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These illustrations and the additional illustrations in the 2021 GAS-SA Guide have been updated to reflect new reporting standards established by AICPA Statements on Auditing Standards (SAS) Nos. 134 through 141. These reports are effective for fiscal years ending on or after December 31, 2021. For reports with fiscal years ending before December 31, 2021, the auditor would use the reports from the 2020 edition of the GAS-SA Guide.

Government Auditing Standards and Single Audits

Appendix — Illustrative Auditor's Reports Under Government Auditing Standards

Update 4-2: Reporting

Due to the timing of the effective dates of Statement on Auditing Standards (SAS) Nos. 134–140,¹ this edition of the guide has been updated to reflect changes as a result of SAS Nos. 134–141. For auditors that are not early implementing SAS Nos. 134–140, it will be necessary for auditors to look back to the 2020 AICPA Audit Guide *Government Auditing Standards and Single Audits* (as of April 1, 2020) for the auditing guidance and illustrative auditor reporting in effect prior to SAS Nos. 134–140. The 2020 edition of the guide remains available in all formats in the AICPA store through <https://future.aicpa.org/cpe-learning>. This edition of the guide is relevant to auditors that have implemented SAS Nos. 134–140 early and generally for all audits of financial statements for periods ending on or after December 15, 2021 (or as specified by the individual standard).

The following report illustrations have been updated to reflect the following new reporting standards issued by the AICPA, as applicable:

- SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*
- SAS No. 137, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports* (AU-C sec. 720)
- SAS No. 138, *Amendments to the Description of the Concept of Materiality*
- SAS No. 139, *Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes From SAS No. 134*
- SAS No. 140, *Amendments to AU-C Sections 725, 730, 930, 935, and 940 to Incorporate Auditor Reporting Changes From SAS Nos. 134 and 137*

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*;² and AU-C section 265, *Communicating Internal Control Related Matters Identified in an Audit*. *Government Auditing Standards* requires that in addition to providing an opinion or a disclaimer of opinion on the financial statements,³ auditors should report on the scope and results of testing of the

¹ Statements on Auditing Standards (SASs) are codified in AICPA *Professional Standards*.

² All AU-C sections can be found in AICPA *Professional Standards*.

³ As explained in 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

(continued)

audited entity's internal control over financial reporting and compliance with laws, regulations, and provisions of contracts or grant agreements. They also should report certain fraud.

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 not-for-profit entity (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 4-1–4-2 assume the following:

- The auditor has *not* been engaged to report on key audit matters (KAMs). AU-C section 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, addresses the auditor's responsibilities to communicate KAMs in the auditor's report when the auditor is engaged to do so, including relating to the auditor's judgment about what to communicate in the auditor's report and the form and content of such communication.
- The auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time in accordance with AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.

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 an NFP.⁴

Example No.	Title
4-1	Unmodified Opinions on Basic Financial Statements Accompanied by Required Supplementary Information, Supplementary Information, and Other Information — State or Local Governmental Entity

(continued)

(footnote continued)

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.

⁴ 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.

Example No.	Title
4-2	Unmodified Opinion on Consolidated Financial Statements Accompanied by Supplementary Information — Not-for-Profit Entity
4-3	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>(No Material Weaknesses Identified; No Significant Deficiencies Identified; No Reportable Instances of Noncompliance or Other Matters Identified)</i>
4-4	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 Reference Option)</i> <i>(No Material Weaknesses Identified; No Significant Deficiencies Identified; No Reportable Instances of Noncompliance or Other Matters Identified)</i>
4-5	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>(No Material Weaknesses Identified; Significant Deficiencies Identified; Reportable Instances of Noncompliance and Other Matters Identified)</i>
4-6	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>
4-7	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>
4-8	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>
4-9	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, Supplementary Information, and Other Information — State or Local Governmental Entity^{5,6}

Independent Auditor's Report

[Appropriate Addressee]

Report on the Audit of the Financial Statements

Opinions

We have audited 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 the [Name of Governmental Entity (Entity)], as of and for the year ended June 30, 20X1, and the related notes to the financial statements, which collectively comprise the [Entity]'s basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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 [Entity], 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*,⁷ issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the [Entity] and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

⁵ Refer to AICPA Audit and Accounting Guide *State and Local Governments* for additional guidance on reporting on a government's basic financial statements. In particular, chapter 16, "Audit Reporting," 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.

