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**Statement of
Position**

89-6

**Auditors' Reports in
Audits of State and
Local Governmental Units**

August 11, 1989

**Amendment to
AICPA Audit and Accounting Guide
*Audits of State and Local Governmental Units***

**Prepared by the Government Accounting and
Auditing Committee**

**American Institute of
Certified Public Accountants**

AICPA

NOTE

This statement of position presents the recommendations of the AICPA Government Accounting and Auditing Committee regarding the application of generally accepted auditing standards to reports issued in audits of state and local governmental units. It represents the considered opinion of the committee on the best auditing practice in the industry and has been reviewed by members of the AICPA Auditing Standards Board for consistency with existing auditing standards. AICPA members may have to justify departures from the recommendations in this statement if their work is challenged.

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1 2 3 4 5 6 7 8 9 0 *AudS* 8 9

Auditors' Reports in Audits of State and Local Governmental Units

Introduction

1. In 1986, the audit and accounting guide *Audits of State and Local Governmental Units* was issued. Appendix A of that guide illustrates reports on audited financial statements and other reports issued in audits of state and local governmental units. In April 1988, the AICPA's Auditing Standards Board issued Statement on Auditing Standards (SAS) No. 58, *Reports on Audited Financial Statements*, which changes the auditor's standard report on financial statements. In April 1989, the Auditing Standards Board issued SAS No. 62, *Special Reports*, which changes the form of the auditor's report on financial statements prepared on a comprehensive basis of accounting other than generally accepted accounting principles. In April 1989, the Auditing Standards Board also issued SAS No. 63, *Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance*. That SAS changes the reports on compliance with laws and regulations and on the internal control structure issued in audits in accordance with *Government Auditing Standards* and the reports on compliance with laws and regulations applicable to federal financial assistance programs in audits in accordance with the Single Audit Act of 1984. This statement of position amends *Audits of State and Local Governmental Units* in response to the changes required by these SASs. The guidance in this statement supersedes examples 1 through 20 in appendix A of the guide.

2. In the March 15, 1988, issue of the *CPA Letter* the Government Accounting and Auditing Committee presented its conclusion that independent accountants may issue an unqualified opinion on the financial statements of a department or agency that constitutes less than a fund. The report should indicate that the statements present information for only a portion of the funds and account groups of a larger governmental reporting entity on a basis that conforms with generally accepted accounting principles. This statement illustrates such a report in example 15.

Illustrative Reports

3. The following sample auditor's reports illustrate the types of reports to be issued in selected situations. Chapters 18 and 23 of *Audits of State and Local Governmental Units* include discussions of certain of the situations and resulting reports contained in this statement. For additional guidance the auditor should refer to Statements on Auditing Standards.

Example

1. Unqualified Opinion on General Purpose or Component Unit Financial Statements Only

2. Unqualified Opinion on General Purpose or Component Unit Financial Statements Submitted Together With Combining and Individual Fund and Account Group Financial Statements and Supporting Schedules as Supplementary Data

3. Unqualified Opinion on General Purpose or Component Unit Financial Statements and Combining and Individual Fund and Account Group Financial Statements Presented Together With Supporting Schedules Reported on as Supplementary Data

4. Unqualified Opinion on Component Unit Financial Statements of an Oversight Unit That Omit the Financial Statements of All Other Component Units

5. Qualified Opinion on General Purpose Financial Statements That Omit One or More, But Not All, Component Units of the Reporting Entity

6. Qualified Opinion on General Purpose or Component Unit Financial Statements That Omit a Fund Type or Account Group

7. Qualified Opinion on General Purpose or Component Unit Financial Statements That Omit a Fund From a Fund Type

8. Unqualified Opinion on General Fund Financial Statements With an Explanatory Paragraph Calling Attention to the Fact That the Financial Statements Do Not Represent the Financial Position and Results of Operations of the Governmental Unit

9. Unqualified Opinion on an Enterprise Fund's Financial Statements With an Explanatory Paragraph Calling Attention to the Fact That the Financial Statements Do Not Represent the Financial Position and Results of Operations of the Governmental Unit

10. Unqualified Opinion on General Purpose or Component Unit Financial Statements With an Explanatory Paragraph Added Because of Substantial Doubt About the Ability of a Governmental Unit to Meet Its Debts as They Come Due

11. Qualified Opinion on General Purpose Financial Statements That Include an Unaudited Organization, Function, or Activity

12. Unqualified Opinion on General Purpose Financial Statements With Reference to Audit of Part of a Fund Type by Another Auditor

13. Unqualified Opinion on General Purpose Financial Statements With Reference to Audit of All of a Fund Type by Another Auditor

14. Report on Financial Statements Prepared in Accordance With a Comprehensive Basis of Accounting Other Than Generally Accepted Accounting Principles

15. Unqualified Opinion on Financial Statements of a Department Constituting Less than a Fund

16. Report on Supplementary Information – Schedule of Federal Financial Assistance

17. Compliance Report Based on an Audit of General Purpose or Basic Financial Statements Performed in Accordance With *Government Auditing Standards*

18. Single Audit Opinion on Compliance With Specific Requirements Applicable to Major Federal Financial Assistance Programs

19. Single Audit Opinion on Compliance With Specific Requirements Applicable to Major Federal Financial Assistance Programs – Qualified Because of a Scope Limitation

20. Single Audit Disclaimer of Opinion on Compliance With Specific Requirements Applicable to Major Federal Financial Assistance Programs

21. Single Audit Opinion on Compliance With Specific Requirements Applicable to Major Federal Financial Assistance Programs – Qualified Because of Noncompliance

22. Single Audit Adverse Opinion on Compliance With Specific Requirements Applicable to Major Federal Financial Assistance Programs

23. Single Audit Report on Compliance With the General Requirements Applicable to Major Federal Financial Assistance Programs

24. Single Audit Report on Compliance With Requirements Applicable to Nonmajor Federal Financial Assistance Program Transactions

25. Report on the Internal Control Structure in Accordance With *Government Auditing Standards*

26. Report on Internal Controls (Accounting and Administrative) —Based on a Study and Evaluation Made as a Part of an Audit of the General Purpose or Basic Financial Statements and the Additional Tests Required by the Single Audit Act

Example 1

Unqualified Opinion on General Purpose or Component Unit Financial Statements Only

Independent Auditor's Report

We have audited the accompanying general purpose* financial statements of City of Example, Any State, as of June 30, 19XX, and for the year then ended. These general purpose* financial statements are the responsibility of City of Example, Any State, management. Our responsibility is to express an opinion on these general purpose* financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose* financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose* financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose* financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose* financial statements referred to above present fairly, in all material respects, the financial position of City of Example, Any State, as of June 30, 19XX, and the results of its operations and changes in financial position** of its proprietary and similar trust fund types for the year then ended in conformity with generally accepted accounting principles.

