



Agenda Item 1B (3)

Summary of Comments on AU-C section 935, *Compliance Audits*

Respondents are:

- | | |
|--|----------------------|
| Michigan Office of the Auditor General | 01 MI |
| Grant Thornton | 02 GT |
| EY | 03 EY |
| Texas Society of CPAs | 04 TXCPA |
| BDO | 05 BDO |
| Tennessee Department of Audit | 06 TN |
| Virginia Office of the State Auditor | 07 VA Public Auditor |
| Deloitte Touche LLP | 08 Deloitte Touche |
| Office of the Washington State Auditor | 09 WA State Auditor |
| George Rippey | 10 George Rippey |
| Terry Ramsey | 11 Terry Ramsey |
| Florida Institute of CPAs | 12 FICPA |
| KPMG | 13 KPMG |

Row	Topic	Name	Coded Text	Comment
1	Question 1	01 MI	Yes, we consider them complete	
2	Question 1	02 GT	We believe the proposed amendments to the appendix of AU-C section 935 are, for the most part, appropriate and complete.	
3	Question 1	03 EY	We believe the proposed amendments to the AU-C section 935 appendix are appropriate and consistent with current government requirements.	
4	Question 1	04 TXCPA	We agree with the proposed amendments to the appendix and that the proposed amendments are consistent with current government requirements	
5	Question 1	05 BDO	Other than the editorial comments and suggestions listed in Appendix A, we find the amendments to AU-C section 935 to be appropriate and complete.	

Summary of Comments: AU-C 935 Conforming Amendments
ASB Meeting, March 11, 2020

Row	Topic	Name	Coded Text	Comment
6	Question 1	06 TN State Auditor	We agree that the proposed amendments are generally appropriate and complete.	
7	Question 1	07 VA Public Auditor	We agree with the proposed changes to existing standards, including the illustrative reports, and believe the changes are consistent with SAS Nos. 134 and 137.	
8	Question 1	08 Deloitte Touche	D&T are proponents of the proposed revisions being made to AU-C section 935, and the amendments are appropriate, complete, and consistent with current government requirements, considering the purposes and scope of this project.	
9	Question 1	09 WA State Auditor	Overall, yes.	
10	Question 1	10 Rippey	have no suggested changes to the revised appendix to AU-C Section 935.	
11	Question 1	11 Ramsey	I have no suggested changes to the revised appendix to AU-C Section 935.	
12	Question 2	01 MI	Yes, we agree with how the ED addresses preparing combined or separate reports. We have no suggested revisions.	
13	Question 2	02 GT	Additionally, it is our understanding that the general practice within the profession is to issue a combined report, and we therefore support the corresponding proposed changes to the requirements to reflect this practice. We also support retaining requirements that allow the auditor to issue separate reports if the auditor so chooses. We believe the continued flexibility and guidance within the standards enables appropriate reporting, regardless of which approach the auditor may choose.	
14	Question 2	03 EY	We support the ASB's proposal to amend AU-C section 935 to present the requirements for a combined report on compliance and internal controls as the default form of report and to better align the form and content of the auditor's report with SAS No. 134.	
15	Question 2	04 TXCPA	As long as an option remains available to issue separate reports, we agree with how reports are addressed in the proposed amendments.	
16	Question 2	05 BDO	We reviewed the proposed changes and agree that changing the order in which the requirements for combined reports are presented is appropriate	

Summary of Comments: AU-C 935 Conforming Amendments
ASB Meeting, March 11, 2020

Row	Topic	Name	Coded Text	Comment
			because combined reports are more common in practice.	
17	Question 2	06 TN State Auditor	We agree with how the combined reports are addressed.	
18	Question 2	08 Deloitte Touche	Yes, we concur with the approach in the proposed SAS with respect to how the combined and separate reports are addressed in the standard.	
19	Question 2	09 WA State Auditor	We agree with the change to presenting the combined report on compliance and internal control as the default form of the report, since combined reports are more common in practice. However, it would be helpful to include an example of a separate report on internal control or specific guidance as to the order in which the various report elements should be listed, as it is not clear from the updated standard.	See other comments on par. 30 and illustrative report.
20	Question 2	10 Rippey	I agree with revising the standard to reflect that a combined compliance and internal control over compliance report is the default form of report.	
21	Question 2	11 Ramsey	I agree with revising the standard to reflect that a combined compliance and internal control over compliance report is the default form of report.	
Definition of Material Noncompliance (Issue 1)				
22	Materiality definition	01 MI	however, we request the Board reconsider whether the phrase "...quantitatively or qualitatively" when defining material noncompliance in the auditor's report is necessary since these concepts are implied per SAS 138's amendments to AU-C Section 320. Consequently, the proposed wording in the auditor's report regarding noncompliance could read, in part, "...noncompliance with the compliance requirements referred to above is considered material to compliance if...."	Agree; retained in definition but not in report.
23	Materiality definition	02 GT	Nevertheless, we have concerns with the proposed revision to the definition of "material noncompliance." While we appreciate the Board's desire to align this definition with the amendments to the definition of materiality adopted in SAS 138, we do not believe the proposed definition is operational. We find it problematic that a reasonable user's judgment is based on the report on compliance, which is the auditor's deliverable as opposed to matters that would affect compliance	Issue 1

