LETTERHEAD OF INDEPENDENT AUDITOR

Independent Auditor’s Report[[1]](#endnote-1)

To the Board of County Commissioners

Carolina County, North Carolina

**Report on the Audit of Financial Statements**

***Opinions***

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[[2]](#endnote-2),[[3]](#endnote-3) of Carolina County, North Carolina, as of and for the year ended June 30, 20XX [[4]](#endnote-4) and the related notes to the financial statements, which collectively comprise Carolina County’s basic financial statements as listed in the table of contents. [[5]](#endnote-5)

In our opinion, based upon our audit and the report of the other auditors,[[6]](#endnote-6) the accompanying 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 Carolina County as of June 30, 20XX, and the respective changes in financial position, and cash flows [where applicable][[7]](#endnote-7) thereof and the respective budgetary comparison for the General Fund [and major, annually budgeted special revenue funds, if applicable], for the year then ended in accordance with accounting principles generally accepted in the United States of America.[[8]](#endnote-8)

We did not audit the financial statements of both Carolina County Hospital, Inc. and Carolina County ABC Board, which represent XX.X percent, XX.X percent, and XX.X percent of the assets, net position, and revenues, respectively, of the aggregate discretely presented component units. as of June 30, 20XX, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Carolina County Hospital, Inc. and Carolina County ABC Board, is based solely on the report of the other auditors.6

***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.[[9]](#endnote-9) Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Carolina County and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions. The financial statements of Carolina County ABC Board were not audited in accordance with *Governmental Auditing Standards**.[[10]](#endnote-10) [[11]](#endnote-11) [[12]](#endnote-12) [[13]](#endnote-13)*

***Responsibilities of Management for the Audit of 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raises substantial doubt about the Carolina County’s ability to continue as a going concern for the twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

***Auditor’s Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinions. 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 and *Governmental Auditing Standards 9* will always detect material statement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that , individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAASand *Governmental Auditing Standards 9* we

* exercised professional judgement and maintained professional skepticism throughout the audit.
* identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsible to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
* obtain an understanding of internal control relevant to the audit 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 Carolina County’s internal control. Accordingly, no such opinion is expressed.
* evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
* conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Carolina County’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

***Required Supplementary Information****[[14]](#endnote-14)*

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 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, be presented to supplement the basic financial statements. Such information is the responsibility of management, 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 and other auditors 6 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consist 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 Information****[[15]](#endnote-15)*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Carolina County’s basic financial statements. The combining and individual fund financial statements, budgetary schedules, other schedules,[[16]](#endnote-16) as well as the accompanying schedule of expenditures of federal and state awards as required by 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[[17]](#endnote-17) are presented for purposes of additional analysis and are 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 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 by us and other auditors.6 In our opinion, based on our audit, the procedures performed as described above, and the report of other auditors 6 the combining and individual fund financial statements, budgetary schedules, other schedules and the schedule of expenditures of federal and state awards17 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***Other Information*** [[18]](#endnote-18)

Management is responsible for the other information included in the annual report. The other information comprises the introductory information and the statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

**Other Reporting Required by *Government Auditing Standards***[[19]](#endnote-19)

In accordance with *Government Auditing Standards*, we have also issued our report dated [date of report] on our consideration of the Carolina County’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Carolina County’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Carolina County’s internal control over financial reporting and compliance.9

*[Signature]*

*[City and State]*

*[Date]*

1. This example has been adapted from 2021 AICPA’s *Audit & Accountant Guide: State and Local Governments* Chapter 16, Appendix A and reflects the reporting requirements of local governments and public authorities in North Carolina by the NC Department of State Treasurers State and Local Government Finance Division.

The following sample has incorporated the AICPA Auditing Standards Board’s SASs No. 134 to 140 that revises the auditor reports beginning with fiscal years ending on or after December 15, 2021. Early implementation is allowed for audits issued prior to the implementation date. [↑](#endnote-ref-1)
2. If the governmental unit is a component unit of another government and issues its own financial statements, the first sentence of the auditor’s report for the component unit’s financial statements should be modified; i.e., “We have audited the accompanying financial statements of the governmental activities and the major fund of Carolina Travel and Tourism Authority, component unit of Carolina County, 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.” [↑](#endnote-ref-2)
3. 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.

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 aggregate 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-3)
4. If the prior-period financial statements include the minimum information required by GAAP for a complete set of financial statements, the current 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 auditor’s work and the degree of responsibility taken.

**Report on Summarized Comparative Information**

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:

“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.”

 [↑](#endnote-ref-4)
5. 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-5)
6. This example shows opinion units that have been audited by another auditor in their entirety. In this example, Carolina County has two component units, Carolina County Hospital, Inc. and Carolina County ABC Board that were audited by the same auditor in their entirety, respectively, and therefore 100 percent of the assets, net position and revenues of the opinion unit are represented. The information on the percentage of the opinion unit is not necessary since this is obviously 100 percent.

