**Illustrative Single Audit Reports**

**(Report on Compliance With Requirements Applicable to Each Major State Program and Internal Control Over Compliance in Accordance With OMB Uniform Guidance and the State Single Audit Implementation Act**

This sample reports are adapted from the 2021 AICPA’s *Audit Guide*, *Governmental Auditing Standards and Single Audits*. Samples from these illustrations should be used for audits of financial statements for the periods ending before December 15, 2021.

SAS No. 134 – 140. Early implementation was allowed (refer to SAS No. 141), so these reports may be used on audits issued prior to the implementation date.

Audit reports that were in effect prior to SAS Nos. 134 – 140 are currently available on our website.

Reporting requirements for periods ending on or after December 26, 2015 will be subject to Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Type of Compliance requirements are described in OMB’s Compliance Supplement. Currently there are twelve (12) types of compliance requirements and are located in Part 3 of the Compliance Supplement. The Compliance Requirements for North Carolina are located in the NC Department of State Treasurer’s *Audit Manual for Governmental Auditors in North Carolina* (“Discussion of Single Audit in North Carolina”). Currently there are thirteen (13) types of compliance requirements and are located Section 35-E, “Discussion of Single Audits in North Carolina.”

The following examples of this report are given. The auditor should use portions of each that apply to a specific auditee situation. For example, if the auditor will be giving an unqualified opinion on compliance and has identified no material weaknesses, but significant deficiencies the compliance section of example 1 or 4 of this section would be used along with internal control section of example 2.

 Page Example Situation

35-E-4.2 1 Unmodified Opinion on Compliance for Each Major Program. No instances of noncompliance are identified - No material weaknesses or significant deficiencies are disclosed

35-E-4.6 2 Unmodified Opinion on Compliance for Each Major Program. Reportable instances of noncompliance are identified and reports in the Schedule of Findings and Questioned Cost- Material weaknesses are reported

35-E-4.11 3 Qualified Opinion on Compliance for one Major Program. Unmodified Opinion on Compliance for Each of the Other Major Programs. Material instances of noncompliance are identified - Material weaknesses and significant deficiencies are reported

35-E-3.16 4 Unmodified Opinion on Compliance for Each Major Program. No instances of noncompliance are identified. Significant deficiencies are reported. Single audit issued under separate cover from basic financial statements-

**Example 1 –** **Unmodified Opinion on Compliance for Each Major Program. No instances of noncompliance are identified - No material weaknesses or significant deficiencies are disclosed**

**LETTERHEAD**

**Report on Compliance for Each Major State Program; Report on Internal Control Over Compliance; With OMB Uniform Guidance and the State Single Audit Implementation Act**

**Independent Auditor’s Report**

To the Honorable Mayor and

Members of the City Council

City of Dogwood, North Carolina

**Report on Compliance for Each Major State Program**

***Opinion on Each Major State Program***

We have audited the City of Dogwood, North Carolina, compliance with the types of compliance requirements[[1]](#endnote-1) described in the OMB *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*,[[2]](#endnote-2) issued by the Local Government Commission, that could have a direct and material effect on each of the City of Dogwood’s major State programs for the year ended June 30, 20X1. The City of Dogwood’s major State programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City of Dogwood complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major State programs for the year ended June 30, 20XX. [[3]](#endnote-3) [[4]](#endnote-4)

***Basis for Opinion on Each Major State Program***

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 requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State Single Audit Implementation Act.2 Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

***Responsibilities of Management for Compliance***

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

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

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on City of Dogwood’s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about City of Dogwood’s compliance with the requirements of each major State program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

* exercise professional judgment and maintain professional skepticism throughout the audit.
* identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding City of Dogwood's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circum- stances.
* obtain an understanding of City of Dogwood's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of City of Dogwood's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit. [[5]](#endnote-5)

**Report on Internal Control Over Compliance[[6]](#endnote-6)**

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 type of compliance requirement of a State program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a State 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 combination of deficiencies, in internal control over compliance with a type of compliance requirement of a State 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 Auditor’s Responsibilities for the Audit of Compliance section and above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies or material weaknesses in internal control over compliance. Given these limitations, during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. [[7]](#endnote-7) [[8]](#endnote-8)

*[Firm’s Signature]*

*[Auditor’s city and state]*

*[Date of the auditor’s report ][[9]](#endnote-9)*

**Example 2 - Unmodified Opinion on Compliance for Each Major Program. Reportable instances of noncompliance are identified and reports in the Schedule of Findings and Questioned Cost- Material weaknesses are reported**

**LETTERHEAD**

**Report On Compliance With Requirements Applicable To Each Major State Program And Internal Control Over Compliance; In Accordance With OMB Uniform Guidance and the State Single Audit Implementation Act**