⁶ This illustration is based on a similar example in chapter 16 of 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 (SI) reporting in this illustration also presents the in-relation-to reporting on the schedule of expenditures of federal awards.

⁷ For financial audits performed in accordance with *Government Auditing Standards*, chapters 1–6 of *Government Auditing Standards* apply.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the [Entity]'s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.⁸

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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.⁹ Accordingly, no such opinion is expressed. evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

⁸ According to paragraph .32 of AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*, the auditor should describe management's responsibility for going concern when required by the applicable financial reporting framework. The time period has been modified according to the requirements of paragraph 16 in GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*.

⁹ In circumstances in which the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, omit the following: "but not for the purpose of expressing an opinion on the effectiveness the [Entity]'s internal control. Accordingly, no such opinion is expressed."

- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the [Entity]'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information¹⁰

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] be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information¹¹

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the [Entity]'s basic financial statements. The [identify accompanying supplementary information such as the combining

¹⁰ 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 "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 section 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 opinions on the basic financial statements are 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*.

¹¹ 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, this section 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*.

and individual nonmajor fund financial statements and schedule of expenditures of federal awards,¹² as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards] are presented for purposes of additional analysis and are not a required part of the basic 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 basic financial statements. The 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.

Other Information¹³ Management is responsible for the other information included in the annual report. The other information comprises the [identify other information, such as the introductory and statistical sections] but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards¹⁴

In accordance with *Government Auditing Standards*, we have also issued our report dated [date of report] on our consideration of the [Entity]'s internal

¹² As noted in AU-C section 725, the date of the auditor's report on SI 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.

¹³ This other information (OI) section of the report illustrates a situation where OI is included in the annual report and all information was obtained prior to the date of the auditor's report, the auditor has applied the specified procedures, no uncorrected material misstatements of the OI exist, and the auditor is issuing an unmodified opinion on the financial statements. If the auditor has concluded that an uncorrected material misstatement of the OI exists or if the auditor has issued an opinion other than unmodified on the financial statements, refer to the guidance in AU-C section 720, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*.

¹⁴ Paragraph .39 of AU-C section 700 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.

control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.¹⁵ 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 [Entity]'s internal control over financial reporting or on compliance.¹⁶ That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering [Entity]'s internal control over financial reporting and compliance.

[Signature of auditor's firm]

[City and state where the auditor's report is issued]¹⁷

[Date of the auditor's report]

¹⁵ Paragraph 4.07 discusses noncompliance and other matters — that is, certain fraud — for which *Government Auditing Standards* requires reporting in the auditor's report.

¹⁶ 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 15 at paragraph 4.12.

¹⁷ Technical Questions and Answers (Q&A) section 9100.07, "Naming the City and State Where the Auditor Practices," indicates that the city and state where the auditor practices may be named in the firm's letterhead on which the report is issued and is not required to be placed under the auditor's signature. The Q&A has not been updated for SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, as amended, but is expected after the issuance of this guide. Once issued, the updated Q&A will be posted at www.aicpa.org/interestareas/frc/recentlyissuedtechnicalquestionsandanswers.html.

Q&As are "other auditing publications." In applying the auditing guidance included in an other auditing publication, the auditor should, exercising professional judgment, assess the relevance and appropriateness of such guidance to the circumstances of the audit. Other auditing publications have no authoritative status; however, they may help the auditor understand and apply GAAS. The auditor is not expected to be aware of the full body of other auditing publications. The auditor may presume that other auditing publications published by the AICPA that have been reviewed by the AICPA Audit and Attest Standards staff are appropriate.

