AUDIT OPINIONS

**(Incorporates the 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 *Supplementary 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 following sample has incorporated the AICPA Auditing Standards Board’s SAS Nos. 134 to 140, to be used that revises the auditor reports for fiscal years ending on or after December 15, 2021. Early implementation is allowed for audits issued on year prior to the implementation date of 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 4: Adverse Opinion [[1]](#endnote-1) on Basic Financial Statements That Omit Certain General Infrastructure Assets**

**(Includes SAS No. 134 and other related SASs requirements)**

Independent Auditor’s Report

To the [Highest Elected Official and Governing Board]

City of Dogwood, North Carolina

***Adverse and Unmodified Opinions[[2]](#endnote-2)***

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 [[3]](#endnote-3) 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.[[4]](#endnote-4) [[5]](#endnote-5)

*Summary of Opinions [[6]](#endnote-6)*

|  |  |
| --- | --- |
| ***Opinion Unit*** | ***Type of Opinion*** |
| Governmental Activities | Adverse |
| Business Type Activities | Unmodified |
| Aggregate Discretely Presented Component Units | Unmodified |
| Governmental Fund A | Unmodified |
| Governmental Fund B | Unmodified |
| Governmental Fund C | Unmodified |
| Enterprise Fund X | Unmodified |
| Enterprise Fund Z | Unmodified |
| Aggregate Remaining Fund Information | Unmodified |

*Adverse Opinion on Governmental Activities [[7]](#endnote-7)*

In our opinion, because of the significance of the matter described in the “Basis for Adverse Opinion and Unmodified Opinions” section of our report, the accompanying financial statements referred to above do not present fairly the financial position of the business type activities of the of the City of Dogwood, North Carolina, as of June 30, 20XX, or the changes in financial position or cash flows 8 thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Unmodified Opinions on the Business Type Activities, Aggregate Discretely Presented Component Units, Each Major Fund, and the Aggregate Remaining Fund Information*

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, [*major funds not affected by the previously described adverse and qualified opinions*], and the aggregate remaining fund information of the City of Dogwood, North Carolina, as of June 30, 20XX, and the respective changes in financial position and, where applicable, cash flows [[8]](#endnote-8) thereof and the respective budgetary comparison for the General Fund, [and major, annually budgeted special revenue funds, if applicable] [[9]](#endnote-9) for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Basis for*** ***Adverse and Unmodified Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS).[[10]](#endnote-10) Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Auditor’s Responsibility for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Dogwood, 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 adverse and unmodifiedaudit opinions.[[11]](#endnote-11)

*Matter Giving Rise to Adverse Opinion on Governmental Activities*

As discussed in Note X to the financial statements, management has not recorded certain general infrastructure assets in governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require those infrastructure assets to be capitalized and depreciated, which would increase the assets and net position and change the expenses of governmental activities. The amount by which this departure would affect the assets, net position, and expenses of the governmental activities has not been determined. [[12]](#endnote-12)

***Responsibility of Management’s*** ***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 City of Dogwood’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 Responsibility 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 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 GAAS, 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 City of Dogwood’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 City of Dogwood’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***

*Most NC Local Governments have Required Supplementary Information (RSI) and the information and auditor’s responsibility should be presented here. Refer to Example 1 for illustrative wording and footnote explanation.*

***Supplementary Information***

*Most NC Local Governments have Supplementary Information (SI) and the information and auditor’s responsibility should be presented here. Refer to Example 1 for illustrative wording and footnote explanation.*

***Other Information***

*NC Local Governments that issue Annual Comprehensive Financial Reports (ACFR) will have Other Information (OI) and the information and auditor’s responsibility should be presented here. Refer to Example 1 for illustrative wording and footnote explanation.*

***Report on Other Legal and Regulatory Requirements [[13]](#endnote-13)***

*The form and content of this section of the auditor’s report would vary depending on the nature of the auditor’s other reporting responsibilities.*

[Signature]

[City and State]

[Date]

1. If an auditor obtains sufficient appropriate audit evidence concludes that misstatements, both individually or in the aggregate, are both material and pervasive to the financial statements, the auditor should express an adverse opinion (AU-C §705.09). An adverse opinion states that the financial statements for an opinion unit (for the financial statements as a whole if more than one opinion unit) do not present fairly the financial position, changes in financial position, or where applicable, cash flows in accordance with GAAP. When the auditor expresses an adverse opinion for an opinion unit, the auditor’s report describes the matter giving rise to the modification in the “Basis for Opinion.” [↑](#endnote-ref-1)
2. If an audit was performed under *Governmental Auditing Standards*, a “Report on the Audit of the Financial Statements” heading would precede the Opinion heading. This heading would also be used if the auditor’s report contains a separate section “Report on Other Legal and Regulatory Requirements” that addresses other reporting responsibilities. [↑](#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, and the major fund, 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.” [↑](#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 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. [↑](#endnote-ref-4)
5. If there is no table of contents, then either delete the reference. Page numbers of the financial statements could be referenced. [↑](#endnote-ref-5)
6. Though not required under AU-C §700, a table may be presented to assist users in better understanding the report. [↑](#endnote-ref-6)
7. This heading states the identifying opinion unit(s) to which the modification (adverse) applies to clearly communicate the opinion unit(s) associated with the modification (adverse opinion). [↑](#endnote-ref-7)
8. 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-8)
9. 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-9)
10. If the audit is submitted to comply with a legal, regulatory, or contractual requirement for a financial audit in accordance with the Yellow Book, 2018 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-10)
11. **Emphasis of Matter or Other Matters paragraph:** Since this is report has an Adverse Opinion, Emphasis-of-Matter paragraphs are included. For an explanation on when to use an emphasis-of-matter paragraph or other matters paragraph, refer to Example 1, footnote 13. [↑](#endnote-ref-11)
12. The matter giving rise to the modification (adverse opinion) describes the matter and the reason and impact of the departure. If the misstatement relates to specific amounts in the financial statements or note disclosures, the description should include quantification of the financial statement effects of the misstatements, unless impracticable. [↑](#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)