**Independent Auditor’s Report**

To the Honorable Mayor and

Members of the City Council

City of Dogwood, North Carolina

**Report on Compliance for Each Major State Program**

***Opinion on Each Major State Program***

We have audited the City of Dogwood, North Carolina, compliance with the types of compliance requirements[[10]](#endnote-10) described in the OMB *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*,[[11]](#endnote-11) issued by the Local Government Commission, that could have a direct and material effect on each of the City of Dogwood’s major State programs for the year ended June 30, 20XX. The City of Dogwood’s major State programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City of Dogwood complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major State programs for the year ended June 30, 20XX. [[12]](#endnote-12) [[13]](#endnote-13)

***Basis for Opinion on Each Major State Program***

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 requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State Single Audit Implementation Act.2 Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

***Responsibilities of Management for Compliance***

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

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

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on City of Dogwood’s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about City of Dogwood’s compliance with the requirements of each major State program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

* exercise professional judgment and maintain professional skepticism throughout the audit.
* identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding City of Dogwood's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circum- stances.
* obtain an understanding of City of Dogwood's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of City of Dogwood's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

**Other Matters**.[[14]](#endnote-14)

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items [*list the reference numbers of the related findings, for example, 20XX-1 and 20XX-2*][[15]](#endnote-15) Our opinion on each major State program is not modified with respect to these matters.

*Government Auditing Standards* requires the auditor to perform limited procedures on The City of Dogwood 's response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The City of Dogwood's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.[[16]](#endnote-16) [[17]](#endnote-17)

**Report on Internal Control Over Compliance** [[18]](#endnote-18)

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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 type of compliance requirement of a State program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a State 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 schedule of findings and questioned costs as items *[list the reference numbers of the related findings, for example, 20X1-3, 20X1-4, and 20X1-5]* 6 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a State 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 audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

*Government Auditing Standards* requires the auditor to perform limited procedures on the City of Dogwood's response to internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The City of Dogwood’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response. 7

The City of Dogwood is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. The City of Dogwood's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it. 8

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 OMB Uniform Guidance. Accordingly, this report is not suitable for any other purpose[[19]](#endnote-19).[[20]](#endnote-20)

*[Firm’s Signature]*

*[Auditor’s city and state]*

*[Date][[21]](#endnote-21)*

**Example 3 – Qualified Opinion on Compliance for one Major Program. Unmodified Opinion on Compliance for Each of the Other Major Programs. Material instances of noncompliance are identified - Material weaknesses and significant deficiencies are reported**

**LETTERHEAD**

**Report On Compliance With Requirements Applicable To Each Major State Program And Internal Control Over Compliance; In Accordance With OMB Uniform Guidance and the State Single Audit Implementation Act**

**Independent Auditor’s Report**

To the Honorable Mayor and

Members of the City Council

City of Dogwood, North Carolina

**Report on Compliance for Each Major State Program**

***Qualified and Unmodified Opinions***

We have audited the City of Dogwood, North Carolina, compliance with the types of compliance requirements [[22]](#endnote-22) described in the OMB *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*,[[23]](#endnote-23) issued by the Local Government Commission, that could have a direct and material effect on each of the City of Dogwood’s major State programs for the year ended June 30, 20XX. The City of Dogwood’s major State programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.[[24]](#endnote-24) [[25]](#endnote-25)

*Qualified Opinion on [Identify Major State Program][[26]](#endnote-26)*

In our opinion, except for the noncompliance described in the Basis for Qualified and Modified Opinion section of our report, The City of Dogwood complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on [*identify the major State program*] for the year ended June 30, 20XX.

*Unmodified Opinion on Each of the Other Major State Program(s )[[27]](#endnote-27)*

In our opinion, the City of Dogwood complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major State programs identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 20XX.

***Basis for Qualified Opinion and Unmodified Opinions***

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 requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State Single Audit Implementation Act.2 Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

**Matter(s) Giving Rise to Qualified Opinions on [*Identify Major State Program*] [[28]](#endnote-28)**

As described in the accompanying schedule of findings and questioned costs, The City of Dogwood did not comply with requirements regarding *[identify the major State program and associated finding number(s) matched to the type(s) of compliance requirements; for example, CFDA 93.600 Head Start as described in finding numbers 20XX-1 for Eligibility and 20XX-2 for Reporting*].[[29]](#endnote-29)

Compliance with such requirements is necessary, in our opinion, for The City of Dogwood to comply with the requirements applicable to that program.

