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## CHAPTER 2 REPORTING REQUIREMENTS AND SAMPLE REPORTS

**2-1 Background.** This chapter discusses the reporting requirements that result from the performance of the financial statement and compliance audit conducted in accordance with the U.S. Department of Housing and Urban Development (HUD) Consolidated Audit Guide (referred to as “audit guide” throughout this chapter). First, such audits should be conducted in accordance with generally accepted auditing standards (GAAS), issued by the Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA), and generally accepted government auditing standards, issued by the U.S. Government Accountability Office (GAO) (also referred to as the Yellow Book or GAGAS). Second, a compliance audit should be conducted in accordance with this audit guide of the entity’s compliance with applicable laws and regulations that could have a direct and material effect on a major HUD-assisted program. As part of this compliance audit, the auditor opines on compliance with requirements that could have a direct and material effect on each major program and reports on internal control over compliance.

Certain entities subject to this audit guide are also required to have their financial statement audits conducted in accordance with the standards established by the Public Company Accounting Oversight Board (PCAOB). For those entities, certain reports illustrated in this chapter should be modified. For a notice on the use of PCAOB standards with GAGAS, refer to the GAO Web site (<http://www.gao.gov>).

**2-2 Report Issuance.** Items A-E of the audit report package described in paragraph 2-4 below are to be prepared and issued by the auditor to the auditee’s management and those charged with governance as appropriate. The report cover should clearly indicate the HUD program activities and period(s) audited. The auditor may issue the required reports separately or simultaneously to the auditee (refer to section 2-4 for additional information on the report package).

**2-3 Report Distribution.**

**A. HUD Management.** The auditee is to file the audit report package (or portions thereof) with the applicable HUD management office electronically or by hardcopy according to the particular program requirements. Normally, the management office that should receive the report package is the office responsible for monitoring the auditee’s performance.

- 1. Hardcopy Submission.** Some program offices do not have the capability of receiving electronically submitted reports so a hardcopy is required to be submitted. Auditors should refer to the relevant program office guidance for current report submission capabilities and requirements. In a hardcopy submission, all parts of the audit report package must be included in the initial transmission to the HUD management office. In addition, an accompanying transmittal letter is to include the name, office address, and telephone number of the lead person conducting the

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audit, usually the engagement partner, and the auditor's Federal employer identification number.

2. **Electronic Submission.** Under the provisions of the Uniform Financial Reporting Standards regulation (24 CFR (Code of Federal Regulations) Part 5, Subpart H), some of the HUD program offices require that certain financial information derived from the auditee's annual audit be submitted electronically to HUD via the Internet. At the time this chapter was published, audit reports for programs covered under chapters 3 and 7 of this audit guide required electronic submissions. Responsibilities for report submission rest with the auditee, but the auditor is required to attest that the electronic submission agrees with the report issued to the auditee. Auditors should refer to the relevant program office guidance for specific electronic report submission requirements.

- B. **HUD Office of Inspector General.** The report package is not to be submitted to the Office of Inspector General (OIG) unless it is specifically requested by OIG. However, if applicable and if the auditor is required by GAGAS or this audit guide to report fraud directly, the report on fraud is to be sent to OIG's single audit coordinator at the following Email address:

[HUDOIGSingleAuditCoordinator@hudoig.gov](mailto:HUDOIGSingleAuditCoordinator@hudoig.gov)

Please refer to paragraph 2-5 for more information.

- 2-4 **Required Report Package.** The following reports and schedules are required to be included in the report package.

- A. **Independent Auditor's Report on Financial Statements and Supplementary Information (See Section 2-6, Example A).** This is the auditor's report on the financial statements of the entity administering the HUD program and any supplementary information specified by the particular HUD program requirements. In addition to the auditor's report on the financial statements, the auditor's reporting on the supplementary information should be in accordance with AICPA AU-C section 725, Supplementary Information in Relation to the Financial Statements as a Whole, and state whether that supplementary information is fairly stated in all material respects in relation to the financial statements as a whole (example A, paragraph 2-6). The reporting on supplementary information may be presented either in the report on the financial statements or in a separate stand-alone report.
- B. **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With Government Auditing Standards (See Section 2-6, Example B).** GAGAS states that when providing an opinion or disclaimer of an opinion on the financial statements, the auditor should also report on internal control

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over financial reporting and on compliance with provisions of laws, regulations, contracts, or grant agreements that have a material effect on the financial statements. It also states that auditors should include a description of the scope of the auditor's testing of internal control over financial reporting and of compliance with provisions of laws, regulations, contracts, or grant agreements. Auditors should also state in the reports whether the tests they performed provided sufficient, appropriate evidence to support opinions on the effectiveness of internal control and on compliance with provisions of laws, regulations, contracts, or grant agreements. GAGAS also states that the auditor should report, as applicable to the objectives of the audit:

- Significant deficiencies and material weaknesses in internal control over financial reporting.
- Instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance.
- Noncompliance with provisions of contracts or grant agreements that has a material effect on the audit.
- Abuse that has a material effect on the audit.

**C. Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major HUD Program and on Internal Control Over Compliance Based on an Audit in Accordance With the HUD Consolidated Audit Guide (See Section 2-6, Example C).**<sup>1</sup> For HUD programs meeting the dollar thresholds for major programs established in chapter 1 of this audit guide, the auditor is required to express an opinion or disclaim an opinion on compliance with laws, regulations, and the provisions of contracts or grant agreements applicable to major HUD programs.<sup>2</sup> The report on compliance with requirements applicable to major HUD programs expresses the auditor's opinion (or disclaimer of opinion) on whether the auditee complied with the requirements that if noncompliance occurred, could have a direct and material effect on a major program. Additionally, the auditor should report any significant deficiencies and material weaknesses in internal control over compliance that were noted. AICPA AU-C section 935, Compliance Audits, provides requirements and guidance when reporting on compliance and internal control over compliance.

GAAS and GAGAS set forth the minimum requirements for reporting noncompliance. To the extent that HUD requires additional reporting (for example, reporting immaterial

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<sup>1</sup> This report is not required for entities having no major programs.

<sup>2</sup> Consistent with requirements for audits of entities subject to Office of Management and Budget Circular A-133, separate reporting on compliance with respect to nonmajor HUD programs has been eliminated. Also, separate reporting on compliance with specific requirements applicable to fair housing and nondiscrimination has been eliminated. Auditors are reminded that under GAGAS, auditors continue to be responsible for reporting instances of noncompliance that could have a material effect on the audit.

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findings and including any management letter in the submission), subsequent chapters in this audit guide describe the materiality thresholds required for reporting noncompliance, and the auditor should refer to each relevant chapter for guidance.

Significant deficiencies, material weaknesses, and material instances of noncompliance are required to be identified in the body of the report on compliance and internal control over compliance (which can be accomplished by a brief description and a reference to related finding numbers) and detailed in a separate schedule of findings, questioned costs, and recommendations, using the elements of a finding as outlined in GAGAS and the additional requirements set forth in this audit guide (see subsection D below and example D in paragraph 2-6). The auditee should provide its response to each finding, as outlined in subsection D below, which the auditor includes in the schedule of findings, questioned costs, and recommendations. It is the auditee's responsibility to include the action taken or to be taken in a corrective action plan issued apart from and outside the audit report (see paragraph 2-4.G below and example F in paragraph 2-6). The corrective action plan is not to be included in or as a part of the schedule of findings, questioned costs, and recommendations.

