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Appendix A—Illustrative Auditor’s Reports Under Government Auditing Standards

A-1. This appendix contains examples of the reports issued under generally accepted auditing standards (GAAS) and *Government Auditing Standards* in various circumstances. As discussed previously in this chapter, *Government Auditing Standards* requires that in addition to providing an opinion or a disclaimer of opinion on the financial statements,¹ auditors should report on the scope and results of testing of the auditee’s internal control over financial reporting and compliance with laws, regulations, and provisions of contracts or grant agreements. They also should report certain fraud or abuse. Auditors should exercise professional judgment in any situation not specifically addressed in this guide. For additional guidance the auditor should refer to AU section 508, *Reports on Audited Financial Statements* (AICPA, *Professional Standards*, vol. 1), and applicable AICPA Audit and Accounting Guides, such as *Health Care Organizations*, *Not-For-Profit Organizations*, and *State and Local Governments*. The following is a list of the example reports in this appendix:

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

¹ As explained in the AICPA Audit and Accounting Guide *State and Local Governments*, the auditor generally expresses or disclaims an opinion on a government’s basic financial statements by providing an opinion or disclaimer of opinion on each opinion unit required to be presented in those financial statements. In addition, the auditor may provide opinions or disclaimers of opinions on additional opinion units if engaged to set the scope of the audit and assess materiality at a more detailed level than by the opinion units required for the basic financial statements. Throughout this guide, the use of the singular terms *opinion* and *disclaimer of opinion* encompasses the multiple opinions and disclaimers of opinion that generally will be provided on a government’s financial statements.

<i>Example No.</i>	<i>Title</i>
4-6	<i>Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards (for a Governmental Entity and With Reference to Audits by Other Auditors Using the Inclusion Option) (Significant Deficiencies, Reportable Instances of Noncompliance, and Other Matters Identified)</i>

Example 4-1

Unqualified Opinions on Basic Financial Statements Accompanied by Required Supplementary Information and Supplementary Information—State or Local Governmental Entity²

Independent Auditor's Report

[Addressee]

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Example, Any State, as of and for the year ended June 30, 20X1, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Example's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*,³ issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. [*Optional: An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion.*]⁴ 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 the 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 opinions.⁵

² Auditors should refer to the AICPA Audit and Accounting Guide *State and Local Governments* for additional guidance on reporting on a government's basic financial statements. In particular, appendix A to chapter 14 of that guide describes conditions that may make modifications of the standard report necessary and illustrates several of those modifications, such as reference to the work of other auditors.

³ The standards applicable to financial audits are the general, fieldwork, and reporting standards described in chapters 3, 4, and 5 of *Government Auditing Standards*.

⁴ This optional wording may be added in accordance with paragraphs .85–.88 of Interpretation No. 17, "Clarification in the Audit Report of the Extent of Testing of Internal Control Over Financial Reporting in Accordance With Generally Accepted Auditing Standards," of AU section 508, *Reports on Audited Financial Statements* (AICPA, *Professional Standards*, vol. 1, AU sec. 9508 par. .85–.88), which provides reporting guidance for audits of nonissuers. It also addresses how auditors may expand this report to explain that their consideration of internal control was sufficient to provide the auditor sufficient understanding to plan the audit and determine the nature, timing and extent of tests to be performed, but was not sufficient to express an opinion on the effectiveness of the internal control. If this optional wording is added, in an audit of a governmental entity, the remainder of the paragraph should read as follows:

An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 opinions.

⁵ If the financial statements include organizational units that are not required to have a *Government Auditing Standards* audit, the auditor should consider modifying this scope paragraph as discussed and illustrated in paragraphs 4.39–.40.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Example, Any State, as of June 30, 20X1, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated [date of report] on our consideration of the City of Example's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.⁶ The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance.⁷ That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The [identify accompanying required supplementary information, such as management's discussion and analysis and budgetary comparison information] on pages XX through XX and XX through XX are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America.⁸ We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.⁹

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Example's basic financial statements. The [identify accompanying supplementary information, such as the introductory section, combining and individual nonmajor fund financial statements, and statistical tables] are presented for purposes of additional analysis and are not a required part of the basic financial statements.¹⁰ The [identify relevant supplementary information, such as the combining and individual

⁶ Paragraph 4.16 discusses noncompliance and other matters—certain fraud and abuse—for which *Government Auditing Standards* requires reporting in the auditor's report.