***Responsibilities of Management for Compliance***

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

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

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on City of Dogwood’s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about City of Dogwood’s compliance with the requirements of each major State program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

* exercise professional judgment and maintain professional skepticism throughout the audit.
* identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding City of Dogwood's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circum- stances.
* obtain an understanding of City of Dogwood's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of City of Dogwood's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

**Other Matters[[30]](#endnote-30)**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items [list the reference numbers of the related findings, for example, 20XX-1 and 20XX-2]. 8 Our opinion on each major State program is not modified with respect to these matters.

*Government Auditing Standards* requires the auditor to perform limited procedures on The City of Dogwood 's response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The City of Dogwood’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.[[31]](#endnote-31) [[32]](#endnote-32)

**Report on Internal Control Over Compliance [[33]](#endnote-33)**

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies 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 type of compliance requirement of a State program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a State 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 schedule of findings and questioned costs as items [list the reference numbers of the related findings, for example 20XX-1 and 20XX-2] 8 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 State 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 schedule of findings and questioned costs as items [*list the reference numbers of the related findings, for example 20XX-3 and 20XX-4*] 8 to be significant deficiencies.

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

*Government Auditing Standards* requires the auditor to perform limited procedures on City of Dogwood's response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The City of Dogwood’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response. 10

The City of Dogwood is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. The City of Dogwood's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it. 11

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 OMB Uniform Guidance. Accordingly, this report is not suitable for any other purpose.[[34]](#endnote-34) [[35]](#endnote-35)

*[Firm’s Signature]*

*[Auditor’s city and state]*

*[Date]* [[36]](#endnote-36)

**Example 4 – Single audit issued under separate cover from basic financial statements. - No instances of noncompliance are identified - No instances of noncompliance are identified. Significant deficiencies are reported.**

**LETTERHEAD**

**Report On Compliance For Each Major State Program; Report on Internal Control Over Compliance; In accordance with OMB Uniform Guidance; and the State Single Audit Implementation Act**

**Independent Auditor’s Report**

To the Honorable Mayor and

Members of the City Council

City of Dogwood, North Carolina

**Report on Compliance for Each Major State Program**

***Opinion on Each Major State Program***

We have audited the City of Dogwood, North Carolina, compliance with the types of compliance requirements[[37]](#endnote-37) described in the OMB *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*,[[38]](#endnote-38) issued by the Local Government Commission, that could have a direct and material effect on each of the City of Dogwood’s major State programs for the year ended June 30, 20X1. The City of Dogwood’s major State programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City of Dogwood complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major State programs for the year ended June 30, 20XX. [[39]](#endnote-39) [[40]](#endnote-40)

***Basis for Opinion on Each Major State Program***

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 requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State Single Audit Implementation Act.2 Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report. We are required to be independent of City of Dogwood and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provides a reasonable basis for our opinion on compliance for each major State program. Our audit does not provide a legal determination of the City of Dogwood's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

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

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

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on City of Dogwood’s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about City of Dogwood’s compliance with the requirements of each major State program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

* exercise professional judgment and maintain professional skepticism throughout the audit.
* identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding City of Dogwood's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circum- stances.
* obtain an understanding of City of Dogwood's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of City of Dogwood's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit. [[41]](#endnote-41)

**Report on Internal Control Over Compliance [[42]](#endnote-42)**

Our consideration of internal control over compliance was for the limited purpose described in Auditor’s Responsibilities for the Audit of Compliance section and above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies or material weaknesses in internal control over compliance 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, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be 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 type of compliance requirement of a State program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a State 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 type of compliance requirement of a State 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 schedule of findings and questioned costs as items *[list the reference numbers of the related findings, for example, 20X1-3, 20X1-4, and 20X1-5] [[43]](#endnote-43)*that we consider to be significant deficiencies.

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

*Government Auditing Standards* requires the auditor to perform limited procedures on City of Dogwood's response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The City of Dogwood’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response. [[44]](#endnote-44)

The City of Dogwood is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. The City of Dogwood's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it. [[45]](#endnote-45)

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose. [[46]](#endnote-46) [[47]](#endnote-47)

**Report on Schedule of Expenditures of Federal and State Awards Required by Uniform Guidance**  [[48]](#endnote-48)

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Dogwood as of and for the year ended June 30, 20XX, and the related notes to the financial statements, which collectively comprise City of Dogwood’s basic financial statements. We issued our report thereon dated August 15, 20XX, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Dogwood’s basic financial statements. The accompanying schedule of expenditures of federal and State awards is presented for purposes of additional analysis as required by Uniform Guidance and the State Single Audit Implementation Act and is not a required part of the basic 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 basic 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 themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In in our opinion, schedule of expenditures of federal and state awards is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

