

12.54

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

A-1. This appendix contains examples of the report on compliance with requirements applicable to 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*, as amended, in various circumstances for a single audit as discussed previously in this chapter. The following table lists the illustrative reports. Auditors should exercise professional judgment in any situation not specifically addressed in this guide.

<i>Example No.</i>	<i>Title</i>
12-1	Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 (<i>Unqualified Opinion on Compliance and No Material Weaknesses [No Significant Deficiencies in Internal Control Over Compliance Identified]</i>)
12-2	Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 (<i>Unqualified Opinion on Compliance and Significant Deficiencies in Internal Control Over Compliance Identified</i>)
12-3	Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 (<i>Qualified Opinion on Compliance and Material Weaknesses in Internal Control Over Compliance Identified</i>)
12-4	Report on Compliance With Requirements Applicable to 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 Other Major Programs, Significant Deficiencies in Internal Control Over Compliance Identified</i>)
12-5	Report on Compliance With Requirements Applicable to 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 Other Major Programs, and Material Weaknesses in Internal Control Over Compliance Identified</i>)
12-6	Schedule of Findings and Questioned Costs

A-2. 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 con-

trol 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 (paragraph 4.51) in chapter 4, "Auditor Reporting Requirements and Other Communication Considerations of *Government Auditing Standards*," of this guide and paragraphs 12.13–.14 illustrate those reports. Appendix A (paragraph 13.16) in chapter 13, "Program-Specific Audits," of this guide illustrates the reports issued for a program-specific audit.

Example 12-1

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 (*Unqualified Opinion on Compliance and No Material Weaknesses [No Significant Deficiencies in Internal Control Over Compliance Identified]*)¹

[Addressee]

Compliance²

We have audited the compliance of Example Entity with the types of compliance requirements³ described in the OMB *Circular A-133 Compliance Supplement* that are applicable to each of its 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.

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*,⁴ 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.

¹ The auditor should use the portions of examples 12-1–12-5 relating to compliance and internal control over compliance that apply to a specific auditee situation. For example, if the auditor will be giving an unqualified opinion on compliance but has identified significant deficiencies, the compliance section of examples 12-1 or 12-2 should be used along with the internal control section of examples 12-2, 12-3, 12-4, or 12-5. Alternatively, if the auditor will be giving a modified opinion on compliance but has not identified significant deficiencies, the internal control section of this report would be used along with the compliance section of example 12-3, 12-4, or 12-5. See also paragraph 12.36 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, the *Government Auditing Standards* reports in appendix A (paragraph 4.51) 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 Circular A-133 and *Government Auditing Standards* reports in whichever sequence better meets their needs.

³ The phrase "types of compliance requirements" used here and elsewhere in this report illustration refers to the first 13 types of compliance requirements (identified as A–M) described in Part 3 of the OMB *Circular A-133 Compliance Supplement* (the *Compliance Supplement*) and each individual special test and provision identified in Part 4 of the *Compliance Supplement* for each major program. When a federal program is not included in the *Compliance Supplement*, the identification of types of compliance requirements that apply and are material to a major program, including special tests and provisions, is made by reviewing the program's contract and grant agreements and referenced laws and regulations.

⁴ The Standards applicable to financial audits are the general, fieldwork, and reporting standards described in chapters 3–5 of *Government Auditing Standards*.

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 requirements referred to above that are applicable to 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].⁵

Internal Control Over Compliance

The 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 the Entity's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.⁶

⁵ When there are no such instances of noncompliance identified in the schedule of findings and questioned costs, the last sentence should be omitted.

⁶ As discussed in paragraphs 12.15 and 12.24, 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 should be added immediately following this paragraph. For audits of not-for-profit organizations, 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

(continued)

Example Entity's response 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 response and, accordingly, we express no opinion on it.⁷

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*], and 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.⁸

[*Signature*]

[*Date*]

(footnote continued)

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.

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 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 .09–.11 and .13–.14 of AU section 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents* (AICPA, *Professional Standards*, vol. 1).

⁷ If, as noted in footnote 5, there are no findings referred to in this report (or identified in the schedule of findings and questioned costs), this paragraph should be omitted.

⁸ This paragraph conforms to AU section 532, *Restricting the Use of an Auditor's Report* (AICPA, *Professional Standards*, vol. 1). See AU section 532 for additional guidance on restricted-use reports.

Example 12-2

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 (*Unqualified Opinion on Compliance and Significant Deficiencies in Internal Control Over Compliance Identified*)⁹

[Addressee]

Compliance¹⁰

We have audited the compliance of Example Entity with the types of compliance requirements¹¹ described in the OMB *Circular A-133 Compliance Supplement* that are applicable to each of its 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.

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*,¹² 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 requirements referred to above that are applicable to 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].¹³

Internal Control Over Compliance

The 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

⁹ See footnote 1.

¹⁰ See footnote 2.

¹¹ See footnote 3.

¹² See footnote 4.

¹³ See footnote 5.

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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 the Entity's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. 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, 20X1-7, 20X1-8, and 20X1-9*] to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.^{14,15}

Example Entity's response 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 response and, accordingly, we express no opinion on it.

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*], and 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.¹⁶

[*Signature*]

[*Date*]

¹⁴ If the auditor considers any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses in internal control over compliance, the report should identify those material weaknesses. The last sentence of this paragraph should be replaced with language such as the following, as shown in example 12-3: "Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items [*list the reference numbers of the related findings, for example, 20X1-8 and 20X1-9*] to be material weaknesses."

¹⁵ See footnote 6.

¹⁶ See footnote 8.

Example 12-3

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 (*Qualified Opinion on Compliance and Material Weaknesses in Internal Control Over Compliance Identified*)¹⁷

[Addressee]

Compliance¹⁸

We have audited the compliance of Example Entity with the types of compliance requirements¹⁹ described in the OMB *Circular A-133 Compliance Supplement* that are applicable to each of its 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.

