

- NOTE: The illustrative reports included here represent only a portion of the reports from chapter 14 of the AICPA's Audit and Accounting Guide, State and Local Governments (SLG Guide).
- Purchase the 2013 edition of the SLG Guide to access the full set of examples.

## Appendix A—Illustrative Auditor's Reports

### 14.103

**A-1** This appendix illustrates auditor's reports in specific situations discussed in this chapter. Auditors should modify the illustrative reports as needed in different situations, using selected elements of the illustrative reports where appropriate. The following list describes conditions that may make modifications necessary. Other conditions that may make modifications necessary are described in the footnotes to the illustrative reports:

- The illustrative auditor's reports cover a single year. [Paragraphs 14.45–51](#) discuss modifications to the auditor's report on the basic financial statements when those financial statements include information from a prior period.
- Within many of the illustrative auditor's reports there are references to both "basic financial statements" and "financial statements." There is an intended distinction for when each term is used because of the nature of governmental audits. That is, while the government prepares basic financial statements as defined by Governmental Accounting Standards Board (GASB) (see [chapter 2](#), "Financial Reporting," of this guide for a detailed description of the basic financial statements), the auditor expresses an opinion or disclaims an opinion on each opinion unit (see [chapter 4](#), "General Auditing Considerations," and [paragraphs 14.04–.11](#) for more information on opinion units). Therefore, when the term "financial statements" is used within the report illustrations it is generally a reference to the financial statements of each opinion unit.
- The auditor's report may need to separately name each individual major fund rather than refer to "each major fund." See [paragraph 14.16](#).
- The introductory and opinion paragraphs should list only the opinion units presented in the financial statements. As discussed in [paragraph 14.04](#), under certain circumstances, the auditor may choose to combine the two aggregate opinion units—the one for the aggregate discretely presented component units and the one for the aggregate remaining fund information—as a single opinion unit. If that is done, the terms *aggregate discretely presented component units* and *aggregate remaining fund information* should not be used in the auditor's report, for example, as shown in [example A-1](#). Instead, the auditor's report should use the term *aggregate discretely presented component units and remaining fund information*.
- Illustrative auditor's reports on governmental financial statements conducted in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* (also referred to as the Yellow Book), issued by the Comptroller General of the United States are discussed in detail in the AICPA Audit Guide [Government Auditing Standards and Circular A-133 Audits](#), but [footnote 3](#) to example A-1 provides the necessary modifications for such reporting.
- If a government presents required budgetary comparison information as basic financial statements instead of as required supplementary information (RSI), the opinion paragraph should be modified to refer to the budgetary comparison in the manner shown in [footnote 4](#).

- Based on the guidance in [paragraphs .17–.22](#) of AU-C section 705, *Modifications to the Opinion in the Independent Auditor’s Report* (AICPA, *Professional Standards*), a basis for modification paragraph should describe the matter giving rise to the qualified or adverse opinion on the financial position, changes in financial position, and, where applicable, cash flows for an opinion unit, and quantification of the financial effects of misstatements, unless impracticable. [Paragraphs .18](#) and [.A24](#) of AU-C section 705 describes when obtaining that information is practicable. If it is not practicable to quantify the effects, the auditor should so state in the basis for modification paragraph, as shown in other examples in this appendix.
- The opinion paragraph should refer to cash flows only if the financial statements are required to present one or more statements of cash flows. If only some opinion units are required to present statements of cash flows, the opinion paragraph should refer to "where applicable, cash flows."
- Because of the GASB requirement that financial statements be accompanied by management discussion and analysis, most governmental financial statements are required to present RSI. A government’s financial statements also may be accompanied by supplementary information (SI), other information (OI), or both. [Paragraphs 14.63–.84](#) discuss auditor reporting for RSI, SI, and OI. (See in particular the other-matter language in [paragraph 14.68](#) if RSI is omitted and the discussion in [paragraph 14.86](#) concerning an "in relation to" opinion on prior-year SI when prior-year financial statements are not presented.) [Examples A-1](#) and [A-9](#) illustrate auditor reporting on RSI and SI and assumes that the auditor is engaged to issue an "in relation to" opinion on SI. In addition, [example A-14](#) illustrates unmodified opinions on combining and individual fund financial statements presented as "GASB defined" supplementary information.