 *[Firm’s Signature]*

*[Auditor’s city and state]*

*[Date][[49]](#endnote-49)*

1. The phrase “types of compliance requirements” used in this report refers to the 13 types of State compliance requirements (identified as “1” through “14”) described in Part 3 of the OMB Compliance Supplement and Section C of the State *Compliance Supplement* for each major State program. For purposes of reporting audit findings, auditors are alerted that certain types of compliance requirements may include multiple audit procedures with multiple audit objectives. If a State program is not included in the State compliance supplement, the auditor should review the program’s contract and grant agreements along with any applicable State statutes, regulations, and the terms and conditions of its State awards, in determining the types of compliance requirements that are direct and material to a major program. [↑](#endnote-ref-1)
2. The authority for single audit requirements for State awards is with the State Single Audit Act of 1996 and G.S. 159-34. The audit requirements for State awards are found in the *Audit Manual for Governmental Auditors in North Carolina*, section 35-E (Discussion of Single Audit in North Carolina). [↑](#endnote-ref-2)
3. The auditor’s report on compliance with applicable federal and State statutes, regulations, and the terms and conditions of its State awards should include an opinion (or disclaimer of opinion) regarding whether the auditee complied with applicable federal and State statutes, regulations, and the terms and conditions of its State awards that could have a direct and material effect on each major program. [↑](#endnote-ref-3)
4. In situations where the audit of State awards may not encompass the entirety of the auditee’s operations, the operations that are not included should be identified in a separate section with the heading below in the preceding the “Responsibilities of Management for Compliance” section. An example of such paragraph is:

“**Other Matter – State Expenditures Not Included in the Compliance Audit:**

The City of Dogwood's basic financial statements include the operations of the [identify organizational unit, such as a governmental component unit, an operating unit, or a department], which expended [include dollar amount, if known] in State awards which is not included in City of Dogwood's schedule of expenditures of federal awards during the year ended June 30, 20X1. Our compliance audit, described in the "Opinion on Each Major State Program," does not include the operations of [identify organizational unit] because [state the reason for the omission, such as the organizational unit engaged other auditors to per- form an audit of compliance” [↑](#endnote-ref-4)
5. Section 200.516 (a) (2) of Uniform Guidance states that in determining material noncompliance of State awards related to a major programs, the auditor’s determination of whether a noncompliance with federal and State statutes, regulations, and the terms and conditions of its State awards is material for the purpose of reporting an audit finding that is in relation to a type of compliance requirement for a major program or an audit objective identified in the OMB *Compliance Supplement* (refer to footnote 1). This would be noted in the schedule of findings and questioned costs. If the auditor reports instances of noncompliance, this is noted in a paragraph under the heading “Other Matters.” If there is no noncompliance identified, the Other Matters section would be omitted. For an example report that includes “Other Matters,” refer to Example 2 or 3. [↑](#endnote-ref-5)
6. This section addresses internal control over compliance with requirements that could have a direct and material effect on a major program. Uniform Guidance requires the report to identify any significant deficiencies or material weaknesses in internal control that were noted. The auditor’s determination of whether a deficiency in internal control over compliance is a significant deficiency or material weakness for the purpose of reporting an audit finding is also related to a type of compliance requirement for a major program or an audit objective identified in the OMB *Compliance Supplement* (refer to footnote 1 and 5).

This example is an illustrated combined report. If an auditor prefers to issue a separate report on internal controls over compliance, this section would be omitted for the report. AU-C 935 includes the requirements for separating reporting of internal controls over compliance. [↑](#endnote-ref-6)
7. AICPA’s Audit Guide, *Governmental Auditing Standards and Single Audits* recommends reporting on the schedule of expenditures of federal and state awards in the report on the financial statements. There may be certain circumstances when the auditor’s report on the schedule is incorporated into the report issued to meet the requirements of Uniform Guidance. Usually this is when the single audit reporting package is issued under separate cover than that of the financial statements. Refer to Example 4 for an illustration of in-relation-to reporting on the schedule of expenditures of federal and state awards. [↑](#endnote-ref-7)
8. This paragraph has been adapted from AU-C section 905, *Alert That Restricts the Use of the Auditor’s Written Communication*, which relates to the reporting on internal control over compliance that is required in an audit of compliance in accordance with Uniform Guidance. [↑](#endnote-ref-8)
9. When the required procedures for reporting on supplementary information have been performed on financial information reported in the financial statements on an earlier date that that of the auditor’s “Report on Compliance for Each Major State Program,” the auditor would dual date the report. Illustrative wording for dual dating is as follows:

[Date], except for our report on the Schedule of Expenditures of Federal and State Awards, for which the date is [Date of the Auditor’s Opinion on the Financial Statements]. [↑](#endnote-ref-9)
10. The phrase “types of compliance requirements” used in this report refers to the 13 types of State compliance requirements (identified as “1” through “14”) described in Part 3 of the OMB Compliance Supplement and Section C of the State *Compliance Supplement* for each major State program. For purposes of reporting audit findings, auditors are alerted that certain types of compliance requirements may include multiple audit procedures with multiple audit objectives. If a State program is not included in the State compliance supplement, the auditor should review the program’s contract and grant agreements along with any applicable State statutes, regulations, and the terms and conditions of its State awards, in determining the types of compliance requirements that are direct and material to a major program. [↑](#endnote-ref-10)
11. The authority for single audit requirements for State awards is with the State Single Audit Act of 1996 and G.S. 159-34. The audit requirements for State awards are found in the *Audit Manual for Governmental Auditors in North Carolina*, section 35-E (Discussion of Single Audit in North Carolina). [↑](#endnote-ref-11)
12. The auditor’s report on compliance with applicable federal and State statutes, regulations, and the terms and conditions of its State awards should include an opinion (or disclaimer of opinion) regarding whether the auditee complied with applicable federal and State statutes, regulations, and the terms and conditions of its federal awards that could have a direct and material effect on each major program. [↑](#endnote-ref-12)
13. In situations where the audit of State awards may not encompass the entirety of the auditee’s operations, the operations that are not included should be identified in a separate section with the heading below in the preceding the “Responsibilities of Management for Compliance” section. An example of such paragraph is:

“**Other Matter – State Expenditures Not Included in the Compliance Audit:**

The City of Dogwood's basic financial statements include the operations of the [identify organizational unit, such as a governmental component unit, an operating unit, or a department], which expended [include dollar amount, if known] in State awards which is not included in City of Dogwood's schedule of expenditures of federal awards during the year ended June 30, 20X1. Our compliance audit, described in the "Opinion on Each Major State Program," does not include the operations of [identify organizational unit] because [state the reason for the omission, such as the organizational unit engaged other auditors to per- form an audit of compliance” [↑](#endnote-ref-13)
14. Section 200.516 (a) (2) of Uniform Guidance states that in determining material noncompliance of federal awards related to a major programs, the auditor’s determination of whether a noncompliance with federal and State statutes, regulations, and the terms and conditions of its federal awards is material for the purpose of reporting an audit finding that is in relation to a type of compliance requirement for a major program or an audit objective identified in the OMB *Compliance Supplement* (refer to footnote 1). This would be noted in the schedule of findings and questioned costs. If the auditor reports instances of noncompliance, this is noted in a paragraph under the heading “Other Matters.” If there is no noncompliance identified, the Other Matters section would be omitted. For an example report that includes “Other Matters,” refer to Example 2 or 3. [↑](#endnote-ref-14)
15. The finding number referenced are from the schedule of findings and questioned costs that are suggested in OMB Uniform Guidance §\_\_\_.516(c). The auditor may consider adding a table to clearly communicate the findings especially if the opinion is qualified.

As describe in Findings 20XX-1 and 20XX-2 in the accompanying schedule of findings and questioned costs, the City of Dogwood did not comply with requirements regarding the following:

|  |  |  |  |
| --- | --- | --- | --- |
| Finding No. | CFDA # | Program (or Cluster) Name | Compliance requirement |
| 20X1-1 | 93.600 | Head Start | Eligibility |
| 20X1-2 | 93.600 | Head Start | Reporting |

Compliance with such requirements is necessary, in our opinion, for the City of Dogwood to comply with the requirements applicable to that program.

If the auditor does not report “Other Matters,” the section can be omitted. [↑](#endnote-ref-15)
16. The auditor may include this paragraph to clarify that the auditor is not providing an opinion on management’s response to the finding. A reference should be made to the Schedule of Finding and Questioned Costs and not to the management response in the corrective action plan. [↑](#endnote-ref-16)
17. The auditor may include an additional paragraph disclaiming an opinion on the corrective action. Below is an example:

The City of Dogwood is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. City of Dogwood 's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

This paragraph is presented in the Report over Internal Controls over Compliance section. [↑](#endnote-ref-17)
18. This section addresses internal control over compliance with requirements that could have a direct and material effect on a major program. Uniform Guidance requires the report to identify any significant deficiencies or material weaknesses in internal control that were noted. The auditor’s determination of whether a deficiency in internal control over compliance is a significant deficiency or material weakness for the purpose of reporting an audit finding is also related to a type of compliance requirement for a major program or an audit objective identified in the OMB *Compliance Supplement* (refer to footnote 1 and 5, example 1).