Summary of Comments: AU-C 935 Conforming Amendments
ASB Meeting, March 11, 2020

Row	Topic	Name	Coded Text	Comment
			<p>with the program. For example, in a financial statement audit, the reasonable user’s judgment is assessed within the context of the financial statements. Accordingly, we believe the materiality notion should remain within the context of the compliance itself and, therefore, recommend that the Board revert to the extant definition of “material noncompliance”, which is as follows: In the absence of a definition of material noncompliance in the governmental audit requirement, a failure to follow compliance requirements or a violation of prohibitions included in the applicable compliance requirements that results in noncompliance that is quantitatively or qualitatively material, either individually or when aggregated with other noncompliance, to the affected government program. Further, we do not believe the extant definition would create significant issues or inconsistencies with the construct of the newly revised definition of materiality in SAS 138. In contrast, we believe there could be negative unintended consequences to revising the definition of “material noncompliance” as proposed.</p>	
24	Materiality definition	03 EY	<p>We recommend the following edit to the definition of Material noncompliance in paragraph 11 of AU-C section 935: “Material noncompliance. In the absence of a definition of material noncompliance in the governmental audit requirement, noncompliance with the applicable compliance requirements is considered to be quantitatively or qualitatively material if there is a substantial likelihood that, individually or in the aggregate, it would to influence the judgment made by a reasonable user about compliance with the requirements of the government program as a whole based on the report on compliance.”</p>	Supportive; minor edit suggested and accepted.
25	Materiality definition	05 BDO	<p>The definition of material noncompliance in paragraph .11 of the proposed SAS uses the term “reasonable user,” which aligns with SAS No. 138. However, the assumptions an auditor may make with respect to “reasonable users” in accordance with the amended paragraph .04 of AU-C section 320, <i>Materiality in Planning and Performing an</i></p>	Issue 1. Agree that the assumptions are different; however, SAS 138 was not intended to

Summary of Comments: AU-C 935 Conforming Amendments
ASB Meeting, March 11, 2020

Row	Topic	Name	Coded Text	Comment
			<p><i>Audit</i>, may not align with those an auditor may make when performing a compliance audit. For example, the auditor’s perception of the financial information needs of the users of the financial statements, assumptions regarding whether the users have a reasonable knowledge of business and economic activities and accounting and recognizing the uncertainties inherent in measurement of amounts based on estimates, judgment, and the considerations of future events, are not necessarily relevant to the users of a report on compliance.</p> <p>The compliance requirements, which are based on “laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to a government program” may require that the auditor apply different assumptions about the quantitative and qualitative nature of matters that may be relevant to the users of the report on compliance, and the proposed SAS does not address this issue. We recognize that the extant AU-C section 935 also does not address this issue. However, since the objectives of the revisions to the definition of material noncompliance is to align with the description of materiality in SAS No. 138, we believe there is benefit to auditors in understanding the parameters that can be used in order to properly exercise professional judgment to determine materiality and, therefore, properly design and execute the compliance audit.</p>	<p>change practice, so aligning the terms here shouldn’t change practice, and developing comparable guidance is beyond the scope of conforming amendments.</p>
26	Materiality definition	05 BDO	<p>The definition of material noncompliance in the proposed SAS includes the words “compliance with the requirements of the government program as a whole.” This terminology may imply a broader scope than what may be required in certain situations associated with compliance audits. For example, in an audit conducted in accordance with the Uniform Guidance, the auditor issues an opinion on compliance with requirements “that may have a direct and material effect on each of its major programs” based on the procedures performed and audit evidence obtained only for those compliance requirements. In this case, the proposed definition of material noncompliance may include all compliance requirements, instead of</p>	Issue 1