- D. Schedule of Findings, Questioned Costs, and Recommendations (See Section 2-6, Example D).** This schedule, prepared by the auditor, is to be included in the audit report package when findings are presented. It is to be arranged in two parts: "Corrective Action Not Started or in Process" or "Corrective Action Completed." This distinction is based on management's representation included in the management representation letter. If the audit resulted in no findings, the schedule of findings, questioned costs, and recommendations should still be included in the audit report package and should include only the following statement:

Our audit disclosed no findings that are required to be reported herein under the HUD Consolidated Audit Guide.

Regardless of whether the auditee has started correcting the deficient condition stated in the finding, is in the process of correcting it, or has corrected it, the auditor is to include the finding in the report with all required elements, and the auditee is to include the information in the corrective action plan. The auditor should not delay the issuance of the report so that the auditee can correct the deficient conditions.

1. **Corrective Action Not Started or in Process.** Many times when the auditee is presented with draft findings, management will start to take action to correct the deficient condition. When this action is underway before the report's issuance, the auditee should include a description of the actions completed and the actions remaining to be taken in management's response section of the finding.
2. **Corrective Action Completed.** Many times when the auditee is presented with draft findings, management will start to take action and complete that action,

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correcting the deficient condition before the issuance of the auditor's report. When this occurs, the auditee should include a description of the action taken and completed in the management's response section of the finding. The auditor's recommendation section should follow the auditee's comment section, and in it, the auditor should state whether he or she confirmed that the auditee completed the corrective action as stated in the response. If the auditor has validated the corrective action, the auditor may include any additional recommendations he or she believes necessary based on the validation of that action.

3. **Reporting When Using the "Group Project-Based Sample" Method.** As outlined in chapter 3, the auditor may use the "group project-based sample" method when the owner or management agent owns several projects. When the auditor elects to use this sampling method, if a condition is noted that is to be reported in a finding in the report or a comment in the management letter or other written auditor communication, it must be reported in all audit reports for all projects that were in the population from which the sample was drawn.
4. **Content of Finding.** Each finding must include all of the following information as appropriate:<sup>3</sup>
  - a. **Numbering the Findings.** Each finding is to be numbered using the year followed by a consecutive number (201X-1, 201X-2, 201X-3, etc.).
  - b. **Questioned Costs.** Each finding must identify known questioned costs of items resulting from errors or noncompliance that are quantifiable. Identification of these costs should not be limited to only those costs that potentially are to be repaid. If costs are not quantifiable or are unknown, the auditor should so state and indicate the reasons for that determination.
  - c. **Information on Universe and Population Size.** Each finding must include the description and size of the universe and population and information to provide a proper perspective for judging the prevalence and consequences of the audit findings (for example, whether the audit findings represent an isolated instance or a systemic problem). When appropriate, the instances identified should be related to the universe and the number of cases examined and quantified in terms of dollar value.
  - d. **Sample Size Information.** If the error was discovered as a result of a sampling procedure, the size and dollar amount of the sample selected and tested must be included.

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<sup>3</sup> All elements may not be relevant for findings that are internal control deficiencies only.

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- e. **Noncompliance Information.** The number of instances of noncompliance in the sample and the dollar amount of the noncompliance must be included.
  - f. **Condition.**<sup>4</sup> The condition is the situation that exists. It is determined and documented during the audit.
  - g. **Criteria.** Criteria are the laws, regulations, contracts, grant agreements, standards, measures, expected performance, defined business practices, and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation. Criteria provide a context for evaluating evidence and understanding the findings.
  - h. **Cause.** The cause identifies the reason or explanation for the condition or the factor or factors responsible for the difference between the situation that exists (condition) and the required or desired state (criteria), which may also serve as a basis for recommendations for corrective action(s). Common factors include poorly designed policies, procedures, or criteria; inconsistent, incomplete, or incorrect implementation; or factors beyond the control of program management. Auditors may assess whether the evidence provides a reasonable and convincing argument for why the stated cause is the key factor or factors contributing to the difference between the condition and the criteria.
  - i. **Effect or Potential Effect.** The effect is a clear, logical link to establish the impact or potential impact of the difference between the situation that exists (condition) and the required or desired state (criteria). The effect or potential effect identifies the outcomes or consequences of the condition. When the audit objectives include identifying the actual or potential consequences of a condition that varies (either positively or negatively) from the criteria identified in the audit, “effect” is a measure of those consequences. Effect or potential effect may be used to demonstrate the need for corrective action in response to identified problems or relevant risks.
  - j. **Recommendations.** Recommendations are the auditor’s written suggestions for specific auditee action to correct a deficient condition, prevent recurrence of the condition, or alleviate the adverse effects of a condition. Each recommendation for each finding is to be consecutively lettered (a, b, c, etc.) and prefixed with the finding number. For example, two recommendations to finding 1 would be

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<sup>4</sup> The definitions of condition, criteria, cause, and effect or potential effect are taken from the December 2011 revision of the Yellow Book. Additional information on the content of a finding is set forth in the Yellow Book and can be obtained at the GAO Web site (<http://www.gao.gov>).

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201X-1-a, 201X-1-b, and two recommendations to finding 2 would be 201X-2-a, 201X-2-b.

- k. Reporting Views of Responsible Officials.** Auditors should obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, which should include the auditee's planned corrective action(s). GAGAS provide additional guidance on this finding element. This element of a finding reported in the schedule of findings, questioned costs, and recommendations is different from the separate corrective action plan the auditee is required to prepare, which is described further in paragraph 2-4.G.
- E. Management Letter.** Certain chapters in this audit guide require the auditor to communicate all nonmaterial noncompliance to management in writing. A management letter or other type of written auditor communication to management may be used to report such noncompliance. If auditors issued or intend to issue a management letter (or other similar written communication) for this purpose, their report is to refer to that communication by name and the actual or planned date of issuance. Note that a management letter should not be used to report material findings that were resolved before the audit report was issued. Such findings are to be reported as findings in the auditor's report (by reference to finding numbers) and on the schedule of findings, questioned costs, and recommendations under the category "Corrective Actions Completed."
- F. Schedule of the Status of Prior Audit Findings, Questioned Costs, and Recommendations.** This schedule is to be prepared by the auditee and is to be included in the audit report package. This schedule must be prepared by the auditee in connection with the audit for the year following the year that an audit report package was issued with audit findings. The schedule should address all findings that were in the prior year report, including whether any questioned costs were paid or otherwise resolved by HUD. A description of the prior audit finding, along with the current status, should be included for each finding. If a finding is no longer relevant, the schedule should note the reason(s). See example E in paragraph 2-6 for an illustrative schedule of the status of prior audit findings.