⁷ This sentence should be modified if the auditor is providing an opinion on internal control over financial reporting or on compliance in the *Government Auditing Standards* report. See footnote 6 to paragraph 4.05b.

⁸ The auditor may identify the body requiring the information, which in this situation is the Governmental Accounting Standards Board (GASB).

⁹ Generally accepted accounting principles (GAAP) require that the financial statements of state and local governments be accompanied by a management's discussion and analysis, and may require that they be accompanied by other required supplementary information (RSI). The auditor may be required to or choose to report on that information. This example assumes such reporting. AU section 558, *Required Supplementary Information* (AICPA, *Professional Standards*, vol. 1); AU section 551, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents* (AICPA, *Professional Standards*, vol. 1); and the AICPA Audit and Accounting Guide *State and Local Governments* contain guidance on the auditor's responsibilities for and reporting on RSI.

¹⁰ If the financial statements are accompanied by supplementary information other than RSI (known as SI), the auditor may be required to or choose to report on that information. This example assumes such reporting. AU section 550, *Other Information in Documents Containing Audited Financial Statements* (AICPA, *Professional Standards*, vol. 1); AU section 551; and the AICPA Audit and Accounting Guide *State and Local Governments* contain guidance on the auditor's responsibilities

(continued)

nonmajor fund financial statements] have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.¹¹ The [*identify relevant supplementary information, such as the introductory section and statistical tables*] have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

[Signature]

[Date]

(footnote continued)

for and reporting on SI. In addition, in an audit in accordance with Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the financial statements should be accompanied by a supplementary schedule of expenditures of federal awards and the auditor should report whether that schedule is presented fairly in all material respects in relation to the financial statements taken as a whole. Chapter 12, "Auditor Reporting Requirements and Other Communication Considerations in a Single Audit," of this guide illustrates wording for this paragraph in that situation.

¹¹ When reporting on SI, the auditor should consider the effect of any modifications to the report on the basic financial statements (for example, a qualified opinion, a modification as to consistency because of a change in accounting principle, or a reference to the report of other auditors). Furthermore, if the report on SI is other than unqualified, this paragraph should be modified. Paragraphs .09–.11 and .13–.14 of AU section 551 provide guidance for reporting in these circumstances.

Example 4-2**Unqualified Opinion on Financial Statements—Not-for-Profit Organization¹²**Independent Auditor's Report

[Addressee]

We have audited the accompanying statement of financial position of Example NPO as of June 30, 20X1, and the related statements of activities and cash flows¹³ for the year then ended. These financial statements are the responsibility of Example NPO's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*,¹⁴ issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. [Optional: An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Example NPO's internal control over financial reporting. Accordingly, we express no such opinion.]¹⁵ 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 the 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.¹⁶

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Example NPO as of June 30, 20X1, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated [date of report] on our consideration of Example NPO's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.¹⁷ The purpose of that report is to describe the scope of our testing

¹² Auditors also should refer to the AICPA Audit and Accounting Guide *Not-for-Profit Organizations* for additional guidance on reporting on the financial statements of a not-for-profit organization. In addition to the situations discussed in that guide, auditors may need to modify the report on the financial statements to refer to the work of other auditors, using the guidance in AU section 543, *Part of Audit Performed by Other Independent Auditors* (AICPA, *Professional Standards*, vol. 1).

¹³ Each of the statements presented, which may include a statement of functional expenses, should be identified in the introductory paragraph.

¹⁴ See footnote 3.

¹⁵ See footnote 4. If this optional wording is added, in an audit of a nongovernmental entity, the remainder of the paragraph should read as follows:

"An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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."

¹⁶ See footnote 5.

¹⁷ See footnote 6.

of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance.¹⁸ That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.¹⁹

[Signature]

[Date]

¹⁸ See footnote 7.

¹⁹ If the financial statements are accompanied by RSI or SI (for example, a comparison of actual and budgeted expenses), the auditor may be required to or choose to report on that information in one or more paragraphs following this paragraph. AU section 550; AU section 551; and AU section 558 contain guidance on the auditor's responsibilities for and reporting on RSI and SI. See also footnote 11. In addition, in an audit in accordance with Circular A-133, the financial statements should be accompanied by a supplementary schedule of expenditures of federal awards and the auditor should report whether that schedule is presented fairly in all material respects in relation to the financial statements taken as a whole. Chapter 13 of this guide illustrates wording for this paragraph in that situation.

