

**NOTE: The illustrative reports included here represent a sampling of the report examples included in chapter 4 of the AICPA's Audit Guide, Government Auditing Standards and Single Audits (GAS-SA Guide). Purchase the 2016 edition of the GAS-SA Guide to access the full set of examples.**

## Appendix — Illustrative Auditor's Reports Under *Government Auditing Standards*

**4.88** This appendix contains examples of the reports issued under generally accepted auditing standards (GAAS) and *Government Auditing Standards* in various circumstances, based primarily on the guidance found in *Government Auditing Standards*; [AU-C section 700](#), *Forming an Opinion and Reporting on Financial Statements* (AICPA, *Professional Standards*); and [AU-C section 265](#), *Communicating Internal Control Related Matters Identified in an Audit* (AICPA, *Professional Standards*). *Government Auditing Standards* requires that in addition to providing an opinion or a disclaimer of opinion on the financial statements,<sup>fn 1</sup> auditors should report on the scope and results of testing of the auditee's internal control over financial reporting and compliance with laws, regulations, and provisions of contracts or grant agreements. They also should report certain fraud or abuse.

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<sup>fn 1</sup> As explained in the AICPA Audit and Accounting Guide [State and Local Governments](#), the auditor generally expresses or disclaims an opinion on a government's basic financial statements by providing an opinion or disclaimer of opinion on each opinion unit required to be presented in those financial statements. In addition, the auditor may provide opinions or disclaimers of opinions on additional opinion units if engaged to set the scope of the audit and assess materiality at a more detailed level than by the opinion units required for the basic financial statements. Throughout this guide, the use of the singular terms *opinion* and *disclaimer of opinion* encompasses the multiple opinions and disclaimers of opinion that generally will be provided on a government's basic financial statements. See [example 4-1](#) for an example of reporting on state and local government financial statements.

Auditors should exercise professional judgment in any situation not specifically addressed in this guide. For additional GAAS reporting guidance for those industries where *Government Auditing Standards* reporting is often required, refer to applicable AICPA Audit and Accounting Guides, such as [Not-for-Profit Entities](#); [State and Local Governments](#); [Health Care Entities](#); [Gaming](#); [Employee Benefit Plans](#); and [Depository and Lending Institutions: Banks and Savings Institutions, Credit Unions, Finance Companies, and Mortgage Companies](#).

[Examples 4-1–4-2](#) provide example wording for the financial statement audit report of a governmental entity and a NFP when the audit is performed under GAAS and *Government Auditing Standards*. Some for-profit entities whose financial statement audits are audited under PCAOB auditing standards may also be required to have a financial statement audit under GAAS and *Government Auditing Standards*. [Examples 4-1–4-2](#) would need modifications in those circumstances. See [paragraph 4.04](#) for more information.

[Examples 4-3–4-9](#) provide example wording for the reporting required under *Government Auditing Standards* based on an audit of a governmental entity. Footnotes are provided to indicate the revisions that would be made if the entity is a nongovernmental entity, such as a not-for-profit entity (NFP).<sup>fn 2</sup>

<i>Example No.</i>	<i>Title</i>
<a href="#">4-1</a>	Unmodified Opinions on Basic Financial Statements Accompanied by Required Supplementary Information and Other Information—State or Local Governmental Entity
<a href="#">4-2</a>	Unmodified Opinion on Consolidated Financial Statements Accompanied by Other Information—Not-for-Profit Entity
<a href="#">4-3</a>	Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> (for a Governmental Entity)  (No Material Weaknesses Identified; No Significant Deficiencies Identified; No Reportable Instances of Noncompliance or Other Matters Identified)
<a href="#">4-4</a>	Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> (for a Governmental Entity and With Reference to Audits by Other Auditors Using the Reference Option)  (No Material Weaknesses Identified; No Significant Deficiencies Identified; No Reportable Instances of Noncompliance or Other Matters Identified)
<a href="#">4-5</a>	Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> (for a Governmental Entity)  (No Material Weaknesses Identified; Significant Deficiencies Identified; Reportable Instances of Noncompliance and Other Matters Identified)

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<sup>fn 2</sup> Because of the unique wording required in reporting for a governmental entity, report [examples 4-3–4-9](#) provide wording for a governmental entity. Report wording for a not-for-profit entity (NFP) is provided in footnotes.

