A Basic Background & Overview of State and Local Government Auditing

Part 2 of a 2-Part Series
A Governmental Audit Quality Center Web Event

Presenters

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HeinfeldMeech

Frank Crawford, CPA
Crawford & Associates
What We Will Cover

Auditing the financial reporting entity, including opinion units

Other auditing considerations, including risk assessment and materiality considerations; and

Reporting in a state or local government financial statement audit

Terminology & Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>SLG</td>
<td>State or Local Government</td>
</tr>
<tr>
<td>BFS</td>
<td>Basic Financial Statements</td>
</tr>
<tr>
<td>MD&amp;A</td>
<td>Management Discussion &amp; Analysis</td>
</tr>
<tr>
<td>RSI</td>
<td>Required Supplementary Information</td>
</tr>
<tr>
<td>SI</td>
<td>Supplementary Information</td>
</tr>
<tr>
<td>OI</td>
<td>Other Information</td>
</tr>
<tr>
<td>SLG Guide</td>
<td>AICPA Audit &amp; Accounting Guide, State and Local Governments</td>
</tr>
<tr>
<td>PG</td>
<td>Primary Government</td>
</tr>
<tr>
<td>RMM</td>
<td>Risk of Material Misstatement</td>
</tr>
<tr>
<td>GAAP</td>
<td>Generally Accepted Accounting Principles</td>
</tr>
<tr>
<td>GAAS</td>
<td>Generally Accepted Auditing Standards</td>
</tr>
<tr>
<td>GAS/Yellow Book</td>
<td>Government Auditing Standards</td>
</tr>
</tbody>
</table>
Minimum Required Presentation (Review)

- Government-wide financial statements
- Fund financial statements including reconciliations
- Notes to the financial statements
- RSI other than MD&A

Putting it Together

Overview of Reporting Units and Opinion Units
FOR DISCUSSION PURPOSES ONLY

<table>
<thead>
<tr>
<th>Financial Statements</th>
<th>Basic Financial Statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund Categories</td>
<td></td>
</tr>
<tr>
<td>Reporting Units</td>
<td></td>
</tr>
<tr>
<td>Governmental Activities</td>
<td>Governmental Funds</td>
</tr>
<tr>
<td>Business-type Activities</td>
<td>Each Major Governmental Fund</td>
</tr>
<tr>
<td>Discretely Presented Component Units</td>
<td>Aggregate Nonmajor Governmental Funds</td>
</tr>
<tr>
<td></td>
<td>Proprietary Funds</td>
</tr>
<tr>
<td></td>
<td>Each Major Enterprise Fund</td>
</tr>
<tr>
<td></td>
<td>Aggregate Nonmajor Enterprise Funds</td>
</tr>
<tr>
<td></td>
<td>Internal Service Fund Type</td>
</tr>
<tr>
<td></td>
<td>Pension (and Other Employee Benefit) Trust Funds</td>
</tr>
<tr>
<td></td>
<td>Investment Trust Funds</td>
</tr>
<tr>
<td></td>
<td>Private-Purpose Trust Funds</td>
</tr>
<tr>
<td></td>
<td>Agency Funds</td>
</tr>
<tr>
<td>Opinion Units</td>
<td></td>
</tr>
<tr>
<td>Separate unit</td>
<td>Separate unit for each</td>
</tr>
<tr>
<td>Separate unit</td>
<td>Separate unit for each</td>
</tr>
<tr>
<td>Separate unit</td>
<td>Separate unit for each</td>
</tr>
<tr>
<td>Aggregate all as single</td>
<td></td>
</tr>
<tr>
<td>&quot;Remaining fund information&quot;: Aggregate all as a single unit</td>
<td></td>
</tr>
<tr>
<td>Option to combine</td>
<td></td>
</tr>
</tbody>
</table>

Auditing Focus

From SLG Guide
Before We Proceed

Auditing discussion assumes an understanding of GAAS

Will discuss the nuances to auditing an SLG with regard to the governmental reporting model

More thorough coverage of all topics in the SLG Guide

Before We Proceed (Other Standards)

Focus of presentation is on financial statement audits done in accordance with **GAAS**