Example 4-3

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters²⁰ Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards* (No Material Weaknesses [No Significant Deficiencies Identified], No Reportable Instances of Noncompliance or Other Matters)²¹

[Addressee]

We have audited the financial statements²² of Example Entity as of and for the year ended June 30, 20X1, and have issued our report thereon dated August 15, 20X1.²³ We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*,²⁴ issued by the Comptroller General of the United States.²⁵

Internal Control Over Financial Reporting^{26,27}

In planning and performing our audit, we considered Example Entity's internal control over financial reporting as a basis for designing our auditing procedures

²⁰ Chapters 2, "Planning Considerations of *Government Auditing Standards*," and 3, "Financial Statement Audit Considerations of *Government Auditing Standards*," of this guide discuss the auditor's consideration of internal control over financial reporting and of fraud, illegal acts, violations of provisions of contracts or grant agreements, and abuse.

²¹ The auditor should use the portions of examples 4-3 and 4-5 that apply to a specific auditee situation. For example, if the auditor has identified significant deficiencies but has not identified instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, the internal control section of example 4-5 would be used along with the compliance and other matters section of this report. Alternatively if the auditor has not identified significant deficiencies but has identified instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, the internal control section of this report would be used along with the compliance section of example 4-5.

²² As explained in the AICPA Audit and Accounting Guide *State and Local Governments*, the auditor generally expresses or disclaims an opinion on a government's basic financial statements by providing an opinion or disclaimer of opinion on each opinion unit required to be presented in those financial statements. (See footnote 1.) For audits of governmental entities, the first sentence in this report should be modified to reflect the opinion units that have been reported on. In addition, the first sentence under the heading "Internal Control over Financial Reporting" should be revised to refer to "our opinions" instead of "our opinion." An illustration of the revised wording for the first sentence follows:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Example Entity as of and for the year ended June 30, 20X1, which collectively comprise Example Entity's basic financial statements and have issued our report thereon dated August 15, 20X1.

²³ Describe any departure from the standard report (for example, a qualified opinion, a modification as to consistency because of a change in accounting principle, or a reference to the report of other auditors).

²⁴ See footnote 3.

²⁵ If the financial statements include organizational units that are not required to have a *Government Auditing Standards* audit, the auditor should consider modifying this scope paragraph as discussed and illustrated in paragraphs 4.39 and 4.41.

²⁶ *Government Auditing Standards* permits, but does not require, auditors to express an opinion on internal control over financial reporting or on compliance if sufficient work was performed.

²⁷ This report sequences the reporting on internal control over financial reporting before the reporting on compliance and other matters. However, the Circular A-133 reports in appendixes A in chapters 12 and 13, "Program-Specific Audits," of this guide sequence the reporting on compliance before the reporting on internal control over compliance. Auditors may present the internal control and compliance sections of the *Government Auditing Standards* and Circular A-133 reports in whichever sequence better meets their needs.

for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters²⁸

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

We noted certain matters that we reported to management of Example Entity in a separate letter dated August 15, 20X1.²⁹

This report is intended solely for the information and use of management, [*identify the body or individuals charged with governance*], others within the entity,

²⁸ *Other matters* are certain findings of fraud or abuse. This heading and the reference to other matters in the following paragraph should appear in all reports, even if the report does not present or refer to findings of fraud or abuse or even if the only findings of fraud or abuse are presented in or referred to from the section on internal control over financial reporting. (See paragraphs 4.37–38.)

²⁹ *Government Auditing Standards* requires the auditor to communicate in writing to officials of the audited entity violations of provisions of contracts or grant agreements or abuse that is less than material but more than inconsequential. Paragraph 5.09 of *Government Auditing Standards* requires the reference illustrated in this paragraph if the auditor has issued a management letter reporting such matters. This reference does not preclude the auditor from including other discussions or recommendations in the management letter. See paragraphs 4.37–38.

and [identify the legislative or regulatory body³⁰ and is not intended to be and should not be used by anyone other than these specified parties.³¹

[Signature]

[Date]³²

³⁰ For an audit in accordance with Circular A-133, this sentence should include a reference to federal awarding agencies and, if applicable, pass-through entities. See the further discussion in chapter 12 of this guide.

