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# EXPOSURE DRAFT

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## PROPOSED STATEMENT ON AUDITING STANDARDS

### ***AMENDMENTS TO AU-C SECTION 935***

*(Amends Statement on Auditing Standards [SAS] No. 117, Compliance Audits, as amended [AICPA, Professional Standards, AU-C sec. 935])*

**Month Day, 2022**

**Comments are requested by [60 days later]**

**Prepared by the AICPA Auditing Standards Board for comment from persons interested in auditing and reporting issues.**

**Comments should be submitted in Word format and sent to [CommentLetters@aicpa-cima.com](mailto:CommentLetters@aicpa-cima.com).**

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## Explanatory Memorandum

### Introduction

This memorandum provides background to the proposed Statement on Auditing Standards (SAS) *Amendments to AU-C Section 935*.<sup>1</sup> If issued as final, the proposed SAS will amend SAS No. 117, *Compliance Audits*, as amended (AICPA, *Professional Standards*, AU-C sec. 935).

### Background

AU-C section 935, *Compliance Audits*, addresses the application of GAAS to a compliance audit. AU-C sections 200–900 address audits of financial statements, as well as other kinds of engagements. Generally, these AU-C sections can be adapted to the objectives of a compliance audit. However, certain AU-C sections, or portions thereof, are not applicable to a compliance audit because (a) they are not relevant to a compliance audit environment, (b) the procedures and guidance would not contribute to meeting the objectives of a compliance audit, or (c) the subject matter is specifically covered in AU-C section 935. These AU-C sections, or specified requirements thereof, are identified in the appendix to AU-C section 935, “AU-C Sections That Are Not Applicable to Compliance Audits” (“the Appendix”).

This exposure draft proposes amendments to AU-C section 935, *Compliance Audits*, to update the Appendix and conform AU-C section 935 for the issuance of the following SASs:

- SAS No. 142, *Audit Evidence* (AU-C sec. 500)
- SAS No. 145, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* (AU-C sec. 315)

The ASB has determined that no amendments are necessary to AU-C section 935 for the issuance of the following SASs:

- SAS No. 143, *Auditing Accounting Estimates and Related Disclosures* (AU-C sec. 540)
- SAS No. 144, *Amendments to AU-C Sections 501, 540, and 620 Related to the Use of Specialists and the Use of Pricing Information Obtained From External Information Sources*

SAS No. 143 is codified in AU-C section 540, which is listed in the Appendix as not applicable in its entirety to a compliance audit. SAS No. 144 proposed amendments only to certain application material that is not relevant to AU-C section 935.

### Effective Date

If issued as final, the proposed amendment to the Appendix with regard to AU-C section 501, *Audit Evidence—Specific Considerations for Selected Items*, would be effective for compliance audits for fiscal periods ending on or after December 15, 2022. All other proposed amendments in

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<sup>1</sup> All AU-C sections can be found in AICPA *Professional Standards*.

this proposed SAS would be effective for compliance audits for fiscal periods ending on or after December 15, 2023. Early implementation is permitted.

See the discussion of the effective date in “Explanation of Proposed Changes” section below.

## **Explanation of Proposed Changes**

### *Proposed Revisions Arising from SAS No. 142*

SAS No. 142 superseded AU-C section 500, *Audit Evidence*, and amended other AU-C sections, including AU-C section 501, *Audit Evidence—Specific Considerations for Selected Items*. AU-C section 501 does not apply to a compliance audit. However, the amendments moved what had been paragraph 8 of AU-C 500, relating to management specialists, to become paragraph 26 of AU-C 501. This paragraph was applicable to compliance audits when it was in AU-C 500; that applicability didn’t change when it was relocated. Accordingly, the Appendix is proposed to be revised for AU-C section 501 to exclude all paragraphs except paragraph 26.