All Q&A sections can be found in *Technical Questions and Answers*.

Example 4-2

Unmodified Opinion on Consolidated Financial Statements Accompanied by Supplementary Information — Not-for-Profit Entity^{18,19}

Independent Auditor's Report

[Appropriate Addressee]

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of [Name of NFP Entity (Entity)], which comprise the consolidated statement of financial position as of June 30, 20X1, and the related consolidated statements of activities, [functional expenses (if applicable),] and cash flows²⁰ for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of [Name of NFP Entity] 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (Government Auditing Standards),²¹ issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the [Entity] and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair

¹⁸ Refer to 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)*.

¹⁹ 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 SI reporting in this illustration reflects the in-relation-to reporting on the schedule of expenditures of federal awards.

²⁰ Each of the statements presented, which may include a statement of functional expenses, should be identified in the introductory paragraph. Paragraph .A28 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.

²¹ See footnote 7.

presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the [Entity]'s ability to continue as a going concern for [insert the time period set by the applicable financial reporting framework, which for FASB-reporting entities is one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable)].

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- obtain an understanding of internal control relevant to the audit 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.²² Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the [Entity]'s ability to continue as a going concern for a reasonable period of time.

²² See footnote 9.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information^{23,24}

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,²⁵ 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 [identify accompanying supplementary information] is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards²⁶

In accordance with *Government Auditing Standards*, we have also issued our report dated [date of report] on our consideration of the [Entity]'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.²⁷ 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 [Entity]'s internal control over financial reporting or on compliance.²⁸ That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the [Entity]'s internal control over financial reporting and compliance.

[Signature of the auditor's firm]

[City and state where the auditor's report is issued]²⁹

[Date of the Auditor's Report]

²³ This 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. This illustration assumes that the only information that accompanies the financial statements is the schedule of expenditures of federal awards 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 OI also accompanies the financial statements.

²⁴ 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.

²⁵ See footnote 12.

²⁶ See footnote 14.

²⁷ See footnote 15.

²⁸ See footnote 16.

²⁹ See footnote 17.

Example 4-3

**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters³⁰ Based on an Audit of Financial
Statements Performed in Accordance With *Government Auditing
Standards (for a Governmental Entity)*³¹**

**(No Material Weaknesses Identified; No Significant Deficiencies
Identified; No Reportable Instances of Noncompliance or Other
Matters Identified)³²**

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,³³ 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 [Name of Governmental Entity (Entity)], as of and for the year ended June 30, 20X1, and the related notes to the financial statements, which collectively comprise the [Entity]'s basic financial statements, and have issued our report thereon dated August 15, 20X1.³⁴

³⁰ Chapter 2, "*Government Auditing Standards — Ethics, Independence, Professional Judgment, Competence, Continuing Professional Education, Quality Control and Peer Review*," 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 and noncompliance with provisions of laws, regulations, contracts, and grant agreements.

³¹ This illustration assumes that the Entity is a governmental entity. If the Entity is an 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 consolidated financial statements of [Name of NFP Entity (Entity)], which comprise the [Entity]'s 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.

³² Auditors may use portions of various illustrations included in this appendix to draft reports that apply to a specific audited entity 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.

³³ See footnote 7. 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 4.80.

³⁴ 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

(continued)

Report on Internal Control Over Financial Reporting³⁵

In planning and performing our audit of the financial statements, we considered the [Entity]'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions³⁶ on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the [Entity]'s internal control. Accordingly, we do not express an opinion on the effectiveness of the [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.³⁷

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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters^{38,39}

As part of obtaining reasonable assurance about whether the [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

(footnote continued)

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.

³⁵ *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.

³⁶ See footnote 31.

³⁷ Although the definitions of *deficiency in internal control* and *material weakness* are required in all reporting, the definition of *significant deficiency* is not required to be included in the report when no significant deficiencies have been identified. However, for clarity purposes, the definition of *significant deficiency* is included in the example reports found in this appendix regardless of the type of deficiencies identified. The definitions included in all example reports are based on the definitions found in AU-C section 265, *Communicating Internal Control Related Matters Identified in an Audit*.

