

Illustrative Auditor's Reports Under GAS

Revised for SAS No. 115

These illustrative auditor's reports are examples of the reports issued under generally accepted auditing standards (GAAS) and *Government Auditing Standards* in various circumstances. *Government Auditing Standards* requires that in addition to providing an opinion or a disclaimer of opinion on the financial statements, 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 *Government Auditing Standards and Circular A-133 Audits, Health Care Organizations, Not-For-Profit Organizations, and State and Local Governments*.

<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> (<i>No Material Weaknesses Identified, No Significant Deficiencies Identified, No Reportable Instances of Noncompliance or Other Matters Identified</i>)
4-4	Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> (<i>for a Governmental Entity and With Reference to Audits by Other Auditors Using the Reference Option</i>) (<i>No Material Weaknesses Identified, No Significant Deficiencies Identified, No Reportable Instances of Noncompliance or Other Matters Identified</i>)
4-5	Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> (<i>No Material Weaknesses Identified; Significant Deficiencies and Reportable Instances of Noncompliance, and Other Matters Identified</i>)
4-6	Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> (<i>for a Governmental Entity and With Reference to Audits by Other Auditors Using the Inclusion Option</i>) (<i>No Material Weaknesses Identified; Sig-</i>

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nificant Deficiencies, Reportable Instances of Noncompliance, and Other Matters Identified)

- 4-7 Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards (Material Weaknesses and Significant Deficiencies and Reportable Instances of Noncompliance, and Other Matters Identified)*

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Example 4-1

**Unqualified Opinions on Basic Financial Statements Accompanied by Required
Supplementary Information and Supplementary Information—
State or Local Governmental Entity^{fn 2}**

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*,^{fn 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.*]^{fn 4} An audit includes

^{fn 2} 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.

^{fn 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*.

^{fn 4} This optional wording may be added in accordance with Interpretation No. 17 “Clarification in the Audit Report of the Extent of Testing on 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. Interpretation No. 17 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 would read as follows:

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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.^{fn 5}

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.^{fn 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 internal control over financial reporting or on compliance.^{fn 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

“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.”

^{fn 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.

^{fn 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.

^{fn 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.

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United States of America.^{fn 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.^{fn 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.^{fn 10} The [*identify relevant supplementary information, such as the combining and individual 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.^{fn 11} The [*identify relevant supplementary information, such as the introductory section and statistical tables*] have not been subjected to the auditing procedures applied

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

^{fn 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.

^{fn 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 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* (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 12, "Auditor Reporting Requirements and Other Communication Considerations in a Single Audit," of this guide illustrates wording for this paragraph in that situation.

^{fn 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.

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in the audit of the basic financial statements and, accordingly, we express no opinion on them.

[Signature]

[Date]

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Example 4-2

Unqualified Opinion on Financial Statements—Not-for-Profit Organization^{fn 12}

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 flows^{fn 13} 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*,^{fn 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.*]^{fn 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 fi-

^{fn 12} 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).

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

^{fn 14} See footnote 3.

^{fn 15} See footnote 4. If this optional wording is added, in an audit of a nongovernmental entity, the remainder of the paragraph would 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.”

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financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.^{fn 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.^{fn 17} The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance.^{fn 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.^{fn 19}

[Signature]

[Date]

^{fn 16} See footnote 5.

^{fn 17} See footnote 6.

^{fn 18} See footnote 7.

^{fn 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 12 of this guide illustrates wording for this paragraph in that situation.

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Example 4-3

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters^{fn 20} Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards (No Material Weaknesses Identified, No Significant Deficiencies Identified, No Reportable Instances of Noncompliance or Other Matters Identified)^{fn 21}

[Addressee]

We have audited the financial statements^{fn 22} of Example Entity as of and for the year ended June 30, 20X1, and have issued our report thereon dated August 15, 20X1.^{fn 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*,^{fn 24} issued by the Comptroller General of the United States.^{fn 25}

^{fn 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.