### *Proposed Revisions Arising from SAS No. 145*

- Paragraphs 12c, 26–30, and 33c of extant AU-C section 315 are not applicable to compliance audits. The Appendix was updated to include (and, thereby, exclude from a compliance audit) comparable paragraphs (19b, 20, 32-34, 36, and 42d) of SAS No. 145
- Paragraphs 27a of SAS No. 145, which relates to controls over significant risks, and paragraph 40, which relates to classes of transactions, account balances, and disclosures that are not significant but are material, were added to the Appendix. Historically, the concept of significant risks has not been applicable to compliance audits. Likewise, the concept of classes of transactions, account balances, and disclosures that are material is not applicable to compliance audits.
- With respect to control activities, extant AU-C section 935 did not exclude controls over journal entries and other adjustments in AU-C section 240, *Consideration of Fraud in a Financial Statement Audit*. Accordingly, paragraph 27b of SAS No. 145 was not excluded.
- For ease of use, paragraphs 35, 37 and 38 of SAS No. 145, adapted as necessary, were added as requirements directly in AU-C section 935 and, consequentially, listed in the Appendix as not applicable when applying AU-C section 315 to compliance audits. Application material was added to AU-C section 935 that references the twenty-two relevant application material paragraphs for paragraphs 35, 37 and 38 in SAS No. 145.
- Extant AU-C section 935 excludes the documentation requirement related to the identified and assessed risks at the financial statement level and assertion level (paragraph 33c of extant AU-C 315). The ASB believes that this requirement, adapted as necessary, is applicable to a compliance audit, and has added a new requirement based on paragraph .42d of SAS No. 145, which, consistent with other revisions, excludes significant risks. Accordingly, paragraph .42d of SAS No. 145 has been excluded.

### *Other Proposed Revisions*

- There is an inconsistency in extant AU-C section 935 with respect to significant risks: the requirements in AU-C section 315 were scoped out but the requirements in AU-C section

330 were not. This inconsistency has been removed by adding paragraphs 15, 18 and 22 of AU-C section 330 to the Appendix.

### *Effective Date*

SAS 145 is effective for audits of financial statements for periods ending on or after December 15, 2023. The amendments relating to the application of SAS No. 145 in a compliance audit cannot be effective before the effective date of SAS No. 145.

SAS No. 142 is effective for audits of financial statements for periods ending on or after December 15, 2022. As described above, SAS No. 142 relocated a requirement applicable to compliance audits from AU-C section 500 to AU-C section 501. This necessitated an amendment to the Appendix relating to AU-C section 501. That amendment needs to have the same effective date as SAS No. 142 to retain that requirement as applicable to compliance audits. If the effective date is a year later, paragraph 26 of AU-C section 501 would be incorrectly not applicable to compliance audits for a period of one year.

### **Request for Comment**

1. Are the proposed amendments to AU-C section 935 appropriate and complete, including the proposed amendments to the Appendix?
2. Is the effective date of the proposed amendment clear? If not, please suggest specific revisions.

### **Guide for Respondents**

Respondents are asked to comment on the proposed changes, and whether they are consistent with SAS Nos. 142 and 145.

Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, when appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in the exposure draft, it will be helpful for the ASB to be made aware of this view, as well.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available for on the AICPA's website after MONTH DAY, 2022 until a final standard is issued. Responses should be sent to [commentletters@aicpa-cima.com](mailto:commentletters@aicpa-cima.com), and received by MONTH DAY, 2022. Responses may be submitted in Word format or directly in the body of the email with an appropriate signature (name, firm). Respondents may also submit a PDF version of their Word document for posting to the AICPA website.

### **Comment Period**

The comment period for this exposure draft ends MONTH DAY, 2022.

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(2021–2022)**

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**AU-C Section 935 Task Force**

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*Public Accounting*

## PROPOSED STATEMENT ON AUDITING STANDARDS

### AMENDMENTS TO AU-C SECTION 935

(*Boldface italics* denotes new language. Deleted text is shown in ~~strikethrough~~.)

#### Amendment to AU-C Section 935, *Compliance Audits*

*Boldface italic* denotes new language. Deleted text is in ~~strikethrough~~.

[No amendment to paragraphs .01–.11.]

#### Requirements

##### Adapting and Applying the AU-C Sections to a Compliance Audit (Ref: [par. .A5](#) and [.A40](#))

**.12** When performing a compliance audit, the auditor, ~~using~~ *exercising* professional judgment, should adapt and apply the AU-C sections to the objectives of a compliance audit, except for the AU-C sections listed in the [appendix](#).

[No amendment to paragraphs .13–.14.]

**.15** For each of the government programs and applicable compliance requirements selected for testing, the auditor should perform risk assessment procedures to obtain a sufficient understanding of the applicable compliance requirements and the entity's internal control over compliance with the applicable compliance requirements.<sup>fn 1</sup>

<sup>n1</sup> Paragraphs ~~.03–.12b~~ and ~~.12d–.25.11–.19a, .19c, .21–.26, .27b–.31~~ of section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*.

[No amendment to paragraph .16.]

##### Identifying and Assessing the Risks of Material Noncompliance (Ref: ~~par. .A16–.A18.~~[A19](#))

**.17** The auditor should identify ~~and assess~~ the risks of material noncompliance whether due to fraud or error for each applicable compliance requirement and should consider whether any of those risks are pervasive to the entity's compliance because they may affect the entity's compliance with many compliance requirements.