Other Standards

- SLG audits are often done in accordance with *Government Auditing Standards* (also referred to as the *Yellow Book*)
- SLGs that expend federal awards ≥ $750,000 in their fiscal year subject to a **Single Audit**
  - Requirements for single audits established by law and regulations issued by the U.S. Office of Management and Budget referred to as the “Uniform Guidance”
Before We Proceed (Yellow Book)

Additional requirements when applying the Yellow Book

- Continuing professional education (CPE) requirements for the entire engagement team
- Reporting on internal control over financial reporting and compliance at financial statement level
- Additional independence considerations, including around the performance of nonaudit services
- Peer review report provided to contracting parties and posted publicly for all to access

Yellow Book & Single Audit (Resources)

AICPA

- AICPA Audit Guide, Government Auditing Standards and Single Audits
- AICPA Governmental Audit Quality Center (www.aicpa.org/GAQC)

Federal

- Yellow Book - GAO (www.gao.gov/yellowbook)
Panel Discussion

How often do you encounter governments with these additional requirements? How do you know when they exist?

Auditing the Financial Reporting Entity

Opinion Units
Fund/Activity Classifications
Component Units
Major Funds
Note Disclosures
RSI, OI, SI
Opinion Units

Concept unique to governments

Plan, perform, and evaluate the results of auditor procedures on a government’s BFS based on opinion units

Technically conducting one audit but providing multiple opinions

Proper identification of opinion units is predicated on proper identification of the financial reporting entity

Visually: Typical Opinion Units

Overview of Reporting Units and Opinion Units
FOR DISCUSSION PURPOSES ONLY

Financial Statements

<table>
<thead>
<tr>
<th>Fund Categories</th>
<th>Basic Financial Statements</th>
<th>Government-wide Financial Statements</th>
<th>Governmental Funds</th>
<th>Proprietary Funds</th>
<th>Fiduciary Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reporting Units</td>
<td>Governmental Activities</td>
<td>Aggregate Nonmajor Governmental Fund</td>
<td>Each Major Governmental Fund</td>
<td>Aggregate Nonmajor Enterprise Funds</td>
<td>Pension (and Other Employee Benefit) Trust Funds</td>
</tr>
<tr>
<td></td>
<td>Business-type Activities</td>
<td>Discretely Presented Component Units</td>
<td>Proprietary Funds</td>
<td>Internal Service Fund Type</td>
<td>Investment Trust Funds</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Fiduciary Funds</td>
<td>Agency Funds</td>
<td>Private-Purpose Trust Funds</td>
</tr>
</tbody>
</table>

Opinion Units

- Aggregate all as single unit
- "Remaining fund information": Aggregate all as a single unit
- Option to combine

From SLG Guide
Summary: Typical Opinion Units

- Governmental Activities
- Business-Type Activities
- Aggregate Discretely Presented Component Units
- Each Major Governmental and Enterprise Fund
- Aggregate Remaining Fund Information

Government-Wide Financial Statements Opinion Units
(Part 1 Example)

**EXAMPLE CITY**
STATEMENT OF NET POSITION
JUNE 30, 2017

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>Governmental Activities</th>
<th>Business-Type Activities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$20,387,812</td>
<td>$25,345,276</td>
<td>$45,733,088</td>
</tr>
<tr>
<td>Restricted cash and investments</td>
<td>924,000</td>
<td>924,000</td>
<td>1,848,000</td>
</tr>
<tr>
<td>Tax receivable</td>
<td>1,571,555</td>
<td>1,571,555</td>
<td>3,143,110</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>533,015</td>
<td>2,880,215</td>
<td>3,413,230</td>
</tr>
<tr>
<td>Intergovernmental receivable</td>
<td>2,322,082</td>
<td>2,322,082</td>
<td>4,644,164</td>
</tr>
<tr>
<td>Special assessments</td>
<td>843,000</td>
<td>843,000</td>
<td>1,686,000</td>
</tr>
<tr>
<td>Inventories</td>
<td>119,000</td>
<td>119,000</td>
<td>238,000</td>
</tr>
<tr>
<td>Unpaid taxes</td>
<td>100,000</td>
<td>100,000</td>
<td>200,000</td>
</tr>
<tr>
<td>Total current assets</td>
<td>26,374,922</td>
<td>26,354,464</td>
<td>52,729,386</td>
</tr>
<tr>
<td>Noncurrent assets:</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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16
Fund Financial Statements Opinion Units (Part 1 Example)