The auditor should inquire about any audits, attestations, studies, or reviews conducted by HUD OIG, HUD management, a contract administrator, or any other Federal agency that directly relate to the current year audit of the entity's financial statements. Any findings from such reviews should also be included by the auditee in this schedule even if corrective action has already occurred. A description of the prior audit finding, along with the current status, should be included for each finding. The auditor may rely on management's representation as to reports issued during the audit period. The auditor does not have to independently confirm the completeness of all reports listed by the auditee with outside sources.

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The auditor should follow up on prior audit findings reported by the auditee, perform procedures to assess the reasonableness of the schedule, and report as a current year finding when the auditor concludes that the schedule materially misrepresents the status of any prior audit finding. If uncorrected, the finding should be repeated as a current finding and so stated on the schedule of the status of prior audit findings with the finding referenced to the current finding number.

- G. Corrective Action Plan.** A corrective action plan (CAP) is to be prepared by the auditee, and it should be transmitted to HUD as a separate part of the audit report package. The CAP is to be a separate and distinct document from the views of responsible officials included with each finding in the schedule of findings, questioned costs, and recommendations. Using the format in example F, paragraph 2-6, the auditee official is to describe the corrective action(s) taken or planned in response to the current year finding(s) identified by the auditor. It should include task(s), subtask(s), and date(s) for the completion of the action. If funds need to be returned to the program from non-Federal sources, the plan should include information on the method of reimbursement, source of funds, and repayment schedule.

When the schedule of the status of prior audit findings identifies prior findings as unresolved or “open,” the CAP should include comments on the corrective action taken and the action that will be taken on the open prior findings (see example E, paragraph 2-6, for an illustrative schedule of the status of prior audit findings).

The auditee is to express its agreement or disagreement with the content of the finding, and if the auditee disagrees with the finding, it is to fully explain the points of that disagreement with specific information to support its position. If the information is voluminous, an appendix may be attached to the audit report package.

Also, the auditee is to express its agreement or disagreement with each recommendation. If there is disagreement with the recommended course of action, the auditee should explain the points of that disagreement and propose an alternative action that would accomplish the same goal.

In addition to the above CAP requirements related to reported findings, the Office of Lender Activities requires the submission of a CAP as a separate part of the audit report package for all issues included in a management letter when such a letter is issued for audits that are performed under chapter 7 of this audit guide.

- 2-5 Reporting on Fraud or Equity Skimming.** On occasion during the course of an audit performed in accordance with this audit guide, the auditor may conclude that fraud either has occurred or is likely to have occurred. In the case of an audit performed under chapter 3 or 4 of this audit guide, fraud could include equity skimming, which is the willful misuse of any part of the rent, assets, proceeds, income, or other funds derived from the project covered by the mortgage, business agreement, regulatory agreement, or other type of



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agreement for any purpose other than to meet actual or necessary expenses of the project. For a common understanding of what equity skimming is, please refer to appendix B of chapter 3.

When such acts are noted, the auditor should follow the requirements of GAGAS in considering what to report and the extent to which information should be included in publically available reports. In circumstances in which GAGAS requires the auditor to report directly to HUD, the auditor should direct such reporting to the HUD OIG single audit coordinator.

GAGAS specifies that when entity management fails to satisfy legal or regulatory requirements to report fraud to external parties specified in law or regulation, the auditor should first communicate the failure to report such information to those charged with governance. If the audited entity still does not report this information to the specified external parties as soon as practicable after the auditor's communication with those charged with governance, the auditor should report the information directly to the specified external parties.

However, many entities subject to audit under this audit guide lack an appropriate governance structure, and the auditor may, in effect, be reporting management's failure to the same individuals responsible for the fraud. In such cases, the auditor is required to report the matter directly to HUD by contacting the single audit coordinator, preferably before the auditor leaves the audit site.

Auditors are encouraged to initially communicate with the single audit coordinator to facilitate resolution as to the information to be included in the audit reporting package, report format, documentation requested to be transmitted to the single audit coordinator outside the report, and the distribution of the report.

**2-6 Illustrative Reporting Examples.** Included below are illustrations of the auditor's reports issued in connection with audits conducted in accordance with this audit guide. The illustrations also present examples of the other items typically issued in connection with an audit conducted in accordance with this audit guide and submitted as part of or along with the audit report package as stated in this chapter, including a schedule of findings, questioned costs, and recommendations; a schedule of the status of prior audit findings; and a CAP. These illustrations are not meant to be all inclusive. Auditors should exercise professional judgment in tailoring their reports to the circumstances of individual audits.

The letters A-F below correspond to the letters of the examples that follow.

**A.** Independent auditor's report on financial statements and supplementary information.

- B.** Independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with government auditing standards.
- C.** Independent auditor's report on compliance with requirements that could have a direct and material effect on each major HUD program and on internal control over compliance based on an audit in accordance with the HUD Consolidated Audit Guide.
- D.** Schedule of findings, questioned costs, and recommendations.
- E.** Schedule of the status of prior audit findings, questioned costs, and recommendations (an auditee responsibility).
- F.** Corrective action plan (an auditee responsibility and, as noted in paragraph 2-4.D, transmitted as a separate part of the audit report package).

## Example A

**Unmodified Opinion on Financial Statements Accompanied by Other Information****Independent Auditor's Report**

[Appropriate Addressee]

**Report on the Financial Statements**

We have audited the accompanying financial statements<sup>1</sup> of Example Entity, which comprise the balance sheet as of December 31, 201X, and the related statements of income and expense, changes in partner's capital, and cash flows<sup>2</sup> for the year then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***<sup>3</sup>

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*,<sup>4</sup> issued by the Comptroller General of the United

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<sup>1</sup> If the entity being audited prepares consolidated financial statements, this paragraph and other references to those financial statements in the report should be modified to refer to the consolidated financial statements. See AU-C 700, *Forming an Opinion and Reporting on Financial Statements* (AICPA, *Professional Standards*), for an illustration of an auditor's report on consolidated financial statements.

<sup>2</sup> The description of the financial statements in this sentence is illustrative and should be modified to reflect the actual financial statements presented by the entity. For example, while a reference to a statement of changes in partner's capital may be appropriate for an entity subject to Chapter 3 of this audit guide, it may not be appropriate for an entity subject to Chapter 7 of this audit guide.

<sup>3</sup> Certain entities subject to this audit guide are required to have their financial statements audited in accordance with the standards established by the Public Company Accounting Oversight Board (PCAOB). For such entities, modifications to this report may be necessary. For more information on the use of PCAOB standards with *Government Auditing Standards*, refer to Chapter 2 of *Government Auditing Standards* and the Government Accountability Office Web site at: [www.gao.gov/yellowbook](http://www.gao.gov/yellowbook).

<sup>4</sup> For financial audits performed in accordance with *Government Auditing Standards*, Chapters 1–4 of *Government Auditing Standards* apply. If the financial statements include organizational units that are not required to have a *Government Auditing Standards* audit, the auditor should consider modifying this paragraph. Chapter 4 of the

States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.<sup>5</sup> Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Example Entity, as of December 31, 201X, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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AICPA Audit and Accounting Guide, Government Auditing Standards *and Circular A-133 Audits*, provides an illustration of the wording for such a modification.

<sup>5</sup> In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances." In addition, the next sentence, "Accordingly, we express no such opinion." would not be included.

