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 9: Report on Basic Financial Statements That Include Multiple Opinion Modifications, Including an Adverse Opinion Because a Major Fund is Omitted[[1]](#endnote-1)**

**(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 (except as described below), and the aggregate remaining fund information [[2]](#endnote-2) of City of Dogwood, North Carolina 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 as listed in the table of contents.[[3]](#endnote-3) [[4]](#endnote-4)

***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.[[5]](#endnote-5) We conducted our audit in accordance with auditing standards generally accepted in the United States of America.[[6]](#endnote-6) 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.

***Basis for Adverse Opinion on [the Omitted Fund] and Qualified Opinion on Business-Type Activities[[7]](#endnote-7) [[8]](#endnote-8)***

Management has not included [the Omitted Fund] in the City of Dogwood’s financial statements. Accounting principles generally accepted in the United States of America require [Omitted Fund] to be presented as a major enterprise fund and financial information about [Omitted Fund] to be part of the business-type activities, thus increasing that activity’s assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, and expenses, and changing its net position. The amount by which this departure would affect the assets, deferred outflows of resources, fund balances, liabilities, deferred inflows of resources, net position, revenues, and expenses of the Business-Type activities and the [the omitted major fund] has not been determined.

***Adverse Opinion***

In our opinion, because of the significance of the matter described in the “Basis for Adverse Opinion on [Omitted Fund] and Qualified Opinion on Business-Type activities” paragraph, the financial statements referred to above do not present fairly, the financial position of [the Omitted Fund] of the City of Dogwood, as of June 30, 20XX or the changes in financial position or cash flows thereof for the year then ended.

***Qualified Opinion[[9]](#endnote-9)***

In our opinion, except for the matter described in the “Basis for Adverse Opinion on [Omitted Fund] and Qualified Opinion on Business-Type Activities” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the City of Dogwood as of June 30, 20XX, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Basis for Qualified Opinions on Governmental Activities and [Major Governmental Funds Affected]***

As discussed in Note X to the financial statements, management has not recorded a liability for compensated absences in governmental activities and, accordingly, has not recorded an expense for the current period change in that liability. Accounting principles generally accepted in the United States of America require that compensated absences attributable to employee services already rendered and that are not contingent on a specific event that is outside the control of the employer and the employee be accrued as liabilities and expenses as employees earn the rights to the benefits, which would increase the liabilities, reduce the net position, and change the expenses of the governmental activities. The amount by which this departure would affect the liabilities, net position, and expenses of the governmental activities has not been determined.

In addition, management has not adopted a methodology for reviewing the collectability of taxes receivable in the [major governmental funds affected] and in governmental activities and, accordingly, has not considered the need to provide an allowance for uncollectable amounts. Accounting principles generally accepted in the United States of America require that an adequate allowance be provided for uncollectable receivables, which would decrease the assets, fund balances, and net position, and change the revenues in the [major governmental fund affected] and in governmental activities. The amount by which this departure would affect the assets, fund balances, net position, and revenues of the [major governmental funds affected] and governmental activities has not been determined.

***Qualified Opinions***

In our opinion, except for the matters described in the “Basis for Qualified Opinions on Governmental Activities and [Major Governmental Funds Affected]” paragraph, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities and the [major governmental funds affected] of the City of Dogwood as of June 30, 20XX, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Unmodified Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the aggregate discretely presented component units, [include any major funds not affected by the above adverse and qualified opinions], and the aggregate remaining fund information of the City of Dogwood, as of June 30, 20XX, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the [refer to the appropriate governmental fund(s)] year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information[[10]](#endnote-10)***

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 Postemployment Benefits’ Schedule of Changes in the Total OPEB Liability and Related Ratios, on page 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.

***Supplementary and Other Information[[11]](#endnote-11)***

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 relate directly to the underlying accounting and other records used to prepare the basic financial statements. Because of the significance of the matters described in the “Basis for Adverse Opinion on [Omitted Fund]” and the “Basis for Qualified Opinion on Governmental Activities and [Major Governmental Funds Affected]” paragraphs, collectability as discussed previously, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.[[12]](#endnote-12)

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. [[13]](#endnote-13)

 [Signature]

[City and State]

[Date]

1. The first five paragraphs and their respective headings are the same as a standard unmodified report. [↑](#endnote-ref-1)
2. 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-2)
3. 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-3)
4. R 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-4)
5. 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 unqualifi [↑](#endnote-ref-5)
6. 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act, the auditor’s report should refer to *Government Auditing Standards*; refer to Example 2. Also refer to footnote 12. [↑](#endnote-ref-6)
7. It is GAAP departure if one or more major funds are not reported as major in the fund financial statements. If a major fund is improperly included in the nonmajor fund information, its impact on the aggregate remaining fund information opinion unit should also be assessed. This example assumes that the auditor has concluded that a qualified opinion unit affected by the omitted major fund (business-type activity) is appropriate. Another auditor could have a different professional opinion. [↑](#endnote-ref-7)
8. The Basis for Adverse Opinion on [Dogwood Fund] and Qualified Opinion on Business-Type Activities paragraph explains the reason and impact of GAAP departures. [↑](#endnote-ref-8)
9. The opinion units without the adverse opinion are referenced in the Qualified and/or Unmodified opinion paragraphs. [↑](#endnote-ref-9)
10. 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-10)
11. 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-11)
12. If the report on supplementary information is anything other than unqualified, this paragraph should be modified. This sentence should be used if the auditor is issuing an adverse opinion on the financial statements. [↑](#endnote-ref-12)
13. 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-13)