[Signature]

[Date]

*If the financial statements are for a component unit, the term *general purpose financial statements* should not be used. In the case of a component unit other than the oversight unit, the term *component unit financial statements* or just *financial statements* should be used. For the component unit financial statements of an oversight unit, see example 4.

**The Governmental Accounting Standards Board plans to issue a final statement that will require proprietary funds and nonexpendable trust funds other than pension funds and public employee retirement systems to issue a statement of cash flows instead of a statement of changes in financial position. That statement will be effective for fiscal periods beginning after December 15, 1989.

Example 2

Unqualified Opinion on General Purpose or Component Unit Financial Statements Submitted Together With Combining and Individual Fund and Account Group Financial Statements and Supporting Schedules as Supplementary Data*

Independent Auditor's Report

We have audited the accompanying general purpose** financial statements of City of Example, Any State, as of June 30, 19XX, and for the year then ended, as listed in the table of contents. These general purpose** financial statements are the responsibility of City of Example, Any State, management. Our responsibility is to express an opinion on these general purpose** financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose** financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose** financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose** financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose** financial statements referred to above present fairly, in all material respects, the financial position of City of Example, Any State, as of June 30, 19XX, and the results of its operations and changes in financial position of its proprietary and similar trust fund types for the year then ended in conformity with generally accepted accounting principles.

*If a schedule of federal financial assistance is reported on as supplementary data, *Government Auditing Standards*, issued by the Comptroller General of the United States, should be referenced in the second paragraph. See example 16 for guidance on issuing a separate report on a schedule of federal financial assistance.

**If the financial statements are for a component unit, the term *general purpose financial statements* should not be used. In the case of a component unit other than the oversight unit, the term *component unit financial statements* or just *financial statements* should be used. For the component unit financial statements of an oversight unit, the principles of example 4 should be combined with those of this example.

Our audit was made for the purpose of forming an opinion on the general purpose** financial statements taken as a whole. The combining and individual fund and account group financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose** financial statements of City of Example, Any State. Such information has been subjected to the auditing procedures applied in the audit of the general purpose** financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose** financial statements taken as a whole.

[*Signature*]

[*Date*]

Example 3

Unqualified Opinion on General Purpose or Component Unit Financial Statements and Combining and Individual Fund and Account Group Financial Statements Presented Together With Supporting Schedules Reported on as Supplementary Data

Independent Auditor's Report

We have audited the accompanying general purpose* financial statements and the combining and individual fund and account group financial statements of City of Example, Any State, as of June 30, 19XX, and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of City of Example, Any State, management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose* financial statements referred to above present fairly, in all material respects, the financial position of City of Example, Any State, as of June 30, 19XX, and the results of its operations and changes in financial position of its proprietary and similar trust fund types for the year then ended in conformity with generally accepted accounting principles. Also, in our opinion, the combining and individual fund and account group financial statements referred to above present fairly, in all material respects, the

*If the financial statements are for a component unit, the term *general purpose financial statements* should not be used. In the case of a component unit other than the oversight unit, the term *component unit financial statements* or just *financial statements* should be used. For the component unit financial statements of an oversight unit, the principles of example 4 should be combined with those of this example.

financial position of each of the individual funds and account groups of City of Example, Any State, as of June 30, 19XX, and the results of operations of such funds and the changes in financial position of individual proprietary and similar trust funds for the year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the general purpose* financial statements taken as a whole and on the combining and individual fund and account group financial statements. The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of City of Example, Any State. Such information has been subjected to the auditing procedures applied in the audit of the general purpose,* combining and individual fund and account group financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements of each of the respective individual funds and account groups taken as a whole.

[Signature]

[Date]

Example 4

Unqualified Opinion on Component Unit Financial Statements of an Oversight Unit That Omit the Financial Statements of All Other Component Units

Independent Auditor's Report

We have audited the accompanying component unit financial statements of City of Example, Any State, oversight unit as of June 30, 19XX, and for the year then ended. These component unit financial statements are the responsibility of City of Example, Any State, oversight unit's management. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall component unit financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The component unit financial statements referred to above include only the financial activities of the oversight unit. Financial activities of other component units that form the reporting entity are not included.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of City of Example, Any State, oversight unit as of June 30, 19XX, and the results of its operations and changes in financial position of its proprietary and similar trust fund types for the year then ended in conformity with generally accepted accounting principles.

[Signature]

[Date]

Example 5

Qualified Opinion on General Purpose Financial Statements That Omit One or More, But Not All, Component Units of the Reporting Entity*

Independent Auditor's Report

We have audited the accompanying general purpose** financial statements of City of Example, Any State, as of June 30, 19XX, and for the year then ended. These general purpose** financial statements are the responsibility of City of Example, Any State, management. Our responsibility is to express an opinion on these general purpose** financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose** financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose** financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose** financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The general purpose** financial statements referred to above do not include financial activities of the [*identify the component unit omitted*], which should be included in order to conform with generally accepted accounting principles. If the omitted component unit had been included,** the assets and revenues of the [*identify fund type(s), e. g., special revenue fund type*] would have increased by \$XXX,XXX and \$XXX,XXX, respectively, there would have been an excess of expenditures over revenues in that fund type for the year of \$XXX,XXX, and the [*identify fund type(s)*] fund balance would have been a deficit of \$XXX,XXX.