Summary of Comments: AU-C 935 Conforming Amendments
ASB Meeting, March 11, 2020

Row	Topic	Name	Coded Text	Comment
			<p>only those requirements that were considered to have a direct and material effect on a major program.</p> <p>Accordingly, we propose the following edits to the definition of material noncompliance in paragraph .11 that would be more consistent with the words used in paragraph .30d.v. of the proposed SAS.</p> <p>Paragraph .11 – Material noncompliance “...judgment made by a reasonable user about compliance with the <u>applicable compliance requirements of the government program as a whole at the level specified by the governmental audit requirement</u> based on the report on compliance.”</p>	
27	Materiality definition	06 TN State Auditor	<p>For ¶11 (definitions) on page 37 in regard to the definitions of material noncompliance and probable, we are concerned with introducing another modifier such as “substantial likelihood” because it is subjective without more clarification in how to apply the term. Is the term a higher threshold than “probable” or should it be interpreted the same? What is the board’s intent with the new term. If possible, we suggest the board minimize identifiers as much as possible, especially if different terms are intended to mean the same.</p>	Issue 1
28	Materiality definition	09 WA State Auditor	<p>We are unclear why the definition of material noncompliance in paragraphs .11, .30.g.iv, and the Illustrative Combined Report in .A44 is not parallel to the definition of material misstatement in SAS 138 amendments to AU-C 700 and AU-C 320. Moreover, the proposed definition appears to contain circular reasoning. The determination of materiality should not be based on the auditor’s report on compliance – rather, what is reported should be based on the determination of materiality. We strongly suggest making this definition parallel to the definition of material misstatement and removing “based on the report on compliance” from the definition. If the definition is not intended to be parallel, we would request application guidance in the standard explaining</p>	Issue 1

Summary of Comments: AU-C 935 Conforming Amendments
ASB Meeting, March 11, 2020

Row	Topic	Name	Coded Text	Comment
			<p>how the auditor would adjust their consideration of materiality for noncompliance from their consideration of misstatements.</p> <p>Suggested edits for parallelism are as follows:</p> <p>Materiality statement for financial audits: “Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.”</p> <p>Parallelism edits to the proposed materiality statement in the Illustrative Combined Report in .A44 for compliance audits</p> <p>Noncompliance with the compliance requirements referred to above is considered quantitatively or qualitatively material to compliance if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user about compliance with the requirements referred to above of the government program as a whole based on the report on compliance</p>	
29	Materiality definition	12 FICPA	Even though the government audit requirement does not specifically spell out the definition of material noncompliance, the Committee greatly appreciates the step taken by the ASB to provide a revision in the proposed amendments that clearly defines material noncompliance in consistency with the description of materiality in SAS No. 138, <i>Amendments to the Description of the Concept of Materiality</i> .	Supportive
30	Materiality definition	13 KPMG	The revised definition of material noncompliance is sufficiently aligned with the description of materiality in the SAS 138, <i>Amendments to the Description of the Concept of Materiality</i> .	Supportive

Summary of Comments: AU-C 935 Conforming Amendments
ASB Meeting, March 11, 2020

Row	Topic	Name	Coded Text	Comment
31	Materiality definition	14 PwC	In addition, while we agree with the revisions to the definition of material noncompliance, we believe an explicit reference within the definition to paragraph A7 is necessary. This is because for Uniform Guidance compliance audits, the determination of a finding being considered material or not is in relation to the type of compliance requirement, rather than the program as a whole.	Disagree with need for cross-reference. Same structure exists in extant AU-C section.
Paragraphs 30 and A44 (Issue 2)				
32	Par. 30d	08 Deloitte Touche	<p>The editorial recommendations below are to align the elements of the auditor’s report in paragraph .30 with the illustrative auditor’s report in paragraph .A44 of AU-C section 935, <i>Exhibit — Illustrative Combined Report on Compliance and Internal Control Over Compliance</i>.</p> <p><i>d. Opinion.</i> The first section of the auditor’s report on compliance should include the auditor’s opinion and section with a heading that includes the word “Opinion” and indicates the reporting level pursuant to specified by the governmental audit requirement. The “Opinion” section of the auditor’s report should also do the following:</p> <p>...</p> <p><i>v.</i> When expressing an unmodified opinion, state that, in the auditor’s opinion, the entity complied, in all material respects, with the applicable compliance requirements <u>[indicate the the reporting level pursuant to specified by the governmental audit requirement]</u> for the <u>[specify the period covered by the report]</u>.</p>	Agree