### Governmental

#### Balance Sheet - Governmental Funds

**June 30, 2017**

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>General Fund</th>
<th>Community Center</th>
<th>Non-Major Governmental Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$15,415,376</td>
<td>$10,715</td>
<td>$9,633,323</td>
</tr>
<tr>
<td>Taxes receivable</td>
<td>1,371,535</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>381,215</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intergovernmental receivable</td>
<td>585,137</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special assessments</td>
<td>7,699</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Due from other funds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepaid items</td>
<td>130,030</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>$15,903,896</td>
<td>$11,543,833</td>
<td>$11,802,173</td>
</tr>
</tbody>
</table>

#### Liabilities, Deferred Inflows of Resources and Fund Balances

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>General Fund</th>
<th>Community Center</th>
<th>Non-Major Governmental Funds</th>
</tr>
</thead>
</table>
| Fund Financial Statements Opinion Units (Part 1 Example)

### Proprietary

#### Statement of Net Position

**Proprietary Funds**

**June 30, 2017**

<table>
<thead>
<tr>
<th>Financial Category</th>
<th>Enterprise Funds</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Water</td>
<td>Non-Major Enterprise Funds</td>
</tr>
<tr>
<td>Assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$22,734,793</td>
<td>$23,443,276</td>
</tr>
<tr>
<td>Restricted cash and investments</td>
<td>944,000</td>
<td>924,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>2,500,560</td>
<td>183,648</td>
</tr>
<tr>
<td>Prepaid items</td>
<td>34,244</td>
<td></td>
</tr>
<tr>
<td>Total current assets</td>
<td>25,579,607</td>
<td>202,464</td>
</tr>
<tr>
<td>Non-current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital assets, non-depreciable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital assets, depreciable (net)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total non-current assets</td>
<td>8,063,102</td>
<td>3,068,102</td>
</tr>
<tr>
<td>Total assets</td>
<td>36,642,709</td>
<td>235,566</td>
</tr>
<tr>
<td>Deferred Outflows of Resources:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred charge on refunding</td>
<td>1,556,698</td>
<td>1,556,698</td>
</tr>
<tr>
<td>Pension plan items</td>
<td>642,832</td>
<td>130,494</td>
</tr>
<tr>
<td>Total deferred outflows of resources</td>
<td>2,405,530</td>
<td>130,494</td>
</tr>
</tbody>
</table>

#### Liabilities

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>General Fund</th>
<th>Community Center</th>
<th>Non-Major Governmental Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>726,223</td>
<td>124,268</td>
<td>850,491</td>
</tr>
<tr>
<td>Accrued wages and benefits</td>
<td>88,158</td>
<td>15,813</td>
<td>103,971</td>
</tr>
</tbody>
</table>
Component Units: Auditing Considerations

During planning, assess whether the entity has properly identified its component units

Examples of procedures include:
- Asking management about the existence of potential component units
- Comparing to similar governments
- Reviewing that all funds are included in the PG’s financial statements
- Reviewing/evaluating management’s analysis of potential component units
- Others in chapter 3 of SLG Guide

Component Units: Auditing Considerations

Proper identification of component units impacts many aspects of the audit
- Major funds
- Opinion units
- Coordination of the audit
  - Consider whether any component units NOT audited
  - Other auditors involved (more on group audits later)
  - Timing of various audits
- Coordinate appropriate personnel
  - Health care, insurance, actuarial matters
Fund/Activity Classifications: Auditing Considerations

Has the government properly segregated activities into funds and reported in the proper classifications?

Factors to consider

– Compliance requirements
– Legislative or constitutional provisions
– Grants, contributions, and appropriations
– Consult legal counsel

Typically, governmental funds are reported in governmental activities and enterprise funds are reported as business-type activities

Major Funds: Auditing Considerations

**Required** major funds

– Evaluate the government’s quantitative determination for required major funds

**Discretionary** major funds

– Auditor is not required to evaluate management’s judgment
– Consider obtaining written representation from management

<table>
<thead>
<tr>
<th>Major Funds (each in a separate column)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• General Fund is always major</td>
</tr>
<tr>
<td>• Others required to be major</td>
</tr>
<tr>
<td>• 10% of Fund Types <strong>AND</strong> 5% of combined Governmental and Enterprise Fund Types</td>
</tr>
<tr>
<td>• Any fund that the management believes is important to users</td>
</tr>
</tbody>
</table>
Major Funds: Auditing Considerations