**A-2** The illustrative reports in this appendix are as follows:

[Example A-1](#) — Unmodified Opinions on Basic Financial Statements Accompanied by Required Supplementary Information and Other Information

[Example A-2](#) — Unmodified Opinion on the Basic Financial Statements of a Special-Purpose Government That Has a Single Opinion Unit

[Example A-3](#) — Unmodified Opinions on the Basic Financial Statements of a Special-Purpose Government That Has One Opinion Unit for the Primary Government and Another Opinion Unit for Its Aggregate Discretely Presented Component Units

[Example A-4](#) — Report on Basic Financial Statements That Includes a Qualified Opinion Because One (But Not All) Discretely Presented Component Units Are Not Audited

[Example A-5](#) — Report on Basic Financial Statements That Includes Qualified Opinions on Major Governmental Funds Because of a GAAP Departure

[Example A-6](#) — Report on Basic Financial Statements That Includes an Adverse Opinion on the Governmental Activities Because Certain General Infrastructure Assets Are Omitted

[Example A-7](#) — Report on Basic Financial Statements That Includes an Adverse Opinion on the Governmental Activities Because Compensated Absences Are Omitted

[Example A-8](#) — Report on Basic Financial Statements That Presents an Adverse Opinion on the Financial Statements as a Whole Because the Government-Wide Financial Statements Are Omitted

[Example A-9](#) — Unmodified Opinions on Basic Financial Statements Accompanied by Required Supplementary Information and Other Information With Reference to an Audit by Another Auditor

[Example A-10](#) — Report on Basic Financial Statements That Includes Multiple Opinion Modifications, Including an Adverse Opinion Because a Major Fund Is Omitted

[Example A-11](#) — Unmodified Opinions on the Basic Financial Statements of a Primary Government That Omits the Financial Data of Each Component Unit and That Issues Audited Financial Statements for the Reporting Entity

[Example A-12](#) — Report on the Basic Financial Statements of a Primary Government That Omits the Financial Data of Each Component Unit and That Does Not Issue Audited Financial Statements for the Reporting Entity

[Example A-13](#) — Unmodified Opinions on Basic Financial Statements and on Additional Detail Presented in the Basic Financial Statements

[Example A-14](#) — Unmodified Opinions on Basic Financial Statements and on Combining and Individual Fund Financial Statements Presented as "GASB Defined" Supplementary Information

[Example A-15](#) — Unmodified Opinion on General Fund Financial Statements

[Example A-16](#) — Unmodified Opinions on Departmental Financial Statements

[Example A-17](#) — Report on Separately Issued Summary Financial Information Prepared in Accordance With the Guidance in [Paragraph 14.82](#)

## Consideration of the Standards of the Public Company Accounting Oversight Board<sup>fn 1</sup>

**A-3** Optional language may be added to the auditor's report on the financial statements to clarify that an audit conducted in accordance with generally accepted auditing standards does not require the same level of testing and reporting on internal control over financial reporting as an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB).

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<sup>fn 1</sup> Auditors engaged to examine internal control for a nonissuer, which does not fall under Public Company Accounting Oversight Board (PCAOB) standards, are directed to [Statement on Standards for Attestation Engagements \(SSAE\) No. 15, An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements](#) (AICPA, Professional Standards, AT sec. 501). [SSAE No. 15](#) converges the standards used to report on a nonissuer's internal control with [PCAOB Auditing Standard No. 5, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements](#) (AICPA, PCAOB Standards and Related Rules, Auditing Standards). Additional information for audits conducted in accordance with *Government Auditing Standards* can be found in the AICPA Audit Guide [Government Auditing Standards](#) and *Circular A-133 Audits*.

