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These illustrations and the additional illustrations in the 2020 SLG Guide have not been updated to reflect new reporting standards established by AICPA Statements on Auditing Standards (SAS) Nos. SAS Nos. 134 through 140. That is because SAS No 141 delayed the effective date of these reporting standards to audits of financial statements for periods ending on or after December 31, 2021. While early implementation of SAS Nos. 134–140 is now permitted, it is recommended that SAS Nos. 134–140 be implemented at the same time. The GAQC is currently developing updated reports that will reflect the requirements of the new reporting standards. Our goal is to post examples on our Illustrative Auditor's Report page, before the end of the calendar year, for auditors that plan to early adopt the new reporting standards.

16.103

## Appendix A — Illustrative Auditor's Reports

### 🕒 Update 16A-1 *Auditing: Reporting*

Statement on Auditing Standards (SAS) No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, as amended,<sup>1</sup> issued in May 2019, is aimed at enhancing the relevance and usefulness of the auditor's report. SAS No. 134, as amended, replaces AU-C sections 700, *Forming an Opinion and Reporting on Financial Statements*; 705, *Modifications to the Opinion in the Independent Auditor's Report*; and 706, *Emphasis-of-Matter and Other-Matter Paragraphs in the Independent Auditor's Report*.<sup>2</sup> It also establishes a new AU-C section 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, in AICPA *Professional Standards*. SAS No. 134 (codified in AU-C section 700) reporting requirements were subsequently amended as a result of the issuance of SAS Nos. 137, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports* (AU-C sec. 720); 138, *Amendments to the Description of the Concept of Materiality*; and 140, *Amendments to AU-C Sections 725, 730, 930, 935, and 940 to Incorporate Auditor Reporting Changes From SAS Nos. 134 and 137*.

SAS No. 134, as amended, was developed in consideration of the following issues:

- Although users value the "pass/fail" nature of the auditor's opinion, they would like the auditor's report to provide greater transparency into the audit.
- Users would like the auditor's report to include more information about areas with higher assessed risks of material misstatement, areas that involve significant judgment by management and the auditor, and areas that relate to significant events or transactions.
- To address the long-standing "expectations gap," users and other stakeholders would like the auditor's report to expand the descriptions of the auditor's responsibilities in financial statement auditing and management's responsibilities in financial statement preparation.

SAS No. 137, issued in July 2019, provides transparency related to the auditor's responsibility for other information included in an annual report when the auditor has obtained all the other information at the date of the auditor's report on the financial statements. The standard supersedes SAS No. 118, *Other Information in Documents Containing Audited Financial Statements*, as amended and codified in AU-C section 720, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*.

SAS No. 138, issued in December 2019, aligns the materiality concepts discussed in AICPA *Professional Standards* with the description of materiality used by the U.S. judicial system, the auditing standards of the PCAOB, the

<sup>1</sup> Statements on Auditing Standards are codified in AICPA *Professional Standards*.

<sup>2</sup> All AU-C sections can be found in AICPA *Professional Standards*.

SEC, and FASB. The AICPA Auditing Standards Board's (ASB) current description of the concept of materiality is consistent with the definition used by the International Accounting Standards Board and the International Auditing and Assurance Standards Board. The changes are not expected to significantly affect practice.

SAS No. 139, *Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes From SAS No. 134*, issued in March 2020, amends the following AU-C sections to reflect changes to the auditor's report included in SAS No. 134, as amended: 800, *Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*; 805, *Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*; and 810, *Engagements to Report on Summary Financial Statements*.

SAS No. 140, issued in April 2020, contains amendments to conform the following AU-C sections to SAS No. 134, as amended: 930, *Interim Financial Information*; 935, *Compliance Audits*; and 940, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*. SAS No. 140 also contains amendments to conform the following AU-C sections to SAS No. 137: 725, *Supplementary Information in Relation to the Financial Statements as a Whole*, and 730, *Required Supplementary Information*.

SAS No. 141, *Amendment to the Effective Date of SAS Nos. 134–140*, issued in May 2020, is effective upon issuance. In general, SAS No. 141 changes the effective dates of SAS Nos. 134–140 from December 15, 2020, to December 15, 2021. Early implementation of SAS Nos. 134–140 is also now permitted, and the ASB recommends that SAS Nos. 134–140 be implemented at the same time.

This edition of the guide has not been updated to reflect changes as a result of these SASs. Appendix E, "Recently Issued Auditing Standards Applicable to This Course," provides additional information about the new SASs. In addition, readers are encouraged to consult the full text of the SASs at [www.aicpa.org/interestareas/frc/auditattest/auditing-standards-information-and-resources.html](http://www.aicpa.org/interestareas/frc/auditattest/auditing-standards-information-and-resources.html).