³⁸ *Other matters* are certain findings of fraud. 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 even if the only findings of fraud are presented in or referred to from the section on internal control over financial reporting. See paragraph 4.63.

³⁹ Paragraph 6.44 of *Government Auditing Standards* notes that when auditors identify or suspect noncompliance with provisions of laws, regulations, contracts, or grant agreements that has an effect on the financial statements that is less than material but warrants the attention of those charged with governance, they should communicate those findings in writing to audited entity officials. See paragraph 4.76.

on the financial statements. 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 non-compliance 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.⁴⁰

[Signature of the auditor's firm]

[City and state where the auditor's report is issued]⁴¹

[Date of the auditor's report]⁴²

⁴⁰ This paragraph conforms to paragraph .11 of AU-C section 905, *Alert That Restricts the Use of the Auditor's Written Communication*, 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.

⁴¹ See footnote 17.

⁴² Because this report relates to an engagement to audit 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 .42 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."

Example 4-4

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters⁴³ Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards* (for a Governmental Entity⁴⁴ and With Reference to Audits by Other Auditors Using the Reference Option)⁴⁵

(No Material Weaknesses Identified; No Significant Deficiencies Identified; No Reportable Instances of Noncompliance or Other Matters Identified)⁴⁶

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,⁴⁷ 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 [Name of Governmental Entity (Entity)] as of and for the year ended June 30, 20X1, and the related notes to the financial statements, which collectively comprise the [Entity]'s basic financial statements, and have issued our report thereon dated August 15, 20X1.⁴⁸ Our report includes a reference to other auditors who audited the financial statements of [identify organization, function, or activity], as described in our report on the [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.^{49,50}

⁴³ See footnote 30.

⁴⁴ See footnote 31.

⁴⁵ See paragraphs 4.81–.87 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.

⁴⁶ See footnote 32.

⁴⁷ See footnote 33.

⁴⁸ See footnote 34.

⁴⁹ 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*, and accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with [name of component unit or fund] or that are reported on separately by those auditors who audited the financial statements of [identify organization, function or activity].

See also paragraph 4.80 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 4.79 provides guidance on similar modifications to the report on the financial statements.

⁵⁰ 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*, and accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with [name of

Report on Internal Control Over Financial Reporting⁵¹

In planning and performing our audit of the financial statements, we considered the [Entity]'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions⁵² on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the [Entity]'s internal control. Accordingly, we do not express an opinion on the effectiveness of the [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.⁵³

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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters^{54,55}

As part of obtaining reasonable assurance about whether the [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 financial statements. 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 non-compliance 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

(footnote continued)

component unit or fund] or that are reported on separately by those auditors who audited the financial statements of [identify organization, function or activity].

See also paragraph 4.80 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 4.79 provides guidance on similar modifications to the report on the financial statements.

⁵¹ See footnote 35.

⁵² See footnote 31.

⁵³ See footnote 37.

⁵⁴ See footnote 38.

⁵⁵ See footnote 39.

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.⁵⁶

[Signature of the auditor's firm]

[City and state where the auditor's report is issued]⁵⁷

[Date of the auditor's report]⁵⁸

⁵⁶ See footnote 40.

⁵⁷ See footnote 17.

⁵⁸ See footnote 42.

Example 4-5**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters⁵⁹ Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards* (for a Governmental Entity)⁶⁰****(No Material Weaknesses Identified; Significant Deficiencies Identified; Reportable Instances of Noncompliance and Other Matters Identified)⁶¹**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,⁶² 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 *[Name of Governmental Entity (Entity)]* as of and for the year ended June 30, 20X1, and the related notes to the financial statements, which collectively comprise the *[Entity]*'s basic financial statements, and have issued our report thereon dated August 15, 20X1.⁶³

Report on Internal Control Over Financial Reporting⁶⁴

In planning and performing our audit of the financial statements, we considered the *[Entity]*'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions⁶⁵ on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the *[Entity]*'s internal control. Accordingly, we do not express an opinion on the effectiveness of the *[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.⁶⁶

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

⁵⁹ See footnote 30.

