 5.18 of the Yellow Book sets forth the additional reporting requirements: (a) reporting auditors' compliance with generally accepted government auditing standards, (b) reporting deficiencies in internal control, fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, and abuse, (c) reporting views of responsible officials, (d) reporting confidential or sensitive information, and (e) distributing reports. [Footnote revised, January 2008, to reflect conforming changes necessary due to the issuance of the 2007 revised *Government Auditing Standards*. Footnote revised, December 2012, to reflect conforming changes necessary due to the issuance of the 2011 revision of *Government Auditing Standards*.]

³ Paragraphs .61–.84 of section 205, *Examination Engagements*, and paragraphs .44–.60 of section 210, *Review Engagements*.

report pertains to subject matter for which suitable criteria exist and are available to all users through inclusion in a clear manner in the presentation of the subject matter. A written assertion has been obtained from the responsible party. Although the following illustrative report modifications would comply with the Yellow Book requirement, this illustration is not intended to preclude a practitioner from complying with these additional Yellow Book reporting requirements in other ways. In this illustrative report, the practitioner is reporting on the subject matter.

Independent Accountant's Report

We have examined *[identify the subject matter, for example, the accompanying schedule of performance measures of XYZ Agency for the year ended December 31, 20XX]*⁴ XYZ Agency's management is responsible for presenting the *[identify the subject matter, for example, the schedule of performance measures]* in accordance with *[identify the criteria]*. Our responsibility is to express an opinion on *[identify the subject matter, for example, the accompanying schedule of performance measures of XYZ Agency for the year ended December 31, 20XX]*, based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether management's *[identify the subject matter, for example, the accompanying schedule of performance measures of XYZ Agency for the year ended December 31, 20XX]* is in accordance with *[identify the criteria]*, in all material respects. An examination involves performing procedures to obtain evidence about *[identify the subject matter, for example, the accompanying schedule of performance measures of XYZ Agency for the year ended December 31, 20XX]*. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the *[identify the subject matter, for example, the accompanying schedule of performance measures of XYZ Agency for the year ended December 31, 20XX]*, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

[Additional paragraph(s) may be added to emphasize certain matters relating to the attestation engagement or the subject matter.]

In our opinion, the schedule referred to above presents *[identify the subject matter, for example, the performance measures of XYZ Agency for the year ended December 31, 20XX]*, in accordance with *[identify criteria, for example, the criteria set forth in Note 1]*, in all material respects.

[When any of the matters set forth in paragraphs 5.20–.26 of the Yellow Book have been identified, the following paragraph would be added.]

In accordance with *Government Auditing Standards*, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud and noncompliance with provisions

⁴ If the practitioner is reporting on an assertion about the subject matter, the practitioner would identify the assertion, rather than the subject matter, for example, "management's assertion that the accompanying schedule presents the performance measures of XYZ Agency for the year ended December 31, 20XX, in conformity with the criteria in Note 1." [Footnote added, December 2012, to reflect conforming changes necessary due to the issuance of the 2011 revision of *Government Auditing Standards*.]

of laws or regulations that have a material effect on [*identify the subject matter, for example, XYZ Agency's schedule of performance measures*]; and any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements, and abuse that has a material effect on the subject matter.⁵ We are also required to obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. We performed our examination to express an opinion on whether [*identify the subject matter, for example, XYZ Agency's schedule of performance measures*] is presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control over [*identify the subject matter, for example, reporting of performance measures*] or on compliance and other matters; accordingly, we express no such opinions. Our examination disclosed certain findings that are required to be reported under *Government Auditing Standards* and those findings, along with the views of responsible officials, are described in the attached Schedule of Findings.⁶

[*Practitioner's signature*]
 [*Practitioner's city and state*]
 [*Date of practitioner's report*]

Illustrative Schedule of Findings

XYZ Agency Schedule of Findings⁷ Year Ended December 31, 20XX

Finding No. 1

Criteria

Condition

Cause

Effect or Potential Effect

Management's Response

⁵ Note that paragraph 5.25 of the Yellow Book states that when auditors detect instances of noncompliance with provisions of contracts or grant agreements or abuse that have an effect on the subject matter or an assertion about the subject matter that is less than material but warrant the attention of those charged with governance, they should communicate those findings in writing to entity officials. When auditors detect any instances of fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse that do not warrant the attention of those charged with governance, the auditors' determination of whether and how to communicate such instances to audited entity officials is a matter of professional judgment. [Footnote added, January 2008, to reflect conforming changes necessary due to the issuance of the 2007 revised *Government Auditing Standards*. Footnote renumbered and revised, December 2012, to reflect conforming changes necessary due to the issuance of the 2011 revision of *Government Auditing Standards*.]