Summary of Comments: AU-C 935 Conforming Amendments
ASB Meeting, March 11, 2020

Row	Topic	Name	Coded Text	Comment
33	Par. 30e	08 Deloitte Touche	To align the elements of the auditor’s report in paragraph .30 with the illustrative auditor’s report in paragraph .A44 <p style="margin-left: 40px;"><i>e.</i> Basis for Opinion ...</p> <p style="margin-left: 40px;">...</p> <p style="margin-left: 40px;"><i>v.</i> Stated that the compliance-audit does not provide a legal determination of the entity’s compliance <u>with the applicable compliance requirements.</u></p>	Agree
34	Par. 30f	08 Deloitte Touche	To align the elements of the auditor’s report in paragraph .30 with the illustrative auditor’s report in paragraph .A44 <p style="margin-left: 40px;"><i>f.</i> Management’s Responsibilities. The auditor’s report on compliance ... provisions of contracts or grant agreements applicable to <u>the entity’s</u> government programs. ...</p>	Agree
35	Par. 30f	02 GT	In order to be consistent with paragraph .32 of AU-C 700 (SAS 134), we propose the following edits to this paragraph. ... This section of the auditor’s report should describe management’s responsibility for compliance with the applicable compliance requirements and for <i>the design, implementation, and maintenance of</i> designing, implementing, and maintaining effective internal control over compliance....	Agree
36	Par. 30f	05 BDO	Paragraph .30m. includes the words “...has taken responsibility for understanding and complying with the applicable compliance requirements;” however, the definition of applicable compliance requirements in paragraph .11 is limited to those compliance requirements that are subject to the compliance audit. Because the applicable compliance requirements subject to the audit specified by the governmental audit requirement may not encompass all compliance requirements	Not changed; this is consistent with the extant report, and

Summary of Comments: AU-C 935 Conforming Amendments
ASB Meeting, March 11, 2020

Row	Topic	Name	Coded Text	Comment
			<p>related to a government program, this phrase appears to limit the responsibilities of management for compliance with other laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the entity's government programs. The inclusion of the word "applicable" before "compliance requirements" is not consistent with the contents of paragraph .8(a), nor with the definition of compliance requirements found in paragraph .11, which are not limited to those requirements that are subject to the audit. Accordingly, we proposed the following edits:</p> <p>Paragraph .30f - Management's Responsibilities. The auditor's report on compliance should include a section with the heading "Responsibilities of Management for Compliance." This section of the auditor's report should describe management's responsibility for compliance with the applicable compliance requirements and for designing, implementing, and maintaining effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to government programs. If the document containing the auditor's report contains a separate statement by management about its responsibility for the applicable compliance requirements, the auditor's report should not include a reference to such statement by management.</p>	
37	Par. 30g	03 EY	<p>We recommend the following edit to paragraph 30.g.iv of AU-C section 935: "State that noncompliance with the applicable compliance requirements is to be considered quantitatively or qualitatively material to compliance if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user about compliance with the requirements of the government program as a whole based on the report on compliance"</p>	Agree

Summary of Comments: AU-C 935 Conforming Amendments
ASB Meeting, March 11, 2020

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38	Par. 30g	05 BDO	<p>Paragraph .30g.vi includes the phrase “identified during the audit” which is not consistent with paragraph .36 which instead uses the phrase “identified during the compliance audit”.</p> <p>Accordingly, we suggest the following edits to Paragraph .30(g)(vi) of the proposed SAS:</p> <p>vi. State that the auditor is required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that the auditor identified during the <u>compliance</u> audit.</p>	Agree
39	Par. 30g	05 BDO	<p>Point (3) in paragraph .30g.v. of the proposed SAS describes the requirement to “obtain an understanding of the applicable compliance requirements.” In a compliance audit, we believe that the auditor would first obtain an understanding of the applicable compliance requirements, then identify the risks of material noncompliance whether due to fraud or error, obtain an understanding of the entity’s internal control as specified by the governmental audit requirement, and only then assess the risk of material noncompliance whether due to fraud of error and design and perform audit procedures responsive to those risks. The suggested edits below are consistent with the requirements specified by the Uniform Guidance, and would also be flexible enough to accommodate other government audit requirements.</p> <p>v. Describe an audit by stating that, in performing an audit in accordance with GAAS, Government Auditing Standards, and the [insert the name of the governmental audit requirement or program-specific audit guide] the auditor’s responsibilities are to</p> <ul style="list-style-type: none"> • exercise professional judgment and maintain professional skepticism throughout the audit. [no change] 	True but inconsistent with SAS 134. See issue #3

Summary of Comments: AU-C 935 Conforming Amendments
ASB Meeting, March 11, 2020

Row	Topic	Name	Coded Text	Comment
			<ul style="list-style-type: none"> • obtain an understanding of the applicable compliance requirements identify and assess the risks of material noncompliance whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the entity's compliance with applicable compliance requirements and performing such other procedures as the auditor considered necessary in the circumstances. • obtain an understanding of the applicable compliance requirements and the entity's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with [the governmental audit requirement], but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over compliance. Accordingly, no such opinion is expressed. • <u>identify and assess the risks of material noncompliance whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the entity's compliance with applicable compliance requirements and performing such other procedures as the auditor considered necessary in the circumstances.</u> 	
40	Par. 30g	03 EY	<p>Extant AU-C section 935, paragraph 30.e.v, states the following: "A statement that the compliance audit does not provide a legal determination of the entity's compliance" We observe that this requirement was removed from the proposed amendments to AU-C section 935. However, we believe the extant requirement should be retained and presented as new AU-C 935.30.g.vii.</p>	While the placement of this statement in the report moved, it is still required by par. 30.e.v.