## Other Matters

### *Other Information*<sup>6 7</sup>

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The [*identify accompanying supplementary information such as the adjusted net worth computation, HUD-required financial data templates<sup>8</sup> and the other information such as such as other schedules voluntarily provided by management*] are presented for purposes of additional analysis and are not a required part of the financial statements.

<sup>6</sup> This section, within the “Other Matters” section of the report, is intended to include the reporting on supplementary information when the auditor is engaged to provide an “in-relation-to” opinion on supplementary information and also when explanatory language will be provided relating to other information when the auditor is disclaiming an opinion on the other information. This illustration provides example language for both supplementary information and other information reporting. See footnote 8 for modified wording that could be used in situations where the auditor is providing an in-relation-to opinion on supplementary information and there is no disclaimer on other information. Finally, the caption provided in this illustration is one way an auditor could title the section. Alternatively, the auditor could title it “Supplementary and Other Information,” “Supplementary Information,” or “Accompanying Information.”

<sup>7</sup> This illustration assumes that the auditor has been engaged to provide an “in relation to” opinion on supplementary information, the auditor is issuing an unmodified opinion on the financial statements, and the auditor has concluded that the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. If the auditor has issued an opinion other than unmodified on the financial statements, see the guidance in AU-C section 725, *Supplementary Information in Relation to the Financial Statements as a Whole* (AICPA, *Professional Standards*). Additionally, the other information reporting contained within this section provides an example of explanatory language that the auditor may use to disclaim an opinion on other information. Note there is no required reporting on other information under AU-C section 720, *Other Information in Documents Containing Audited Financial Statements* (AICPA, *Professional Standards*). If there is no other information contained in the document containing the audited financial statements or if the auditor chooses not to include the disclaimer, the references to other information in this section would be deleted and replaced with the following:

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The [*identify accompanying supplementary information such as the net worth computation or HUD-required financial data templates*] is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

<sup>8</sup> Certain chapters of this audit guide require the auditor to report on supplementary information in relation to the audited financial statements. Each chapter of this audit guide provides more detail on the information required to be reported on in this manner.

The [*identify accompanying supplementary information*] is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the [*identify accompanying supplementary information*] is fairly stated, in all material respects, in relation to the financial statements as a whole.

The [*identify accompanying other information*] has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

#### **Other Reporting Required by *Government Auditing Standards*<sup>9</sup>**

In accordance with *Government Auditing Standards*, we have also issued our report dated [*date of report*] on our consideration of Example Entity’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.<sup>10</sup> The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance.<sup>11</sup> That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Example Entity’s internal control over financial reporting and compliance.

[*Auditor’s signature*]

[*Auditor’s city and state*]

[*Date of the auditor’s report*]

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<sup>9</sup> Paragraph .37 of AU-C section 700 provides that the section related to an auditor’s other reporting responsibilities should be subtitled “Report on Other Legal and Regulatory Requirements” or otherwise, as appropriate to the contents of the section. An example of an alternative title describing the reporting required by *Government Auditing Standards* is illustrated here.

<sup>10</sup> Chapter 4 of *Government Auditing Standards* discusses noncompliance and other matters—that is, certain fraud and abuse—for which *Government Auditing Standards* requires reporting in the auditor’s report.

<sup>11</sup> This sentence should be modified if the auditor is providing an opinion on internal control over financial reporting or on compliance in the *Government Auditing Standards* report.

## Example B

**Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards**

*(No Material Weaknesses Identified, No Significant Deficiencies Identified, No Reportable Instances of Noncompliance or Other Matters Identified)*<sup>1</sup>

## Independent Auditor's Report

[Appropriate Addressee]

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*<sup>2</sup> issued by the Comptroller General of the United States,<sup>3</sup> the financial statements of Example Entity, which comprise the balance sheet as of December 31, 201X, and the related statements of income and expense, changes in partner's capital, and cash flows<sup>4</sup> for the year then ended and the related notes to the financial statements, and have issued our report thereon dated March 15, 201X.<sup>5</sup>

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<sup>1</sup> Auditors may use the portions of examples B, B-1 and B-2 that apply to a specific auditee situation. For example, if the auditor has identified significant deficiencies but has not identified instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, the internal control section of example B-1 may be used along with the compliance and other matters section of this report. Alternatively, if the auditor has not identified significant deficiencies but has identified instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, the internal control section of this report may be used along with the compliance section of example B-1. See example B-2 for illustrative reporting for situations in which the auditor has also identified material weaknesses. The AICPA Audit Guide, *Government Auditing Standards and Circular A-133 Audits*, provides additional guidance on other *Government Auditing Standards* reporting matters that may not be covered in these report illustrations.

<sup>2</sup> For financial audits performed in accordance with *Government Auditing Standards*, chapters 1–4 of *Government Auditing Standards* apply.

<sup>3</sup> If the financial statements include organizational units that are not required to have a *Government Auditing Standards* audit, the auditor should consider modifying this paragraph. Chapter 4 of the AICPA Audit and Accounting Guide, *Government Auditing Standards and Circular A-133 Audits*, provides an illustration of the wording for such a modification.

<sup>4</sup> The description of the financial statements in this sentence is illustrative and should be modified to reflect the actual financial statements presented by the entity. For example, while a reference to a statement of changes in partner's capital may be appropriate for an entity subject to Chapter 3 of this audit guide, it may not be appropriate for an entity subject to Chapter 7 of this audit guide.

<sup>5</sup> If the auditor expressed a modified opinion on the financial statements (i.e., a qualified opinion, an adverse opinion, or a disclaimer of opinion), the auditor should include a statement describing the nature of the modification.

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## Internal Control over Financial Reporting<sup>6 7</sup>

In planning and performing our audit of the financial statements, we considered Example Entity's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Example Entity's internal control. Accordingly, we do not express an opinion on the effectiveness of Example Entity's internal control.

*A deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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The auditor may include certain additional communications when the auditor included such additional communications in the auditor's report on the financial statements that are not modifications to the auditor's opinion. For example, if the auditor included an emphasis-of-matter paragraph in the auditor's report on the financial statements because of an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time, the auditor may also include mention of the additional communication here.

<sup>6</sup> *Government Auditing Standards* permits, but does not require, auditors to express an opinion on internal control over financial reporting or on compliance if sufficient work was performed.

<sup>7</sup> This report sequences the reporting on internal control over financial reporting before the reporting on compliance and other matters. However, the illustrative reports on compliance and internal control over compliance (Examples C, C-1, and C-2) sequence the reporting on compliance before the reporting on internal control over compliance. Auditors may present the internal control and compliance sections of the *Government Auditing Standards* and the HUD compliance reports in whichever sequence better meets their needs.



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## Compliance and Other Matters<sup>8</sup>

As part of obtaining reasonable assurance about whether Example Entity's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.<sup>9</sup>

[Auditor's signature]

[Auditor's city and state]

[Date of the auditor's report]<sup>10</sup>

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<sup>8</sup> *Other matters* are certain findings of fraud or abuse. As per industry practice, the reference to "other matters" in both the heading and the following paragraph typically appears in all reports, even if the report does not present or refer to findings of fraud or abuse or even if the only findings of fraud or abuse are presented in or referred to from the section on internal control over financial reporting.