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*,²⁰ 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 [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 requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 20X1.²¹

¹⁷ See footnote 1.

¹⁸ See footnote 2.

¹⁹ See footnote 3.

²⁰ See footnote 4.

²¹ When other instances of noncompliance are identified in the schedule of findings and questioned costs as required by Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the following sentence should be added: "The

(continued)

Internal Control Over Compliance

The 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 the Entity's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. 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, 20X1-7, 20X1-8, and 20X1-9*] to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items [*list the reference numbers of the related findings, for example 20X1-8 and 20X1-9*] to be material weaknesses.²²

Example Entity's response 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 response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, [*identify the body or individuals charged with governance*], others within the entity,

(footnote continued)

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*]."

²² See footnote 6.

[*identify the legislative or regulatory body*], and 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.²³

[*Signature*]

[*Date*]

²³ See footnote 8.

Example 12-4

Report on Compliance With Requirements Applicable to 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 Other Major Programs, Significant Deficiencies in Internal Control Over Compliance Identified*)^{24,25}

[Addressee]

Compliance²⁶

We have audited the compliance of Example Entity with the types of compliance requirements²⁷ described in the OMB *Circular A-133 Compliance Supplement* that are applicable to each of its 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.

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,²⁸ 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.

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 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 requirements referred

²⁴ See footnote 1.

²⁵ Although this report identifies a significant deficiency, circumstances may warrant a material weakness to be reported.

²⁶ See footnote 2.

²⁷ See footnote 3.

²⁸ See footnote 4.

to above that are applicable to each of its major federal programs for the year ended June 30, 20X1.²⁹

Internal Control Over Compliance

The 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 the Entity's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. 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, 20X1-7, 20X1-8, and 20X1-9*] to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.^{30,31}

Example Entity's response 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 response and, accordingly, we express no opinion on it.

²⁹ See footnote 21.

³⁰ If the auditor considers any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses in internal control over compliance, the report should identify those material weaknesses. The last sentence of this paragraph should be replaced with language such as the following, as shown in example 12-3: "Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items [*list the reference numbers of the related findings, for example, 20X1-8 and 20X1-9*] to be material weaknesses."

³¹ See footnote 6.

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*], and 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.³²

[*Signature*]

[*Date*]

³² See footnote 8.

Example 12-5

Report on Compliance With Requirements Applicable to 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 Other Major Programs, and Material Weaknesses in Internal Control Over Compliance Identified*)³³

[Addressee]

Compliance³⁴

We have audited the compliance of Example Entity with the types of compliance requirements³⁵ described in the OMB *Circular A-133 Compliance Supplement* that are applicable to each of its 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.

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 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.

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 are applicable to [identify the major federal program]. Also, in our opinion, Example Entity complied, in all

³³ See footnote 1.

³⁴ See footnote 2.

³⁵ See footnote 3.

³⁶ See footnote 4.

material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the year ended June 30, 20X1.³⁷

Internal Control Over Compliance

The 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 in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 the Entity's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. 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, 20X1-7, 20X1-8, and 20X1-9] to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items [list the reference numbers of the related findings, for example 20X1-8 and 20X1-9] to be material weaknesses.³⁸

Example Entity's response 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 response and, accordingly, we express no opinion on it.

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], and federal awarding agencies and

³⁷ See footnote 21.

³⁸ See footnote 6.

pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.³⁹

[*Signature*]

[*Date*]

³⁹ See footnote 8.

Example 12-6

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*]:⁴⁰

Internal control over financial reporting:

- Material weakness(es) identified? ___ yes ___ no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ___ 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 that are not considered to be material weakness(es)? ___ yes ___ none reported

Type of auditor's report issued on compliance for major programs [*unqualified, qualified, adverse, or disclaimer*]:⁴¹

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:⁴²

⁴⁰ 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.

⁴¹ 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."

⁴² Major programs generally should be identified in the same order as reported on the schedule of expenditures of federal awards.

CFDA Number(s)⁴³

Name of
Federal
Program or
Cluster⁴⁴

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 12.16 and 12.33.) Auditors should 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.⁴⁵ 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 should refer to chapter 4 of this guide for a discussion of the Government Auditing Standards requirements for presenting findings.

- *Criteria or specific requirement*
- *Condition*
- *Context*⁴⁶
- *Effect*
- *Cause*

⁴³ When the *Catalog of Federal Domestic Assistance* (CFDA) number is not available, include other identifying number, if applicable.

⁴⁴ 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 program within the cluster.

⁴⁵ 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.

- Recommendation
- Views of responsible officials and planned corrective actions⁴⁷

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 12.35) as well as any abuse findings involving federal awards that is material to a major program (see paragraph 12.36). 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.⁴⁸ 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 should refer to chapter 4 of this guide for a discussion of the Government Auditing Standards requirements for presenting findings.

- Information on the federal program⁴⁹
- Criteria or specific requirement (including statutory, regulatory, or other citation)
- Condition⁵⁰
- Questioned costs⁵¹
- Context⁵²
- Effect
- Cause
- Recommendation
- Views of responsible officials and planned corrective actions⁵³

⁴⁶ 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.

⁴⁷ Paragraphs 12.34 and 12.38 and chapter 4 of this guide provide guidance on reporting views of responsible officials and planned corrective action.

⁴⁸ See footnote 45.

⁴⁹ 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, the auditor should provide the best information available to describe the federal award.

⁵⁰ Include facts that support the deficiency identified in the audit finding.

⁵¹ Identify questioned costs as required by Sections 510(a)(3) and 510(a)(4) of Circular A-133.

⁵² See footnote 46.

⁵³ See footnote 47.