#### Note

For auditors that wish to early implement the new reporting standards described previously prior to their effective date (for example, for audits of financial statements for periods ending on or after December 15, 2021), the AICPA Governmental Audit Quality Center (GAQC) is working to develop updated illustrations to reflect the new reporting requirements. Watch the GAQC website for updates that can be accessed at [www.aicpa.org/interestareas/governmentalauditquality/resources/illustrativeauditorsreports.html](http://www.aicpa.org/interestareas/governmentalauditquality/resources/illustrativeauditorsreports.html).

**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 16.45–.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, although the government prepares basic financial statements as defined by 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 16.04–.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 16.16.
- The introductory and opinion paragraphs should list only the opinion units presented in the financial statements. As discussed in paragraph 16.04, 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 Single Audits*. Footnote 4 to example A-1 provides the necessary modifications for such reporting.<sup>3</sup>
- 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 5.
- Based on the guidance in paragraphs .17–.22 of AU-C section 705B, *Modifications to the Opinion in the Independent Auditor's*

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<sup>3</sup> Specific guidance on reporting under Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, referred to as the Uniform Guidance, can be found in the AICPA Audit Guide *Government Auditing Standards and Single Audits*.

*Report*, 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 705B 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 16.63–.84 discuss auditor reporting for RSI, SI, and OI. (See in particular the other-matter language in paragraph 16.68 if RSI is omitted and the discussion in paragraph 16.86 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-15 illustrates unmodified opinions on combining and individual fund financial statements presented as "GASB defined" supplementary information.
- If prior-period financial information is a partial or summarized presentation (or a combination of partial and summarized information) and does not include the minimum information required by GAAP for a complete set of financial statements, modifications to the auditor's report are discussed in paragraphs 16.50–.51.

**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 Basic Financial Statements That Includes a Disclaimer of Opinion Because One (But Not All) Discretely Presented Component Unit Is Not Audited

Example A-13 — 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-14 — Unmodified Opinions on Basic Financial Statements and on Additional Detail Presented in the Basic Financial Statements

Example A-15 — Unmodified Opinions on Basic Financial Statements and on Combining and Individual Fund Financial Statements Presented as "GASB Defined" Supplementary Information

Example A-16 — Unmodified Opinion on General Fund Financial Statements

Example A-17 — Unmodified Opinions on Departmental Financial Statements

Example A-18 — Report on Separately Issued Summary Financial Information

## Example A-1

### Unmodified Opinions on Basic Financial Statements Accompanied by Required Supplementary Information and Other Information

(Paragraphs 16.12–.16 and 16.66–.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, 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>4</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

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<sup>4</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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Example's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Example's internal control over financial reporting and compliance.

See the AICPA Audit Guide *Government Auditing Standards and Single 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*.

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**

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>5</sup>

### **Other Matters<sup>6</sup>**

#### *Required Supplementary Information<sup>7</sup>*

Accounting principles generally accepted in the United States of America require that the *[identify required supplementary information, such as*

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<sup>5</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>6</sup> The opening section of paragraph 16.103 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). See also footnotes 7, 8, and 9.

<sup>7</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 730B, *Required Supplementary Information*.

*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 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>8,9</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>8</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>9</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 725B, *Supplementary Information in Relation to the Financial Statements as a Whole*. 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 720B, *Other Information in Documents Containing Audited Financial Statements*. 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 720B 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>10</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>10</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 700B, *Forming an Opinion and Reporting on Financial Statements*. Paragraph .37 of AU-C section 700B 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 4.

**Example A-2****Unmodified Opinion on the Basic Financial Statements of a Special-Purpose Government That Has a Single Opinion Unit****(Paragraphs 16.17 and 16.58)**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>11</sup> as of and for the year ended June 30, 20X1, and 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>12</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>13</sup>

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<sup>11</sup> As discussed in paragraph 16.58, 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.

<sup>12</sup> See footnote 4.

<sup>13</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.

***Other Matters***<sup>14</sup>

*[See illustrative wording in example A-1 and related footnotes for circumstances involving RSI or OI]*

**Report on Other Legal and Regulatory Requirements**<sup>15</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>14</sup> See footnote 6.

<sup>15</sup> See footnote 10.

**Example A-5****Report on Basic Financial Statements That Includes Qualified Opinions on Major Governmental Funds Because of a GAAP Departure<sup>25</sup>****(Paragraph 16.33)**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-4]***Summary of Opinions<sup>26</sup>**

<i>Opinion Unit</i>	<i>Type of Opinion</i>
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
Aggregate Discretely Presented Component Units	Unmodified
Governmental Fund X	Qualified
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>27</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

<sup>25</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 16.07–.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>26</sup> See footnote 21.