*If the omission was sufficiently material, the auditor should express an adverse opinion on the general purpose financial statements. In such case, a separate explanatory paragraph should state all the substantive reasons for the adverse opinion and the principal effects of those matters. If an adverse opinion is to be rendered, the last two paragraphs of this report should be replaced with the following paragraphs:

The general purpose** financial statements referred to above do not include financial activities of the [*identify the component unit omitted*], which should be included in order to conform with generally accepted accounting principles.

(Continued)

In our opinion, except for the effects on the financial statements of the omission described in the preceding paragraph, the general purpose** financial statements referred to above present fairly, in all material respects, the financial position of City of Example, Any State, as of June 30, 19XX, and the results of its operations and changes in financial position of its proprietary and similar trust fund types for the year then ended in conformity with generally accepted accounting principles.

[Signature]

[Date]

Because of the departure from generally accepted accounting principles identified above, as of June 30, 19XX,** the assets and revenues of the [identify fund type(s), e.g., special revenue fund type] would have increased by \$XXX,XXX and \$XXX,XXX, respectively, there would have been an excess of expenditures over revenues in that fund type for the year of \$XXX,XXX, and the [identify fund type(s)] fund balance would have been a deficit of \$XXX,XXX.

In our opinion, because of the effects of the matters discussed in the preceding paragraphs, the general purpose** financial statements referred to above do not present fairly, in conformity with generally accepted accounting principles, the financial position of City of Example, Any State, as of June 30, 19XX, or the results of its operations or changes in financial position of its proprietary and similar trust fund types for the year then ended.

**If the financial statements are for a component unit, the term *general purpose financial statements* should not be used. In the case of a component unit other than the oversight unit, the term *component unit financial statements* or just *financial statements* should be used. For the component unit financial statements of an oversight unit, the principles of example 4 should be combined with those of this example.

***If the amounts applicable to the omitted component unit have not been audited, insert the phrase “based on unaudited information.”

Example 6

Qualified Opinion on General Purpose or Component Unit Financial Statements That Omit a Fund Type or Account Group*

Independent Auditor's Report

We have audited the accompanying general purpose** financial statements of City of Example, Any State, as of June 30, 19XX, and for the year then ended. These general purpose** financial statements are the responsibility of City of Example, Any State, management. Our responsibility is to express an opinion on these general purpose** financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose** financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose** financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose** financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The general purpose** financial statements referred to above do not include the [*identify the fund type (account group) omitted*], which should be included in order to conform with generally accepted accounting principles. The omitted fund type*** has assets, liabilities, revenues, and expenditures of \$XXX,XXX, \$XXX,XXX, \$XXX,XXX, and \$XXX,XXX, respectively. (The amount that should be recorded in the general fixed assets account group is not known.)

*If the omission was sufficiently material, the auditor should express an adverse opinion on the financial statements. In such case, a separate explanatory paragraph should state all the substantive reasons for the adverse opinion and the principal effects of those matters. See example 5 for guidance.

**If the financial statements are for a component unit, the term *general purpose financial statements* should not be used. In the case of a component unit other than the oversight unit, the term *component unit financial statements* or just *financial statements* should be used. For the component unit financial statements of an oversight unit, the principles of example 4 should be combined with those of this example.

***If the amounts applicable to the omitted fund type have not been audited, insert the phrase "based on unaudited information."

In our opinion, except for the effect on the financial statements of the omission described in the preceding paragraph, the general purpose** financial statements referred to above present fairly, in all material respects, the financial position of City of Example, Any State, as of June 30, 19XX, and the results of its operations and changes in financial position of its proprietary and similar trust fund types for the year then ended in conformity with generally accepted accounting principles.

[*Signature*]

[*Date*]

Example 7

Qualified Opinion on General Purpose or Component Unit Financial Statements That Omit a Fund From a Fund Type*

Independent Auditor's Report

We have audited the accompanying general purpose** financial statements of City of Example, Any State, as of June 30, 19XX, and for the year then ended. These general purpose** financial statements are the responsibility of City of Example, Any State, management. Our responsibility is to express an opinion on these general purpose** financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose** financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose** financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose** financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The general purpose** financial statements referred to above do not include the [*identify the omitted fund*], which should be included in order to conform with generally accepted accounting principles. If the omitted fund*** had been included, the [*identify fund type*] assets, liabilities, revenues, and expenditures would have increased \$XXX,XXX, \$XXX,XXX, \$XXX,XXX, and \$XXX,XXX, respectively.

*If the omission was sufficiently material, the auditor should express an adverse opinion on the financial statements. In such case, a separate explanatory paragraph should state all the substantive reasons for the adverse opinion and the principal effects of those matters. See example 5 for guidance.

**If the financial statements are for a component unit, the term *general purpose financial statements* should not be used. In the case of a component unit other than the oversight unit, the term *component unit financial statements* or just *financial statements* should be used. For the component unit financial statements of an oversight unit, the principles of example 4 should be combined with those of this example.

***If the amounts applicable to the omitted fund have not been audited, insert the phrase "based on unaudited information."

In our opinion, except for the effect on the general purpose financial statements of the omission described in the preceding paragraph, the general purpose** financial statements referred to above present fairly, in all material respects, the financial position of City of Example, Any State, as of June 30, 19XX, and the results of its operations and changes in financial position of its proprietary and similar trust fund types for the year then ended in conformity with generally accepted accounting principles.

[*Signature*]

[*Date*]

Example 8

Unqualified Opinion on General Fund Financial Statements With an Explanatory Paragraph Calling Attention to the Fact That the Financial Statements Do Not Represent the Financial Position and Results of Operations of the Governmental Unit

Independent Auditor's Report

We have audited the accompanying financial statements of the general fund of City of Example, Any State, as of June 30, 19XX, and for the year then ended. These financial statements are the responsibility of City of Example, Any State, management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note _____, the financial statements present only the general fund and are not intended to present fairly the financial position and results of operations of City of Example, Any State, in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the general fund of City of Example, Any State, as of June 30, 19XX, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

[*Signature*]

[*Date*]

Example 9

Unqualified Opinion on an Enterprise Fund's Financial Statements With an Explanatory Paragraph Calling Attention to the Fact That the Financial Statements Do Not Represent the Financial Position and Results of Operations of the Governmental Unit

Independent Auditor's Report

We have audited the accompanying financial statements of [*identify enterprise fund*] of City of Example, Any State, as of June 30, 19XX, and for the year then ended. These financial statements are the responsibility of City of Example, Any State, management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note _____, the financial statements present only the [*identify enterprise fund*] and are not intended to present fairly the financial position of City of Example, Any State, and the results of its operations and changes in financial position of its proprietary and similar trust fund types in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of [*identify enterprise fund*] of City of Example, Any State, as of June 30, 19XX, and the results of its operations and changes in financial position for the year then ended in conformity with generally accepted accounting principles.