**A-4** While uncommon, if the auditor is engaged to audit and report on the effectiveness of a governmental entity's (that is, nonissuer's) internal control over financial reporting in accordance with PCAOB auditing standards, the auditor may choose to issue a combined report or separate reports on the entity's financial statements and on internal control over financial reporting. Refer to [paragraphs 85–98](#) of PCAOB Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements* (AICPA, *PCAOB Standards and Related Rules*, Auditing Standards), for direction about reporting on internal control over financial reporting. In addition, see [appendix C](#), "Special Reporting Situations," of PCAOB Auditing Standard No. 5.

- a. If the auditor issues separate reports on the entity's financial statements and on internal control over financial reporting as permitted by PCAOB standards, the following paragraph should be added to the auditor's report on the entity's financial statements.

"We also have audited, in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States), City of Example's internal control over financial reporting as of June 30, 20X1, based on [*identify control criteria*] and our report dated [*date of report, which should be the same as the date of the report on the financial statements*] expressed [*include nature of opinions*]."

- b. When performing an integrated audit of financial statements and internal control over financial reporting in accordance with PCAOB auditing standards, the auditor's report on the entity's financial statements and on internal control over financial reporting should be dated the same date. Refer to paragraph 89 of PCAOB Auditing Standard No. 5 for direction about the report date in an audit of internal control over financial reporting.

## Example A-1

### **Unmodified Opinions on Basic Financial Statements Accompanied by Required Supplementary Information and Other Information**<sup>fn 2</sup>

**([Paragraphs 14.12–.16](#) and [14.66–.84](#))**

#### Independent Auditor's Report

[*Appropriate Addressee*]

#### **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 of the City of Example, Any State, as of and for the year ended June 30,

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<sup>fn 2</sup> The opening section of [paragraph 14.103](#) of this chapter describes conditions that may make modifications to this report necessary, such as when the financial statements include information from a prior period or when the auditor is reporting on required supplementary information (RSI), supplementary information (SI), or other information (OI).

20X1, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***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. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.<sup>fn 3</sup> Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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

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<sup>fn 3</sup> When the audit is also performed under *Government Auditing Standards*, issued by the Comptroller General of the United States, the following modifications would be made to this report.

A. The second sentence of this section would be replaced with,

"We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States."

B. The final section of this illustrative report titled "Report on Other Legal and Regulatory Requirements" would be replaced with the following:

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated [date of report] on our consideration of the City of Example'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 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 City of Example's internal control over financial reporting and compliance.

See the AICPA Audit Guide [Government Auditing Standards](#) and *Circular A-133 Audits*, for illustrations of the reporting required by *Government Auditing Standards* and other information on planning, performing and reporting on the audit in accordance with *Government Auditing Standards*.

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, 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 the City of Example, Any State, as of June 30, 20X1, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.<sup>fn 4</sup>

### ***Other Matters***

#### ***Required Supplementary Information***<sup>fn 5</sup>

Accounting principles generally accepted in the United States of America require that the [*identify required supplementary information, such as management's discussion and analysis and budgetary comparison information*] on pages XX–XX and XX–XX be presented to supplement the basic financial

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<sup>fn 4</sup> If a government presents required budgetary comparison information as basic financial statements instead of as RSI, the opinion paragraph would be replaced with the following:

"In our opinion, 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 the City of Example, Any State, as of June 30, 20X1, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the [*indicate the major governmental funds involved*] for the year then ended in accordance with accounting principles generally accepted in the United States of America."

<sup>fn 5</sup> This RSI paragraph, within the "Other Matters" section of the report illustrates a situation where RSI is included, the auditor has applied the specified procedures, and no material departures from prescribed guidelines have been identified.

