AUDIT OPINIONS

**(Before Implementation of SAS No. 134 and other related SASs)**

The following sample audit opinions illustrate reports on the basic financial statements to be issued in selected situations. In all cases the auditor should strive to give an unqualified opinion. In situations where this is not possible, the auditor should explain in detail what internal controls or procedures are necessary to issue an unqualified opinion next year. This explanation should be contained in the internal control report or management letter, a copy of which shall be sent to the NC Department of State Treasurer, State and Local Government Finance Division. See the most recent memo regarding the Contract to Audit Accounts for more details and the implications and/or requirements if less than an unqualified opinion is to be issued.

Most of the sample opinions are adapted from the AICPA’s *Audit and Accounting Guide:*  *State and Local Governments*. The combining and individual fund financial statements presented with supporting schedules must be reported on as supplementary data in *Other Information* section or in a separate opinion because the unit and the NC Department of State Treasurer, State and Local Government Finance Division, use this information for monitoring budgetary compliance, preparing bond circulars, evaluating the financial condition, and other purposes.

The Auditing Standards Board of the AICPA has issued SASs No. 134 to 140 that will revise the auditor reports for fiscal years ending on or after December 15, 2021. Early implementation is allowed. The example provided here must not be used for fiscal years ending on or after December 15, 2021.

**Text that is unique to the type of example is noted in GREEN**

**Changes of resent auditing standards or other authoritative sources are noted in BLUE**

**EXAMPLE 1: Unmodified Opinion on Basic Financial Statements Accompanied by Required Supplementary Information, Supplementary Information and Other Information**

**(Before Implementation of SAS No. 134 and other related SASs)**

Independent Auditor’s Report

To the [Highest Elected Official and Governing Board]

City of Dogwood, North Carolina

**Report on the Financial Statements**

We have audited the accompanying 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[[1]](#endnote-1) of City of Dogwood, North Carolina as of and for the year ended June 30, 20X1X, and the related notes to the financial statements, which collectively comprise City of Dogwood’s basic financial statements as listed in the table of contents.[[2]](#endnote-2) [[3]](#endnote-3)

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

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

***Auditor’s Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit.[[4]](#endnote-4) We conducted our audit in accordance with auditing standards generally accepted in the United States of America.[[5]](#endnote-5) 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinions***

In our opinion,4 the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Dogwood, North Carolina as of June 30, 20XX, and the respective changes in financial position, and, where applicable, cash flows[[6]](#endnote-6) thereof and the respective budgetary comparison for the General Fund, [and major, annually budgeted special revenue funds, if applicable][[7]](#endnote-7) for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information[[8]](#endnote-8)*

Accounting principles generally accepted in the United States of America require that Management’s Discussion and Analysis on pages xx through xx, and the Other Post Employment Benefit the Other Postemployment Benefits’ Schedule of Changes in the Total OPEB Liability and Related Ratios, on pages xx through xx and Law Enforcement Officers’ Special Separation Allowance Schedules of Funding Progress and Employer Contributions on pages xx through xx, the Local Government Employees’ Retirement System’s Schedules of the Proportionate Share of the Net Pension Asset (Liability) and Contributions, on pages xx through xx, respectively, and the Firefighter’ and Rescue Squad Worker’s Pension Fund’s Schedule of the Proportionate Share of Net Pension Liability (Asset) on page xx be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information[[9]](#endnote-9)*

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 introductory information, combining and individual nonmajor fund financial statements, budgetary schedules, other schedules, and statistical section are presented for purposes of additional analysis and are

not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, budgetary schedules, and other schedules, are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion,4 the combining and individual nonmajor fund financial statements, budgetary schedules, and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.[[10]](#endnote-10)

The introductory information and the statistical sections have not been subjected to the auditing procedures applied in the audit of basic financial statements, and accordingly, we do not express an opinion or provide assurance on them.9 [[11]](#endnote-11) [[12]](#endnote-12)

[Signature]

[City and State]

[Date

1. The financial statements are identified at the opinion unit level. This sentence should be modified to include only those opinion units which relate to the governmental unit. The financial statements are identified at the opinion unit level. However, if the financial statements do not clearly indicate the major funds, “each major fund” should be replaced with the individual major fund names. The auditor may combine two aggregate opinion units, if both are presented in the financial statements,-(the first one for the aggregate discretely presented opinion unit and the second one for the remaining fund information) as a single opinion unit. If this is done, the auditor’s report should use the term “aggregate discretely presented component unit and remaining fund information.” The terms “aggregate discretely presented component unit” and “aggregate remaining fund information” should not be used separately in the auditor’s report since they have now been combined into one opinion unit. [↑](#endnote-ref-1)
2. If the governmental unit is a component unit of another government, the first sentence of the auditor’s report should be modified; i.e., “We have audited the accompanying 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 Dogwood Travel and Tourism Authority, component unit of City of Dogwood, as of and for the year ended June 30, 20XX, which collectively comprise the Authority’s basic financial statements as listed in the table of contents.” **The reference to the table of contents should be deleted if the financial statements are not listed there and replaced with the appropriate page numbers.** [↑](#endnote-ref-2)
3. If the prior-period financial statements include the minimum information required by GAAP for a complete set of financial statements, the continuing auditor should report on them. Due to the complexity of governmental financial statements, prior-period financial statement information may present comparative information that is condensed or summarized financial information that is not considered to be comparative financial statements. Accordingly, the auditor is not required to opine on such comparative information. Instead the auditor should add an appropriate headed other-matter paragraph to describe the character of the auditors work and the degree of responsibility taken.