If an auditor prefers to issue a separate report on internal controls over compliance, this section would be omitted for the report. AU-C 935 includes the requirements for separating reporting of internal controls over compliance. [↑](#endnote-ref-18)
19. AICPA’s Audit Guide, *Governmental Auditing Standards and Single Audits* recommends reporting on the schedule of expenditures of federal and state awards in the report on the financial statements. There may be certain circumstances when the auditor’s report on the schedule is incorporated into the report issued to meet the requirements of Uniform Guidance. Usually this is when the single audit reporting package is issued under separate cover than that of the financial statements. Refer to Example 4 for an illustration of in-relation-to reporting on the schedule of expenditures of federal and state awards. [↑](#endnote-ref-19)
20. This paragraph has been adapted from AU-C section 905, *Alert That Restricts the Use of the Auditor’s Written Communication*, which relates to the reporting on internal control over compliance that is required in an audit of compliance in accordance with Uniform Guidance. [↑](#endnote-ref-20)
21. When the required procedures for reporting on supplementary information have been performed on financial information reported in the financial statements on an earlier date that that of the auditor’s “Report on Compliance for Each Major Federal Program,” the auditor would dual date the report. Illustrative wording for dual dating is as follows:

[Date], except for our report on the Schedule of Expenditures of Federal and State Awards, for which the date is [Date of the Auditor’s Opinion on the Financial Statements]. [↑](#endnote-ref-21)
22. The phrase “types of compliance requirements” used in this report refers to the 13 types of State compliance requirements (identified as “1” through “14”) described in Part 3 of the OMB Compliance Supplement and Section C of the State *Compliance Supplement* for each major State program. For purposes of reporting audit findings, auditors are alerted that certain types of compliance requirements may include multiple audit procedures with multiple audit objectives. If a State program is not included in the State compliance supplement, the auditor should review the program’s contract and grant agreements along with any applicable State statutes, regulations, and the terms and conditions of its State awards, in determining the types of compliance requirements that are direct and material to a major program. [↑](#endnote-ref-22)
23. The authority for single audit requirements for State awards is with the State Single Audit Act of 1996 and G.S. 159-34. The audit requirements for State awards are found in the *Audit Manual for Governmental Auditors in North Carolina*, section 35-E (*Discussion of Single Audit in North Carolina*). [↑](#endnote-ref-23)
24. The auditor’s report on compliance with applicable federal and State statutes, regulations, and the terms and conditions of its federal awards should include an opinion (or disclaimer of opinion) regarding whether the auditee complied with applicable federal and State statutes, regulations, and the terms and conditions of its federal awards that could have a direct and material effect on each major program. [↑](#endnote-ref-24)
25. In situations where the audit of State awards may not encompass the entirety of the auditee’s operations, the operations that are not included should be identified in a separate section with the heading below in the preceding the “Responsibilities of Management for Compliance” section. An example of such paragraph is:

“**Other Matter – State Expenditures Not Included in the Compliance Audit:**

The City of Dogwood's basic financial statements include the operations of the [identify organizational unit, such as a governmental component unit, an operating unit, or a department], which expended [include dollar amount, if known] in State awards which is not included in City of Dogwood's schedule of expenditures of federal awards during the year ended June 30, 20X1. Our compliance audit, described in the "Opinion on Each Major State Program," does not include the operations of [identify organizational unit] because [state the reason for the omission, such as the organizational unit engaged other auditors to per- form an audit of compliance” [↑](#endnote-ref-25)
26. Identifying the specific program(s) is included in the heading in this section, as well as the “Matters(s) Giving Rise to Qualified Opinions” section. [↑](#endnote-ref-26)
27. The auditor may include the names(s) of the federal programs for which the auditor is providing an unmodified opinion in this heading or in the opinion paragraph itself. This example references the finding by the number as suggested in Uniform Guidance §\_\_\_.516(c). [↑](#endnote-ref-27)
28. The heading to this section, and the qualified opinion paragraph that follows, illustrates identifying the specific major programs being referred to in each heading. [↑](#endnote-ref-28)
29. The finding number referenced are from the schedule of findings and questioned costs that are suggested in OMB Uniform Guidance §\_\_\_.516(c). The auditor may consider adding a table to clearly communicate the findings especially if the opinion is qualified.