*If all of the RSI is omitted, the paragraph on RSI would be replaced with the following:*

*Management has omitted [identify the missing RSI, such as management's discussion and analysis or budgetary comparison information] that 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 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.*

*For other situations in which some RSI is omitted and some is presented in accordance with prescribed guidelines, there are material departures from prescribed guidelines, specified procedures were not completed, or there are unresolved doubts about whether the RSI is in accordance with prescribed guidelines, refer to the guidance in [AU-C section 730](#), Required Supplementary Information (AICPA, Professional Standards).*

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 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*<sup>fn 6</sup> <sup>fn 7</sup>

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Example's basic financial statements. The [*identify accompanying supplementary information, such as the combining and individual nonmajor fund financial statements, and the other information, such as the introductory and statistical sections*] are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The [*identify accompanying supplementary 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. 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, the [*identify accompanying supplementary information*] is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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<sup>fn 6</sup> This section, within the "Other Matters" section of the report, is intended to include the reporting on SI when the auditor is engaged to provide an "in relation to" opinion on SI and also when explanatory language will be provided relating to OI when the auditor is disclaiming an opinion on the OI. This illustration provides example language for both SI and OI reporting. The caption provided in this illustration is one way an auditor could title the section. Alternatively, the auditor could title it "Supplementary and Other Information," "Supplementary Information," or "Accompanying Information."

<sup>fn 7</sup> This illustration assumes that the auditor has been engaged to provide an "in-relation-to" opinion on SI, the auditor is issuing an unmodified opinion on the financial statements, and the auditor has concluded that the SI is fairly stated, in all material respects, in relation to the financial statements as a whole. If there is no SI on which to report, the references to SI in these paragraphs would be deleted. If the auditor has issued an opinion other than unmodified on the financial statements, see the guidance in [AU-C section 725](#), *Supplementary Information in Relation to the Financial Statements as a Whole* (AICPA, Professional Standards). Additionally, the OI reporting contained within this section provides an example of explanatory language that the auditor may use to disclaim an opinion on OI. Note there is no required reporting on OI under [AU-C section 720](#), *Other Information in Documents Containing Audited Financial Statements* (AICPA, Professional Standards). If there is no OI contained in the document containing the audited financial statements or if the auditor chooses not to include the disclaimer, the references to OI in this section would be deleted. See [AU-C section 720](#) for more information.

The [*identify the other information*] has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Report on Other Legal and Regulatory Requirements**<sup>fn 8</sup>

[*Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities, if any.*]

[*Auditor's signature*]

[*Auditor's city and state*]

[*Date of the auditor's report*]

## **Example A-2**

### **Unmodified Opinion on the Basic Financial Statements of a Special-Purpose Government That Has a Single Opinion Unit**<sup>fn 9</sup>

**([Paragraphs 14.17](#) and [14.58](#))**

#### Independent Auditor's Report

[*Appropriate Addressee*]

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Example Component Unit (ECU), a component unit of the City of Example, Any State,<sup>fn 10</sup> as of and for the year ended June 30, 20X1, and

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<sup>fn 8</sup> In some circumstances, the auditor may have additional responsibilities to report on other matters that are supplementary to the auditor's responsibility under generally accepted auditing standards. When there are such other reporting responsibilities, they should be addressed in a separate section in the auditor's report. The form and content of the "Other Reporting Responsibilities" section of the auditor's report are described in [paragraph .37](#) of AU-C section 700, *Forming an Opinion and Reporting on Financial Statements* (AICPA, *Professional Standards*). [Paragraph .37](#) of AU-C section 700 also 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 content of the section. For example, if the audit is also performed in accordance with *Government Auditing Standards*, an alternative title would be "Other Reporting Required by *Government Auditing Standards*." See [footnote 3](#).

<sup>fn 9</sup> See [footnote 2](#).

<sup>fn 10</sup> As discussed in [paragraph 14.58](#), the auditors' report should disclose that an entity is a component unit of a financial reporting entity. If the special-purpose government is not a component unit of another government, this reference to being a component unit should be removed.

the related notes to the financial statements, which collectively comprise the ECU's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

[Same paragraph as in [example A-1](#)]

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.<sup>fn 11</sup> Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the ECU as of June 30, 20X1, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.<sup>fn 12</sup>

### **Report on Other Legal and Regulatory Requirements<sup>fn 13</sup>**

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<sup>fn 11</sup> See [footnote 3](#).