**Report on Summarized Comparative Information**

The summarized comparative information presented herein as of and for the year ending June 30, 20XX, derived from those financial statements, has not been audited, reviewed, compiled and, accordingly, we express no opinion on it.

Prior-year information, such as prior-year combining and individual fund information may be included in RSI or SI when prior-year financial statements are not presented. The auditor may choose not to report on such comparative information.

If there has been a change in accounting principle that has a material effect on comparability of the financial statements, a paragraph should be added after the opinions paragraph: Change in Accounting Principle

As discussed in Note X to the financial statements, in 20XX the City adopted new accounting guidance, GASB 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter. [↑](#endnote-ref-3)
4. If the entire opinion unit is audited by another auditor and the primary auditor has chosen not to assume responsibility for the work of the component unit’s auditor, insofar as it relates to the auditor’s opinion on the basic financial statements, appropriate changes should be made to the first *Auditor’s Responsibility* paragraph. Refer to Examples 5 and 6.

The phrase “and the report of the other auditors” should be included the last sentence of the second paragraph of the Supplementary and Information paragraph. The phrase “by us and of other auditors” in second sentence following “United States of America” should also be inserted. Also, any departure from an unqualified opinion on the financial statements of the component units should be disclosed. Refer to Example 5 and 6 [↑](#endnote-ref-4)
5. If the audit is submitted to comply with a legal, regulatory, or contractual requirement for a financial audit in accordance with the Yellow Book, 2011 revision or Uniform Guidance, the auditor’s report should refer to *Government Auditing Standards*; refer to Example 2. Also refer to footnote 12. [↑](#endnote-ref-5)
6. If the financial statements produce one or more financial statements of cash flows, the opinion paragraph should reference cash flows, where applicable. If all funds have cash flows, then remove “where applicable.” If no proprietary funds then reference to cash flows should be deleted. [↑](#endnote-ref-6)
7. The last sentence of the opinion paragraph should agree to the statements with regard to which funds’ budgetary statements are included in the basic financial statements. The General Fund and each major annually budgeted Special Revenue Fund must be listed by name. [↑](#endnote-ref-7)
8. Per AU-C section 730, the auditor’s report on the financial statements should include an other-matter paragraph that refers to the required supplementary information and includes language to explain certain circumstances. The RSI listing the auditor’s report should be tailored for each engagement. If the RSI is omitted, the paragraph on RSI would be replaced with the following:

Management has omitted [state the missing RSI, such as Law Enforcement Officers’ Special Separation Allowance Supplemental Information Analysis for Funding Progress] that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

If the auditor is unable to complete prescribed procedures, the last two sentences of the paragraph with the wording: We were unable to apply certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America because [state the reasons]. We do not express an opinion or provide any assurance on the information. [↑](#endnote-ref-8)
9. This section within “Other Matters” section of the report is intended to include the reporting on supplementary information when the auditor is engaged to provide an “in relation to” opinion on SI and also when explanatory language will be provided relating to Other Information when the auditor is disclaiming an opinion on OI. The SI and the OI listing in the first, second, and third paragraphs of the Supplementary and Other Information section should be tailored for each engagement. The first paragraph references all of the SI and OI presented in the audit report. The second paragraph references the SI on which the auditor issues an “in-relation-to” opinion regarding whether the supplementary information is fairly stated, in material respects, in relation to the financial statements as a whole. The third paragraph references the OI on which the auditor is disclaiming an opinion.

Budgetary schedules, the schedule of ad valorem taxes receivable, and the analysis of current tax levy are required by the NC Department of State Treasurer (NCDST) to be presented as supplementary information. [↑](#endnote-ref-9)
10. This illustration assumes that the auditor has engaged to provide an “in-relation-to” opinion on SI the auditor is issuing an unmodified opinion on the financial statements, and the auditor concluded that SI is fairly stated, in all material respects, in relation to the financial statements as a whole. If there is no SI, then references to SI in these paragraphs would be deleted.

When reporting on supplementary information, the auditor should consider the effect of any modifications to the report on the basic financial statements. Furthermore, if the report on supplementary information is anything other than unqualified, this paragraph should be modified. Refer to AU-C section 725 for guidance. [↑](#endnote-ref-10)
11. The last sentence of this paragraph which disclaims an opinion on the other information included in the reports is optional. If the auditor chooses not to include this wording no references to other information needs to be made in the sentence of this paragraph. AU-C section 720 addresses the auditor’s responsibility in relation to other information in documents containing audited financial statements and the auditor’s report. The auditor is not required to determine if other information is properly stated or reference the other information in the auditor’s report. [↑](#endnote-ref-11)
12. AU-C section 700, Paragraph .37 of AU-C, provides that the section related to an auditor’s other reporting responsibilities should be subtitled “report on Other Legal and Regulatory Requirements” or otherwise, as appropriate to the contents of this section. An example of an alternative title would be describing the reporting requirements by audits performed under Governmental Auditing Standards. Refer to Example 2. [↑](#endnote-ref-12)