<sup>9</sup> This paragraph conforms to paragraph .11 of AU-C section 905, *Alert that Restricts the Use of the Auditor's Written Communication* (AICPA, *Professional Standards*), which provides for a "purpose" alert in lieu of a "restricted use" alert for certain communications issued under *Government Auditing Standards*. See AU-C section 905 for additional guidance.

<sup>10</sup> Because this report relates to the audit of the financial statements, and is based on the generally accepted auditing standards audit procedures performed, it is subject to the provisions of AU-C section 700. Therefore, it should be dated the same date as the auditor's report on the financial statements, which according to paragraph .41 of AU-C section 700 is "no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements."

## Example B-1

**Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards**

*(No Material Weaknesses Identified; Significant Deficiencies Identified; and Reportable Instances of Noncompliance and Other Matters Identified)<sup>11</sup>*

Independent Auditor's Report

*[Appropriate Addressee]*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*<sup>12</sup> issued by the Comptroller General of the United States,<sup>13</sup> the financial statements of Example Entity, which comprise the balance sheet as of December 31, 201X, and the related statements of income and expense, changes in partner's capital, and cash flows<sup>14</sup> for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 15, 201X.<sup>15</sup>

**Internal Control over Financial Reporting**<sup>16 17</sup>

In planning and performing our audit of the financial statements, we considered Example Entity's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Example Entity's internal control. Accordingly, we do not express an opinion on the effectiveness of Example Entity's internal control.

*A deficiency in internal control* 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 and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that

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<sup>11</sup> See footnote 1, Example B.

<sup>12</sup> See footnote 2, Example B.

<sup>13</sup> See footnote 3, Example B.

<sup>14</sup> See footnote 4, Example B.

<sup>15</sup> See footnote 5, Example B.

<sup>16</sup> See footnote 6, Example B.

<sup>17</sup> See footnote 7, Example B.

there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying [*include the title of the schedule in which the findings are reported (e.g., schedule of findings, questioned costs, and recommendations)*] that we consider to be significant deficiencies. [*List the reference numbers of the related findings, for example, 201X-1, 201X-3, and 201X-4*].<sup>18</sup>

### **Compliance and Other Matters**<sup>19</sup>

As part of obtaining reasonable assurance about whether Example Entity's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*<sup>20</sup> and which are described in the accompanying [*include the title of the schedule in which the findings are reported (e.g., schedule of findings, questioned costs, and recommendations)*] as items [*list the reference numbers of the related findings, for example, 201X-2 and 201X-5*].<sup>21</sup>

### **Example Entity's Response to Findings**

Example Entity's response to the findings identified in our audit are described in the accompanying [*include the title of the schedule in which the findings are reported (e.g.,*

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<sup>18</sup> Chapter 2 of this audit guide requires that the auditor identify each finding with a reference number that consists of the year followed by a consecutive number.

<sup>19</sup> See footnote 8, Example B.

<sup>20</sup> Chapter 4 of *Government Auditing Standards* discusses the criteria for reporting fraud; noncompliance with provisions of laws, regulations, contracts and grant agreements; and abuse.

<sup>21</sup> See footnote 18.

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*schedule of findings, questioned costs, and recommendations*)]. Example Entity's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.<sup>22</sup>

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.<sup>23</sup>

[*Auditor's signature*]

[*Auditor's city and state*]

[*Date of the auditor's report*]<sup>24</sup>

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<sup>22</sup> Although the auditor does not audit management's responses to identified findings, the auditor does have certain responsibilities related to reporting the views of responsible officials under Chapter 4 of *Government Auditing Standards* and Chapter 2 of this audit guide.

<sup>23</sup> See footnote 9, Example B.

<sup>24</sup> See footnote 10, Example B.

## Example B-2

**Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards**

*(Material Weaknesses and Significant Deficiencies Identified; and Reportable Instances of Noncompliance and Other Matters Identified)*<sup>25</sup>

Independent Auditor's Report

*[Appropriate Addressee]*

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*<sup>26</sup> issued by the Comptroller General of the United States,<sup>27</sup> the financial statements of Example Entity, which comprise the balance sheet as of December 31, 201X, and the related statements of income and expense, changes in partner's capital, and cash flows<sup>28</sup> for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 15, 201X.<sup>29</sup>

**Internal Control over Financial Reporting**<sup>30 31</sup>

In planning and performing our audit of the financial statements, we considered Example Entity's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Example Entity's internal control. Accordingly, we do not express an opinion on the effectiveness of Example Entity's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as

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<sup>25</sup> See footnote 1, Example B.

<sup>26</sup> See footnote 2, Example B.

<sup>27</sup> See footnote 3, Example B.

<sup>28</sup> See footnote 4, Example B.

<sup>29</sup> See footnote 5, Example B.

<sup>30</sup> See footnote 6, Example B.

<sup>31</sup> See footnote 7, Example B.

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described in the accompanying [*include the title of the schedule in which the findings are reported (e.g., schedule of findings, questioned costs, and recommendations)*], we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying [*include the title of the schedule in which the findings are reported (e.g., schedule of findings, questioned costs, and recommendations)*] to be material weaknesses. [*List the reference numbers of the related findings, for example, 201X-1, 201X-3, and 201X-4.*]<sup>32</sup>

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying [*include the title of the schedule in which the findings are reported (e.g. schedule of findings questioned costs, and recommendations)*] to be significant deficiencies. (*List the reference numbers of the related findings, for example, 201X-2 and 201X-5.*)<sup>33</sup>

### **Compliance and Other Matters**<sup>34</sup>

As part of obtaining reasonable assurance about whether Example Entity's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*<sup>35</sup> and which are described in the accompanying [*include the title of the schedule in which the findings are*

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<sup>32</sup> See footnote 18, Example B-1.

<sup>33</sup> See footnote 18, Example B-1.

<sup>34</sup> See footnote 8, Example B.

<sup>35</sup> See footnote 20, Example B-1.

*reported (e.g., schedule of findings, questioned costs, and recommendations)] as items [list the reference numbers of the related findings, for example, 201X-6 and 201X-7].<sup>36</sup>*

### **Example Entity's Response to Findings**

Example Entity's response to the findings identified in our audit are described in the accompanying *[include the title of the schedule in which the findings are reported (e.g., schedule of findings, questioned costs, and recommendations)]*. Example Entity's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.<sup>37</sup>

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.<sup>38</sup>

*[Auditor's signature]*

*[Auditor's city and state]*

*[Date of the auditor's report]*<sup>39</sup>

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<sup>36</sup> See footnote 18, Example B-1.

<sup>37</sup> See footnote 22, Example B-1.

<sup>38</sup> See footnote 9, Example B.

<sup>39</sup> See footnote 10, Example B.