<sup>fn 12</sup> In the opinion paragraph, the terms *financial position* and *changes in financial position* could be replaced with terms that would be more descriptive in the circumstances. For example, in a report on a public employee retirement system, the terms *plan net position* or *fiduciary net position* and *changes in plan net position* or *changes in fiduciary net position* might be used.

<sup>fn 13</sup> See [footnote 8](#).

*[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities, if any.]*

*[Auditor's signature]*

*[Auditor's city and state]*

*[Date of the auditor's report]*

## Example A-5

### Report on Basic Financial Statements That Includes Qualified Opinions on Major Governmental Funds Because of a GAAP Departure<sup>fn 21</sup> <sup>fn 22</sup>

#### (Paragraph 14.33)

#### Independent Auditor's Report

[Appropriate Addressee]

#### **Report on the Financial Statements**

[Same paragraph as in [example A-1](#)]

#### **Management's Responsibility for the Financial Statements**

[Same paragraph as in [example A-1](#)]

#### **Auditor's Responsibility**

[Same paragraphs as in [example A-1](#)]

#### **Summary of Opinions<sup>fn 23</sup>**

Opinion Unit	Type of Opinion
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
Aggregate Discretely Presented Component Units	Unmodified
Governmental Fund X	Qualified

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<sup>fn 21</sup> See [footnote 2](#).

<sup>fn 22</sup> Depending on the nature and magnitude of the U.S. generally accepted accounting principles (GAAP) departure, it is possible that the auditor's opinion on the governmental activities also would be qualified, as illustrated in [example A-10](#). Further, the same GAAP departure in the nonmajor governmental funds could affect the auditor's opinion on the aggregate remaining fund information. This example assumes that the auditor has concluded that the GAAP departure is not material to the governmental activities opinion unit or to the aggregate remaining fund information opinion unit. Another auditor could make a different professional judgment. (See [paragraphs 14.07–.08](#).) If a GAAP departure is material to more than one opinion unit, the basis for modification paragraph should explain the nature and effect of the departure on each affected opinion unit.

<sup>fn 23</sup> See [footnote 19](#).

Opinion Unit	Type of Opinion
Governmental Fund Y	Qualified
Governmental Fund Z	Unmodified
Enterprise Fund A	Unmodified
Enterprise Fund B	Unmodified
Aggregate Remaining Fund Information	Unmodified

***Basis for Qualified Opinions on Major Governmental Funds X and Y***<sup>fn 24</sup>

Management has not adopted a methodology for reviewing the collectibility of taxes receivable in the [identify the affected major governmental funds, such as Major Governmental Funds X and Y] and, accordingly, has not considered the need to provide an allowance for uncollectible amounts. Accounting principles generally accepted in the United States of America require that an adequate allowance be provided for uncollectible receivables, which would decrease the assets and fund balances and change the revenues in the [identify the affected major governmental funds]. The amount by which this departure would affect the assets, fund balances, and revenues of the [identify the affected major governmental funds] has not been determined.<sup>fn 25</sup>

***Qualified Opinions***

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinions on Major Governmental Funds X and Y" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the [identify the affected major governmental funds] of the City of Example, Any State, as of June 30, 20X1, 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 governmental activities, the business-type activities, the aggregate discretely presented component units, [identify the major funds not affected by the qualification], and the

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<sup>fn 24</sup> As there are multiple opinion units provided in this report, the heading to this section illustrates identifying the opinion units to which the basis for opinion modifications apply to more clearly communicate the opinion units associated with the modification.

<sup>fn 25</sup> If a government presents required budgetary comparison information as basic financial statements instead of as RSI, the basis for modification paragraph also should explain the effect of the GAAP departure on the budgetary comparison information. This example assumes that the government budgets on a cash basis, and thus the GAAP departure would not affect the budgetary comparison information if it were presented as a basic financial statement. [Example A-1](#) provides modification that would be needed to this report in other areas if required budgetary comparison information is presented as a basic financial statement.

aggregate remaining fund information of the City of Example, Any State, as of June 30, 20X1, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Other Legal and Regulatory Requirements**<sup>fn 26</sup>

*[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities, if any.]*

*[Auditor's signature]*

*[Auditor's city and state]*

*[Date of the auditor's report]*

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<sup>fn 26</sup> See [footnote 8](#).