[*Signature*]

[*Date*]

Unqualified Opinion on General Purpose or Component Unit Financial Statements With an Explanatory Paragraph Added Because of Substantial Doubt About the Ability of a Governmental Unit to Meet Its Debts as They Come Due*

Independent Auditor's Report

We have audited the accompanying general purpose** financial statements of City of Example, Any State, as of June 30, 19XX, and for the year then ended. These general purpose** financial statements are the responsibility of City of Example, Any State, management. Our responsibility is to express an opinion on these general purpose** financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose** financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose** financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose** financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose** financial statements referred to above present fairly, in all material respects, the financial position of City of Example, Any State, as of June 30, 19XX, and the results of its operations and changes in financial position of its proprietary and similar trust fund types for the year then ended in conformity with generally accepted accounting principles.

*See criteria in SAS No. 58, *Reports on Audited Financial Statements*, paragraphs 24 through 30, regarding uncertainties, and see discussion of reporting considerations when the auditor has substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time in paragraphs 12 through 16 of SAS No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.

**If the financial statements are for a component unit, the term *general purpose financial statements* should not be used. In the case of a component unit other than the oversight unit, the term *component unit financial statements* or just *financial statements* should be used. For the component unit financial statements of an oversight unit, the principles of example 4 should be combined with those of this example.

As discussed in Note_____, [*include description of reason that a question has arisen about the ability of the governmental unit to meet its debts as they come due*]. The general purpose** financial statements do not include any adjustment relating to the amounts and classification of liabilities that might be necessary if City of Example, Any State, is not able to meet its debts as they come due or if such debts are adjusted under the provisions of chapter 9 of the Federal Bankruptcy Code.

[*Signature*]

[*Date*]

Example 11

Qualified Opinion on General Purpose Financial Statements That Include an Unaudited Organization, Function, or Activity

Independent Auditor's Report

We have audited the accompanying general purpose* financial statements of City of Example, Any State, as of June 30, 19XX, and for the year then ended. These general purpose* financial statements are the responsibility of City of Example, Any State, management. Our responsibility is to express an opinion on these general purpose* financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose* financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose* financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose* financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We were unable to obtain audited financial statements supporting the financial activities of the [*identify the organization, function, or activity*] because [*state reasons why audited information could not be obtained*]. Those financial activities are included in the [*identify fund type or account group*] and represent XX percent and XX percent of the assets and revenues, respectively, of that fund type.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to audit the financial statements of [*identify the organization, function, or activity*] the general purpose* financial statements referred to above present fairly, in all material respects, the financial position of City of

*If the financial statements are for a component unit, the term *general purpose financial statements* should not be used. In the case of a component unit other than the oversight unit, the term *component unit financial statements* or just *financial statements* should be used. For the component unit financial statements of an oversight unit, the principles of example 4 should be combined with those of this example.

Example, Any State, as of June 30, 19XX, and the results of its operations and changes in financial position of its proprietary and similar trust fund types for the year then ended in conformity with generally accepted accounting principles.

[*Signature*]

[*Date*]

Example 12

Unqualified Opinion on General Purpose Financial Statements With Reference to Audit of Part of a Fund Type by Another Auditor

Independent Auditor's Report

We have audited the accompanying general purpose* financial statements of City of Example, Any State, as of June 30, 19XX, and for the year then ended. These general purpose* financial statements are the responsibility of City of Example, Any State, management. Our responsibility is to express an opinion on these general purpose* financial statements based on our audit. We did not audit the financial statements of [*identify component unit or fund*], which represent XX percent and XX percent, respectively, of the assets and revenues of the [*identify fund type*]. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for [*identify component unit or fund*], is based solely on the report of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose* financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose* financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose* financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audit and the report of other auditors, the general purpose* financial statements referred to above present fairly, in all material respects, the financial position of City of Example, Any State, as of June 30, 19XX, and the results of its operations and changes in financial position of its proprietary and similar trust fund types for the year then ended in conformity with generally accepted accounting principles.

[*Signature*]

[*Date*]

*If the financial statements are for a component unit, the term *general purpose financial statements* should not be used. In the case of a component unit other than the oversight unit, the term *component unit financial statements* or just *financial statements* should be used. For the component unit financial statements of an oversight unit, the principles of example 4 should be combined with those of this example.

Example 13

Unqualified Opinion on General Purpose Financial Statements With Reference to Audit of All of a Fund Type by Another Auditor

Independent Auditor's Report

We have audited the accompanying general purpose* financial statements of City of Example, Any State, as of June 30, 19XX, and for the year then ended. These general purpose* financial statements are the responsibility of City of Example, Any State, management. Our responsibility is to express an opinion on these general purpose* financial statements based on our audit. We did not audit the financial statements of [*identify fund type*], which represent the amounts shown as the [*identify fund type*]. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for [*identify fund type*], is based solely on the report of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose* financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose* financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose* financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audit and the report of other auditors, the general purpose* financial statements referred to above present fairly, in all material respects, the financial position of City of Example, Any State, as of June 30, 19XX, and the results of its operations and changes in financial position of its proprietary and similar trust fund types for the year then ended in conformity with generally accepted accounting principles.

[*Signature*]

[*Date*]

*If the financial statements are for a component unit, the term *general purpose financial statements* should not be used. In the case of a component unit other than the oversight unit, the term *component unit financial statements* or just *financial statements* should be used. For the component unit financial statements of an oversight unit, the principles of example 4 should be combined with those of this example.