Major funds should be evident from the BFS (labeling or disclosure)

Major fund not displayed or not separately displayed = GAAP departure

- If omitted: Adverse opinion on the omitted major fund opinion unit (considered a material departure)
- If included in nonmajor: Modified opinion on the aggregate remaining fund information opinion unit

Funds considered major could change from year to year

- Changes should not be considered a change in accounting principle
- Additional procedures required for the opening fund balance (or net position) of major funds not audited as major in previous year

Panel Discussion

Can you give some examples of when a government may have categorized a fund incorrectly?
Note Disclosures

Essential information for fair presentation of the BFS
Not required for immaterial items
Auditor's opinion INCLUDES the notes

Opinion unit concept & note disclosures

RSI

Exists for any financial statements prepared under GASB
- Information GASB requires accompany the BFS (considered essential)

AU-C section 730, Required Supplementary Information
- Inquire of management as to the methods of preparing the information
- Compare the information consistency
- Obtain written representations
- Report

Examples:
- MD&A
- Pension/Other Post-Employment Benefit information
- Budgetary comparison information
RSI

No opinion is provided on RSI, but an “Other Matter” paragraph is required

Reporting is required whether:
- Some/all information is presented – or -
- All is omitted

Illustrations in chapter 16 of SLG Guide

SI & OI

“GASB defined” SI: Information that GAAP does not require accompany the BFS

OI (auditing term) with a similar meaning
- Governments provide voluntarily to supplement and expand upon the BFS
- Often included as part of a CAFR; examples include:
  - Combining Statements & Schedules
  - Statistical Section
SI & OI

• AU-C section 720, Other Information in Documents Containing Audited Financial Statements
  – No opinion provided, however certain required procedures
  – Optional reporting

• AU-C section 725, Supplementary Information in Relation to the Financial Statements
  – In relation to opinion provided based upon procedure performed
  – Required reporting

Panel Discussion

What is your experience with clients putting other information into the financial statements voluntarily? Asked another way, do most governments prepare Comprehensive Annual Financial Reports versus only the BFS?
Other Auditing Considerations

Audit Risk & RMM Considerations
Materiality in Planning and Performing an Audit
Audit Approach
Terms of Engagement
Compliance Matters
Group Audits

Audit Risk

Audit Risk: the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated
RMM Auditing Considerations

AU-C section 315, *Understanding the Entity and Its Environment*

**Objective** of the auditor is to identify and assess the RMM, whether due to **fraud** or **error**, at the financial statement and relevant assertion levels through understand the entity and its environment, including the entity’s internal control, thereby providing a basis for designing and implementing response to the assess RMM.

Fraud risk may be different in SLGs
See Appendix A to Chapter 4 of the SLG Guide

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RMM Auditing Considerations

The auditor should

- design and implement overall responses to address the assessed RMMs at the **overall financial statement level**
- design and perform further audit procedures whose nature, timing, and extent are based on, and are responsive to, the assessed RMMs at the relevant **assertion level**

Overall financial statement level = level of the opinion units
Risk Assessment

Risk assessment should be performed to provide a basis for the identification and assessment of RMMs at both the financial statement level and at the relevant assertion level.

Auditing Considerations

Use knowledge about internal control to:
- Identify types of potential misstatements
- Consider factors that affect the risks of material misstatement
- Design test of controls, when applicable, and substantive procedures

Same concept for all financial statement audits.
SLG Consideration: Concept applies to EACH opinion unit.
Risk Assessment and Response to Assessed Audit Risk

Audit plan should include a description of:
- The nature and extent of planned risk assessment procedures and
- The nature timing and extent of planned further audit procedures at the assertion level
- Other planned audit procedures required to be carried to (to comply with GAAS)

Opinion units
- May design procedures to avoid repetition
- However, to the extent activities are operated separately or autonomously, may need to separate

Understanding the Government

Understanding the operations of the governmental industry and the entity to assess risks of material misstatement and design audit procedures

Examples for an SLG audit
- Composition of the reporting entity
- Relationships and operations between the reporting entity and its component units
- Budget philosophies and how elected officials balance the budget in terms of economic stress or decline
- Accounting and financial reporting requirements established by another government with financial reporting oversight responsibilities
- Services provided by the entity and the relative level of resources used for each function or program
Understanding Internal Control

Examples for assessing RMM in an SLG audit

- Members of senior management/governing board are elected officials and subject to political influences
- Press/citizens often hold management and governing board decision that otherwise seemingly insignificant matters up to substantial scrutiny
- Limited financial resources, limitation on the ability to create new revenue sources, or both coupled with unfunded mandates for services may result in officials asking management and staff to do more with less

Materiality in Planning and Performing an Audit

GASB

AICPA

Materiality

USER

CPA
Relative Materiality

Would a $100,000 error change your mind?