^{fn 21} The portions of Examples 4-3 and 4-5 that apply to a specific auditee situation may be used in drafting the report. For example, if the auditor has identified significant deficiencies but has not identified instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, the internal control section of Example 4-5 may be used along with the compliance and other matters section of this report. Alternatively if the auditor has not identified significant deficiencies but has identified instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*, the internal control section of this report may be used along with the compliance section of Example 4-5. See Example 4-7 for illustrative reporting for situations where the auditor has identified material weaknesses.

^{fn 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 would 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" would 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.

^{fn 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).

^{fn 24} See footnote 3.

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Internal Control Over Financial Reporting^{fn 26 fn 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 for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Example Entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Example Entity's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

^{fn 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. See paragraphs 4.39 and 4.41.

^{fn 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.

^{fn 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.

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Compliance and Other Matters^{fn 28}

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.^{fn 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, and [*identify the legislative or regulatory body*]^{fn 30} and is not intended to be and should not be used by anyone other than these specified parties.^{fn 31}

[*Signature*]

[*Date*]^{fn 32}

^{fn 28} *Other matters* are certain findings of fraud or abuse. As per industry practice, the reference to “other matters” in both the heading and the following paragraph typically appears in all reports, even if the report does not present or refer to findings of fraud or abuse or even if the only findings of fraud or abuse are presented in or referred to from the section on internal control over financial reporting. (See paragraphs 4.37–.38.)

^{fn 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 have an effect on the financial statements 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.

^{fn 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.

^{fn 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.

^{fn 32} Because this report relates to the audit of the financial statements, and is based on the GAAS audit procedures performed, it is subject to the provisions of AU section 530, *Dating of the Independent Auditor's Report*, (AICPA *Professional Standards*, vol. 1). Therefore, it should be dated the same date as the auditor's report on the financial statements, which per paragraph .01 of AU section 530 is “no earlier than the date on which the auditor obtains sufficient appropriate audit evidence.”

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Example 4-4

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters^{fn 33} 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)^{fn 34} (No Material Weaknesses Identified, No Significant Deficiencies Identified, No Reportable Instances of Non-compliance or Other Matters Identified)^{fn 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 includes a reference to other auditors.^{fn 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*,^{fn 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.^{fn 38 fn 39}

^{fn 33} See footnote 20.

^{fn 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.

^{fn 35} The portions of Examples 4-4 and 4-5 that apply to a specific auditee situation may be used in drafting the report. For example, if the auditor has identified significant deficiencies but has not identified instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, the internal control section of Example 4-5 may be used along with the compliance and other matters section of 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 may be used along with the compliance section of Example 4-5. See Example 4-7 for illustrative reporting for situations where the auditor has identified material weaknesses.

^{fn 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).

^{fn 37} See footnote 3.

^{fn 38} There may be circumstances where none of the other auditors' audits referred to in the financial statement report were performed under *Government Auditing Standards*. To clarify the portion that was not

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Internal Control Over Financial Reporting^{fn 40} ^{fn 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 Example Entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Example Entity's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

audited in accordance with *Government Auditing Standards*, the scope paragraph should be modified. The last sentence in this paragraph may be replaced with the following:

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

See also paragraph 4.41 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.

^{fn 39} There may be circumstances where some other auditors' audits were not performed under *Government Auditing Standards*, while some other auditors' audits were performed under those standards. In that situation, the scope paragraph should be modified. An additional sentence may 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*.

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.

^{fn 40} See footnote 26.

^{fn 41} See footnote 27.

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Compliance and Other Matters^{fn 42}

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

[*Signature*]

[*Date*]^{fn 46}

^{fn 42} See footnote 28.

^{fn 43} See footnote 29.

^{fn 44} See footnote 30.

^{fn 45} See footnote 31.

^{fn 46} See footnote 32.

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Example 4-5

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters^{fn 47} Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards (No Material Weaknesses Identified; Significant Deficiencies and Reportable Instances of Noncompliance, and Other Matters Identified)^{fn 48}

[Addressee]

We have audited the financial statements^{fn 49} of Example Entity as of and for the year ended June 30, 20X1, and have issued our report thereon dated August 15, 20X1.^{fn 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*,^{fn 51} issued by the Comptroller General of the United States.^{fn 52}

Internal Control Over Financial Reporting^{fn 53} ^{fn 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 Example Entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Example Entity's internal control over financial reporting.