Summary of Comments: AU-C 935 Conforming Amendments
ASB Meeting, March 11, 2020

Row	Topic	Name	Coded Text	Comment
41	Par. 30g	08 Deloitte Touche	<p>To align the elements of the auditor’s report in paragraph .30 with the illustrative auditor’s report in paragraph .A44</p> <p style="padding-left: 40px;">g. Auditor’s Responsibilities. ...</p> <p style="padding-left: 80px;">i. State that the objectives of the auditor are to</p> <p style="padding-left: 120px;">(1) ...</p> <p style="padding-left: 120px;">(2) Express an opinion on the entity’s compliance with the applicable compliance requirements based on the compliance audit</p> <p style="padding-left: 120px;">...</p> <p style="padding-left: 80px;">iv. State that noncompliance with the applicable compliance requirements is to be considered quantitatively or qualitatively material to compliance if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user about compliance with the requirements of the government program as a whole based on the report on compliance</p> <p style="padding-left: 120px;">...</p> <p>D&T Note: The proposed amendment to strike the words “to compliance” is to align with the definition of <i>Material noncompliance</i> in paragraph .11 of the proposed SAS.</p>	<p>See Issue 3</p> <p>See Issue 1</p>
42	Par. 30i	02 GT	<p>For clarity and consistency, we recommend the following edit:</p> <p style="padding-left: 40px;">ii. States that the auditor’s consideration of the entity’s internal control over compliance was not</p>	Agree; revised

Summary of Comments: AU-C 935 Conforming Amendments
ASB Meeting, March 11, 2020

Row	Topic	Name	Coded Text	Comment
			designed to identify all deficiencies in internal control <i>over compliance</i> that might be material weaknesses or significant deficiencies in internal control over compliance and therefore material weaknesses or significant deficiencies may exist that were not identified.	
43	Par. 30i	08 Deloitte Touche	<p>To align the elements of the auditor’s report in paragraph .30 with the illustrative auditor’s report in paragraph .A44</p> <p style="padding-left: 40px;">i. Report on Internal Control Over Compliance. ...</p> <p style="padding-left: 40px;">...</p> <p style="padding-left: 40px;">ii. States that the auditor’s consideration of the entity’s internal control over compliance was <u>for the limited purpose described in the Auditor’s Responsibilities for the Audit of Compliance section above and was</u> not designed to identify all deficiencies in internal control <u>over compliance</u> that might be material weaknesses or significant deficiencies in internal control over compliance and therefore material weaknesses or significant deficiencies <u>in internal control over compliance</u> may exist that were not identified.</p> <p style="padding-left: 40px;">iii. <u>iii.</u> Describes any identified material weaknesses and significant deficiencies in internal control over compliance or a reference to an accompanying schedule containing such a description.</p> <p style="padding-left: 40px;">iv. <u>iv.</u> If no material weaknesses in internal control over compliance were identified,</p>	Agree; all changes made

Summary of Comments: AU-C 935 Conforming Amendments
ASB Meeting, March 11, 2020

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			<p>includes a statement to that effect.</p> <p>iii v. States that the audit was not designed for the purpose of expressing an opinion on the effectiveness of the entity’s internal control over compliance. Accordingly, no such opinion is expressed.</p> <p>D&T Note: The proposed reordering the required elements is to align with the layout in the illustrative report.</p>	
44	Par. 30m	05 BDO	<p>Paragraph .30m. includes the words “...has taken responsibility for understanding and complying with the applicable compliance requirements;” however, the definition of applicable compliance requirements in paragraph .11 is limited to those compliance requirements that are subject to the compliance audit. Because the applicable compliance requirements subject to the audit specified by the governmental audit requirement may not encompass all compliance requirements related to a government program, this phrase appears to limit the responsibilities of management for compliance with other laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the entity’s government programs. The inclusion of the word “applicable” before “compliance requirements” is not consistent with the contents of paragraph .8(a), nor with the definition of compliance requirements found in paragraph .11, which are not limited to those requirements that are subject to the audit. Accordingly, we proposed the following edits:</p> <p>Paragraph .30m - The date of the auditor’s report. The auditor’s report should be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor’s opinion on compliance, including evidence that management has asserted that it has</p>	Agree