⁶ [Footnote renumbered and deleted to reflect conforming changes necessary due to the issuance of the 2007 revised *Government Auditing Standards*. Footnote renumbered, December 2012, to reflect conforming changes necessary due to the issuance of the 2011 revision of *Government Auditing Standards*.]

⁷ Refer to paragraphs 5.11–.15 of the Yellow Book regarding the content of the schedule of findings. [Footnote renumbered and revised: January 2008, to reflect conforming changes necessary due to the issuance of the 2007 revised *Government Auditing Standards*. Footnote renumbered and revised, December 2012, to reflect conforming changes necessary due to the issuance of the 2011 revision of *Government Auditing Standards*.]

Finding No. 2CriteriaConditionCauseEffect or Potential EffectManagement's Response

[Issue Date: December 2004; Revised: January 2008; Revised: December 2012; Revised: April 2016, effective for practitioners' reports dated on or after May 1, 2017.]

2. Reporting on the Design of Internal Control

.04 Question—A practitioner may be asked to report on the suitability⁸ of the design of an entity's internal control over financial reporting (internal control) for preventing, or detecting and correcting, material misstatements of the entity's financial statements on a timely basis. Such requests may be made by, for example,

- an entity applying for a government grant or contract that is required to submit a written pre-award survey by management about the suitability of the design of the entity's internal control or a portion of the entity's internal control, together with a practitioner's report thereon.
- a new casino applying for a license to operate that is required by a regulatory agency to submit a practitioner's report on whether the entity's internal control *that it plans to implement* is suitably designed to provide reasonable assurance that the control objectives specified in the regulatory agency's regulations would be achieved. (In this situation, the casino would not yet have begun operations, and audited financial statements or financial data relevant to the period covered by the engagement may not exist.)

May a practitioner report on the suitability of the design of an entity's internal control based on the risk assessment procedures the auditor performs to obtain a sufficient understanding of the entity and its environment, including its internal control, in an audit of the entity's financial statements?

.05 Interpretation—No. In a financial statement audit, the purpose of the auditor's understanding of the entity and its environment, including its internal control, is to enable the auditor to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. The understanding obtained in a financial statement audit does not provide the practitioner with a sufficient basis to report on the suitability of the design of an entity's internal control or any portion thereof.

.06 Question—How may a practitioner report on the suitability of the design of an entity's internal control or a portion thereof?

⁸ In this interpretation, the *suitability of the design of internal control* means the same thing as the *design effectiveness of an entity's internal control*. [Footnote renumbered, December 2012, to reflect conforming changes necessary due to the issuance of the 2011 revision of *Government Auditing Standards*.]

.07 Interpretation—The practitioner may perform an examination of the suitability of the design of an entity's internal control under section 205 or apply agreed-upon procedures to that subject matter under section 215. AU-C section 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*, does not directly apply when a practitioner is engaged to examine the suitability of design of an entity's internal control. However, it may be useful in planning and performing such engagements. Paragraphs .33 and .A61–.A62 of AU-C section 940 discuss how the auditor evaluates the design effectiveness of controls.

.08 When the engagement involves the application of agreed-upon procedures related to the suitability of the design of an entity's internal control over compliance with specified requirements, the practitioner should follow the provisions of section 315, *Compliance Attestation*.⁹

.09 The following is an illustrative report a practitioner may issue when reporting on the suitability of the design of an entity's internal control that has been implemented. The report may be modified, as appropriate, to fit the particular circumstances.

Independent Accountant's Report

[Introductory paragraph]

We have examined the suitability of the design of W Company's internal control over financial reporting to prevent, or detect and correct, material misstatements in its financial statements on a timely basis as of December 31, 20XX.¹⁰ W Company's management is responsible for the suitability of the design of W Company's internal control over financial reporting, based on *[identify the criteria]*. Our responsibility is to express an opinion on the suitability of the design of W Company's internal control over financial reporting based on our examination.

[Scope paragraph]

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether W Company's internal control over financial reporting was suitably designed based on *[identify the criteria]*, in all material respects. An examination involves performing procedures to obtain evidence about the suitability of the design of W Company's internal control over financial reporting. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of a material weakness in the suitability of the design of W Company's internal control over financial reporting. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion. We were not engaged to examine and report on the operating effectiveness of W Company's internal control over financial reporting as of December 31, 20XX, and, accordingly, we express no opinion on operating effectiveness.

[Inherent limitations paragraph]

Because of its inherent limitations, internal control over financial reporting may not prevent or detect and correct misstatements. Also, projections of any

⁹ Paragraphs .01–.05, .07–.08, and .23–.26 of section 315, *Compliance Attestation*.