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

^{fn 47} See footnote 20.

^{fn 48} See footnote 21.

^{fn 49} See footnote 22.

^{fn 50} See footnote 23.

^{fn 51} See footnote 3.

^{fn 52} See footnote 25.

^{fn 53} See footnote 26.

^{fn 54} See footnote 27.

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a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying [*include the title of the schedule in which the findings are reported (e.g., schedule of findings and responses or schedule of findings and questioned costs)*] that we consider 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*]. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

[**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 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 may 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. Further, in an audit in accordance with Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (Circular A-133), findings related to the financial statements which are required to be reported in accordance with *Government Auditing Standards* should be reported in the schedule of findings and questioned costs. 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.]

Compliance and Other Matters^{fn 55}

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.

^{fn 55} See footnote 28.

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The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*^{fn 56} and which are described in the accompanying [include the title of the schedule in which the findings are reported (e.g., schedule of findings and responses or schedule of findings and questioned costs)] as items [list the reference numbers of the related findings, for example, 20X1-2 and 20X1-5].

[**NOTE:** The referenced findings 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.^{fn 57}

Example Entity's response to the findings identified in our audit are described in the accompanying [include the title of the schedule in which the findings are reported (e.g., schedule of findings and responses or schedule of findings and questioned costs) “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]^{fn 58} and is not intended to be and should not be used by anyone other than these specified parties.^{fn 59}

[Signature]

[Date]^{fn 60}

^{fn 56} 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 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.

^{fn 57} See footnote 29.

^{fn 58} See footnote 30.

^{fn 59} See footnote 31.

^{fn 60} See footnote 32.

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Example 4-6

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters^{fn 61} 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)^{fn 62} (No Material Weaknesses Identified; Significant Deficiencies, Reportable Instances of Noncompliance, and Other Matters Identified)^{fn 63}

[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 includes a reference to other auditors.^{fn 64} 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*,^{fn 65} 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 re-

^{fn 61} See footnote 20.

^{fn 62} 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.

^{fn 63} The portions of Example 4-3 and Example 4-7 and this report that apply to a specific auditee situation may be used in drafting the report. 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 may be used along with the compliance and other matters section of Example 4-3. Alternatively, if the auditor has not identified significant deficiencies but has identified instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, the internal control section of Example 4-3 may be used along with the compliance section of this report. If the auditor has identified material weaknesses, the structure of internal control section of Example 4-7 may be used. However, since Examples 4-3 and 4-7 do not assume other auditor involvement, similar wording to that noted in this report relating to other auditors may be incorporated.

^{fn 64} See footnote 36.

^{fn 65} See footnote 3.

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lates to the results of the other auditors, is based solely on the reports of the other auditors.^{fn 66}

Internal Control Over Financial Reporting^{fn 67 fn 68}

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 Example Entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Example Entity's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We and the other auditors did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we and the other auditors identified certain deficiencies in internal control over financial reporting, described in the accompanying [*include the title of the schedule in which the findings are reported (e.g., schedule of findings and responses or schedule of findings and questioned costs)*] that we consider 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*]. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

[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 rather than refer to a separate schedule. Paragraph 4.30 also dis-

^{fn 66} See footnote 39.

^{fn 67} See footnote 26.

^{fn 68} See footnote 27.

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cusses 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 may 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. Further, in an audit in accordance with Circular A-133, findings related to the financial statements which are required to be reported in accordance with *Government Auditing Standards* should be reported in the schedule of findings and questioned costs. The schedule of findings and questioned costs shown in Example 12-5 in Appendix A in Chapter 12 of this guide further describes the presentation of financial statement findings.]

Compliance and Other Matters^{fn 69}

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 and those of the other auditors disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*^{fn 70} and which are described in the accompanying [include the title of the schedule in which the findings are reported (e.g., schedule of findings and responses or schedule of findings and questioned costs)] as items [list the reference numbers of the related findings, for example, 20X1-2 and 20X1-5].