Assessing Inherent Risk

***.18 For identified risks of material noncompliance for each applicable compliance requirement, the auditor should assess inherent risk by assessing the likelihood and magnitude of noncompliance. In doing so, the auditor should take into account how, and the degree to which, inherent risk factors affect the susceptibility of compliance requirements to noncompliance.***

***.19 The auditor should determine whether substantive procedures alone cannot provide sufficient appropriate audit evidence for any of the risks of material noncompliance.***

Assessing Control Risk

***.20 For identified risks of material noncompliance for each applicable compliance requirement, the auditor should assess control risk based on the auditor’s understanding of controls and the auditor’s plan to test the operating effectiveness of controls. If the auditor does not plan to test the operating effectiveness of controls, the auditor should assess control risk at the maximum level such that the assessment of the risk of material noncompliance is the same as the assessment of inherent risk.***

[No amendment to paragraphs .18–.19, renumbered as paragraphs .21–.22.]

**~~.20~~<sup>23</sup> The auditor should design and perform further audit procedures in response to the assessed risks of material noncompliance. These procedures should include performing tests of controls over compliance if**

- the auditor’s risk assessment includes an expectation of the operating effectiveness of controls over compliance related to the applicable compliance requirements;
- substantive procedures alone ~~do not~~**cannot** provide sufficient appropriate audit evidence; or
- such tests of controls over compliance are required by the governmental audit requirement.

If any of the conditions in this paragraph are met, the auditor should test the operating effectiveness of controls over each applicable compliance requirement to which the conditions apply in each compliance audit. (Ref: [par. .A24–.A25](#))

[No amendment to paragraphs .21–.39, renumbered as paragraphs .24–.42.]

**Documentation (Ref: [par. .A40](#))**

**~~.40~~<sup>43</sup> The auditor should document**

- a.** the risk assessment procedures performed, including those related to gaining an understanding of internal control over compliance; **and** <sup>fn 12</sup>

- b. *the identified and assessed risks of material noncompliance, including risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence, and the rationale for the significant judgments made.*

<sup>fn 12</sup> Paragraph ~~.33a–b~~ and ~~.33d.42a–c~~ of section 315.

[No amendment to paragraphs .41-.44, renumbered as paragraphs .44-.47, and paragraphs .A1-.A12.]

## Application and Other Explanatory Material

[No amendment to paragraphs .A1-.A12.]

### Performing Risk Assessment Procedures (Ref: [par. .15–16](#))

- .A12** Obtaining an understanding of the government program, the applicable compliance requirements, and the entity’s internal control over compliance establishes a frame of reference within which the auditor plans the compliance audit and exercises professional judgment about *identifying and* assessing risks of material noncompliance and responding to those risks throughout the compliance audit.

[No amendment to paragraph .A13.]

- .A14** ~~Performing risk assessment procedures to obtain an understanding of the entity’s internal control over compliance includes an evaluation of the design of controls and whether the controls have been implemented. For purposes of GAAS, the system of i~~Internal control consists of the following five interrelated components: ~~the control environment, the entity’s risk assessment process, information and communication systems, control activities, and the entity’s process to monitoring the system of internal control, the information system and communication, and control activities.~~ Section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, contains a detailed discussion of these components. <sup>fn 15</sup>

<sup>fn 15</sup> Paragraphs ~~.15–.25.21 –.26, .27b-.31~~ and appendix ~~CB~~, “*Understanding the Entity’s System of Internal Control Components*,” of section 315.

- .A15** *In adapting and applying the requirements of section 315<sup>fn16</sup>, the auditor is required to perform risk assessment procedures, beyond inquiry, to evaluate whether the following controls that address risks of material noncompliance are effectively designed and determine whether those controls have been implemented:*

- *Controls over journal entries and other adjustments as required by section 240, Consideration of Fraud in a Financial Statement Audit*
- *Controls for which the auditor plans to test operating effectiveness in determining the nature, timing, and extent of substantive procedures, which include*

- *controls that address risks for which substantive procedures alone do not provide sufficient appropriate audit evidence, and*
- *controls that are required to be tested for operating effectiveness by the governmental audit requirement as required by paragraph 20 of this section, and*
- *Other controls that, based on the auditor’s professional judgment, the auditor considers are appropriate to enable the auditor to identify and assess risks of material noncompliance and design further audit procedures.*

*Evaluating whether controls that address risks of material noncompliance are effectively designed and determining whether those controls have been implemented involves considering whether the identified controls, individually or in combination, are capable of effectively preventing, or detecting and correcting, material noncompliance as well as establishing that the control exists, and that the entity is using it.*

*fn 16* Paragraph .27 of section 315.