Manhattan, MT

New York, NY

Materiality

Same concepts as with all financial statements except in SLG audits materiality is assessed by opinion unit

- Opinion Unit: Aggregate discretely presented component units
- Opinion Unit: Aggregate remaining fund information
  - ONE materiality for each of the above
- Opinion Units: Major governmental and enterprise funds
  - EACH major fund is its own opinion unit thus has its materiality determined
### Overview of Reporting Units and Opinion Units

**FOR DISCUSSION PURPOSES ONLY**

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<tr>
<td>Fund Categories</td>
<td></td>
</tr>
<tr>
<td>Reporting Units</td>
<td>Governmental Activities</td>
</tr>
<tr>
<td>Opinion Units</td>
<td>Separate unit</td>
</tr>
</tbody>
</table>

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**Materiality Considerations**

Are the opinion units properly identified?

Has materiality been assessed at EACH opinion unit?

- Similarly, tolerable error, planning materiality, adjusting entries

Have audit tests all been scoped appropriately for the materiality of the opinion unit?
Panel Discussion

So realistically, how many different materiality levels do you have in a governmental audit? It would seem like a lot in some cases?

Panel Discussion

It seems like the opinion unit concept is relatively easy to apply for major funds in separate columns. But the aggregate opinion units seem to include a variety of things. How do you deal with that from an auditing perspective?
Audit Approach

May be efficient to:

- First, consider the fund financial statements
- Then consider additional information developed for the government-wide financial statements

Important to:

- Consider the reconciliations between the fund f/s and the government-wide f/s (such as capital asset and long-term debt information and asset and liability accruals)
- Additional information not displayed in the reconciliations (such as the eliminations and reclassifications of internal activity and classifications of program and general revenues).

Terms of Engagement: Engagement Letter(s)

In a governmental audit there could be multiple engagement letters (if auditing the PG and component units)

Factors that may influence the decision to obtain multiple letters include:

- Who engages the component auditor
- Whether a separate auditor’s report is to be issued on the component unit
- Legal requirements regarding the appointment of the auditor
- Degree of independence of the component management from the PG
Compliance Considerations

AU-C section 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*

<table>
<thead>
<tr>
<th>Law &amp; Regulations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of Effect</td>
</tr>
<tr>
<td>Direct Effect</td>
</tr>
<tr>
<td>Indirect but Fundamental</td>
</tr>
<tr>
<td>Auditor’s Responsibility</td>
</tr>
<tr>
<td>Evidence regarding amounts/disclosures</td>
</tr>
<tr>
<td>Limited to specified procedures</td>
</tr>
</tbody>
</table>

Compliance Requirements with Direct Effect

Example procedures:

- Knowledge about compliance requirements obtained during prior-period audits
- Interview the entity’s chief financial officer, legal counsel, internal auditor, or grant administrators about compliance requirements
- Identify sources of revenue, review any related agreements (for example, loan, grant, and contribution agreements), and ask about legal provisions and enabling legislation that relate to using and accounting for the revenue
- See further discussion in Chapter 4 of SLG Guide
Group Audits

Group audits involve the audit of financial statements that include the financial information of more than one component.