Appropriate changes to this sentence should be made when the entire opinion unit is **not** audited by another auditor, and the group auditor has chosen not to assume responsibility for the work of the other auditor, insofar as it relates to the auditor’s opinion on the basic financial statements. For example, “We did not audit the financial statements of the Sewer Enterprise Fund, which represent XX percent, YY percent, and ZZ percent, respectively, of the assets, net position, and revenues of the business-type activities.” However, the report still should indicate in the “Auditor’s Responsibility” section the group engagement auditor’s responsibility for auditing that opinion unit. The group engagement auditor should also express or disclaim an opinion on the opinion unit in the “Opinion” section of the report. [↑](#endnote-ref-6)
7. 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-7)
8. North Carolina local governments are required to present annually budgetary statements in the basic financial statements. The last sentence of the opinion paragraph should agree with 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-8)
9. For financial audits performed in accordance to *Governmental Auditing Standards*, chapters 1 – 6 of *Governmental Auditing Standards* apply. [↑](#endnote-ref-9)
10. A statement should be inserted if a material component unit or fund is not required to have an audit performed under *Governmental Auditing Standards*, and one is not performed even though the primary government had an audit performed in accordance to *Governmental Auditing Standards.* The following statement should be entered as a third sentence of the paragraph: “The financial statements of [name of component unit or fund] were not audited in accordance with *Governmental Auditing Standard.*” [↑](#endnote-ref-10)
11. 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 basis of opinions paragraph:

**Change in Accounting Principle:** “As discussed in Note X to the financial statements, in 20XX the County adopted new accounting guidance, GASB Statement No. 87*, Leases*. Our opinion is not modified with respect to this matter.” [↑](#endnote-ref-11)
12. **Going Concern:** When performing risk assessment, the auditor should consider whether there are conditions or events, considered in the aggregate, that raise substantial doubt about an entity’s ability to continue as a going concern for a reasonable period of time. If substantial doubt has been raised, the auditor should consult guidance found in AU-C §570, including discussing with management and determining if adequate note disclosures are included in the audit. The auditor may determine that a “Substantial Doubt About the Entity’s Ability to Continue as a Going Concern” paragraph is necessary. [↑](#endnote-ref-12)
13. **Emphasis of Matter paragraph:** If required by GAAS or the auditor considers it necessary to draw users' attention to a matter appropriately presented or disclosed in the financial statements that, in the auditor's professional judgment, is of such importance that it is fundamental to users' understanding of the financial statements, the auditor should refer to AU-C §706 and include an emphasis-of-matter paragraph in the auditor's report, provided that the matter does not result in a modified opinion. The paragraph should fully describe the matter in the financial statements. This paragraph is not a substitute for a modified opinion, and the paragraph should note that the opinion is not modified. Circumstances in which it is necessary to include an emphasis of mater paragraph: 1) uncertainty related to future outcome of unusually important legislation or regulatory action, 2) significant subsequent event, 3) a major catastrophe that affect the entity’s financial position or results of operations, or 4) significant transaction of related parties. **Other-Matter paragraph**: If required by GAAS or included at the auditor’s discretion to draw user’s attention to any matters other than those presented or disclosed in the financial statements that are relevant to users understanding of the audit, the auditor’s responsibilities, or the auditor’s report. An other-matter paragraph is required if laws, regulation, or generally accepted practice may require or permit the auditor to elaborate on matters or when the auditor is unable to withdraw from an engagement (refer to AU-C §706). [↑](#endnote-ref-13)
14. Per AU-C § 730, the auditor’s report on the financial statements should include a separate section that refers to the supplementary information that GAAP requires to accompany the financial statements, such as MD&A, Pension and OPEB schedules, if applicable. Common RSI schedules applicable to North Carolina Counties are included in this example. The RSI listing in the auditor’s report should be tailored for each engagement. This RSI section of the report illustrates a situation where the auditor has applied the specified procedures, and no material departures from prescribed guidelines have been identified. 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-14)
15. 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-15)
16. Combining and individual fund financial statements, budgetary schedules, the schedule of ad valorem taxes receivable, and the analysis of current tax levy are required by the State and Local Government Finance Division (NCDST) to be presented as supplementary information. [↑](#endnote-ref-16)
17. Guidance found in AICPA’s Accounting and Auditing Guide: State and Local Governments recommend combining the reporting on the schedule of expenditures of federal and state awards (SEFSA) with the reporting on the financial statements. However, if the SEFSA is issued under a separate cover, and therefore not presented with the basic financial statements, reference to the SEFSA in the auditor’s report should be deleted. Reporting on the SEFSA should be included either in the Uniform Guidance Single Audit report and the State Single Audit report or it could be contained in a stand-alone report.

When a federal or State single audit is performed in accordance with the Uniform Guidance or State Single Audit Act subsequent to the financial statement audit, the required procedures on the SEFSA may not be completed until after the date of the auditor’s report on the financial statement. If the in-relation-to reporting on the SEFSA is included in the financial statement report, the auditor would dual-date the financial statement report. The auditor may also consider including the in-relation-to reporting on the SEFSA in a separate report or in the auditor's reporting issued to meet the requirements of the Uniform Guidance. As noted in AU-C section 725, the date of the auditor's report on SI in relation to the financial statements as a whole should not be earlier than the date on which the auditor completed the required procedures required by AU-C section 725. [↑](#endnote-ref-17)
18. The auditor’s reporting on Other Information (OI) is described in AU-C §720. Although not a required part of the basic financial statements, the auditor is required to perform certain procedures on OI. The most common OI is the introductory information and statistical sections when an Annual Comprehensive Financial Report is issued, that is obtained prior to the date of the auditor’s report. In this example, the auditor has applied procedures and no uncorrected material misstatement of the OI exists. If the auditor has determined that an uncorrected material misstatement of the OI exists or if the auditor issued an opinion, other than unmodified on the financial statements, the auditor should refer to the guidance in AU-C §720. [↑](#endnote-ref-18)
19. AU-C section 700, Paragraph .37 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* as is illustrated here. [↑](#endnote-ref-19)