[Subsequent footnotes are renumbered. No amendment to paragraphs .A15, renumbered as paragraph .A16.]

#### **Identifying and Assessing the Risks of Material Noncompliance (Ref: [par. .17](#))**

~~.A16~~<sup>.17</sup>*Inherent risk* ~~Factors the auditor may consider~~ *and other considerations* in identifying and assessing the risks of material noncompliance ~~are as follows~~ *may include the following:*

- *Criteria for identifying and assessing risks of material noncompliance identified by the governmental audit requirement as well as related communications from oversight organizations or regulators*
- The complexity of the applicable compliance requirements
- The susceptibility of the applicable compliance requirements to noncompliance
- The length of time the entity has been subject to the applicable compliance requirements
- The auditor’s observations about how the entity has complied with the applicable compliance requirements in prior years
- The potential effect on the entity of noncompliance with the applicable compliance requirements
- The degree of judgment involved in adhering to the compliance requirements

- The auditor’s assessment of the risks of material misstatement in the financial statement audit

~~.A1718~~ *The auditor may find it helpful to consider the relevant application material in section 315, adapted as necessary for a compliance audit, when ~~in~~ identifying and assessing the risks of material noncompliance, ~~the auditor may evaluate inherent risk of noncompliance and control risk of noncompliance individually or in combination.~~<sup>fn17</sup>*

***Fn 17 : Paragraphs .A235, .A237-.A244, and .A252-.A263 of section 315. [Subsequent footnotes are renumbered].***

[No amendment to paragraphs .A18-.A22, renumbered as .A19-.A23.]

~~.A2324~~ The use of *substantive* analytical procedures to ~~gather substantive~~ *obtain* evidence *in responding to assessed risks of material noncompliance* is generally less effective in a compliance audit than it is in a financial statement audit. However, substantive analytical procedures may contribute some evidence when performed in addition to tests of transactions and other auditing procedures necessary to provide the auditor with sufficient appropriate audit evidence. (Ref: [par. .19](#))

[No amendment to paragraphs .A24-.A42, renumbered as paragraphs .A25-.A43.]

## Appendix — AU-C Sections That Are Not Applicable to Compliance Audits

~~.A4344~~ The following AU-C sections and individually enumerated requirement paragraphs of specific AU-C sections are not applicable to a compliance audit performed under this section either because (a) they are not relevant to a compliance audit environment, (b) the procedures and guidance would not contribute to meeting the objectives of a compliance audit, or (c) the subject matter is specifically covered in this section. Where the table in this appendix specifies individual requirement paragraphs rather than an entire AU-C section, the application and other explanatory material paragraphs related to such requirement paragraphs also do not apply. However, an auditor may apply these AU-C sections and paragraphs if the auditor believes doing so will provide appropriate audit evidence in the specific circumstances to support the auditor’s opinion on compliance.

<i>AU-C Section</i>	<i>Paragraphs Not Applicable to Compliance Audits</i>
210, <i>Terms of Engagement</i>	Paragraphs .06a and .08a
240, <i>Consideration of Fraud in a Financial Statement Audit</i>	Paragraphs .26 and .32b

<sup>[fn 1]</sup> [Footnote deleted, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122.]

Agenda Item 3B – AU-C section 935 Conforming Amendments

<i>AU-C Section</i>	<i>Paragraphs Not Applicable to Compliance Audits</i>
250, <i>Consideration of Laws and Regulations in an Audit of Financial Statements</i>	All
315, <i>Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement</i>	Paragraphs <b>.19b, .20, .27a, .32–.38, .40, and .42d–.42e, .26–.30, and .33e</b> (effective for compliance audits for fiscal periods ending on or after December 15, 2023)
330, <i>Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained</i>	Paragraphs <del>.13–.14</del> , <b>.15, .18–.21, .22, .26, and .31–.32</b> (effective for compliance audits for fiscal periods ending on or after December 15, 2023)
501, <i>Audit Evidence — Specific Considerations for Selected Items</i>	All except paragraph <b>.26</b> (effective for compliance audits for fiscal periods ending on or after December 15, 2022)
505, <i>External Confirmations</i>	All
510, <i>Opening Balances — Initial Audit Engagements, Including Reaudit Engagements</i>	Paragraphs .06, .08–.13, and .15–.17
540, <i>Auditing Accounting Estimates and Related Disclosures</i>	All
550, <i>Related Parties</i>	All
560, <i>Subsequent Events and Subsequently Discovered Facts</i>	Paragraphs .09–.11 and .19–.20
570, <i>The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern</i>	All
600, <i>Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)</i>	Paragraphs .26, .39, .41c, .41d, .55, and .56c
700, <i>Forming an Opinion and Reporting on Financial Statements</i>	Paragraphs .13–.17, .21–.44, and .45–.61
701, <i>Communicating Key Audit Matters in the Independent Auditor’s Report</i>	All
703, <i>Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA</i>	All
705, <i>Modifications to the Opinion in the Independent Auditor’s Report</i>	Paragraphs .18–.20
706, <i>Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor’s Report</i>	Paragraphs .06–.07
708, <i>Consistency of Financial Statements</i>	All
720, <i>Other Information Included in Annual Reports</i>	All
725, <i>Supplementary Information in Relation to the Financial Statements as a Whole</i>	All
730, <i>Required Supplementary Information</i>	All
800, <i>Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks</i>	All
805, <i>Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement</i>	All
806, <i>Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements</i>	All
810, <i>Engagements to Report on Summary Financial Statements</i>	All