Example 14

**Report on Financial Statements Prepared in Accordance
With a Comprehensive Basis of Accounting
Other Than Generally Accepted Accounting Principles**

Independent Auditor's Report

We have audited the financial statements of City of Example, Any State, as of and for the year ended June 30, 19XX, as listed in the table of contents. These financial statements are the responsibility of City of Example, Any State, management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note_____, City of Example, Any State, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of Any State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of City of Example, Any State, as of June 30, 19XX, and the revenues it received and expenditures it paid for the year then ended on the basis of accounting described in Note_____.

[Signature]

[Date]

Example 15

Unqualified Opinion on Financial Statements of a Department Constituting Less Than a Fund

Independent Auditor's Report

We have audited the accompanying financial statements of Department of Example, Any State, as of June 30, 19XX, and for the year then ended. These financial statements are the responsibility of Department of Example, Any State, management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note_____, the financial statements of the Department of Example, Any State, are intended to present the financial position and results of operations and changes in financial position of proprietary fund types of only that portion of the funds and account groups of the State that is attributable to the transactions of the Department.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Department of Example, Any State, as of June 30, 19XX, and the results of its operations and the changes in its financial position for the year then ended in conformity with generally accepted accounting principles.

[Signature]

[Date]

Example 16

Report on Supplementary Information—Schedule of Federal Financial Assistance

Independent Auditor's Report

We have audited the general purpose* financial statements of City of Example, Any State, for the year ended June 30, 19XX, and have issued our report thereon dated August 15, 19XX. These general purpose* financial statements are the responsibility of City of Example, Any State, management. Our responsibility is to express an opinion on these general purpose* financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose* financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose* financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the general purpose* financial statements of City of Example, Any State, taken as a whole. The accompanying schedule of federal financial assistance is presented for purposes of additional analysis and is not a required part of the general purpose* financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the general purpose* financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose* financial statements taken as a whole.

[Signature]

[Date]

*If the financial statements are for a component unit, the term *general purpose financial statements* should not be used. In the case of a component unit other than the oversight unit, the term *component unit financial statements* or just *financial statements* should be used. For the component unit financial statements of an oversight unit, the principles of example 4 should be combined with those of this example.

Example 17

Compliance Report Based on an Audit of General Purpose or Basic Financial Statements Performed in Accordance With Government Auditing Standards

We have audited the general purpose financial statements of City of Example, Any State, as of and for the year ended June 30, 19XX, and have issued our report thereon dated August 15, 19XX.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to City of Example, Any State, is the responsibility of City of Example, Any State, management. As part of obtaining reasonable assurance about whether the general purpose financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts, and grants.* However, our objective was not to provide an opinion on overall compliance with such provisions.

*Based on assessments of materiality and audit risk, auditors may decide not to perform tests of compliance with certain provisions of laws, regulations, contracts, and grants. For example, an auditor may conclude that transactions and balances directly affected by laws and regulations are not material to the financial statements taken as a whole. In such circumstances, *Government Auditing Standards*, in paragraph 6 on page 5-2, states that “. . . the report should contain a statement that the auditor did not test for compliance with laws and regulations.” The auditor's report should not include a statement of positive assurance; however, the assessments of materiality and audit risk provide a basis for the auditor to conclude that the likelihood of material instances of noncompliance is low. Thus, the auditor has a basis for expressing negative assurance about compliance under *Government Auditing Standards*. The following is an illustration of the auditor's report on compliance when, based on assessments of materiality and audit risk, the auditor concluded that it was not necessary to perform tests of compliance with laws and regulations:

[First two paragraphs are the same as in the report illustrated in example 17.]

Compliance with laws, regulations, contracts, and grants applicable to City of Example, Any State, is the responsibility of City of Example, Any State, management. As part of our audit, we assessed the risk that noncompliance with certain provisions of laws, regulations, contracts, and grants could cause the financial statements to be materially misstated. We concluded that the risk of such material misstatement was sufficiently low that it was not necessary to perform tests of the City's compliance with such provisions of laws, regulations, contracts, and grants.

However, in connection with our audit, nothing came to our attention that caused us to believe that City of Example, Any State, had not complied, in all material respects, with the laws, regulations, contracts, and grants referred to in the preceding paragraph.

[Fifth paragraph, signature, and date are the same as in the report illustrated in example 17.]

The results of our tests indicate that, with respect to the items tested, City of Example, Any State, complied, in all material respects, with the provisions referred to in the preceding paragraph.** With respect to items not tested, nothing came to our attention that caused us to believe that the City had not complied, in all material respects, with those provisions.

This report is intended for the information of the audit committee, management, and [*specify legislative or regulatory body*]. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

[*Signature*]

[*Date*]

***Material instances of noncompliance* are failures to follow requirements or violations of prohibitions, contained in laws, regulations, contracts, or grants, that cause the auditor to conclude that the aggregation of the misstatements (that is, the auditor's best estimate of the total misstatement) resulting from those failures or violations is material to the financial statements. When the auditor's procedures disclose material instances of noncompliance, the auditor should modify the statements of positive and negative assurance included in the report. The following is an illustration of the auditor's report on compliance when material instances of noncompliance are identified:

[*First three paragraphs are the same as in the report illustrated in example 17.*]

Material instances of noncompliance are failures to follow requirements or violations of prohibitions, contained in laws, regulations, contracts, or grants, that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the general purpose financial statements. The results of our tests of compliance disclosed the following material instances of noncompliance, the effects of which have been corrected in the 19XX general purpose financial statements of City of Example, Any State.

[*Include paragraphs describing the material instances of noncompliance noted.*]

We considered these material instances of noncompliance in forming our opinion on whether the 19XX general purpose financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated August 15, 19XX on those general purpose financial statements.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, City of Example, Any State, complied, in all material respects, with the provisions referred to in the third paragraph of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that the City had not complied, in all material respects, with those provisions.

[*Last paragraph, signature, and date are the same as in the report illustrated in example 17.*]

Example 18

Single Audit Opinion on Compliance With Specific Requirements Applicable to Major Federal Financial Assistance Programs

We have audited City of Example, Any State, compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; *[describe any special tests and provisions]*; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying schedule of federal financial assistance, for the year ended June 30, 19XX. The management of City of Example, Any State, is responsible for City of Example, Any State, compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget Circular A-128, "Audits of State and Local Governments." Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about City of Example, Any State, compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying schedule of findings and questioned costs. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, City of Example, Any State, complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; *[describe any special tests and provisions]*; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs for the year ended June 30, 19XX.