³¹ This paragraph conforms to AU section 532, *Restricting the Use of an Auditor's Report* (AICPA, *Professional Standards*, vol. 1). See AU section 532 for additional guidance on restricted-use reports.

³² Because this report relates to the audit of the financial statements and is based on the GAAS audit procedures performed, it should carry the same date as the auditor's report on the financial statements.

Example 4-4

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters³³ Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards* (for a Governmental Entity and With Reference to Audits by Other Auditors Using the Reference Option)³⁴ (No Material Weaknesses [No Significant Deficiencies Identified], No Reportable Instances of Noncompliance or Other Matters)³⁵

[Addressee]

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Example Entity as of and for the year ended June 30, 20X1, which collectively comprise Example Entity's basic financial statements and have issued our report thereon dated August 15, 20X1. Our report was modified to include a reference to other auditors.³⁶ We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*,³⁷ issued by the Comptroller General of the United States. Other auditors audited the financial statements of [identify organization, function, or activity], as described in our report on Example Entity's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.^{38,39}

³³ See footnote 20.

³⁴ See paragraphs 4.43–45 for discussion of the reference option for acknowledging the involvement of other auditors in the report on internal control over financial reporting and compliance and other matters.

³⁵ The auditor should use the portions of this report and example 4-5 that apply to a specific addressee situation. For example, if the auditor has identified significant deficiencies but has not identified instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, the internal control section of example 4-5 would be used along with the compliance and other matters section of this report. Alternatively, if the auditor has not identified significant deficiencies but has identified instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, the internal control section of this report would be used along with the compliance section of example 4-5.

³⁶ Also describe any other departures from the standard report (for example, a qualified opinion or a modification as to consistency because of a change in accounting principle).

³⁷ See footnote 3.

³⁸ There may be circumstances in which none of the other auditors' audits referred to in the financial statement report were performed under *Government Auditing Standards*. In that situation, the last sentence in this paragraph should be replaced with the following:

The financial statements of [identify organization, function, or activity] were not audited in accordance with *Government Auditing Standards*.

See also paragraph 4.41 for additional guidance on modifying the scope paragraph when the financial statements include organizational units that are not required to have a *Government Auditing Standards* audit. Paragraph 4.40 provides guidance on similar modifications to the report on the financial statements.

³⁹ There may be circumstances in which some other auditors' audits were not performed under *Government Auditing Standards*, while some other auditors' audits were performed under those standards. In that situation, an additional sentence should be added to this paragraph as follows:

The financial statements of [identify organizations, functions, or activities] audited by other auditors that were not performed under *Government Auditing Standards* were not audited in accordance with *Government Auditing Standards*.

(continued)

Internal Control Over Financial Reporting^{40,41}

In planning and performing our audit, we considered Example Entity's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Example Entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters⁴²

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

We noted certain matters that we reported to management of Example Entity in a separate letter dated August 15, 20X1.⁴³

This report is intended solely for the information and use of management, [*identify the body or individuals charged with governance*], others within the entity,

(footnote continued)

See also paragraph 4.41 for additional guidance on modifying the scope paragraph when the financial statements include organizational units that are not required to have a Government Auditing Standards audit. Paragraph 4.40 provides guidance on similar modifications to the report on the financial statements.

⁴⁰ See footnote 26.

⁴¹ See footnote 27.

⁴² See footnote 28.

⁴³ See footnote 29.

and *[identify the legislative or regulatory body]*⁴⁴ and is not intended to be and should not be used by anyone other than these specified parties.⁴⁵

[Signature]

*[Date]*⁴⁶

⁴⁴ See footnote 30.

⁴⁵ See footnote 31.

⁴⁶ See footnote 32.

Example 4-5

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters⁴⁷ Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards (Significant Deficiencies, Reportable Instances of Noncompliance, and Other Matters Identified)*⁴⁸

[Addressee]

We have audited the financial statements⁴⁹ of Example Entity as of and for the year ended June 30, 20X1, and have issued our report thereon dated August 15, 20X1.⁵⁰ We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*,⁵¹ issued by the Comptroller General of the United States.⁵²

Internal Control Over Financial Reporting^{53,54}

In planning and performing our audit, we considered Example Entity's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Example Entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses⁵⁵ to be significant deficiencies in internal control over financial reporting. [List

⁴⁷ See footnote 20.