<i>AU-C Section</i>	<i>Paragraphs Not Applicable to Compliance Audits</i>
<a href="#">910</a> , <i>Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country</i>	All
<a href="#">915</a> , <i>Reports on Application of Requirements of an Applicable Financial Reporting Framework</i>	All
<a href="#">920</a> , <i>Letters for Underwriters and Certain Other Requesting Parties</i>	All
<a href="#">925</a> , <i>Filings With the U.S. Securities and Exchange Commission Under the Securities Act of 1933</i>	All
<a href="#">930</a> , <i>Interim Financial Information</i>	All
<a href="#">940</a> , <i>An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements</i>	All
<a href="#">945</a> , <i>Auditor Involvement With Exempt Offering Documents</i>	All

**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*)**

.A4445 [Note: amendment is in the third-from-last paragraph below.]

The following is an illustrative combined report on compliance with applicable requirements and internal control over compliance that contains the elements in [paragraph .30](#). This illustrative report contains an unmodified opinion on compliance with no material weaknesses or significant deficiencies in internal control over compliance identified. The AICPA Audit Guide *Government Auditing Standards and Single Audits* contains illustrative language for other types of reports, including reports containing qualified or adverse opinions on compliance with either material weaknesses in internal control over compliance, significant deficiencies in internal control over compliance, or both identified.

**Independent Auditor’s Report**

[Addressee]

**Report on Compliance**

**Opinion on [indicate the reporting level pursuant to governmental audit requirement]**

We have audited Example Entity’s compliance with the [*identify the applicable compliance requirements or refer to the document that describes the applicable compliance requirements*] applicable to Example Entity’s [*identify the government*

*program(s) audited or refer to a separate schedule that identifies the program(s)] for the year ended June 30, 20X1.*

In our opinion, Example Entity complied, in all material respects, with the compliance requirements referred to above that are applicable to *[indicate the reporting level pursuant to governmental audit requirement]* for the year ended June 30, 20X1.

### **Basis for Opinion**

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*<sup>[fn 1]</sup> (*Government Auditing Standards*) issued by the Comptroller General of the United States; and *[insert the name of the governmental audit requirement or program-specific audit guide]*. Our responsibilities under those standards and *[insert the name of the governmental audit requirement or program-specific audit guide]* are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Example Entity and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit does not provide a legal determination of Example Entity's compliance with the compliance requirements referred to above.

### **Responsibilities of Management for Compliance**

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Example Entity’s government programs.

### **Auditor’s Responsibilities for the Audit of Compliance**

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Example Entity’s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and *[insert the name of the governmental audit requirement or program-specific audit guide]* will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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<sup>[fn 1]</sup> [Footnote deleted by the issuance of SAS No. 140, April 2020.]

Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Example Entity's compliance with the requirements of the government program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and *[insert the name of the governmental audit requirement or program-specific audit guide]*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- 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 the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Example 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 *[insert the name of the governmental audit requirement or program-specific audit guide]*, but not for the purpose of expressing an opinion on the effectiveness of Example Entity's internal control over compliance. Accordingly, no such opinion is expressed.

We are 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 we identified during the audit.

### **Report on Internal Control Over Compliance**

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the 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. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that ~~have~~*were* not ~~been~~ identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the [*insert the name of the governmental audit requirement or program-specific audit guide*]. Accordingly, this report is not suitable for any other purpose.

[*Signature of the auditor's firm*]

[*City and state where the auditor's report is issued*]

[*Date of the auditor's report*]

1. The amendment to paragraph .A43, renumbered as .A44, is effective as indicated in that paragraph. The amendment to all other paragraphs is effective for compliance audits for fiscal periods ending on or after December 15, 2023.