Summary of Comments: AU-C 935 Conforming Amendments
ASB Meeting, March 11, 2020

Row	Topic	Name	Coded Text	Comment
			identified the entity’s government programs and has taken responsibility for understanding and complying with the applicable compliance requirements.	
45	Par. 31	03 EY	We recommend moving the following content from paragraph 31 of AU-C section 935 to paragraph 30 of AU-C section 935: A combined report on compliance and internal control over compliance is presented in the exhibit “Illustrative Combined Report on Compliance With Applicable Requirements and Internal Control Over Compliance — (Unmodified Opinion on Compliance; No Material Weaknesses or Significant Deficiencies in Internal Control Over Compliance Identified).”	Agree
46	Par. A44	03 EY	We recommend the following edit to the “Report on Internal Control Over Compliance” section of the Illustrative report in paragraph A44 of AU-C section 935 to align with the wording in the “Illustrative No Material Weakness Communication” in paragraph A39 of AU-C section 265: “Our consideration of internal control over compliance was for the limited purpose described in the Auditor’s Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. <i>Given these limitations, during our audit</i> we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses in internal control over compliance may exist that have not been identified.”	Agree
47	Par. A44	05 BDO	For purposes of consistency with the language used in paragraph .30.i.ii of the proposed SAS, we suggest the following edits to the proposed language	See issue 2, par. A44; Edit proposed by EY made to be

Summary of Comments: AU-C 935 Conforming Amendments
ASB Meeting, March 11, 2020

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			<p>in the illustrative auditor’s report in paragraph 44 as follows:</p> <p>Our consideration of internal control over compliance was for the limited purpose described in the Auditor’s Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance <u>and therefore material weaknesses or significant deficiencies may exist that were not identified.</u> We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses in internal control over compliance may exist that have not been identified.</p>	consistent with AU-C 265
48				
49	Par. A44	08 Deloitte Touche	<p><u>Paragraph .A44</u></p> <p>The editorial recommendation below is to align with the Exhibit heading immediately above paragraph .A44 of AU-C section 935.</p> <p style="padding-left: 40px;">.A44 The following is an illustrative combined report on compliance with applicable requirements and internal control over compliance that contains the elements in <u>paragraphs .30–.31.</u> ...</p> <p>D&T recommends the following edits to the illustrative Independent Auditor’s Report in order to align the auditor’s report with the reporting elements in paragraph .30 of AU-C section 935, define the phrase “applicable compliance requirements,” and in some instances to streamline the wording of the report.</p> <p style="text-align: center;">...</p>	<p>Kept; in extant</p> <p>Edits for consistency accepted; edits regarding “applicable compliance requirements” were not.</p>

Summary of Comments: AU-C 935 Conforming Amendments
ASB Meeting, March 11, 2020

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			<p style="text-align: center;">Report on Compliance</p> <p>Opinion on <i>[indicate the reporting level pursuant to governmental audit requirement]</i></p> <p>We have audited Example Entity’s compliance with the <i>[identify the applicable compliance requirements or refer to the document that describes the applicable compliance requirements]</i> (the “requirements”) applicable to Example Entity’s <i>[identify the government program(s) audited or refer to a separate schedule that identifies the program(s)]</i> for the year ended June 30, 20X1.</p> <p>In our opinion, Example Entity complied, in all material respects, with the requirements referred to above that are applicable to <i>[indicate the reporting level pursuant to governmental audit requirement]</i> for the year ended June 30, 20X1.</p> <p style="text-align: center;">Basis for Opinion</p> <p style="text-align: center;">...</p> <p>We are required ... Our audit does not provide a legal determination of Example Entity’s compliance with the compliance requirements referred to above.</p> <p style="text-align: center;">Responsibilities of Management for Compliance</p> <p>Management is responsible ... applicable to the Example Entity’s government programs.</p> <p style="text-align: center;">Auditor’s Responsibilities for the Audit of Compliance</p>	

Summary of Comments: AU-C 935 Conforming Amendments
ASB Meeting, March 11, 2020

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			<p>Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above that are applicable to [identify the government program(s) audited or refer to a separate schedule that identifies the program(s)] occurred, whether due to fraud or error, and express an opinion on Example Entity's compliance with the requirements referred to above based on our audit. ... Noncompliance with the compliance requirements referred to above is considered quantitatively or qualitatively material to compliance if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user about compliance with the requirements of the government program as a whole based on the report on compliance.</p> <p>...</p> <ul style="list-style-type: none"> • identify and assess the risks of material noncompliance whether due to fraud or error and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Example Entity's compliance with applicable compliance the requirements referred to above and performing such other procedures as we considered necessary in the circumstances. • obtain an understanding of the compliance requirements referred to above ... <p>...</p>	