Big Picture:
- SLG Guide has a robust discussion (chapter 4)
- Each opinion unit is its own group
- SLG engagements often involve multiple auditors
  - Group auditor has responsibilities with regard to other auditors
  - Group auditor can make reference to other auditors’ work

Component: Entity/business activity for which group or component management prepares financial information that is required to be included in the group f/s

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Group Audits

Applying AU-C Section 600 in Audits of Governmental Entities

- Do any opinion units contain more than one component (excluding government-wide financial statements)?
  - Yes: AU-C section 600 applies
  - No

- Is any opinion unit audited by other auditors whose work will be used as audit evidence for the group audit?
  - Yes: AU-C section 600 applies
  - No

No additional audit procedures under AU-C section 600
Audit Reporting

Audit Approach & Reporting
Reporting Illustrations
Other Potential Reporting Modifications

Audit Approach & Reporting

Opinion is on the BFS which are comprised of individual opinion units

Egregious situations (Chapter 15 of SLG Guide)

• Express an adverse or disclaimer of opinion on the financial statements as a whole:
  – When required government-wide or fund financial statements are not presented
  – Adverse/disclaimers of opinions are appropriate for both the governmental activities and business-type activities opinion units
Reporting

Terms to Highlight

• BFS versus financial statements
• Opinion versus opinions

Report illustrations reflect many AU-C sections

• 18 illustrative examples in Chapter 16 of SLG Guide
• Refer to AU-C 700, 705, and 706 to tailor your reports to specific scenarios

INDEPENDENT AUDITOR’S REPORT

Honorable Mayor and Members of the City Council
Example City

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities, ....

Management’s Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements ....

Auditor’s Responsibility
Our responsibility is to express opinions on these financial statements based on our audit. We conducted ....

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, ....

Other Matters
Required Supplementary Information
Accounting principles generally accepted in the United States of America require that,.......

Other Information
Our audit was conducted for the purpose of forming opinions on the financial statements that.......

Other Reporting Required by Government Auditing Standards
In accordance with Government Auditing Standards, we have also issued our report dated December 14, 2017, on our consideration of the Example City’s internal control over financial reporting and ....

Example Firm
City, State
December 14, 2017

Reporting: Illustrations

Basic format remains the same for all entities

Following slides break down each element
Reporting: Report on the Financial Statements

Define what has been audited

- Dependent upon the engagement
- Refer to each opinion unit
- May reference table of contents or pages on which the f/s are displayed

Wording diverges from AU-C 700 because of opinion units

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Example City (the City), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements as listed in the table of contents.

Reporting: Management’s Responsibility for the Financial Statements

Describes management’s responsibility for the preparation and fair presentation of the f/s (as well as in accordance with the applicable financial reporting framework)

Consistent across illustrations in the SLG Guide

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.
Reporting: Auditor’s Responsibility

Requires modification for:

- Opinion/opinions
- Audits performed under Government Auditing Standards
- Reference to other auditors

**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 and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. 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 opinions.

Reporting: Opinion(s)

Usually will have multiple opinions

Consider departures from the standard report

- Each type of opinion reflected separately with a basis for modification paragraph
- SLG Guide has illustrations (along with an optional table to show opinion unit/opinion when there are various types provided)

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Example City, as of June 30, 2017, 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.
Emphasis of Matter and Other Matter Paragraphs (AU-C 706)

**Emphasis of Matter**
Matter appropriately presented or disclosed in the f/s that, in the auditor’s professional judgment, is of such importance that it is fundamental to users’ understanding of the financial statements.

**Other Matters**
Matter other than those presented or disclosed in the f/s that, in the auditor’s professional judgment, is relevant to users’ understanding of the audit, the auditor’s responsibility, or the auditor’s report. (Combining statements, SI, RSI)

Other Potential Reporting Modifications

**Special Situations**
- Part of the audit performed by a component auditor
- Subcontracting, joint audits, and joint ventures
- Preferable accounting policies

**Other Financial Presentations**
- Individual fund financial statements
- Departmental, agency, and program financial statements
- Special-purpose regulatory presentations
- Summary financial information

See Chapter 16 of SLG Guide for discussion & illustrations
Panel Discussion

What have you found your biggest reporting challenges to be in your governmental audits?

Panel Discussion

What would your final words of wisdom be to beginners participating in today’s event?
Resources

GASB
AICPA

GASB Resources

GASB pronouncements available to download

Educational Resources
• Webinars
• Podcasts
• Plain Language Articles

Technical Inquiries
AICPA Resources

Clarified Statements on Auditing Standards
• https://www.aicpa.org/research/standards/auditattest/clarifiedsas.html

AICPA Audit and Accounting Guide, State and Local Governments
• www.aicpastore.com

AICPA Resources

GAQC Web site: www.aicpa.org/GAQC
• GAQC web events
  – Upcoming calendar
  – Archives
• GASB matters section
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