## Example C

**Report on Compliance for Each Major HUD Program and Report on Internal Control over Compliance Required by the *Consolidated Audit Guide for Audits of HUD Programs*<sup>1</sup>*****(Unmodified Opinion on Compliance; No Material Weaknesses or Significant Deficiencies in Internal Control Over Compliance Identified)*<sup>2</sup>**Independent Auditor's Report

[Appropriate Addressee]

**Report on Compliance for Each Major HUD Program<sup>3</sup>**

We have audited Example Entity's compliance with the compliance requirements described in the *Consolidated Audit Guide for Audits of HUD Programs* (the audit guide) that could have a direct and material effect<sup>4</sup> on each of Example Entity's major U.S. Department of Housing and Urban Development (HUD) programs for the year ended

<sup>1</sup> Note that this combined report format is illustrative of one possible presentation. As noted in AU-C 935, *Compliance Audits (AICPA, Professional Standards)*, the auditor may also choose to issue the reporting on internal control over compliance in a separate report.

<sup>2</sup> Examples C, C-1 and C-2 are intended to provide illustrations for various situations. Auditors, using professional judgment, may adapt these examples to other situations not specifically addressed within the illustrations. For example, if the auditor is expressing an unmodified opinion on compliance and has identified significant deficiencies, but no material weaknesses, the compliance section of this example may be used along with the internal control section of example C-1. See also AU-C section 935 for additional reporting guidance.

<sup>3</sup> For auditees that only have one major HUD program, all references to "each major HUD program" within this report should be revised to refer to one major HUD program. For example, this heading could be revised to read "Report on Compliance for Major HUD Program." Other references to "each of Example Entity's major HUD programs" and "each major HUD program" could be revised to "Example Entity's major HUD program" and "the major HUD program." Alternatively, the report could refer to a single major HUD program by its specific name throughout the report.

<sup>4</sup> AU-C section 935 defines *applicable compliance requirements* as the compliance requirements that are subject to the compliance audit. According to the *Consolidated Audit Guide for Audits of HUD Programs* (the audit guide), the auditor's report on compliance with requirements applicable to HUD programs expresses the auditor's opinion (or disclaimer of opinion) on whether the auditee complied with the requirements that if noncompliance occurred, could have a direct and material effect on a major HUD program. Therefore, in a compliance audit performed in accordance with the audit guide, the *applicable compliance requirements*, as the term is used in AU-C section 935, are those that could have a direct and material effect on a major HUD program. Accordingly, for the purpose of adapting AU-C section 935 to a compliance audit performed in accordance with the audit guide, the term *applicable* has been replaced by *direct and material* when referencing such compliance requirements in this report.



December 31, 201X. Example Entity's major HUD programs and the related direct and material compliance requirements are as follows: <sup>5</sup>

<b>Name of Major HUD Programs</b>	<b>Direct and Material Compliance Requirements</b>
<i>[Insert the name of the major HUD Program]</i>	<i>[List the direct and material compliance requirements tested.]</i>
<i>[Insert the name of the major HUD Program]</i>	<i>[List the direct and material compliance requirements tested.]</i>

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its HUD programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Example Entity's major HUD programs based on our audit of the compliance requirements referred to above. 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*, issued by the Comptroller General of the United States; and the audit guide. Those standards and the audit guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major HUD 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 on compliance for each major HUD program. However, our audit does not provide a legal determination of Example Entity's compliance.

<sup>5</sup> Certain chapters of this audit guide (e.g., Chapter 7, *FHA-Approved Lender Audit Guidance*) specifically require the auditor to include the direct and material compliance requirements tested in this report. Therefore, this report illustrates how the auditor may identify both the major HUD programs and the direct and material compliance requirements tested for each major HUD program in a table format. It is also permissible for auditors to include the major HUD programs and, when required, direct and material compliance requirements tested, within the first paragraph in lieu of inserting a table.

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### ***Opinion on Each Major HUD Program***

In our opinion, Example Entity complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major HUD programs for the year ended December 31, 201X.

### ***Other Matters***

We noted certain matters that we are required to report to management of Example Entity in a separate written communication. These matters are described in our [*identify the name of the written communication*] dated [*insert date of management letter*].<sup>6</sup>

### **Report on Internal Control over Compliance**<sup>7</sup>

Management of Example Entity is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered Example Entity's internal control over compliance with the requirements that could have a direct and material effect on each major HUD program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major HUD program and to test and report on internal control over compliance in accordance with the audit guide, 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 Example Entity's 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 with a compliance requirement of a HUD program 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 of a HUD program 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

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<sup>6</sup> Certain chapters of this audit guide require the auditor to communicate all nonmaterial noncompliance and certain other matters to management in writing. If the auditor issued or intends to issue such a management letter (or other similar written communication), this report is required to refer to that communication by name. If the auditor has not yet issued such a written communication, but intends to, the auditor may revise the second sentence to indicate that such a communication will be issued. To the extent there are no such matters required to be communicated, this "Other Matters" section would be deleted.

<sup>7</sup> See footnote 1, Example C. If an auditor prefers to issue a separate report on internal control over compliance this section would be omitted from the report. AU-C section 935 includes required elements for separate reporting on internal control over compliance.

deficiencies, in internal control over compliance with a compliance requirement of a HUD program 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 requirements of the audit guide. Accordingly, this report is not suitable for any other purpose.<sup>8</sup>

*[Auditor's signature]*

*[Auditor's city and state]*

*[Date of the auditor's report]*

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<sup>8</sup> This paragraph has been adapted from AU-C section 905, *Alert That Restricts the Use of the Auditor's Written Communication* (AICPA, *Professional Standards*) to relate to the reporting on internal control over compliance that is required in an audit of compliance in accordance with this audit guide.

## Example C-1

**Report on Compliance for Each Major HUD Program and Report on Internal Control over Compliance Required by the *Consolidated Audit Guide for Audits of HUD Programs***<sup>9</sup>

*(Unmodified Opinion on Compliance; Significant Deficiencies in Internal Control Over Compliance Identified)*<sup>10</sup>

Independent Auditor's Report

[Appropriate Addressee]

**Report on Compliance for Each Major HUD Program**<sup>11</sup>

We have audited Example Entity's compliance with the compliance requirements described in the *Consolidated Audit Guide for Audits of HUD Programs* (the audit guide) that could have a direct and material effect<sup>12</sup> on each of Example Entity's major U.S. Department of Housing and Urban Development (HUD) programs for the year ended December 31, 201X. Example Entity's major HUD programs and the related direct and material compliance requirements are as follows:<sup>13</sup>

<b>Name of Major HUD Programs</b>	<b>Direct and Material Compliance Requirements</b>
<i>[Insert the name of the major HUD Program]</i>	<i>[List the direct and material compliance requirements tested.]</i>
<i>[Insert the name of the major HUD Program]</i>	<i>[List the direct and material compliance requirements tested.]</i>

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its HUD programs.

<sup>9</sup> See footnote 1, Example C.

<sup>10</sup> See footnote 2, Example C.

<sup>11</sup> See footnote 3, Example C.

<sup>12</sup> See footnote 4, Example C.

<sup>13</sup> See footnote 5, Example C.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Example Entity's major HUD programs based on our audit of the compliance requirements referred to above. 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*, issued by the Comptroller General of the United States; and the audit guide. Those standards and the audit guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major HUD 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 on compliance for each major HUD program. However, our audit does not provide a legal determination of Example Entity's compliance.

***Opinion on Each Major HUD Program***

In our opinion, Example Entity complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major HUD programs for the year ended December 31, 201X.