<i>Example No.</i>	<i>Title</i>
<a href="#">4-6</a>	Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards (for a Governmental Entity and With Reference to Audits by Other Auditors Using the Inclusion Option)</i>  <i>(No Material Weaknesses Identified; Significant Deficiencies Identified; Reportable Instances of Noncompliance and Other Matters Identified)</i>
<a href="#">4-7</a>	Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards (for a Governmental Entity)</i>  <i>(Material Weaknesses Identified; No Significant Deficiencies Identified; Reportable Instances of Noncompliance and Other Matters Identified)</i>
<a href="#">4-8</a>	Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards (for a Governmental Entity)</i>  <i>(Material Weaknesses and Significant Deficiencies Identified; Reportable Instances of Noncompliance and Other Matters Identified)</i>
<a href="#">4-9</a>	Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards (for a Governmental Entity)</i>  <i>(Opinion on the Financial Statements as a Whole Disclaimed; Material Weaknesses and Significant Deficiencies Identified; Reportable Instances of Noncompliance and Other Matters Identified)</i>

## Example 4-1

### Unmodified Opinions on Basic Financial Statements Accompanied by Required Supplementary Information and Other Information—State or Local Governmental Entity<sup>fn 3</sup> <sup>fn 4</sup>

#### Independent Auditor's Report

[Appropriate Addressee]

#### Report on the Financial Statements

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<sup>fn 3</sup> Refer to the AICPA Audit and Accounting Guide [State and Local Governments](#) for additional guidance on reporting on a government's basic financial statements. In particular, [appendix A](#) to chapter 15 of that guide describes conditions that may make modifications of the standard report necessary and illustrates several of those modifications, such as reference to the work of other auditors.

<sup>fn 4</sup> This illustration is based on a similar example in the Audit and Accounting Guide [State and Local Governments](#). However, unlike the example in *State and Local Governments*, which assumes that the financial statement audit is performed only under generally accepted auditing standards (GAAS), this illustration reflects the additional reporting when the financial statement audit is also performed in accordance with *Government Auditing Standards*. The supplementary information reporting in this illustration also presents the in-relation-to reporting on the schedule of expenditures of federal awards.

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 of Example'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 and the standards applicable to financial audits contained in *Government Auditing Standards*,<sup>fn 5</sup> 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.<sup>fn 6</sup> 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.

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<sup>fn 5</sup> For financial audits performed in accordance with *Government Auditing Standards*, chapters 1–4 of *Government Auditing Standards* apply.

<sup>fn 6</sup> In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows:

In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances.

In addition, the next sentence, "Accordingly, we express no such opinion," would not be included.

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.

### ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that the [*identify the 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 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.

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<sup>fn 7</sup> Generally accepted accounting principles for state and local government entities often require that the financial statements be accompanied by certain required supplementary information (RSI). 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 and budgetary comparison information*] that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

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

## *Other Information* <sup>fn 8</sup> <sup>fn 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 schedule of expenditures of federal awards,* <sup>fn 10</sup> *as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and the other information, such as the introductory and statistical section*] 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

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<sup>fn 8</sup> This section, within the "Other Matters" section of the report, is intended to include the reporting on supplementary information (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 other information (OI) when the auditor is disclaiming an opinion on the OI. This illustration provides example language for both SI and OI reporting. The caption provided in this illustration is one way an auditor could title the section. Alternatively, the auditor could title it "Supplementary and Other Information," "Supplementary Information," or "Accompanying Information."

