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Non-Authoritative Practice Aid: Illustrative independent auditor reports based on audits performed in accordance with the Consolidated Audit Guide for Audits of HUD Programs

United States. Department of Housing and Urban Development. Office of Inspector General

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September 1995

NON-AUTHORITATIVE PRACTICE AID

**ILLUSTRATIVE INDEPENDENT AUDITOR REPORTS BASED ON AUDITS PERFORMED
IN ACCORDANCE WITH THE *CONSOLIDATED AUDIT GUIDE FOR AUDITS OF HUD
PROGRAMS* ISSUED BY THE U.S. DEPARTMENT OF HOUSING AND URBAN
DEVELOPMENT, OFFICE OF INSPECTOR GENERAL (JULY 1993 EDITION).**

[*Note:* These reports illustrate the sample reports included in Chapter 2 of the HUD Handbook 2000.04 REV-1 as amended by the 1994 revision to Government Auditing Standards, which was effective for financial audits of periods ending on or after January 1, 1995 (early application is permissible). These illustrative reports are intended to be a non-authoritative practice aid and have not been approved, disapproved, or otherwise acted on by a senior technical committee of the AICPA].

REPORT ON AUDITED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATIONIndependent Auditor's Report

To the Partners
ABC Entity
Anytown, U.S.A.

We have audited the accompanying balance sheet of [Entity] as of June 30, 199X, and the related statements of income, and cash flows (and changes in partners' equity)(and analysis of net worth) for the year then ended. These financial statements are the responsibility of the [Entity's] management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of [Entity] as of June 30, 199X, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated [date of report] on our consideration of [Entity's] internal control structure and a report dated [date of report] on its compliance with laws and regulations.

The accompanying supplementary information (shown on pages XX to XY) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

[Signature]

[Date]

**INDEPENDENT AUDITOR'S REPORT ON THE INTERNAL CONTROL STRUCTURE
(COMBINED REPORT APPLICABLE TO THE FINANCIAL STATEMENTS AND HUD-
ASSISTED PROGRAMS—REPORTABLE CONDITIONS WERE NOTED—NO
MATERIAL WEAKNESSES)¹**

Independent Auditor's Report

[Note: The Consolidated Audit Guide for Audits of HUD Programs (July 1993 edition) illustrates a "combined" report on the internal control structure applicable to the financial statements and HUD-assisted programs. Accordingly, this illustration is a combined report. Auditors should exercise care in issuing such a combined report to assure that the unique requirements in the Guide and varying levels of materiality are met.]

To the Partners
ABC Partnership
Anytown, U.S.A.

We have audited the financial statements of [Entity] as of and for the year ended June 30, 199X, and have issued our report thereon dated [date of report].² We have also audited [Entity's] compliance with requirements applicable to major HUD-assisted programs and have issued our report thereon dated [date of report].

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Consolidated Audit Guide for Audits of HUD Programs* (the "Guide"), issued by the U.S. Department of Housing and Urban Development, Office of the Inspector General in July 1993. Those standards and the Guide require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether [Entity] complied with laws and regulations, noncompliance with which would be material to a major HUD-assisted program.

The management of [Entity] is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting

¹ For guidance on departures from the standard internal control structure report and examples of explanatory paragraphs, the auditor should consult AICPA Statement of Position 92-9, *Audits of Not-for-Profit Organizations Receiving Federal Awards*, Exhibit D-8, and AICPA Audit and Accounting Guide, *Audits of State and Local Governments*, Appendix A, Examples A.26(A) through A.26(E).

² Describe any departure from the standard report.

principles and that HUD-assisted programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audits, we obtained an understanding of the design of relevant internal control structure policies and procedures and determined whether they had been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements of [Entity] and on its compliance with specific requirements applicable to its major HUD-assisted programs and to report on the internal control structure in accordance with the provisions of the Guide and not to provide any assurance on the internal control structure.

We performed tests of controls, as required by the Guide, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements applicable to [Entity's] major HUD-assisted programs. Our procedures were less in scope than would be necessary to render an opinion on such internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements or to administer HUD-assisted programs in accordance with applicable laws and regulations.

[Include paragraphs to describe the reportable conditions noted.]

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited or that noncompliance with laws and regulations that would be material to a HUD-assisted program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of [Entity] in a separate letter dated [date of report].

This report is intended for the information of the audit committee, management, and the Department

of Housing and Urban Development. However, this report is a matter of public record and its distribution is not limited.

[Signature]

[Date]

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE BASED ON AN AUDIT OF FINANCIAL STATEMENTS—NO REPORTABLE INSTANCES OF NONCOMPLIANCE¹

Independent Auditor's Report

[NOTE: This report is not illustrated in the Consolidated Audit Guide for Audits of HUD Programs (July 1993 edition). As noted in the Guide, if the IA considered laws and regulations as part of the audit of the financial statements in addition to those noted in the Guide for which noncompliance could have a direct and material effect on the financial statements, as required by SAS No. 54, Illegal Acts, the auditor should also issue this report in accordance with Government Auditing Standards.]

To the Partners
ABC Partnership
Anytown, U.S.A.