⁴⁸ See footnote 21.

⁴⁹ See footnote 22.

⁵⁰ See footnote 23.

⁵¹ See footnote 3.

⁵² See footnote 25.

⁵³ See footnote 26.

⁵⁴ See footnote 27.

⁵⁵ For an audit in accordance with Circular A-133, this reference should be to the schedule of findings and questioned costs.

the reference numbers of the related findings, for example, 20X1-1, 20X1-3, and 20X1-4].

[**NOTE:** As discussed in paragraph 4.34, this guide recommends identifying each finding with a reference number. As discussed in paragraph 4.30, this report can, as an alternative, describe findings and responses rather than refer to a separate schedule. Paragraph 4.30 also discusses how to report findings that relate to both internal control over financial reporting and to compliance; paragraph 4.31 discusses when findings of fraud and abuse should be reported in the section on internal control over financial reporting; paragraphs 4.32–.33 discuss the detail to use to present each finding; and paragraphs 4.35–.36 discuss the presentation of the views of responsible officials and their planned corrective actions. The schedule of findings and questioned costs shown in example 12-5 in appendix A in chapter 12, "Auditor Reporting Requirements and Other Communication Considerations in a Single Audit" of this guide further describes the presentation of financial statement findings. Further, in an audit in accordance with Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, findings and responses should not be described in this report; instead, this report should refer to the schedule of findings and questioned costs. See the further discussion in chapter 12 of this guide.]

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.⁵⁶ However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters⁵⁷

As part of obtaining reasonable assurance about whether Example Entity's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*⁵⁸ and which are described in

⁵⁶ If conditions believed to be material weaknesses are disclosed, the report should identify the material weaknesses that were identified by the auditor. The last sentence of this paragraph should be replaced with language such as the following:

"However, of the significant deficiencies described above, we consider items [list the reference numbers of the related findings, for example, 20X1-1 and 20X1-4] to be material weaknesses."

⁵⁷ See footnote 28.

⁵⁸ Paragraphs 4.16–.17 discuss the *Government Auditing Standards* criteria for reporting fraud, illegal acts, violations of provisions of contracts or grant agreements, and abuse. It is important to note within that discussion that in an audit conducted in accordance with Circular A-133, the

(continued)

the accompanying schedule of findings and responses as items [list the reference numbers of the related findings, for example, 20X1-2 and 20X1-5].

[**NOTE:** The referenced findings should include reportable: (a) instances of noncompliance; and (b) fraud or abuse that is not the result of a significant deficiency (See paragraphs 4.16 and 4.31). The "Note" in the internal control section of this example report further discusses the presentation of findings and auditee responses.]

We noted certain matters that we reported to management of Example Entity in a separate letter dated August 15, 20X1.⁵⁹

Example Entity's response to the findings identified in our audit are described in the accompanying schedule of findings and responses ["or above" if findings and responses are included in the body of the report]. We did not audit Example Entity's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, [identify the body or individuals charged with governance], others within the entity, and [identify the legislative or regulatory body]⁶⁰ and is not intended to be and should not be used by anyone other than these specified parties.⁶¹

[Signature]

[Date]⁶²

(footnote continued)

auditor should apply a financial statement materiality consideration in reporting in the *Government Auditing Standards* report fraud and illegal acts involving federal awards that are subject to Circular A-133 reporting. That is because those findings already are reported in the Circular A-133 report and reporting findings that are not material to the financial statements again in the *Government Auditing Standards* report would be unnecessarily duplicative.

⁵⁹ See footnote 29.

⁶⁰ See footnote 30.

⁶¹ See footnote 31.

⁶² See footnote 32.

Example 4-6

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters⁶³ Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards* (for a Governmental Entity and With Reference to Audits by Other Auditors Using the Inclusion Option)⁶⁴ (Significant Deficiencies, Reportable Instances of Noncompliance, and Other Matters Identified)⁶⁵

[Addressee]

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Example Entity as of and for the year ended June 30, 20X1, which collectively comprise Example Entity's basic financial statements and have issued our report thereon dated August 15, 20X1. Our report was modified to include a reference to other auditors.⁶⁶ We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*,⁶⁷ issued by the Comptroller General of the United States. Other auditors audited the financial statements of [identify organization, function, or activity], as described in our report on Example Entity's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.⁶⁸

Internal Control Over Financial Reporting^{69,70}

In planning and performing our audit, we considered Example Entity's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Example Entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over financial reporting.