<sup>fn 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 725](#), *Supplementary Information in Relation to the Financial Statements as a Whole* (AICPA, *Professional Standards*), and the AICPA Audit and Accounting Guide [State and Local Governments](#). Additionally, the OI reporting contained within this section provides an example of explanatory language that the auditor may use to disclaim an opinion on OI. Note there is no required reporting on OI under [AU-C section 720](#), *Other Information in Documents Containing Audited Financial Statements* (AICPA, *Professional Standards*). If there is no OI contained in the document containing the audited financial statements or if the auditor chooses not to include the disclaimer, the references to OI in this section would be deleted. See [AU-C section 720](#) and the AICPA Audit and Accounting Guide [State and Local Governments](#) for more information.

<sup>fn 10</sup> As noted in [AU-C section 725](#), the date of the auditor's report on supplementary information in relation to the financial statements as a whole should not be earlier than the date on which the auditor completed the required procedures required by [AU-C section 725](#). When a compliance audit performed in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is performed after the financial statement audit, the required procedures on the schedule of expenditures of federal awards may not be completed until after the date of the auditor's report on the financial statements. In this case, if the in-relation-to reporting on the schedule of expenditures of federal awards is included in the financial statement report, the auditor would dual-date the financial statement report. The auditor may also consider including the in-relation-to reporting on the schedule of expenditures of federal awards in a separate report or in the auditor's reporting issued to meet the requirements of the Uniform Guidance. The illustrations contained in [chapter 13](#), "Auditor Reporting Requirements and Other Communication Considerations in a Single Audit," provide examples of reporting on the schedule in the Uniform Guidance compliance audit report. Additionally, see [chapter 13](#) for further discussion of dating the in-relation-to reporting on the schedule of expenditures of federal awards.

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.

The *[identify accompanying 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.

### **Other Reporting Required by *Government Auditing Standards***<sup>fn 11</sup>

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.<sup>fn 12</sup> The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance.<sup>fn 13</sup> 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.

*[Auditor's signature]*

*[Auditor's city and state]*<sup>fn 14</sup>

*[Date of the auditor's report]*

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<sup>fn 11</sup> [Paragraph .37](#) of AU-C section 700, *Forming an Opinion and Reporting on Financial Statements* (AICPA, *Professional Standards*), provides that the section related to an auditor's other reporting responsibilities should be subtitled "Report on Other Legal and Regulatory Requirements" or otherwise, as appropriate to the contents of the section. An example of an alternative title describing the reporting required by *Government Auditing Standards* is illustrated here.

<sup>fn 12</sup> [Paragraph 4.07](#) discusses noncompliance and other matters—that is, certain fraud and abuse—for which *Government Auditing Standards* requires reporting in the auditor's report.

<sup>fn 13</sup> This sentence should be modified if the auditor is providing an opinion on internal control over financial reporting or on compliance in the *Government Auditing Standards* report. See [footnote 12](#) at paragraph 4.11.

<sup>fn 14</sup> [Technical Questions and Answers \(Q&A\) section 9100.07](#), "Naming the City and State Where the Auditor Practices," and [Q&A section 9100.08](#), "Audit Firm With Multiple Offices on Their Company Letterhead and Effect on Report" (AICPA, *Technical Questions and Answers*), provide guidance related to naming the city and state in the auditor's report. The city and state where the auditor practices is not required to be placed under the auditor's signature and may be named in the firm's letterhead on which the report is issued. However, if the firm's letterhead includes multiple offices it will not be clear which location is the issuing office and, in that case, the auditor would need to indicate the city and state where the auditor practices in the auditor's report.



## Example 4-2

### Unmodified Opinion on Consolidated Financial Statements Accompanied by Other Information—Not-for-Profit Entity<sup>fn 15</sup> <sup>fn 16</sup>

#### Independent Auditor's Report

[Appropriate Addressee]

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

We have audited the accompanying consolidated financial statements of Example NFP, which comprise the consolidated statement of financial position as of June 30, 20X1, and the related consolidated statements of activities, and cash flows<sup>fn 17</sup> for the year then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing*

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<sup>fn 15</sup> Refer to the AICPA Audit and Accounting Guide [Not-for-Profit Entities](#) for additional guidance on reporting on the financial statements of an NFP. In addition to the situations discussed in that guide, auditors may need to modify the report on the financial statements to refer to the work of other auditors, using the guidance in [AU-C section 600, Special Considerations—Audits of Group Financial Statements \(Including the Work of Component Auditors\)](#) (AICPA, Professional Standards).