¹⁰ This report assumes that the control criteria are both suitable and available to users as discussed in paragraph .25b(ii) of section 105, *Concepts Common to All Attestation Engagements*. Therefore, the use of this report is not restricted. [Footnote renumbered, December 2012, to reflect conforming changes necessary due to the issuance of the 2011 revision of *Government Auditing Standards*.]

evaluation of the suitability of the design or effectiveness of W Company's internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

[Opinion paragraph]

In our opinion, W Company's internal control over financial reporting was suitably designed to prevent, or detect and correct, material misstatements in the financial statements on a timely basis as of December 31, 20XX, based on *[identify criteria]*.

[Practitioner's signature]

[Practitioner's city and state]

[Date of practitioner's report]

.10 When reporting on the suitability of the design of an entity's internal control that has not yet been implemented, the practitioner would be unable to confirm that the controls have been implemented and should disclose that information in the practitioner's report. In those circumstances, the practitioner should modify (1) the scope paragraph of the illustrative report in paragraph .09 to inform readers that the controls identified in the report have not yet been implemented and (2) the inherent limitations paragraph to reflect the related risk. Following are modified illustrative report paragraphs for use when controls have not yet been implemented.

(New language is shown in boldface italics. Deleted language is shown in strikethrough.)

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether W Company's internal control over financial reporting was suitably designed based on *[identify the criteria]*, in all material respects. An examination involves performing procedures to obtain evidence about the suitability of the design of W Company's internal control over financial reporting. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of a material weakness in the suitability of the design of W Company's internal control over financial reporting. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion. ***Because operations had not begun as of December 31, 20XX, we could not confirm that the specified controls were implemented. Accordingly, our report solely addresses the suitability of the design of the Company's internal control and does not address whether the controls were implemented. Furthermore, because the specified controls have not yet been implemented, we were unable to test, and did not test,*** the operating effectiveness of W Company's internal control over financial reporting as of December 31, 20XX, and, accordingly, we express no opinion on operating effectiveness.

[Inherent limitations paragraph]

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any evaluation of the suitability of the design or effectiveness of W Company's internal control over financial reporting to future periods are subject to the risk that controls ***may not be implemented as intended when operations begin*** or may become inadequate because of changes in conditions, ~~or that the degree of compliance with the policies or procedures may deteriorate.~~

.11 *Question*—A practitioner may be asked to sign a prescribed form developed by the party to whom the form is to be submitted regarding the design

of an entity's internal control. What are the practitioner's responsibilities when requested to sign such a form if it includes language that is not consistent with the practitioner's function or responsibility or with the reporting requirements of professional standards?

.12 Interpretation—In the circumstances described in paragraph .11 of this interpretation, section 105, *Concepts Common to All Attestation Engagements*, requires the practitioner to reword the prescribed form of report or attach an appropriately worded separate report.¹¹ Section 105 indicates that some report forms can be made acceptable by inserting additional wording to include the report elements required by the applicable section.¹² However, some report forms required by law or regulation can be made acceptable only by complete revision because the prescribed language of the practitioner's report calls for statements by the practitioner that are not consistent with the practitioner's function or responsibility, for example, a report form that requests the practitioner to "certify" the subject matter. When reporting on the suitability of the design of an entity's internal control under section 205, the practitioner's report should contain all of the report elements required by section 205, which can be accomplished by either rewording the prescribed form of report or attaching an appropriately worded separate report in place of the prescribed form.¹³

.13 Question—An entity may be required to submit a practitioner's report about an entity's *ability* to establish suitably designed internal control (or its assertion thereon). May a practitioner issue such a report based on (a) the risk assessment procedures related to existing internal control that the auditor performs in an audit of an entity's financial statements or (b) the performance of an attestation engagement?

.14 Interpretation—No. Neither the risk assessment procedures the auditor performs in an audit of an entity's financial statements nor the performance of an attestation engagement provide the practitioner with a basis for issuing a report on the *ability* of an entity to establish suitably designed internal control. There are no suitable criteria for evaluating an entity's ability to establish suitably designed internal control. The requesting party may be willing to accept a report of the practitioner on a consulting service. The practitioner may include in the consulting service report

- a. a statement that the practitioner is unable to perform an attestation engagement that addresses the entity's ability to establish suitably designed internal control because there are no suitable criteria for evaluating the entity's ability to do so;
- b. a description of the nature and scope of the practitioner's services; and
- c. the practitioner's findings.

The practitioner may refer to the guidance in CS section 100, *Consulting Services: Definitions and Standards*.

[Issue Date: December 2008; Revised: December 2012; Revised: April 2016, effective for practitioners' reports dated on or after May 1, 2017.]

¹¹ Paragraph .18 of section 105.

¹² Paragraph .A28 of section 105.

¹³ Paragraph .63–.66 of section 205.