As describe in Findings 20XX-1 and 20XX-2 in the accompanying schedule of findings and questioned costs, the City of Dogwood did not comply with requirements regarding the following:

|  |  |  |  |
| --- | --- | --- | --- |
| Finding No. | CFDA # | Program (or Cluster) Name | Compliance requirement |
| 20X1-1 | 93.600 | Head Start | Eligibility |
| 20X1-2 | 93.600 | Head Start | Reporting |

Compliance with such requirements is necessary, in our opinion, for the City of Dogwood to comply with the requirements applicable to that program. [↑](#endnote-ref-29)
30. Section 200.516 (a) (2) of Uniform Guidance states that in determining material noncompliance of federal awards related to a major programs, the auditor’s determination of whether a noncompliance with federal and State statutes, regulations, and the terms and conditions of its federal awards is material for the purpose of reporting an audit finding that is in relation to a type of compliance requirement for a major program or an audit objective identified in the OMB *Compliance Supplement* (refer to footnote 1). This would be noted in the schedule of findings and questioned costs. If the auditor reports instances of noncompliance, this is noted in a paragraph under the heading “Other Matters.” If there is no noncompliance identified, the Other Matters section would be omitted. For an example report that includes “Other Matters,” refer to Example 2 or 3. [↑](#endnote-ref-30)
31. The auditor may include this paragraph to clarify that the auditor is not providing an opinion on management’s response to the finding. A reference should be made to the Schedule of Finding and Questioned Costs and not to the management response in the corrective action plan. [↑](#endnote-ref-31)
32. The auditor may include an additional paragraph disclaiming an opinion on the corrective action. Below is an example:

The City of Dogwood is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. City of Dogwood 's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

This paragraph is presented in the Report over Internal Controls over Compliance section. [↑](#endnote-ref-32)
33. This section addresses internal control over compliance with requirements that could have a direct and material effect on a major program. Uniform Guidance requires the report to identify any significant deficiencies or material weaknesses in internal control that were noted. The auditor’s determination of whether a deficiency in internal control over compliance is a significant deficiency or material weakness for the purpose of reporting an audit finding is also related to a type of compliance requirement for a major program or an audit objective identified in the OMB *Compliance Supplement* (refer to footnote 1 and 5).

If an auditor prefers to issue a separate report on internal controls over compliance, this section would be omitted for the report. AU-C 935 includes the requirements for separating reporting of internal controls over compliance. [↑](#endnote-ref-33)
34. AICPA’s Audit Guide, *Governmental Auditing Standards and Single Audits* recommends reporting on the schedule of expenditures of federal and state awards in the report on the financial statements. There may be certain circumstances when the auditor’s report on the schedule is incorporated into the report issued to meet the requirements of Uniform Guidance. Usually this is when the single audit reporting package is issued under separate cover than that of the financial statements. Refer to Example 4 for an illustration of in-relation-to reporting on the schedule of expenditures of federal and state awards. [↑](#endnote-ref-34)
35. This paragraph has been adapted from AU-C section 905, *Alert That Restricts the Use of the Auditor’s Written Communication*, which relates to the reporting on internal control over compliance that is required in an audit of compliance in accordance with Uniform Guidance. [↑](#endnote-ref-35)
36. When the required procedures for reporting on supplementary information have been performed on financial information reported in the financial statements on an earlier date that that of the auditor’s “Report on Compliance for Each Major Federal Program,” the auditor would dual date the report. Illustrative wording for dual dating is as follows:

[Date], except for our report on the Schedule of Expenditures of Federal and State Awards, for which the date is [Date of the Auditor’s Opinion on the Financial Statements]. [↑](#endnote-ref-36)
37. The phrase “types of compliance requirements” used in this report refers to the 13 types of State compliance requirements (identified as “1” through “14”) described in Part 3 of the OMB Compliance Supplement and Section C of the State *Compliance Supplement* for each major State program. For purposes of reporting audit findings, auditors are alerted that certain types of compliance requirements may include multiple audit procedures with multiple audit objectives. If a State program is not included in the State compliance supplement, the auditor should review the program’s contract and grant agreements along with any applicable State statutes, regulations, and the terms and conditions of its State awards, in determining the types of compliance requirements that are direct and material to a major program. [↑](#endnote-ref-37)
38. The authority for single audit requirements for State awards is with the State Single Audit Act of 1996 and G.S. 159-34. The audit requirements for State awards are found in the *Audit Manual for Governmental Auditors in North Carolina*, section 35-E (Discussion of Single Audit in North Carolina). [↑](#endnote-ref-38)
39. The auditor’s report on compliance with applicable federal and State statutes, regulations, and the terms and conditions of its federal awards should include an opinion (or disclaimer of opinion) regarding whether the auditee complied with applicable federal and State statutes, regulations, and the terms and conditions of its federal awards that could have a direct and material effect on each major program. [↑](#endnote-ref-39)
40. In situations where the audit of State awards may not encompass the entirety of the auditee’s operations, the operations that are not included should be identified in a separate section with the heading below in the preceding the “Responsibilities of Management for Compliance” section. An example of such paragraph is:

“**Other Matter – State Expenditures Not Included in the Compliance Audit:**

The City of Dogwood's basic financial statements include the operations of the [identify organizational unit, such as a governmental component unit, an operating unit, or a department], which expended [include dollar amount, if known] in State awards which is not included in City of Dogwood's schedule of expenditures of federal awards during the year ended June 30, 20X1. Our compliance audit, described in the "Opinion on Each Major State Program," does not include the operations of [identify organizational unit] because [state the reason for the omission, such as the organizational unit engaged other auditors to per- form an audit of compliance” [↑](#endnote-ref-40)
41. Section 200.516 (a) (2) of Uniform Guidance states that in determining material noncompliance of federal awards related to a major programs, the auditor’s determination of whether a noncompliance with federal and State statutes, regulations, and the terms and conditions of its federal awards is material for the purpose of reporting an audit finding that is in relation to a type of compliance requirement for a major program or an audit objective identified in the OMB *Compliance Supplement* (refer to footnote 1). This would be noted in the schedule of findings and questioned costs. If the auditor reports instances of noncompliance, this is noted in a paragraph under the heading “Other Matters.” If there is no noncompliance identified, the Other Matters section would be omitted. For an example report that includes “Other Matters,” refer to Example 2 or 3. [↑](#endnote-ref-41)
42. This section addresses internal control over compliance with requirements that could have a direct and material effect on a major program. Uniform Guidance requires the report to identify any significant deficiencies or material weaknesses in internal control that were noted. The auditor’s determination of whether a deficiency in internal control over compliance is a significant deficiency or material weakness for the purpose of reporting an audit finding is also related to a type of compliance requirement for a major program or an audit objective identified in the OMB *Compliance Supplement* (refer to footnote 1 and 5).

If an auditor prefers to issue a separate report on internal controls over compliance, this section would be omitted for the report. AU-C 935 includes the requirements for separating reporting of internal controls over compliance. [↑](#endnote-ref-42)
43. The finding number referenced are from the schedule of findings and questioned costs that are suggested in OMB Uniform Guidance §\_\_\_.516(c). The auditor may consider adding a table to clearly communicate the findings especially if the opinion is qualified.

As describe in Findings 20XX-1 and 20XX-2 in the accompanying schedule of findings and questioned costs, the City of Dogwood did not comply with requirements regarding the following:

|  |  |  |  |
| --- | --- | --- | --- |
| Finding No. | CFDA # | Program (or Cluster) Name | Compliance requirement |
| 20X1-1 | 93.600 | Head Start | Eligibility |
| 20X1-2 | 93.600 | Head Start | Reporting |

Compliance with such requirements is necessary, in our opinion, for the City of Dogwood to comply with the requirements applicable to that program. [↑](#endnote-ref-43)
44. The auditor may include this paragraph to clarify that the auditor is not providing an opinion on management’s response to the finding. A reference should be made to the Schedule of Finding and Questioned Costs and not to the management response in the corrective action plan. [↑](#endnote-ref-44)
45. The auditor may include an additional paragraph disclaiming an opinion on the corrective action. Below is an example:

The City of Dogwood is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. City of Dogwood 's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

This paragraph is presented in the Report over Internal Controls over Compliance section. [↑](#endnote-ref-45)
46. AICPA’s Audit Guide, *Governmental Auditing Standards and Single Audits* recommends reporting on the schedule of expenditures of federal and state awards in the report on the financial statements. There may be certain circumstances when the auditor’s report on the schedule is incorporated into the report issued to meet the requirements of Uniform Guidance. Usually this is when the single audit reporting package is issued under separate cover than that of the financial statements. Refer to Example 4 for an illustration of in-relation-to reporting on the schedule of expenditures of federal and state awards. [↑](#endnote-ref-46)
47. This paragraph has been adapted from AU-C section 905, *Alert That Restricts the Use of the Auditor’s Written Communication*, which relates to the reporting on internal control over compliance that is required in an audit of compliance in accordance with Uniform Guidance. [↑](#endnote-ref-47)
48. When the schedule of expenditures of federal and State awards is presented with the financial statements, the auditor should report on the schedule in an other-matter paragraph. Otherwise, the schedule of expenditures of federal and State awards may be presented in either in a separate report or in the report on compliance and on internal control over compliance required under the Uniform Guidance. [↑](#endnote-ref-48)
49. When the required procedures for reporting on supplementary information have been performed on financial information reported in the financial statements on an earlier date that that of the auditor’s “Report on Compliance for Each Major Federal Program,” the auditor would dual date the report. Illustrative wording for dual dating is as follows:

[Date], except for our report on the Schedule of Expenditures of Federal and State Awards, for which the date is [Date of the Auditor’s Opinion on the Financial Statements]. [↑](#endnote-ref-49)