## Example A-9

### Unmodified Opinions on Basic Financial Statements Accompanied by Required Supplementary Information and Other Information With Reference to an Audit by Another Auditor<sup>fn 37</sup>

#### (Paragraphs 14.36–.39 and 14.63–.85)

#### Independent Auditor's Report

[*Appropriate Addressee*]

#### **Report on the Financial Statements**

[*Same paragraph as in [example A-1](#)*]

#### **Management's Responsibility for the Financial Statements**

[*Same paragraph as in [example A-1](#)*]

#### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of [*identify organization, function, or activity*], which represent XX percent, XX percent, and XX percent, respectively, of the assets, [*net position, or fund balances*], and revenues of the [*identify opinion unit(s)*].<sup>fn 38</sup> Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for [*identify organization, function, or activity*], is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.<sup>fn 39</sup> Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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<sup>fn 37</sup> See [footnote 2](#).

<sup>fn 38</sup> Appropriate changes to this sentence should be made when an entire opinion unit is audited by another auditor. For example, "We did not audit the financial statements of the Sewer Enterprise Fund, which is both a major fund and XX percent, XX percent, and XX 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 auditor's responsibility for auditing that opinion unit. The group auditor should also express or disclaim an opinion in the "Opinion" section of the report. See the further discussion in [paragraph 14.85](#) and the guidance in [AU-C section 600](#), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* (AICPA, *Professional Standards*).

<sup>fn 39</sup> See [footnote 3](#).

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 financial statement 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, based on our audit and the report of other auditors, 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 the City of Example, Any State, as of June 30, 20X1, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***<sup>fn 40</sup>

Accounting principles generally accepted in the United States of America require that the [*identify required supplementary information, such as management's discussion and analysis and budgetary comparison information*] on pages XX–XX and XX–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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors<sup>fn 41</sup> 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

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<sup>fn 40</sup> See [footnote 5](#).

<sup>fn 41</sup> References to other auditors are only appropriate when the other auditor's report discusses applicable RSI, SI, or both. (see [paragraph 14.86](#)).

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*<sup>fn 42</sup> <sup>fn 43</sup>

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Example's basic financial statements. The [*identify accompanying supplementary information, such as the combining and individual nonmajor fund financial statements, and the other information such as the introductory and statistical sections*] are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The [*identify accompanying supplementary 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. 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 by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the [*identify accompanying supplementary information*] is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The [*identify the other information*] has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Report on Other Legal and Regulatory Requirements**<sup>fn 44</sup>

[*Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities, if any.*]

[*Auditor's signature*]

[*Auditor's city and state*]

[*Date of the auditor's report*]

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<sup>fn 42</sup> See [footnote 6](#).

<sup>fn 43</sup> See [footnote 7](#).

<sup>fn 44</sup> See [footnote 8](#).

## Example A-10

### Report on Basic Financial Statements That Includes Multiple Opinion Modifications, Including an Adverse Opinion Because A Major Fund Is Omitted<sup>fn 45 fn 46 fn 47</sup>

#### **(Paragraph 14.53)**

#### Independent Auditor's Report

*[Appropriate Addressee]*

#### **Report on the Financial Statements**

*[Same paragraph as in [example A-1](#)]*

#### **Management's Responsibility for the Financial Statements**

*[Same paragraph as in [example A-1](#)]*

#### **Auditor's Responsibility**

*[Same paragraphs as in [example A-1](#)]*

#### **Summary of Opinions<sup>fn 48</sup>**

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<sup>fn 45</sup> See [footnote 2](#).

