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 8: Unqualified Opinion on the Basic Financial Statements of a Special Purpose Government That Has a Single Opinion Unit Engaged in Business-Type Activities Only- Single Audit Published Under Same Cover [[1]](#endnote-1)**

**(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

***Opinions[[2]](#endnote-2)***

We have audited the accompanying basic financial statements of the governmental activities and the major fund of Cardinal Water and Sewer Authority, [[3]](#endnote-3) North Carolina as of and for the year ended June 30, 20XX, and the related notes to the financial statements, which collectively comprise the Cardinal Water and Sewer Authority’s basic financial statements as listed in the table of contents. [[4]](#endnote-4) [[5]](#endnote-5)

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Cardinal Water and Sewer Authority as of June 30, 20X1, and the respective changes in financial position and cash flows [[6]](#endnote-6) thereof and the respective budgetary comparison [[7]](#endnote-7) for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***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. [[8]](#endnote-8) 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 Cardinal Water and Sewer Authority, 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. [[9]](#endnote-9) [[10]](#endnote-10) [[11]](#endnote-11)

***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 Cardinal Water and Sewer Authority’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 and *Governmental Auditing Standards 8* 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 and *Governmental Auditing Standards 8*, 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 Cardinal Water and Sewer Authority’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 Cardinal Water and Sewer Authority’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***

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 be presented to supplement the basic financial statements. Such information is the responsibility of management and , 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 Information***

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 combining and individual nonmajor fund financial statements and budgetary schedules [[12]](#endnote-12) as well as the accompanying schedule of expenditures 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 [[13]](#endnote-13) 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. This 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, 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

***Other Information[[14]](#endnote-14)***

*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***

In accordance with *Government Auditing Standards*, we have also issued our report dated [date of report] on our consideration of the Cardinal Water and Sewer Authority 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 Cardinal Water and Sewer Authority 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 Cardinal Water and Sewer Authority County’s internal control over financial reporting and compliance. ***[[15]](#endnote-15)***

[Signature]

[City and State]

[Date]

1. This example is a Special-purpose government that is a proprietary (business-type) government. It is engaged only in a proprietary activity (water and sewer ) and has a single opinion unit. It requires a State Single Audit. [↑](#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. If the unit is a proprietary (business-type) unit of government and 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. 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-7)
8. 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-8)
9. 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-9)
10. **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-10)
11. **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-11)
12. Combining and individual fund financial statements and budgetary schedules are required by the State and Local Government Finance Division (NCDST) to be presented as supplementary information. [↑](#endnote-ref-12)
13. 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 so, 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-13)
14. The auditor’s reporting on Other Information (OI) is described in AU-C §720. Although not 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. [↑](#endnote-ref-14)
15. 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-15)