Summary of Comments: AU-C 935 Conforming Amendments
ASB Meeting, March 11, 2020

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			<p>D&T Note: The proposed amendment to strike the words “to compliance” is to align with the definition of <i>Material noncompliance</i> in paragraph .11 of the proposed SAS.</p> <p>Report on Internal Control Over Compliance</p> <p><i>A deficiency in internal control over compliance</i> exists when the design or operation of a control over compliance does not allow management or employees...</p> <p>Our consideration of Example Entity’s internal control over compliance was for the limited purpose described in the Auditor’s Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.</p> <p>However Therefore, material weaknesses or significant deficiencies in internal control over compliance may exist that were have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.</p> <p>Our audit was not designed for the purpose of expressing an opinion on the effectiveness of Example Entity’s internal control over compliance. Accordingly, no such opinion is expressed.</p>	

Summary of Comments: AU-C 935 Conforming Amendments
ASB Meeting, March 11, 2020

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			<p style="text-align: center;">The purpose of this report on <u>compliance and</u> internal ...</p> <p style="text-align: center;">...</p> <p>D&T Notes:</p> <p>The proposed amendment to add the words “over compliance” is align with the definition of <i>Deficiency in internal control over compliance</i> in paragraph .11 of the proposed SAS</p>	No, this refers only to the report on internal control over compliance.
Other Paragraphs (Issue 3)				
50	Par. 36	03 EY	<p>We recommend retaining the phrase “significant findings from the compliance audit” from extant paragraph 37 of AU-C section 935. The following edits to proposed paragraph 36 of AU-C section 935 reflect our recommendation:</p> <p>“The auditor also should communicate to those charged with governance of the auditor’s responsibilities under GAAS, <i>Government Auditing Standards</i>, and the governmental audit requirement, an overview of the planned scope and timing of the compliance audit, <i>significant findings from the compliance audit</i> and any significant deficiencies and material weaknesses in internal control over compliance that the auditor identified during the audit compliance audit^{fn 8, fn 9} (Ref: par. .A357–.A368)”</p> <p>If the ASB decides to not make the changes proposed above, it should consider whether the use of the word “findings” in paragraph A37 of AU-C section 935, as amended, is appropriate.</p>	See issue 3
51	A38	10 Rippey	<p><i>Revisions to AU-C Section 935 Renumbered Paragraph A38 (extant A36).</i> The extant paragraph referred to a situation where the auditee’s written response to the audit findings (i.e., an auditee-prepared document) are included in a document containing the auditor’s report. The revised paragraph changed this to refer to when the auditor reports the views of responsible officials on the audit findings in the auditor’s report or an auditor-prepared document incorporated into the auditor’s</p>	See Issue 3

Summary of Comments: AU-C 935 Conforming Amendments
ASB Meeting, March 11, 2020

Row	Topic	Name	Coded Text	Comment
			<p>report by reference (for example, the schedule of findings and questioned costs required in a Uniform Guidance compliance audit). The reason(s) and objective(s) of this change are not clear.</p> <p>In general, I disagree with these revisions because I think the auditor should take responsibility for the information contained in the auditor’s report. I think it is inappropriate for the auditor to issue a disclaimer on information contained in the auditor’s own report. More specifically, I disagree with the changes because I think including the optional disclaimer described by this revised paragraph results in a misleading auditor’s report. The statement in the example paragraph of “Example Entity’s response was not subjected to the auditing procedures applied in the audit of compliance . . .” implies that the auditor applied no audit procedures to the entity’s response. This is misleading when referring to the auditor’s reporting of the views of responsible officials under <i>Government Auditing Standards (GAS)</i> because paragraph 6.59 of GAS requires the auditor to review management’s comments for consistency with the auditor’s report and take action when there are inconsistencies or conflicts. This required procedure is important to users of the report that are responsible of audit resolution, so it is important that they not be misled into thinking the auditor did not perform the procedures. I am also concerned that this language will send a signal to auditors that they can just disclaim on the views of responsible officials and blow off the GAS required procedures.</p> <p>I recommend that this paragraph:</p> <ol style="list-style-type: none"> 1. be deleted, or 2. be changed back to apply only to a situation where an auditee-prepared document for which the auditor has no responsibilities under GAAS. GAS, or the government audit requirement is included in a document containing the auditor’s report, or 3. be expanded to <ol style="list-style-type: none"> a. apply to the situation where an auditee-prepared document for 	