<sup>fn 16</sup> This illustration is based on a similar example in the Audit and Accounting Guide [Not-for-Profit Entities](#). However, unlike the example in [Not-for-Profit Entities](#), which assumes that the financial statement audit is performed only under GAAS, this illustration reflects the additional reporting when the financial statement audit is also performed in accordance with *Government Auditing Standards*. Additionally, the supplementary information reporting in this illustration reflects the in-relation-to reporting on the schedule of expenditures of federal awards.

<sup>fn 17</sup> Each of the statements presented, which may include a statement of functional expenses, should be identified in the introductory paragraph. [Paragraph .A23](#) of AU-C section 700 notes that the identification of the title for each statement that the financial statements comprise may be achieved by referencing the table of contents.



*Standards*,<sup>fn 18</sup> 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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.<sup>fn 19</sup> 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Example NFP as of June 30, 20X1, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

*Other Information*<sup>fn 20 fn 21</sup>

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<sup>fn 18</sup> See [footnote 5](#).

<sup>fn 19</sup> See [footnote 6](#).

<sup>fn 20</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 assumes that the only information that accompanies the financial statements is the schedule of expenditures of federal award and that the auditor is providing an "in-relation-to" opinion on it. [Example 4-1](#) provides illustrative wording that can be incorporated into this illustration when other information also accompanies the financial statements. The caption provided in this illustration is one way an auditor could title the section. Alternatively, the auditor could title it "Supplementary and Other Information," "Supplementary Information," or "Accompanying Information."

<sup>fn 21</sup> If there is no SI on which to report, these paragraphs would be deleted. If the auditor has issued an opinion other than unmodified on the financial statements, see the guidance in [AU-C section 725](#).

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The [*identify accompanying supplementary information such as the schedule of expenditures of federal awards,*<sup>fn 22</sup> *as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*] is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***<sup>fn 23</sup>

In accordance with *Government Auditing Standards*, we have also issued our report dated [*date of report*] on our consideration of Example NFP'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.<sup>fn 24</sup> The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance.<sup>fn 25</sup> That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Example NFP's internal control over financial reporting and compliance.

[*Auditor's signature*]

[*Auditor's city and state*]<sup>fn 26</sup>

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<sup>fn 22</sup> See [footnote 10](#).

<sup>fn 23</sup> See [footnote 11](#).

<sup>fn 24</sup> See [footnote 12](#).

<sup>fn 25</sup> See [footnote 13](#).

<sup>fn 26</sup> See [footnote 14](#).

[Date of the Auditor's Report]

### Example 4-3

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters<sup>fn 27</sup> Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards* (for a Governmental Entity)<sup>fn 28</sup>**

***(No Material Weaknesses Identified; No Significant Deficiencies Identified; No Reportable Instances of Noncompliance or Other Matters Identified)***<sup>fn 29</sup>

Independent Auditor's Report

[Appropriate Addressee]

We have audited, in accordance with the 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,<sup>fn 30</sup> the financial statements of the governmental

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<sup>fn 27</sup> [Chapter 2](#), "*Government Auditing Standards—Ethical Principles and General Standards*," and [chapter 3](#), "Planning and Performing a Financial Statement Audit in Accordance With *Government Auditing Standards*," of this guide discuss the auditor's consideration of internal control over financial reporting and of fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, and abuse.

<sup>fn 28</sup> This illustration assumes that Example Entity is a governmental entity. If Example Entity is a NFP, the wording in the first paragraph of this report should be modified using the following wording. Additionally, the first sentence under the heading "Internal Control over Financial Reporting" would be revised to refer to "our opinion" instead of "our opinions."

We have audited, in accordance with the 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, the financial statements of Example Entity, which comprise the consolidated statement of financial position as of June 30, 20X1, and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 15, 20X1.