[Signature]

[Date]

Example 19

Single Audit Opinion on Compliance With Specific Requirements Applicable to Major Federal Financial Assistance Programs—Qualified Because of a Scope Limitation

We have audited City of Example, Any State, compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; [*describe any special tests and provisions*]; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying schedule of federal financial assistance, for the year ended June 30, 19XX. The management of City of Example, Any State, is responsible for City of Example, Any State, compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget Circular A-128, “Audits of State and Local Governments.” Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about City of Example, Any State, compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

We were unable to obtain sufficient documentation supporting City of Example, Any State, compliance with the requirements of Major Program ABC governing types of services allowed or unallowed; nor were we able to satisfy ourselves as to City of Example, Any State, compliance with those requirements of Major Program ABC by other auditing procedures.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying schedule of findings and questioned costs. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding City of Example, Any State, compliance with the requirements of Major Program ABC governing types of services allowed or unallowed, City of Example, Any State, complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; [*describe any special tests and provisions*]; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs for the year ended June 30, 19XX.

[*Signature*]

[*Date*]

Example 20

Single Audit Disclaimer of Opinion on Compliance With Specific Requirements Applicable to Major Federal Financial Assistance Programs

We were engaged to audit City of Example, Any State, compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; *[describe any special tests and provisions]*; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying schedule of federal financial assistance, for the year ended June 30, 19XX. The management of City of Example, Any State, is responsible for City of Example, Any State, compliance with those requirements.

[Second paragraph of the standard report on major program compliance, illustrated in example 18, should be omitted.]

The management of City of Example, Any State, has refused to provide us with written representations that generally accepted auditing standards require us to obtain.

Because of the matter described in the preceding paragraph, the scope of our audit work was not sufficient to enable us to express, and we do not express, an opinion on City of Example, Any State, compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; *[describe any special tests and provisions]*; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs for the year ended June 30, 19XX.

[Signature]

[Date]

Example 21

Single Audit Opinion on Compliance With Specific Requirements Applicable to Major Federal Financial Assistance Programs—Qualified Because of Noncompliance

We have audited City of Example, Any State, compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; *[describe any special tests and provisions]*; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying schedule of federal financial assistance, for the year ended June 30, 19XX. The management of City of Example, Any State, is responsible for City of Example, Any State, compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget Circular A-128, "Audits of State and Local Governments." Those standards and Office Management and Budget Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about City of Example, Any State, compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures for Major Program ABC disclosed that City of Example, Any State, did not comply with the requirement that the City match the funds received from Major Program ABC. In our opinion, the City's matching of funds received from Major Program ABC is necessary for the City to comply with the requirements applicable to Major Program ABC.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying schedule of findings and questioned costs. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, except for those instances of noncompliance with the requirements applicable to Major Program ABC referred to in the third paragraph of this report and identified in the accompanying schedule of findings and questioned costs, City of Example, Any State, complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; [*describe any special tests and provisions*]; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs for the year ended June 30, 19XX.

[*Signature*]

[*Date*]

Example 22

Single Audit Adverse Opinion on Compliance With Specific Requirements Applicable to Major Federal Financial Assistance Programs

We have audited City of Example, Any State, compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; [*describe any special tests and provisions*]; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying schedule of federal financial assistance, for the year ended June 30, 19XX. The management of City of Example, Any State, is responsible for City of Example, Any State, compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget Circular A-128, "Audits of State and Local Governments." Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about City of Example, Any State, compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

[*Add a paragraph describing reasons for the adverse opinion.*]

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying schedule of findings and questioned costs. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, because of the noncompliance referred to in the third paragraph, City of Example, Any State, did not comply, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; [*describe any special tests and provisions*]; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs for the year ended June 30, 19XX.

[*Signature*]

[*Date*]

Example 23

Single Audit Report on Compliance With the General Requirements Applicable to Major Federal Financial Assistance Programs

We have applied procedures to test City of Example, Any State, compliance with the following requirements applicable to each of its major federal financial assistance programs, which are identified in the schedule of federal financial assistance, for the year ended June 30, 19XX: *[List the general requirements applicable to the entity's major federal financial assistance programs (such as political activity, Davis-Bacon Act, civil rights, cash management, relocation assistance and real property management, or federal financial reports).]*

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's *Compliance Supplement for Single Audits of State and Local Governments* *[or describe alternative procedures performed]*. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on City of Example, Any State, compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the first paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that City of Example, Any State, had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying schedule of findings and questioned costs.

This report is intended for the information of the audit committee, management, and *[specify legislative or regulatory body]*. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

[Signature]

[Date]

Example 24

Single Audit Report on Compliance With Requirements Applicable to Nonmajor Federal Financial Assistance Program Transactions

In connection with our audit of the 19XX general purpose financial statements of City of Example, Any State, and with our study and evaluation of City of Example, Any State, internal control systems used to administer federal financial assistance programs, as required by Office of Management and Budget Circular A-128, "Audits of State and Local Governments," we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the year ended June 30, 19XX.

As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing types of services allowed or unallowed; eligibility; and [*describe any special tests and provisions*] that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on City of Example, Any State, compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that City of Example, Any State, had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying schedule of findings and questioned costs.

This report is intended for the information of the audit committee, management, and [*specify legislative or regulatory body*]. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

[Signature]

[Date]

Example 25

Report on the Internal Control Structure in Accordance With Government Auditing Standards

We have audited the general purpose financial statements of City of Example, Any State, as of and for the year ended June 30, 19XX, and have issued our report thereon dated August 15, 19XX.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

In planning and performing our audit of the general purpose financial statements of City of Example, Any State, for the year ended June 30, 19XX, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure.

The management of City of Example, Any State, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories [*identify internal control structure categories*].