Summary of Comments: AU-C 935 Conforming Amendments
ASB Meeting, March 11, 2020

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			<p>which the auditor has no responsibilities under GAAS. GAS, or the government audit requirement is included in a document containing the auditor's report, and</p> <p>b. when the optional reporting paragraph refers to the views of responsible officials reported in the auditor's report (or an auditor-prepared document incorporated by reference into the auditor's report), include illustrative language to describe the auditor's GAS responsibilities regarding the views of responsible officials, either in lieu of or in addition to the disclaimer of opinion.</p>	
52	Par. A38	11 Ramsey	<p>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.</p> <p>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.</p> <p>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.</p> <p>c. For consistency, I believe the VRO must be considered part of the auditor's</p>	

Summary of Comments: AU-C 935 Conforming Amendments
ASB Meeting, March 11, 2020

Row	Topic	Name	Coded Text	Comment
			<p>finding for purposes of <i>Government Auditing Standards</i> (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.</p> <p>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.</p>	

			<p>2. A suggested rewriting of .A38 follows for the three circumstances:</p> <p><u>VRO not in the CAP</u></p> <p>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 <i>Government Auditing Standards</i> 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:</p> <p style="padding-left: 40px;">Example Entity’s [<i>name of document required by the governmental audit requirement</i>] was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the [<i>name of document</i>].</p> <p><u>VRO in the Auditor’s Finding or the Auditor’s Finding References CAP for VRO</u></p> <p>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</p>	
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Summary of Comments: AU-C 935 Conforming Amendments
ASB Meeting, March 11, 2020

Row	Topic	Name	Coded Text	Comment
			<p>on such information in the context of the requirements of <i>Government Auditing Standards</i>. Following is an example of such a paragraph:</p> <p>We are required by <i>Government Auditing Standards</i> 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.</p>	
53	Par. A37	11 Ramsey	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.	See Issue 3
54	Other paragraphs	06 TN State Auditor	For ¶23b (second line), we suggest modifying the language to “... and maintaining <u>effective</u> controls....”	No change; inconsistent with AU-C 700 (and redundant with the words “reasonable assurance” that follow)
			For ¶36, delete “audit” before the proposed deletion of “significant findings.”	Done
			For ¶A21 regarding the reference to the AU-C Section 530, Audit Sampling, the board might consider adding a reference to or discussion about audit data analytics as a potentially more effective and efficient alternative to sampling.	Need to address in AU-C 500 or AU-C 530; not appropriate to

Summary of Comments: AU-C 935 Conforming Amendments
ASB Meeting, March 11, 2020

Row	Topic	Name	Coded Text	Comment
				address in AU-C 935
			For ¶A43 (appendix), we suggest an edit as follows: "... if the auditor believes doing so will provide <u>sufficient</u> appropriate audit evidence in the specific circumstances....	No change; following other AU-C sections may not be enough to <i>provide</i> sufficient evidence
55	Par. A43	05 BDO	Appendix – AU-C Sections That Are Not Applicable to Compliance Audits [Underlined text within the table denotes our addition] <i>AU-C Section: Paragraphs Not Applicable to Compliance Audits</i> 315, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement: Paragraphs .12c, .26-.30, and .33c-.33d 600, Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors): Paragraphs .26, .39, .41c-.41d, .55, and .56c	See Issue 3
56	Par. A43	09 WA State Auditor	However, the AU-C 700 paragraphs shown as “not applicable” in the updated standard (paragraph .A43) do not appear to align with the paragraphs considered not applicable in the current standard. Unless the change is intentional, the list should read .13-.17, .21-.44 and .46-.61.	Agree
Other Comments				
57	Other comments	05 BDO	Additionally, we ask that the Board consider adopting additional language in AU-C section 935 to include other compliance audits that are outside the purview of the United States Government Accountability Office (GAO). Our experience shows that in the past several years there has been an increase in the number of compliance audits that are grant, program, and contract audits.	See Issue 2
58	Other	14 PwC	An organization may not be required to have an audit in accordance with GAGAS for a given year. In those cases, the auditor is usually engaged to conduct the audit in accordance with AICPA standards. However, an organization may elect to also have the audit conducted in accordance with	See Issue 2

Summary of Comments: AU-C 935 Conforming Amendments
ASB Meeting, March 11, 2020

Row	Topic	Name	Coded Text	Comment
			GAGAS, in particular if it is likely they will be subject to GAGAS requirements in future years. We believe AU-C section 935 should acknowledge that an organization may be required to comply with both GAGAS and AICPA standards or may voluntarily elect to have their audit conducted in accordance with GAGAS in addition to AICPA standards. Guidance as to how the form and content of the auditor's report would be amended in these circumstances could be provided in a manner similar to how "dual standards" are addressed in AU-C section 700.	
59	Other comments	05 BDO	Typographical error: Par. 36, delete "audit" before "compliance audit".	Corrected
60	Effective date	02 GT	Given the nature of the changes, we support the Board's proposed effective dates as laid out in the explanation memorandum.	Supportive