AUDIT OPINIONS

**(Before Implementation of SAS No. 134 and other related SASs)**

The following sample audit opinions illustrate reports on the basic financial statements to be issued in selected situations. In all cases the auditor should strive to give an unqualified opinion. In situations where this is not possible, the auditor should explain in detail what internal controls or procedures are necessary to issue an unqualified opinion next year. This explanation should be contained in the internal control report or management letter, a copy of which shall be sent to the NC Department of State Treasurer, State and Local Government Finance Division. See the most recent memo regarding the Contract to Audit Accounts for more details and the implications and/or requirements if less than an unqualified opinion is to be issued.

Most of the sample opinions are adapted from the AICPA’s *Audit and Accounting Guide:*  *State and Local Governments*. The combining and individual fund financial statements presented with supporting schedules must be reported on as supplementary data in *Other Information* section or in a separate opinion because the unit and the NC Department of State Treasurer, State and Local Government Finance Division, use this information for monitoring budgetary compliance, preparing bond circulars, evaluating the financial condition, and other purposes.

The Auditing Standards Board of the AICPA has issued SASs No. 134 to 140 that will revise the auditor reports for fiscal years ending on or after December 15, 2021. Early implementation is allowed. The example provided here must not be used for fiscal years ending on or after December 15, 2021.

**Text that is unique to the type of example is noted in GREEN**

**Changes of resent auditing standards or other authoritative sources are noted in BLUE**

**EXAMPLE 6: Report on Basic Financial Statements That Includes a Qualified Opinion on Major Governmental Funds because of a GAAP Departure[[1]](#endnote-1)**

**(Before Implementation of SAS No. 134 and other related SASs)**

Independent Auditor’s Report

To the [Highest Elected Official and Governing Board]

City of Dogwood, North Carolina

**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 [[2]](#endnote-2) of City of Dogwood, North Carolina as of and for the year ended June 30, 20XX, and the related notes to the financial statements, which collectively comprise City of Dogwood’s basic financial statements as listed in the table of contents.[[3]](#endnote-3) [[4]](#endnote-4)

***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.[[5]](#endnote-5) We conducted our audit in accordance with auditing standards generally accepted in the United States of America.[[6]](#endnote-6) Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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.

***Basis for Qualified Opinions on [Major Fund Affected] [[7]](#endnote-7) [[8]](#endnote-8)***

Management has not adopted a methodology for reviewing the collectability of taxes receivable in the [major fund affected] and, accordingly, has not considered the need to provide an allowance for uncollectable amounts. Accounting principles generally accepted in the United States of America require that an adequate allowance be provided for uncollectable receivables, which would decrease the assets and fund balances and change the revenues in the [major fund affected]. The amount by which this departure would affect the assets, fund balances, and revenues of the [major fund affected] has not been determined.

***Qualified Opinion[[9]](#endnote-9)***

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinions on [Major Fund Affected]” paragraph,7 the financial statements referred to above present fairly, in all material respects, the financial position of the [major fund affected] of the City of Dogwood, North Carolina, as of June 30, 20XX, and the respective changes in financial position thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

***Unmodified Opinions***9

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, [*major funds not affected by the previously described adverse and qualified opinions*], and the aggregate remaining fund information of the City of Dogwood, North Carolina, as of June 30, 20XX, and the respective changes in financial position and, where applicable, cash flows[[10]](#endnote-10) thereof and the respective budgetary comparison for the General Fund, [and major, annually budgeted special revenue funds, if applicable][[11]](#endnote-11) for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information[[12]](#endnote-12)*

Accounting principles generally accepted in the United States of America require that Management’s Discussion and Analysis on pages xx through xx, and the Other Postemployment Benefits’ Schedule of Changes in the Total OPEB Liability and Related Ratios, on page xx and Law Enforcement Officers’ Special Separation Allowance Schedules of Funding Progress and Employer Contributions on pages xx through xx, the Local Government Employees’ Retirement System’s Schedules of the Proportionate Share of the Net Pension Asset (Liability) and Contributions, on pages xx through xx, respectively, and the Firefighter’ and Rescue Squad Worker’s Pension Fund’s Schedule of the Proportionate Share of Net Pension Liability (Asset) on page 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 the 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[[13]](#endnote-13)*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Dogwood’s basic financial statements. The introductory information, combining and individual nonmajor fund financial statements, budgetary schedules, other schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, budgetary schedules, and other schedules are the responsibility of management and were derived from and relate 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. Except for the effects on the combining and individual statements and schedules of revenues, expenditures, and changes in fund balances, statements of revenues, expenses and changes in net assets, and statements of cash flows for management having not provided an allowance for uncollectable taxes receivable in [major fund affected], the combining and individual nonmajor fund financial statements, budgetary schedules, and other schedules, in our opinion, are fairly stated in all material respects in relation to the basic financial statements as a whole. .[[14]](#endnote-14)

The introductory information and the statistical sections have not been subjected to the auditing procedures applied in the audit of basic financial statements, and accordingly, we do not express an opinion or provide assurance on them.9 [[15]](#endnote-15) [[16]](#endnote-16)

[Signature]

[City and State]

[Date]

1. The first five paragraphs and their respective headings are the same as a standard unmodified report. [↑](#endnote-ref-1)
2. Refer to Example 1, footnote 1. [↑](#endnote-ref-2)
3. Refer to Example 1, footnote 2. [↑](#endnote-ref-3)
4. Refer to Example 1, footnote 3. [↑](#endnote-ref-4)
5. Refer to Example 1, footnote 4. [↑](#endnote-ref-5)
6. Refer to Example 1, footnote 5. [↑](#endnote-ref-6)
7. This Dogwood example assumes that the auditor has concluded that not providing an adequate allowance for taxes receivable warrants a qualified opinion. Another auditor, using professional judgment, may decide to issue a disclaimer of an opinion or make a different conclusion and would use the following: ***Disclaimer of an Opinion*** “In our opinion, because management has not adopted a methodology for reviewing the collectability of taxes receivable in the [major fund affected] and, accordingly, has not considered the need to provide an allowance for uncollectible amounts, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on 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 City of Dogwood as of and for the year ended June 30, 20XX.” Additionally, the “***Basis for XXX Opinion ...****”* paragraph should mention the disclaimer of opinion in the title. Any variations from unmodified opinions should be discussed with the staff of the State and Local Government Finance Division and will require an amendment to the contract to audit accounts before the final invoice will be approved. [↑](#endnote-ref-7)
8. The Basis for Qualified Opinion paragraph explains the reason and impact of GAAP departures. [↑](#endnote-ref-8)
9. The opinion units without the qualified opinion are referenced in the unmodified opinion paragraphs. [↑](#endnote-ref-9)
10. Refer to Example 1, footnote 6. [↑](#endnote-ref-10)
11. Refer to Example 1, footnote 7. [↑](#endnote-ref-11)
12. Refer to Example 1, footnote 8. [↑](#endnote-ref-12)
13. Refer to Example 1, footnote 9 [↑](#endnote-ref-13)
14. Refer to Example 1, footnote 10 [↑](#endnote-ref-14)
15. Refer to Example 1, footnote 11 [↑](#endnote-ref-15)
16. Refer to Example 1, footnote 12. [↑](#endnote-ref-16)