<sup>fn 29</sup> Auditors may use portions of various illustrations included in this appendix to draft reports that apply to a specific auditee situation. For example, if the auditor has identified significant deficiencies but has not identified instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, the internal control section of [example 4-5](#) may be used along with the compliance and other matters section of [example 4-3](#). Alternatively if the auditor has not identified significant deficiencies but has identified instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, the internal control section of [example 4-3](#) may be used along with the compliance section of [example 4-5](#). See [examples 4-7-4-9](#) for illustrative reporting for situations in which the auditor has identified material weaknesses.

<sup>fn 30</sup> See [footnote 5](#). Additionally, if the financial statements include organizational units that are not required to have a *Government Auditing Standards* audit, the auditor should consider modifying this paragraph. See [paragraph 4.76](#).

activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Example Entity, as of and for the year ended June 30, 20X1, and the related notes to the financial statements, which collectively comprise Example Entity's basic financial statements, and have issued our report thereon dated August 15, 20X1.<sup>fn 31</sup>

### **Internal Control Over Financial Reporting**<sup>fn 32</sup> <sup>fn 33</sup>

In planning and performing our audit of the financial statements, we considered Example Entity's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions<sup>fn 34</sup> on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Example Entity's internal control. Accordingly, we do not express an opinion on the effectiveness of Example Entity's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any defi-

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<sup>fn 31</sup> If the auditor expressed a modified opinion on the financial statements (that is, a qualified opinion, an adverse opinion, or a disclaimer of opinion), the auditor should include a statement describing the nature of the modification. The auditor may include certain additional communications when the auditor included such additional communications in the auditor's report on the financial statements that are not modifications to the auditor's opinion. For example, if the auditor included an emphasis-of-matter paragraph in the auditor's report on the financial statements because of an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time, the auditor may also include mention of the additional communication here.

<sup>fn 32</sup> *Government Auditing Standards* permits, but does not require, auditors to express an opinion on internal control over financial reporting or on compliance if sufficient work was performed. See also [footnote 13](#).

<sup>fn 33</sup> This report sequences the reporting on internal control over financial reporting before the reporting on compliance and other matters. However, the Uniform Guidance reports in the [appendix](#) in chapter 13 and the [appendix](#) in chapter 14, "Program-Specific Audits," of this guide sequence the reporting on compliance before the reporting on internal control over compliance. Auditors may present the internal control and compliance sections of the *Government Auditing Standards* and compliance audit reports in whichever sequence better meets their needs.

<sup>fn 34</sup> See [footnote 28](#).

ciencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**<sup>fn 35</sup> <sup>fn 36</sup>

As part of obtaining reasonable assurance about whether Example Entity's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.<sup>fn 37</sup>

[Auditor's signature]

[Auditor's city and state]<sup>fn 38</sup>

[Date of the auditor's report]<sup>fn 39</sup>

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<sup>fn 35</sup> *Other matters* are certain findings of fraud or abuse. As per industry practice, the reference to "other matters" in both the heading and the following paragraph typically appears in all reports, even if the report does not present or refer to findings of fraud or abuse or even if the only findings of fraud or abuse are presented in or referred to from the section on internal control over financial reporting. See [paragraph 4.59](#).

<sup>fn 36</sup> Paragraph 4.26 of *Government Auditing Standards* notes that when auditors detect instances of noncompliance with provisions of contracts and grant agreements or abuse that have an effect on the financial statements that are less than material but warrant the attention of those charged with governance, they should communicate those findings in writing to audited entity officials. See [paragraph 4.72](#).

<sup>fn 37</sup> This paragraph conforms to [paragraph .11](#) of AU-C section 905, *Alert That Restricts the Use of the Auditor's Written Communication* (AICPA Professional Standards), which provides for a "purpose" alert in lieu of a "restricted use" alert for certain communications issued under *Government Auditing Standards*. See [AU-C section 905](#) for additional guidance.

<sup>fn 38</sup> See [footnote 14](#).