We also noted certain matters that we reported to management of Example Entity in a separate letter dated August 15, 20X1.^{fn 71}

[NOTE: *The referenced findings in this section include those that are instances of non-compliance and 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 [include the title of the schedule in which the findings are reported (e.g.,

^{fn 69} See footnote 28.

^{fn 70} See footnote 56.

^{fn 71} See footnote 29.

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schedule of findings and responses or schedule of findings and questioned costs)“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*]^{fn 72} and is not intended to be and should not be used by anyone other than these specified parties.^{fn 73}

[*Signature*]

[*Date*]^{fn 74}

^{fn 72} See footnote 30.

^{fn 73} See footnote 31.

^{fn 74} See footnote 32.

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Example 4-7

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters⁷⁵ Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards (Material Weaknesses and Significant Deficiencies and Reportable Instances of Noncompliance, and Other Matters Identified)*⁷⁶

[Addressee]

We have audited the financial statements⁷⁷ of Example Entity as of and for the year ended June 30, 20X1, and have issued our report thereon dated August 15, 20X1.⁷⁸ 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*,⁷⁹ issued by the Comptroller General of the United States.⁸⁰

Internal Control Over Financial Reporting^{81, 82}

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 Example Entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Example 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 was not designed to identify all deficiencies in

⁷⁵ See footnote 20.

⁷⁶ The portions of Examples 4-3 and 4-7 that apply to a specific auditee situation may be used to draft the report. The internal control section of this Example 4-7 may be used if the auditor has identified material weaknesses. If the auditor has identified material weaknesses 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 4-7 may be used along with the compliance and other matters section of Example 4-3.

⁷⁷ See footnote 22.

⁷⁸ See footnote 23.

⁷⁹ See footnote 3.

⁸⁰ See footnote 25.

⁸¹ See footnote 26.

⁸² See footnote 27.

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internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying [*include the title of the schedule in which the findings are reported (e.g., schedule of findings and responses or schedule of findings and questioned costs)*], we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses [and other deficiencies that we consider to be significant deficiencies].⁸³

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying [*include the title of the schedule in which the findings are reported (e.g., schedule of findings and responses or schedule of findings and questioned costs)*] to be material weaknesses. [*List the reference numbers of the related findings, for example, 20X1-1, 20X1-3, and 20X1-4*].

[A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying [*include the title of the schedule in which the findings are reported (e.g. schedule of findings and responses or schedule of findings and questioned costs)*] to be significant deficiencies. (*List the reference numbers of the related findings, for example, 20X1-2 and 20X1-5.*)]⁸⁴

[**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 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 may 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. Further, in an audit in accordance with Circular A-133, findings related to the financial statements which are required to be reported in accordance with *Government Auditing Standards* should be reported in the schedule of findings and questioned costs. The sche-

⁸³ If no significant deficiencies are identified, the text within the brackets is omitted from the report.

⁸⁴ See footnote 83.

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dule of findings and questioned costs shown in Example 12-5 in Appendix A in Chapter 12 of this guide further describes the presentation of financial statement findings.]

Compliance and Other Matters⁸⁵

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*⁸⁶ and which are described in the accompanying [*include the title of the schedule in which the findings are reported (e.g., schedule of findings and responses or schedule of findings and questioned costs)*] as items [*list the reference numbers of the related findings, for example, 20X1-2 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, 20X1.⁸⁷

Example Entity's response to the findings identified in our audit are described in the accompanying [*include the title of the schedule in which the findings are reported (e.g., schedule of findings and responses or schedule of findings and questioned costs) “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*]⁸⁸ and is not intended to be and should not be used by anyone other than these specified parties.⁸⁹

⁸⁵ See footnote 28.

⁸⁶ See footnote 56.

⁸⁷ See footnote 29.

⁸⁸ See footnote 30.

⁸⁹ See footnote 31.

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[*Signature*]

[*Date*]⁹⁰

⁹⁰ See footnote 32.