<sup>fn 46</sup> As discussed in [paragraph 14.53](#), the auditor should issue an adverse opinion on a major fund opinion unit when a major governmental or enterprise fund is omitted from the financial statements. (That paragraph also discusses how the auditor should modify the opinion on the remaining fund information opinion unit if the major fund is included in the financial statements but not as a major fund.) However, depending on the nature and magnitude of the other GAAP departures illustrated in this report, it is possible that the auditor might issue an adverse opinion on one or more of the opinion units affected by the omitted or misclassified major fund, or on the financial statements as a whole. This example assumes that the auditor has concluded that qualified opinions on the opinion units affected by the omitted or misclassified major fund are appropriate. Another auditor could make a different professional judgment. (See similar situations handled differently in [examples A-5](#) and [A-7](#).)

<sup>fn 47</sup> This example illustrates providing the various basis for modifications in a separate paragraph followed immediately by a paragraph with the related opinion(s). There is nothing to preclude an auditor from first discussing all modifications in separate paragraphs and then following those paragraphs with the various opinion paragraphs. However, in light of the multiple opinions being provided in this example, the approach provided here may be easier for a user to understand.

<sup>fn 48</sup> See [footnote 19](#).

<b>Opinion Unit</b>	<b>Type of Opinion</b>
Governmental Activities	Qualified
Business-Type Activities	Qualified
Aggregate Discretely Presented Component Units	Unmodified
Governmental Fund X	Qualified
Governmental Fund Y	Qualified
Governmental Fund Z	Unmodified
Enterprise Fund A	Adverse
Enterprise Fund B	Unmodified
Aggregate Remaining Fund Information	Unmodified

***Basis for Adverse Opinion on Enterprise Fund A and Qualified Opinion on Business-Type Activities***  
<sup>fn 49</sup>

Management has not included Enterprise Fund A <sup>fn 50</sup> in the City’s financial statements. Accounting principles generally accepted in the United States of America require Enterprise Fund A to be presented as a major enterprise fund and financial information about Enterprise Fund A to be part of the business-type activities, thus increasing that activity’s assets, liabilities, revenues, and expenses, and changing its net position. The amount by which this departure would affect the assets, fund balances, liabilities, net position, revenues, and expenses of the business-type activities and the omitted major fund has not been determined.

***Adverse Opinion***

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on Enterprise Fund A and Qualified Opinion on Business-Type Activities" paragraph, the financial statements referred to above do not present fairly the financial position of Enterprise Fund A of the City of Example, Any State, as of June 30, 20X1, or the changes in financial position or cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Qualified Opinion***

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<sup>fn 49</sup> See [footnote 24](#).

<sup>fn 50</sup> This example presumes that the omitted major fund is part of the primary government’s legal entity. If, instead, the omitted major fund is a blended component unit and the only component unit, the auditor could instead issue a report on the primary government, as discussed in [paragraphs 14.54–57](#) and illustrated in [examples A-11](#) and [A-12](#).

In our opinion, except for the matter described in the "Basis for Adverse Opinion on Enterprise Fund A 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 Example, Any State, as of June 30, 20X1, 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 Governmental Funds X and Y***<sup>fn 51</sup>

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 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 collectibility of taxes receivable in the [*identify the affected major governmental funds, such as Major Governmental Funds X and Y*] and in governmental activities and, accordingly, has not considered the need to provide an allowance for uncollectible amounts. Accounting principles generally accepted in the United States of America require that an adequate allowance be provided for uncollectible receivables, which would decrease the assets, fund balances, and net position, and change the revenues in the [*identify the affected funds*] and in governmental activities. The amount by which this departure would affect the assets, fund balances, net position, and revenues of the [*identify the affected funds*] 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 Governmental Funds X and Y" paragraphs above, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the [*identify the affected major governmental funds*] of the City of Example, Any State, as of June 30, 20X1, 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, [*identify the major funds not affected by the previously described adverse and qualified opinions*], and the aggregate remaining fund information of the City of Example, Any State, as of June 30, 20X1, and the respective

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<sup>fn 51</sup> See [footnote 24](#).

changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Other Legal and Regulatory Requirements**<sup>fn 52</sup>

*[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities, if any.]*

*[Auditor's signature]*

*[Auditor's city and state]*

*[Date of the auditor's report]*

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<sup>fn 52</sup> See [footnote 8](#).