<sup>27</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.

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>28,29</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 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<sup>30</sup>**

[See illustrative wording in example A-1 and related footnotes for circumstances involving RSI or OI]

### **Report on Other Legal and Regulatory Requirements<sup>31</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>28</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.

<sup>29</sup> See footnote 22.

<sup>30</sup> See footnote 6.

<sup>31</sup> See footnote 10.

**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****(Paragraphs 16.36–39 and 16.63–85)**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%, XX%, and XX%, respectively, of the assets, [*net position, or fund balances*], and revenues of the [*identify opinion unit(s)*].<sup>46</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>47</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 opinions.

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<sup>46</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%, XX%, and XX%, 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 16.85 and the guidance in AU-C section 600B, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)*.

<sup>47</sup> See footnote 4.

### 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<sup>48</sup>

#### *Required Supplementary Information*

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>49</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 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 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

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<sup>48</sup> See footnote 6.

<sup>49</sup> References to other auditors are only appropriate when the other auditor's report discusses applicable RSI, SI, or both. (see paragraph 16.86).

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>50</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>50</sup> See footnote 10.

**Example A-10****Report on Basic Financial Statements That Includes Multiple Opinion Modifications, Including an Adverse Opinion Because A Major Fund Is Omitted<sup>51, 52</sup>****(Paragraph 16.53)**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 (except as described below), and the aggregate remaining fund information of the City of Example, Any State, as of and for the year ended June 30, 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****[Same paragraph as in example A-1]****Auditor's Responsibility****[Same paragraphs as in example A-4]****Summary of Opinions***<sup>53</sup>

<b><i>Opinion Unit</i></b>	<b><i>Type of Opinion</i></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

<sup>51</sup> As discussed in paragraph 16.53, 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>52</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>53</sup> See footnote 21.

<i>Opinion Unit</i>	<i>Type of Opinion</i>
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>54</sup>

Management has not included Enterprise Fund A<sup>55</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, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, and expenses, and changing its net position. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses of the business-type activities and the omitted major fund has not been determined.<sup>56</sup>

***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***

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>57</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

<sup>54</sup> See footnote 27.

<sup>55</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 16.54–.57 and illustrated in examples A-11 and A-12.

<sup>56</sup> See footnote 22.

<sup>57</sup> See footnote 27.

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.<sup>58</sup>

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.<sup>59</sup>

### **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 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**<sup>60</sup>

[*See illustrative wording in example A-1 and related footnotes for circumstances involving RSI or OI*]

### **Report on Other Legal and Regulatory Requirements**<sup>61</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>58</sup> See footnote 22.

<sup>59</sup> See footnote 22.

<sup>60</sup> See footnote 6.

<sup>61</sup> See footnote 10.

## 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<sup>62, 63</sup>**

**(Paragraphs 16.54–55)**

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

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

[Same paragraph as in example A-1]

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

[Same paragraphs as in example A-1]

#### ***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, each major fund, and the aggregate remaining fund information of the primary government 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.

#### ***Emphasis of Matter<sup>64, 65</sup>***

As discussed in Note X, the financial statements referred to above include only the primary government of the City of Example, Any State, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. These primary government financial statements do not include financial data for the City's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport

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<sup>62</sup> This report should only be used when the entity also has issued audited financial statements for the reporting entity. The report in example A-13 should be used if the entity has not also issued audited financial statements for the reporting entity.

<sup>63</sup> Paragraph 16.44 discusses reporting on financial statements that omit the financial information of one (or more) but not all component units.

<sup>64</sup> When the auditor includes an emphasis-of-matter paragraph in the auditor's report, the auditor should use the heading "Emphasis of Matter" or other appropriate heading.

<sup>65</sup> If the government also has issued audited financial statements for the reporting entity, the auditor's report on separate primary government basic financial statements should contain the required elements listed in paragraph 16.55. Without those elements, such separate basic financial statements for the primary government could be misinterpreted to be the complete basic financial statements of the financial reporting entity. An emphasis-of-matter paragraph should be used to communicate these elements.

to, and do not, present fairly the financial position of the reporting entity of the City of Example, Any State, as of June 30, 20X1, the changes in its financial position, or, where applicable, its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the reporting entity of the City of Example, Any State, as of and for the year ended June 30, 20X1, and our report thereon, dated [*date of report*], expressed an unmodified opinion on those financial statements.

**Other Matters**<sup>66</sup>

[*See illustrative wording in example A-1 and related footnotes for circumstances involving RSI or OI*]

**Report on Other Legal and Regulatory Requirements**<sup>67</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>66</sup> See footnote 6.

<sup>67</sup> See footnote 10.