⁶³ See footnote 20.

⁶⁴ See paragraphs 4.43–48 for discussion of the inclusion option for acknowledging the involvement of other auditors in the report on internal control over financial reporting and compliance and other matters.

⁶⁵ The auditor should use the portions of example 4-3 and this report that apply to a specific auditee situation. For example, if the auditor has identified significant deficiencies but has not identified instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, the internal control section of this report would be used along with the compliance and other matters section of example 4-3. Alternatively, if the auditor has not identified significant deficiencies but has identified instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, the internal control section of example 4-3 would be used along with the compliance section of this report. However, since example 4-3 does not assume other auditor involvement, similar wording to that noted in this report relating to other auditors would have to be incorporated.

⁶⁶ See footnote 36.

⁶⁷ See footnote 3.

⁶⁸ See footnote 39.

⁶⁹ See footnote 26.

⁷⁰ See footnote 27.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we and the other auditors identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses⁷¹ to be significant deficiencies in internal control over financial reporting. [*List the reference numbers of the related findings, for example, 20X1-1, 20X1-3, and 20X1-4.*]

[**NOTE:** As discussed in paragraph 4.34, this guide recommends identifying each finding with a reference number. As discussed in paragraph 4.30, this report can, as an alternative, describe findings and responses rather than refer to a separate schedule. Paragraph 4.30 also discusses how to report findings that relate to both internal control over financial reporting and to compliance; paragraph 4.31 discusses when findings of fraud and abuse should be reported in the section on internal control over financial reporting; paragraph 4.46 discusses considerations relating to including other auditors' results; paragraphs 4.32–.33 discuss the detail to use to present each finding; and paragraphs 4.35–.36 discuss the presentation of the views of responsible officials and their planned corrective actions. The schedule of findings and questioned costs shown in example 12-5 in appendix A in chapter 12, "Auditor Reporting Requirements and Other Communication Considerations in a Single Audit," of this guide further describes the presentation of financial statement findings. Further, in an audit in accordance with Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, findings and responses should not be described in this report; instead, this report should refer to the schedule of findings and questioned costs. See the further discussion in chapter 12 of this guide.]

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant

⁷¹ For an audit in accordance with Circular A-133, this reference should be to the schedule of findings and questioned costs.

deficiencies that are also considered to be material weaknesses.⁷² However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters⁷³

As part of obtaining reasonable assurance about whether Example Entity's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*⁷⁴ and which are described in the accompanying schedule of findings and responses as items [*list the reference numbers of the related findings, for example, 20X1-2 and 20X1-5*].

We also noted certain matters that we reported to management of Example Entity in a separate letter dated August 15, 20X1.⁷⁵

[**NOTE:** The referenced findings should be those that are instances of non-compliance. They also should be those that are fraud or abuse that are not significant deficiencies. (See paragraph 4.31.) The "Note" in the internal control section of this example report further discusses the presentation of findings and auditee responses.]

Example Entity's response to the findings identified in our audit are described in the accompanying schedule of findings and responses [*"or above" if findings and responses are included in the body of the report*]. We did not audit Example Entity's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, [*identify the body or individuals charged with governance*], others within the entity, and [*identify the legislative or regulatory body*]⁷⁶ and is not intended to be and should not be used by anyone other than these specified parties.⁷⁷

[*Signature*]

[*Date*]⁷⁸

⁷² If conditions believed to be material weaknesses are disclosed, the report should identify the material weaknesses that were identified by the auditor. The last sentence of this paragraph should be replaced with language such as the following:

"However, of the significant deficiencies described above, we consider items [*list the reference numbers of the related findings, for example, 20X1-1 and 20X1-4*] to be material weaknesses."

⁷³ See footnote 28.

⁷⁴ See footnote 58.

⁷⁵ See footnote 29.

⁷⁶ See footnote 30.

⁷⁷ See footnote 31.

⁷⁸ See footnote 32.