

## AU-C Section 9700

### *Forming an Opinion and Reporting on Financial Statements: Auditing Interpretations of AU-C Section 700*

#### **2. Sustainability Financial Statements Under Federal Financial Accounting Standards—Auditor Reporting**

**.06** *Question*—The Federal Accounting Standards Advisory Board (FASAB) issued Statement of Federal Financial Accounting Standards (SFFAS) No. 36, *Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government*. SFFAS No. 36, as amended, requires that the statement of long-term fiscal projections be presented in the consolidated financial report of the U.S. government as a basic financial statement starting in fiscal year 2015. The focus of this standard is on forward-looking information intended to aid users in assessing whether future resources will likely be sufficient to sustain public services and to meet obligations as they come due. The statement of long-term fiscal projections presents the actuarial present value of the U.S. government’s estimated future income to be received and future expenditures to be paid. The statement of long-term fiscal projections includes information drawn from the current statement of social insurance (SFFAS No. 17, *Accounting for Social Insurance*, as amended, a basic statement since fiscal year 2006) and statement of changes in social insurance amounts (SFFAS No. 37, *Social Insurance: Additional Requirements for Management’s Discussion and Analysis and Basic Financial Statements*, a basic statement since fiscal year 2011). Collectively, the statement of long-term fiscal projections, the statement of social insurance, and the statement of changes in social insurance amounts are referred to herein as *sustainability financial statements*. May an auditor report on these basic financial statements in accordance with auditing standards generally accepted in the United States of America (GAAS)? If so, how would an auditor report on these statements?

**.07** *Answer*—Yes, consistent with Statement of Position 04-1, *Auditing the Statement of Social Insurance* (AICPA, *Professional Standards*, AUD sec. 35), an auditor may report on the basic financial statements, which include the statements of social insurance, changes in social insurance amounts, and long-term fiscal projections, in accordance with GAAS. AU-C section 700, *Forming an Opinion and Reporting on Financial Statements* (AICPA, *Professional Standards*), provides requirements and guidance on forming an opinion on the basic financial



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statements. An illustration of an auditor’s report containing an unmodified opinion on the U.S. government-wide financial statements follows<sup>3</sup> (footnotes are provided for necessary adjustments when reporting on component financial statements containing sustainability financial statements):

### **Independent Auditor's Report**

*[Appropriate Addressee]*

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

We have audited the accompanying financial statements of *the U.S. government*,<sup>4</sup> which comprise the consolidated financial statements and the sustainability financial statements. The consolidated financial statements comprise the *consolidated balance sheets as of September 30, 20XX and 20YY, and the related consolidated statements of net cost, of operations and changes in net position, reconciliations of net operating cost and unified budget deficit, and changes in cash balance from unified budget and other activities*<sup>5</sup> for the years then ended, and the related notes to the consolidated financial statements.

The sustainability financial statements comprise the statements of social insurance as of *[dates—five years presented]*, the statements of changes in social insurance amounts for the periods *[dates—two periods presented]*, and the *statements of long-term fiscal projections as of September 30, 20XX and 20YY*, and the related notes to the sustainability financial statements.

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

Management is responsible for the preparation and fair presentation of the 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.

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<sup>3</sup> The sustainability financial statements do not articulate with the consolidated financial statements. For that reason, the opinion on the sustainability financial statements ordinarily will not affect the opinion on the consolidated financial statements. For example, the opinion on the sustainability financial statements may be modified, whereas the opinion on the consolidated financial statements may be unmodified.

<sup>4</sup> Italicized text would be applicable only to reports on the consolidated financial statements of the U.S. government. Where appropriate, alternative text applicable to reports on component entity financial statements are provided in other footnotes.

<sup>5</sup> For reports on component entity financial statements, the financial statements would be tailored to the financial statements presented, for example “...the balance sheets as of September 30, 20XX and 20YY and the related statements of net cost, (*and*) changes in net position, (*and custodial activity*), and combined statements of budgetary resources...”.

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

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*.<sup>6</sup> Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audits 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 opinions.

### ***Opinions on the Financial Statements***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, *the financial position of the U.S. government as of September 30, 20XX and 20YY, and its net costs, operations, and changes in net position; reconciliations of net operating cost and unified budget deficit, and changes in cash balance from unified budget and other activities*<sup>7</sup> for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Also, in our opinion, the sustainability financial statements referred to above present fairly, in all material respects, the *U.S. government's* social insurance information as of [dates—five years presented], its changes in social insurance amounts for the periods [dates—two periods presented], and the long-term fiscal projections as of September 30,

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<sup>6</sup> Update the Office of Management and Budget bulletin number as applicable.

<sup>7</sup> For reports on component entity financial statements, this language would be tailored to the financial statements presented, for example "...the financial position of [name of entity] as of September 30, 20XX and 20YY, and its net costs, changes in net position, (and) and budgetary resources (, and custodial activity)..."

20XX and 20YY, in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note X to the financial statements, the sustainability financial statements are based on management's assumptions. These sustainability financial statements present the actuarial present value of the U.S. government's estimated future income to be received and future expenditures to be paid using a projection period sufficient to illustrate long-term sustainability. The sustainability financial statements are intended to aid users in assessing whether future resources will likely be sufficient to sustain public services and to meet obligations as they come due. The statements of social insurance and changes in social insurance amounts are based on income and benefit formulas in current law and assume that scheduled benefits will continue after any related trust funds are exhausted. *The statements of long-term fiscal projections are based on the continuation of current policy.* The sustainability financial statements are not forecasts or predictions. The sustainability financial statements are not intended to imply that current policy or law is sustainable. In preparing the sustainability financial statements, management considers and selects assumptions and data that it believes provide a reasonable basis to illustrate whether current policy or law is sustainable. Assumptions underlying such sustainability information do not consider changes in policy or all potential future events that could affect future income, future expenditures, and sustainability, for example, implementation of policy changes to avoid trust fund exhaustion *or unsustainable debt levels*. Because of the large number of factors that affect the sustainability financial statements and the fact that future events and circumstances cannot be estimated with certainty, even if current policy is continued, there will be differences between the estimates in the sustainability financial statements and the actual results, and those differences may be material. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplemental Stewardship Information sections (collectively referred to as *RSI*) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI 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 audits 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*

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The [*identify the other information, such as tax burden*] is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

**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 *U.S. government's* internal control over financial reporting and our report dated [*report date*] on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports 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 internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the *U.S. government's* internal control over financial reporting and compliance.

[*Auditor's signature*]

[*Auditor's city and state*]

[*Date of the auditor's report*]

[Issue Date: October 2015.]