***Other Matters***

We noted certain matters that we are required to report to management of Example Entity in a separate written communication. These matters are described in our [*identify the name of the written communication*] dated [*insert date of management letter*].<sup>14</sup>

***Report on Internal Control over Compliance***<sup>15</sup>

Management of Example Entity is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered Example Entity's internal control over compliance with the requirements that could have a direct and material effect on each major HUD program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major HUD program and to test and report on internal control over compliance in accordance with the audit guide, but not for the purpose of expressing an opinion on

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<sup>14</sup> See footnote 6, Example C.

<sup>15</sup> See footnote 7, Example C.

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the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Example Entity's 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 with a compliance requirement of a HUD program 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 of a HUD program 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 with a compliance requirement of a HUD program 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying [*include the title of the schedule in which the findings are reported (e.g., schedule of findings, questioned costs, and recommendations)*] as items [*list the reference numbers of the related findings, for example, 201X-3, 201X-4, and 201X-5*], that we consider to be significant deficiencies.

Example Entity's responses to the internal control over compliance findings identified in our audit are described in the accompanying [*include the title of the schedule in which the findings are reported (e.g., schedule of findings, questioned costs, and recommendations)*]. Example Entity's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.<sup>16</sup>

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

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<sup>16</sup> Although the auditor does not audit management's response to identified findings, the auditor does have certain responsibilities related to reporting the views of responsible officials under *Government Auditing Standards* and Chapter 2 of this audit guide.

based on the requirements of the audit guide. Accordingly, this report is not suitable for any other purpose.<sup>17</sup>

*[Auditor's signature]*

*[Auditor's city and state]*

*[Date of the auditor's report]*

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<sup>17</sup> See footnote 8, Example C.

## Example C-2

**Report on Compliance for Each Major HUD Program and Report on Internal Control over Compliance Required by the *Consolidated Audit Guide for Audits of HUD Programs***<sup>18</sup>

*(Qualified Opinion on Compliance for One Major HUD Program; Unmodified Opinion on Compliance for the Other Major HUD Program; Material Weaknesses and Significant Deficiencies in Internal Control Over Compliance Identified)*<sup>19</sup>

Independent Auditor's Report

[Appropriate Addressee]

**Report on Compliance for Each Major HUD Program**<sup>20</sup>

We have audited Example Entity's compliance with the compliance requirements described in the *Consolidated Audit Guide for Audits of HUD Programs* (the audit guide) that could have a direct and material effect<sup>21</sup> on each of Example Entity's major U.S. Department of Housing and Urban Development (HUD) programs for the year ended December 31, 201X. Example Entity's major HUD programs and the related direct and material compliance requirements are as follows:<sup>22</sup>

Name of Major HUD Programs	Direct and Material Compliance Requirements
<i>[Insert the name of the major HUD Program]</i>	<i>[List the direct and material compliance requirements tested.]</i>
<i>[Insert the name of the major HUD Program]</i>	<i>[List the direct and material compliance requirements tested.]</i>

<sup>18</sup> See footnote 1, Example C.

<sup>19</sup> See footnote 2, Example C.

<sup>20</sup> See footnote 3, Example C.

<sup>21</sup> See footnote 4, Example C.

<sup>22</sup> See footnote 5, Example C.



***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its HUD programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Example Entity's major HUD programs based on our audit of the compliance requirements referred to above. 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*, issued by the Comptroller General of the United States; and the audit guide. Those standards and the audit guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major HUD 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 on compliance for each major HUD program. However, our audit does not provide a legal determination of Example Entity's compliance with those requirements.

***Basis for Qualified Opinion on [Identify Major HUD Program]***<sup>23</sup>

As described in the accompanying [*include the title of the schedule in which the findings are reported (e.g., schedule of findings, questioned costs, and recommendations)*], Example Entity did not comply with requirements regarding [*identify the major HUD program*] as further described in [*list the reference numbers of the related findings, for example, 201X-1 and 201X-2*]. Compliance with such requirements is necessary, in our opinion, for Example Entity to comply with the requirements applicable to that program.

***Qualified Opinion on [Identify Major HUD Program]***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Example Entity complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on [*identify the major HUD program*] for the year ended December 31, 201X.

<sup>23</sup> The heading to this section, and the qualified opinion paragraph that follows in the next paragraph, illustrates identifying the specific major HUD programs being referred to in each heading.

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***Unmodified Opinion on [Identify Major HUD Program]***<sup>24</sup>

In our opinion, Example Entity complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on *[identify the other major HUD program]* for the year ended December 31, 201X.

***Other Matters***

Example Entity's responses to the noncompliance findings identified in our audit are described in the accompanying *[include the title of the schedule in which the findings are reported (e.g., schedule of findings, questioned costs, and recommendations)]*. Example Entity's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.<sup>25</sup>

We noted certain matters that we are required to report to management of Example Entity in a separate written communication. These matters are described in our *[identify the name of the written communication]* dated *[insert date of management letter]*.<sup>26</sup>

**Report on Internal Control over Compliance**<sup>27</sup>

Management of Example Entity is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered Example Entity's internal control over compliance with the requirements that could have a direct and material effect on each major HUD program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major HUD program and to test and report on internal control over compliance in accordance with the audit guide, 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 Example Entity's internal control over compliance.

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<sup>24</sup> In this example, there are only two major HUD programs. Therefore, this example illustrates including in the heading the name of the remaining major HUD program with an unmodified opinion. If there are more than two major HUD programs, this heading could be revised as "Unmodified Opinions on Each of the Other Major HUD Programs" and the specific major HUD programs could be identified within the unmodified opinion paragraph.

<sup>25</sup> See footnote 16, Example C-1.

<sup>26</sup> Certain chapters of this audit guide require the auditor to communicate all nonmaterial noncompliance and certain other matters to management in writing. If the auditor issued or intends to issue such a management letter (or other similar written communication), this report is required to refer to that communication by name. If the auditor has not yet issued such a written communication, but intends to, the auditor may revise the second sentence to indicate that such a communication will be issued. To the extent there are no such matters required to be communicated, this paragraph within the "Other Matters" section would be deleted.

<sup>27</sup> See footnote 7, Example C.

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Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

*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 with a compliance requirement of a HUD program 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 reasonable possibility that material noncompliance with a compliance requirement of a HUD program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying [*include the title of the schedule in which the findings are reported (e.g., schedule of findings, questioned costs, and recommendations)*] as items [*list the reference numbers of the related findings, for example 201X-5 and 201X-6*] to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a HUD program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying [*include the title of the schedule in which the findings are reported (e.g., schedule of findings, questioned costs, and recommendations)*] as items [*list the reference numbers of the related findings, for example 201X-7 and 201X-8*] to be significant deficiencies.

Example Entity's responses to the internal control over compliance findings identified in our audit are described in the accompanying [*include the title of the schedule in which the findings are reported (e.g., schedule of findings, questioned costs, and recommendations)*]. Example Entity's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.<sup>28</sup>

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

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<sup>28</sup> See footnote 16, Example C-1.

based on the requirements of the audit guide. Accordingly, this report is not suitable for any other purpose.<sup>29</sup>

*[Auditor's signature]*

*[Auditor's city and state]*

*[Date of the auditor's report]*

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<sup>29</sup> See footnote 8, Example C.