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.*

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements.**

*This description of the scope of the auditor's consideration of the internal control structure is based on the provisions of SAS No. 55, *Consideration of the Internal Control Structure in a Financial Statement Audit*. This description should not be used if the auditor has not implemented SAS No. 55. Rather, the description of the scope of the auditor's work should be based on the provisions of SAS No. 1, AU section 320, "The Auditor's Study and Evaluation of Internal Control." Following is an example of such a description:

Our consideration of the internal control structure included all of the control categories listed above except that we did not evaluate the internal control structure over [*identify any category not evaluated*] because [*state reasons for excluding any category from the evaluation*]. The purpose of our consideration of the internal control structure was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the general purpose financial statements.

If the auditor has not made a study and evaluation of any significant category of the internal control structure beyond the preliminary review phase described in AU section 320.53-55, a description of the scope of the auditor's work, such as the following, should be used:

Solely to assist us in planning and performing our audit, we made a study and evaluation of the internal control structure of City of Example, Any State. That study and evaluation was limited to a preliminary review of the structure to obtain an understanding of the control environment and the flow of transactions through the accounting system. Because [*state reason*], our study and evaluation did not extend beyond this preliminary review phase.

[Include paragraphs to describe the reportable conditions noted.]

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of City of Example, Any State, in a separate letter dated August 15, 19XX.

This report is intended for the information of the audit committee, management, and [specify legislative or regulatory body]. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

[Signature]

[Date]

**Paragraph 17 of SAS No. 60, *Communication of Internal Control Structure Related Matters Noted in a Financial Statement Audit*, prohibits the auditor from issuing a written report representing that no reportable conditions were noted during an audit. When the auditor notes no reportable conditions during an audit, he or she may issue a report, such as the following, to satisfy the requirements of *Government Auditing Standards*:

[First through sixth paragraphs of the report are the same as those illustrated in example 25.]

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of City of Example, Any State, in a separate communication dated August 15, 19XX.

[Last paragraph of the report is the same as that illustrated in example 25.]

Example 26

Report on Internal Controls (Accounting and Administrative)—Based on a Study and Evaluation Made as a Part of an Audit of the General Purpose or Basic Financial Statements and the Additional Tests Required by the Single Audit Act

[The concepts of SAS Nos. 55, Consideration of the Internal Control Structure in a Financial Statement Audit, and 63, Compliance Auditing Applicable to Governmental Entities and Other Specified Recipients of Governmental Financial Assistance, have a considerable effect on considerations auditors should make in reporting on internal control over federal financial assistance, as required by the Single Audit Act. The Government Accounting and Auditing Committee is developing guidance to amend the following example and paragraphs 21.6 through 21.16 of Audits of State and Local Governmental Units, which will, among other things, relate the concepts of this example and those paragraphs with those of SAS Nos. 55 and 63.]

We have audited the general purpose financial statements of City of Example, Any State, for the year ended June 30, 19XX, and have issued our report thereon dated August 15, 19XX. As part of our audit, we made a study and evaluation of the internal control systems, including applicable internal administrative controls, used in administering federal financial assistance programs to the extent we considered necessary to evaluate the systems as required by generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, the Single Audit Act of 1984, and the provisions of Office of Management and Budget Circular A-128, "Audits of State and Local Governments." For the purpose of this report, we have classified the significant internal accounting and administrative controls used in administering federal financial assistance programs in the following categories: [*identify control categories*]*

*Following are examples of different ways in which accounting controls might be classified. The auditor should modify these examples or use other classifications as appropriate for the particular circumstances on which he or she is reporting.

Cycles of the Entities' Activity

- Treasury or financing
- Revenue/receipts
- Purchases/disbursements
- External financial reporting

Financial Statement Captions

- Cash and cash equivalents
- Receivables
- Inventory
- Property and equipment
- Payables and accrued liabilities
- Debt
- Fund balance

The management of City of Example, Any State, is responsible for establishing and maintaining internal control systems used in administering federal financial assistance programs. In fulfilling that responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of internal control systems used in administering federal financial assistance programs are to provide management with reasonable, but not absolute, assurance that, with respect to federal financial assistance programs, resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and fairly disclosed in reports.

Because of inherent limitations in any system of internal accounting and administrative controls used in administering federal financial assistance programs, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Accounting Applications

- Billings
- Receivables
- Cash receipts
- Purchasing and receiving
- Accounts payable
- Cash disbursements
- Payroll
- Inventory control
- Property and equipment
- General ledger

Controls Used in Administering Federal Programs

Following are general and specific administrative control categories identified by representatives of the federal government (refer to chapter 22 of *Audits of State and Local Governmental Units*.)

General Requirements

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Relocation assistance and real property acquisition
- Federal financial reports

Specific Requirements

- Types of services
- Eligibility
- Matching, level of effort
- Reporting
- Cost allocation
- Special requirements, if any
- Monitoring subrecipients

Our study included all of the applicable control categories listed above. During the year ended June 30, 19XX, City of Example, Any State, expended X percent of its total federal financial assistance under major federal financial assistance programs. With respect to internal control systems used in administering major federal financial assistance programs, our study and evaluation included considering the types of errors and irregularities that could occur, determining the internal control procedures that should prevent or detect such errors and irregularities, determining whether the necessary procedures are prescribed and are being followed satisfactorily, and evaluating any weaknesses.

With respect to the internal control systems used solely in administering the nonmajor federal financial assistance programs of City of Example, Any State, our study and evaluation was limited to a preliminary review of the systems to obtain an understanding of the control environment and the flow of transactions through the accounting system. Our study and evaluation of the internal control systems used solely in administering the nonmajor federal financial assistance programs of City of Example, Any State, did not extend beyond this preliminary review phase.**

**If total assistance expended under major federal financial assistance programs is greater than zero but constitutes less than 50 percent of total federal assistance expended by the government during the year under audit, the auditor should apply the guidance in chapter 21 of *Audits of State and Local Governmental Units* in order to satisfy the objectives of the Single Audit Act. When such guidance is applied, the fourth through seventh paragraphs of the report on internal controls used to administer federal financial assistance programs should be modified as follows:

Our study included all of the applicable control categories listed above. During the year ended June 30, 19XX, City of Example, Any State, expended X percent of its total federal financial assistance under major federal financial assistance programs and the following nonmajor federal financial assistance programs: *[list appropriate nonmajor federal assistance programs]*. With respect to internal control systems used in administering these major and nonmajor federal financial assistance programs, our study and evaluation included considering the types of errors and irregularities that could occur, determining the internal control procedures that should prevent or detect such errors and irregularities, determining whether the necessary procedures are prescribed and are being followed satisfactorily, and evaluating any weaknesses.