#### Example 4-4

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters<sup>fn 40</sup> Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards* (for a Governmental Entity<sup>fn 41</sup> and With Reference to Audits by Other Auditors Using the Reference Option)<sup>fn 42</sup>**

*(No Material Weaknesses Identified; No Significant Deficiencies Identified; No Reportable Instances of Noncompliance or Other Matters Identified)<sup>fn 43</sup>*

#### Independent Auditor's Report

[Appropriate Addressee]

We have audited, in accordance with the 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,<sup>fn 44</sup> the 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 Example Entity as of and for the year ended June 30, 20X1, and the related notes to the financial statements, which collectively comprise Example Entity's basic financial statements, and have issued our report thereon dated August 15, 20X1.<sup>fn 45</sup> Our re-

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<sup>fn 39</sup> Because this report relates to the audit of the financial statements, and is based on the GAAS audit procedures performed, it is subject to the provisions of [AU-C section 700](#). Therefore, it should be dated the same date as the auditor's report on the financial statements, which according to [paragraph .41](#) of AU-C section 700, is "no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements."

<sup>fn 40</sup> See [footnote 27](#).

<sup>fn 41</sup> See [footnote 28](#).

<sup>fn 42</sup> See [paragraphs 4.77–.83](#) for discussion of the reference option for acknowledging the involvement of other auditors (that is, component auditors) in the report on internal control over financial reporting and compliance and other matters.

<sup>fn 43</sup> See [footnote 29](#).

<sup>fn 44</sup> See [footnote 30](#).

<sup>fn 45</sup> See [footnote 31](#).

port includes a reference to other auditors who audited the financial statements of [*identify organization, function, or activity*], as described in our report on Example Entity's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. <sup>fn 46</sup> <sup>fn 47</sup>

### **Internal Control Over Financial Reporting** <sup>fn 48</sup> <sup>fn 49</sup>

In planning and performing our audit of the financial statements, we considered Example Entity's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions <sup>fn 50</sup> on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Example Entity's internal control. Accordingly, we do not express an opinion on the effectiveness of Example Entity's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of

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<sup>fn 46</sup> There may be circumstances in which none of the other auditors' audits referred to in the financial statement report were performed under *Government Auditing Standards*. To clarify the portion that was not audited in accordance with *Government Auditing Standards*, this paragraph should be modified. The last sentence in this paragraph may be replaced with the following: The financial statements of [*identify organization, function, or activity*] were not audited in accordance with *Government Auditing Standards*.

See also [paragraph 4.76](#) for additional guidance on modifying this paragraph when the financial statements include organizational units that are not required to have a *Government Auditing Standards* audit. [Paragraph 4.75](#) provides guidance on similar modifications to the report on the financial statements.

<sup>fn 47</sup> There may be circumstances in which some other auditors' audits were not performed under *Government Auditing Standards*, whereas some other auditors' audits were performed under those standards. In that situation, this paragraph should be modified. An additional sentence may be added as follows: The financial statements of [*identify organizations, functions, or activities audited by other auditors that were not performed under Government Auditing Standards*] were not audited in accordance with *Government Auditing Standards*.

See also [paragraph 4.76](#) for additional guidance on modifying the auditor's responsibility paragraph when the financial statements include organizational units that are not required to have a *Government Auditing Standards* audit. [Paragraph 4.75](#) provides guidance on similar modifications to the report on the financial statements.

<sup>fn 48</sup> See [footnote 32](#).

<sup>fn 49</sup> See [footnote 33](#).

<sup>fn 50</sup> See [footnote 28](#).



the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**<sup>fn 51</sup> <sup>fn 52</sup>

As part of obtaining reasonable assurance about whether Example Entity's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.<sup>fn 53</sup>

[Auditor's signature]

[Auditor's city and state]<sup>fn 54</sup>

[Date of the auditor's report]<sup>fn 55</sup>

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<sup>fn 51</sup> See [footnote 35](#).

<sup>fn 52</sup> See [footnote 36](#).

<sup>fn 53</sup> See [footnote 37](#).

<sup>fn 54</sup> See [footnote 14](#).