## Example D

**Schedule of Findings, Questioned Costs,  
and Recommendations****Option 1: If the audit resulted in no findings, the schedule should still be included in the audit report package and should include only the following statement:**

Our audit disclosed no findings that are required to be reported herein under the HUD Consolidated Audit Guide.

**Option 2: If the audit resulted in findings to be reported, the following is the format that is to be used.** See paragraph 2-4.D for the content and categorization of findings.**1. Corrective Actions Not Started or in Process.**

Finding 201X-1.

Each finding is to be listed and must contain the required information contained in paragraph 2-4.D.4, Content of Finding. The numbering of the findings and recommendations related to each finding is to follow the requirements in paragraphs 2-4.D.4.a and j.

Recommendations:

201X-1-a.

201X-1-b.

Management comments:

**2. Corrective Action Completed.**

Finding 201X-2.

Each finding is to be listed and contain the required information contained in paragraph 2-4.D.4, Content of Finding. The numbering of the findings and recommendations related to each finding is to follow the requirements in paragraphs 2-4.D.4.a and j.

Recommendations:

201X-2-a.

201X-2-b.

Management comments:

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**Example E****Schedule of the Status of Prior Audit Findings, Questioned Costs, and Recommendations**

The auditee is to list all findings from the prior period audit reporting package in which corrective action was in process or not started. In addition, this schedule is to contain findings that were contained in reports issued by HUD OIG, other Federal agencies, HUD management, or a contract administrator from the beginning of the period covered by the audit to the date of the auditor's fieldwork completion. Only findings that are relevant to the current year's audit should be included.

With respect to items included in the prior period audit reporting package, the auditor is to perform procedures to assess the reasonableness of the schedule and report as a current year finding when the auditor concludes that the schedule materially misrepresents the status of any prior audit finding.

1. The auditee is to identify the prior audited fiscal period of this entity.

Audit Report, dated **[insert date of report]**, for the period ended **[insert date]**, issued by **[insert name of independent auditor]**

If there were no open findings from the prior audit report, so state, and if there were, the following format is to be used:

Finding 201X-1. Nonproject Costs Were Charged to the Project (Questioned Costs \$125,000)

Status: The \$125,000 has been returned to the project, and the entity's system of distributing costs has been corrected. The entity reviewed all cost accounts up to the time that the system was changed and refunded the project an additional \$55,250. The finding was closed by HUD management on July 9, 2011.

Finding 201X-2. The Required Documentation With Regard to Eligibility Was Not Obtained for Tenants Receiving Rent Supplements

Status: The project has not obtained the required documentation from third-party sources, nor has the project reimbursed the appropriate programs. The amount of the rent supplements received for these tenants for the prior audit period was \$15,350. The finding remains open.

Finding 201X-3. Separate Security Deposit Bank Accounts Were Not Established for Each of the Five Projects and Interest Earned Was Not Included in the Project's Income and Not Distributed to the Tenant in Accordance with State Law

Status: The owner established the five separate bank accounts but continued to take the interest earned on security deposit investments into the project income account. The owner did not take any action to credit the tenants for the interest earned as required by State law. The interest portion of this finding remains open and is repeated as current finding 201X-2.

2. The auditee should identify findings from audit, attestation, or other studies (source document) performed by HUD, another Federal agency, or a contract administrator during the period described above that directly relate to the subject matter of the current year audit and include them in this section of the schedule of the status of prior audit findings.

Audit Report issued on **[insert date of report]**, by HUD OIG **[or name of report issuer]**, titled **[insert title of report]**

Finding 1 -

Status -

OR

There were no reports issued by HUD OIG or other Federal agencies or contract administrators during the period covered by this audit.

3. The auditee is to list any deficiency listed in letters or reports (source documents) issued by HUD management as a result of any reviews of the entity's activity that relates to the audit objectives and during the period described above.

HUD management report was issued on **[insert date of report]**, and is titled **[list title of report]**.

Finding 1 -

Status -

OR

There were no letters or reports issued by HUD management during the period covered by this audit.

Note: The finding or recommendation numbers and the format of those numbers that are to be displayed on this schedule are the ones used in the source documents.

The auditor may rely on management's representation as to reports issued during the audit period. The auditor does not have to independently confirm the completeness of all the reports listed by the auditee with outside sources.

**Example F**

**Corrective Action Plan**

The corrective action plan is an important document with which the auditee can demonstrate its willingness to correct the deficient condition noted in the audit findings. This plan will form the basis for HUD to work with the auditee to reach agreement on the actions to be taken to address the audit recommendations and timeframes for implementation.

The auditor should determine whether the auditee agrees or disagrees with the content of the findings, and if there is a disagreement, the auditor should request that the auditee fully explain the points of that disagreement with specific information to support its position. If the information is voluminous, an appendix may be attached to the audit report package.

The auditor should also determine whether the auditee agrees or disagrees with each recommendation. If there is disagreement with the recommended course of action, the auditee should explain the basis for that disagreement and propose an alternative action that would accomplish the same goal.

The following is a recommended format to be followed by the auditee for preparing a corrective action plan:

\*\*\*\*\*

**Corrective Action Plan**

Name of auditee: \_\_\_\_\_

HUD auditee identification number: \_\_\_\_\_

Name of audit firm: \_\_\_\_\_

Period covered by the audit: \_\_\_\_\_

CAP prepared by

Name: \_\_\_\_\_

Position: \_\_\_\_\_

Telephone number: \_\_\_\_\_



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**A. Current Findings on the Schedule of Findings, Questioned Costs, and Recommendations.****1. Finding 201X-1.****a. Comments on the Finding and Each Recommendation.**

The auditee is to provide a statement of concurrence or nonconcurrence with each finding. The auditee is also to provide a statement of agreement or disagreement with each recommendation in the finding.

**b. Action(s) Taken or Planned on the Finding**

The auditee should detail actions taken or planned to correct each finding identified in the report. Appropriate documentation should be submitted for actions taken. For planned actions, the auditee should provide the projected date for completion of all required action. The auditee should provide information on the task(s), subtask(s) and projected completion date(s) for the correction of the deficient condition and repayment of funds if appropriate. The names of the auditee officials or supervisor responsible for completing the proposed task(s) and subtask(s) should also be identified. If the auditee believes a corrective action is not required, a statement describing the reasons should be included.

**2. Finding 201X-2 through X.****a. Comments on the Finding and Each Recommendation****b. Action(s) Taken or Planned on Each Finding****B. Status of Corrective Actions on Findings Reported in the Prior Audit Schedule of Findings, Questioned Costs, and Recommendations.**

The auditee should comment on the status of corrective actions taken on all prior findings that were reported as open or action not completed on the auditor's prior schedule of findings, questioned costs, and recommendations and remain open. The auditee should also update the planned date(s) for completion of task(s) and subtask(s) and the responsible entity supervisor or official(s) to complete the task(s) or subtask(s). In addition, documentation should be submitted in support of any portions of the action plan that the auditee considers completed.