We have audited the financial statements of [Entity] as of and for the year ended June 30, 19X1, and have issued our report thereon dated August 15, 19X1.²

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts and grants applicable to [Entity] is the responsibility of the [Entity's] management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of [Entity's] compliance with certain provisions of laws, regulations, and contracts. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein

¹ For guidance on departures from the standard report on compliance based on an audit of the financial statements and examples of explanatory paragraphs, the auditor should consult AICPA Statement of Position 92-9, Exhibits D-4 through D-7, and AICPA Audit and Accounting Guide, *Audits of State and Local Governments*, Appendix A, Example A.17(B).

² Describe any departure from the standard report.

under *Government Auditing Standards*.^{3 4}

This report is intended for the information of the audit committee, management, and the Department of Housing and Urban Development. However, this report is a matter of public record and its distribution is not limited.

[*Signature*]

[*Date*]

³ See *Government Auditing Standards*, Chapter 5, paragraphs 5.18 and 5.19, for reporting criteria.

⁴ If the auditor has issued a separate letter to communicate irregularities, illegal acts or other noncompliance that do not meet the criteria for reporting in paragraph 5.18 of *Government Auditing Standards*, this paragraph should be modified to include a statement such as the following:

We noted certain immaterial instances of noncompliance that we have reported to the management of [*Entity*] in a separate letter dated August 15, 199X.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH SPECIFIC REQUIREMENTS APPLICABLE TO MAJOR HUD PROGRAMS¹

Independent Auditor's Report

To the Partners
ABC Partnership
Anytown, U.S.A.

We have audited the financial statements of [Entity] as of and for the year ended June 30, 199X and have issued our report thereon dated [date of report].²

We have also audited [Entity's] compliance with the specific program requirements governing (list those requirements tested) that are applicable to each of its major HUD-assisted programs, for the year ended June 30, 199X. The management of [Entity] is responsible for compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Consolidated Audit Guide for Audits of HUD Programs* (the "Guide") issued by the U.S. Department of Housing and Urban Development, Office of Inspector General in July 1993. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about [Entity's] compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, [Entity] complied, in all material respects, with the requirements described above that are applicable to each of its major HUD-assisted programs for the year ended June 30, 199X.

This report is intended for the information of the audit committee, management, and the Department of Housing and Urban Development. However, this report is a matter of public record and its distribution is not limited.

[Signature]

[Date]

¹ For guidance on departures from the standard report on compliance with specific requirements applicable to major programs, the auditors should consult AICPA Statement of Position 92-9, Exhibits D-9 through D-14, and AICPA Audit and Accounting Guide, *Audits of State and Local Governments*, Appendix A, Examples A 18 through A 22.

² Describe any departures from the standard report.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH SPECIFIC REQUIREMENTS
APPLICABLE TO NONMAJOR HUD PROGRAMS TRANSACTIONS**

Independent Auditor's Report

To the Partners
ABC Partnership
Anytown, U.S.A.

We have audited the financial statements of [Entity] as of and for the year ended June 30, 199X, and have issued our report thereon dated [date of report].¹

In connection with our audit of the 199X financial statements of [Entity] and with our consideration of [Entity's] internal control structure used to administer HUD programs, as required by the *Consolidated Audit Guide for Audits of HUD Programs* (the "Guide") issued by the U.S. Department of Housing and Urban Development in July 1993, we selected certain transactions applicable to certain nonmajor HUD-assisted programs for the year ended June 30, 199X. As required by the Guide, we performed auditing procedures to test compliance with the requirements governing [list requirements tested] that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on [Entity's] compliance with these requirements. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under the Guide.²

This report is intended for the information of the audit committee, management, and the Department of Housing and Urban Development. However, this report is a matter of public record and its distribution is not limited.

[Signature]

[Date]

¹ Describe any departures from the standard report.

² If there are instances of noncompliance that are required to be reported under the Guide, this sentence should be deleted and the instances of noncompliance noted should be reported in this paragraph or in an attached schedule.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH SPECIFIC REQUIREMENTS
APPLICABLE TO AFFIRMATIVE FAIR HOUSING**

Independent Auditor's Report

To the Partners
ABC Partnership
Anytown, U.S.A.

We have audited the financial statements of [Entity] as of and for the year ended June 30, 199X, and have issued our report thereon dated [date of report].¹

We have also applied procedures to test [Entity's] compliance with the Affirmative Fair Housing requirements applicable to its HUD assisted programs, for the year ended June 30, 199X.

Our procedures were limited to the applicable compliance requirement described in the *Consolidated Audit Guide for Audits of HUD Programs* (the Guide) issued by the U.S. Department of Housing and Urban Development, Office of Inspector General in July 1993. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on [Entity's] compliance with the Affirmative Fair Housing requirements. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under the Guide.²

This report is intended for the information of the audit committee, management and the Department of Housing and Urban Development. However, this report is a matter of public record and its distribution is not limited.

[Signature]

[Date]

¹ Describe any departure from the standard report.

² If there are instances of noncompliance that are required to be reported under the Guide, this sentence should be deleted and the instances of noncompliance noted should be reported in this paragraph or in an attached schedule.