With respect to the internal control systems used solely in administering the other nonmajor federal financial assistance programs of City of Example, Any State, our study and evaluation was limited to a preliminary review of the systems to obtain an understanding of the control environment and the flow of transactions through the accounting system. Our study and evaluation of the internal control systems used solely in administering these nonmajor federal financial assistance programs of City of Example, Any State, did not extend beyond this preliminary review phase.

Our study and evaluation was more limited than would be necessary to express an opinion on the internal control systems used in administering the federal financial assistance programs of City of Example, Any State. Accordingly, we do not express an opinion on the internal control systems used in administering the federal financial assistance programs of City of Example, Any State. Further, we do not express an opinion on the internal control systems used in administering the major federal financial assistance programs of City of Example, Any State.

Our study and evaluation was more limited than would be necessary to express an opinion on the internal control systems used in administering the federal financial assistance programs of City of Example, Any State. Accordingly, we do not express an opinion on the internal control systems used in administering the federal financial assistance programs of City of Example, Any State. Further, we do not express an opinion on the internal control systems used in administering the major federal financial assistance programs of City of Example, Any State.

Also, our audit, made in accordance with the standards mentioned above, would not necessarily disclose material weaknesses in the internal control systems used solely in administering nonmajor federal financial assistance programs.

Also, our audit, made in accordance with the standards mentioned above, would not necessarily disclose material weaknesses in the internal control systems for which our study and evaluation was limited to a preliminary review of the systems as discussed in the fifth paragraph of this report.

If the government had no major federal financial assistance programs during the year under examination, the auditor should apply the guidance in chapter 21 of *Audits of State and Local Governmental Units* in order to satisfy the objectives of the Single Audit Act. When such guidance is applied, the fourth through seventh paragraphs of the auditor's report on internal controls used to administer federal financial assistance programs should be modified as follows:

Our study included all of the applicable control categories listed above. During the year ended June 30, 19XX, City of Example, Any State, had no major federal financial assistance programs and expended X percent of its total federal financial assistance under the following nonmajor federal financial assistance programs: *[list appropriate nonmajor federal financial assistance programs]*. With respect to internal control systems used in administering these nonmajor federal financial assistance programs, our study and evaluation included considering the types of errors and irregularities that could occur, determining the internal control procedures that should prevent or detect such errors and irregularities, determining whether the necessary procedures are prescribed and are being followed satisfactorily, and evaluating any weaknesses.

With respect to the internal control systems used solely in administering the other nonmajor federal financial assistance programs of City of Example, Any State, our study and evaluation was limited to a preliminary review of the systems to obtain an understanding of the control environment and the flow of transactions through the accounting system. Our study and evaluation of the internal control systems used solely in administering these nonmajor federal financial assistance programs of City of Example, Any State, did not extend beyond this preliminary review phase.

Our study and evaluation was more limited than would be necessary to express an opinion on the internal control systems used in administering the federal financial assistance programs of City of Example, Any State. Accordingly, we do not express an opinion on the internal control systems used in administering the federal financial assistance programs of City of Example, Any State.

Also, our audit, made in accordance with the standards mentioned above, would not necessarily disclose material weaknesses in the internal control systems, for which our study and evaluation was limited to a preliminary review of the systems, as discussed in the fifth paragraph of this report.

However, our study and evaluation and our audit disclosed the following conditions that we believe result in more than a relatively low risk that errors or irregularities in amounts that would be material to a federal financial assistance program may occur and not be detected within a timely period.*** (A description of the conditions that have come to the auditor's attention would follow; if the study and evaluation and the audit disclose no material weaknesses in relation to a federal financial assistance program, this sentence should state, "However, our study and evaluation and our audit disclosed no condition that we believe to be a material weakness in relation to a federal financial assistance program of City of Example, Any State," and the following paragraph should be omitted.)

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in (1) our audit of the 19XX general purpose financial statements and (2) our audit and review of City of Example, Any State, compliance with laws and regulations non-compliance with which we believe could have a material effect on the allowability of program expenditures for each major federal financial assistance program and nonmajor federal financial assistance programs. This report does not affect our reports on the general purpose financial statements and on City of Example, Any State, compliance with laws and regulations dated August 15, 19XX.

This report is intended solely for the use of management and [*specify legislative or regulatory body*] and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, upon acceptance by City of Example, Any State, is a matter of public record.

[*Signature*]

[*Date*]

***All material weaknesses that have come to the auditor's attention during the audit should be described. Though only material weaknesses in internal controls need be reported, the auditor may wish to report nonmaterial weaknesses to management. This may be accomplished in the auditor's letter to management or through some similar method of communication. If a letter to management is prepared, the auditor should refer to that communication in this report.

Government Auditing Standards, issued by the Comptroller General of the United States, states that well-developed findings concerning material weaknesses in internal controls generally consist of a statement of condition, the criteria, the effect, and the cause (see chapter 23 of *Audits of State and Local Governmental Units* for further explanation).

It is recognized that the auditor may not be able to fully develop all of these points for each material weakness found, given the scope and purpose of the control study. The auditor should attempt to identify the condition, criteria, effect, and cause to provide sufficient information to federal, state, and local officials to permit timely and proper corrective action. These findings may also serve as a basis for a federal agency's conducting or contracting for additional audit work.

Weaknesses identified relating to controls over nonmajor programs should be reported here or alternatively in a letter to management based on whether they are considered to be material or nonmaterial.

Effective Date

4. The guidance in examples 1 through 16 and 26 of this statement is effective at the time of its issuance. The guidance in examples 17 through 25 is effective for audits of financial statements and of compliance with laws and regulations for fiscal periods beginning on or after January 1, 1989. Early application of this statement is permissible.

Government Accounting and Auditing Committee
(1988–89)

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