⁶⁰ See footnote 31.

⁶¹ See footnote 32.

⁶² See footnote 33.

⁶³ See footnote 34.

⁶⁴ See footnote 35.

⁶⁵ See footnote 31.

⁶⁶ See footnote 37.

deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying [include the title of the schedule in which the findings are reported (for example, schedule of findings and responses or schedule of findings and questioned costs)] as items [list the reference numbers of the related findings, for example, 20X1-001, 20X1-003, and 20X1-004] that we consider to be significant deficiencies.⁶⁷

[Note: As discussed in paragraph 4.62, this report can, as an alternative, describe findings rather than refer to a separate schedule. Paragraph 4.62 also discusses how to report findings that relate to both internal control and to compliance; paragraph 4.63 discusses when findings of fraud may be reported in the section on internal control; paragraphs 4.65–.66 discuss the detail to use to present each finding; and paragraphs 4.67–.70 discuss the presentation of the views of responsible officials and their planned corrective actions. Further, in an audit in accordance with the Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), findings related to the financial statements which are required to be reported in accordance with Government Auditing Standards must be reported in the schedule of findings and questioned costs. The schedule of findings and questioned costs shown in example 13-7 in the appendix in chapter 13, "Auditor Reporting Requirements and Other Communication Considerations in a Single Audit," of this guide further illustrates the presentation of financial statement findings.]

Report on Compliance and Other Matters^{68,69}

As part of obtaining reasonable assurance about whether the [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 financial statements. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*⁷⁰ and which are described in the accompanying [include the title of the schedule in which the findings are reported (for example, schedule of findings and responses or schedule of findings and questioned costs)] as items [list the reference numbers of the related findings, for example, 20X1-002 and 20X1-005].

[Note: Paragraphs 4.40 and 4.62 further discusses the reporting of noncompliance, and that this report can, as an alternative, describe findings rather than refer to a separate schedule. Noncompliance findings that relate to both internal control over financial reporting and to compliance are generally reported in both the section of the report concerning internal control over financial reporting and

⁶⁷ See paragraph 4.66 for information on this guide's recommendation for the reference number format of financial statement findings. This report illustrates the recommended format.

⁶⁸ See footnote 38.

⁶⁹ See footnote 39.

⁷⁰ See the discussion beginning at paragraph 4.27 for information regarding *Government Auditing Standards* criteria for reporting fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements.

the section of the report concerning compliance and other matters. However, the reporting in one section of the report or schedule may be in summary form with a reference to a detailed reporting in the other section. See paragraph 4.63 for further guidance on reporting fraud. The "Note" in the internal control section of this example report further discusses the presentation of findings and audited entity responses.]

[Entity]'s Response to Findings⁷¹

Government Auditing Standards requires the auditor to perform limited procedures on the [Entity]'s response to the findings identified in our audit and described in the accompanying [include the title of the schedule in which the findings are reported (for example, schedule of findings and responses or schedule of findings and questioned costs) "or previously" if findings and responses are included in the body of the report]. The [Entity]'s response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.⁷²

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.⁷³

[Signature of auditor's firm]

[City and state where auditor's report is issued]⁷⁴

[Date of the auditor's report]⁷⁵

⁷¹ Although not required, the auditor may include this paragraph to clarify that the auditor is not providing an opinion on the entity's response. See paragraph 4.55.

⁷² Although the auditor does not audit management's responses to identified findings, the auditor does have certain responsibilities related to reporting the views of responsible officials under *Government Auditing Standards*. As noted in paragraph 6.57 of *Government Auditing Standards*, auditors should obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as planned corrective actions.

⁷³ See footnote 40.

⁷⁴ See footnote 17.

⁷⁵ See footnote 42.