**Example A-10 (SLG Chapter 14.53): Report on Basic Financial Statements That Includes Multiple Opinion Modifications, including an Adverse Opinion Because a Major Fund is Omitted [[1]](#endnote-1)**

**Revised April, 2014 to revise the supplemental information paragraph.**

**Applicable for FYE 12-31-12 & Subsequent**

**INDEPENDENT AUDITOR’S REPORT**

[ENTITY NAME]

[COUNTY NAME] County

[STREET ADDRESS]

[CITY], Ohio [ZIP CODE]

To the [GOVERNING BODY]:

***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the **[aggregate]** discretely presented component unit**(s)**, each major fund, and the aggregate remaining fund information[[2]](#endnote-2) of the[ENTITY NAME], [COUNTY NAME] County, Ohio[[3]](#endnote-3) (the Government), as of and for the year ended [FYE DATE], and the related notes to the financial statements, which collectively comprise the Government’s basic financial statements as listed in the table of contents.

***Management’s Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States’ *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about the financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we considered internal control relevant to the Government’s preparation and fair presentation of the financial statements in order to design appropriate audit procedures, but not to the extent needed to opine on the effectiveness of the Government’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management’s accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our opinions.

***Summary of Opinions***

|  |  |
| --- | --- |
| **Opinion Unit** | **Type of Opinion** |
| Governmental Activities | Qualified |
| Business-Type Activities | Qualified |
| Aggregate Discretely Presented Component Units | Unmodified |
| Governmental Fund X | Qualified |
| Governmental Fund Y | Qualified |
| Governmental Fund Z | Unmodified |
| Enterprise Fund A | Adverse |
| Enterprise Fund B | Unmodified |
| Aggregate Remaining Fund Information | Unmodified |

***Basis for Adverse Opinion on Enterprise Fund A and Qualified Opinion on Business-Type Activities[[4]](#endnote-4)***

Management has not included Enterprise Fund A[[5]](#endnote-5) in the Government’s financial statements. Accounting principles generally accepted in the United States of America require Enterprise Fund A to be presented as a major enterprise fund and financial information about Enterprise Fund A to be part of the business-type activities, thus increasing that activity’s assets, liabilities, revenues, and expenses, and changing its net position. The amount by which this departure would affect the assets, fund balances, liabilities, net position, revenue, and expenses of the business-type activities and the omitted major fund has not been determined.

***Adverse Opinion***

In our opinion, because of the significance of the matter described in the *Basis for Adverse Opinion on Enterprise A and Qualified Opinion on Business-Type Activities* paragraph, the financial statements referred to above do not present fairly the financial position of Enterprise Fund A of the [ENTITY NAME], [COUNTY NAME] County, Ohio, as of and for the year ended [FYE DATE], or the changes in financial position or cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Qualified Opinion***

In our opinion, except for the matter described in the Basis for *Adverse Opinion on Enterprise A and Qualified Opinion on Business-Type Activities* paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of [ENTITY NAME], [COUNTY NAME] County, Ohio (the Government), as of and for the year ended [FYE DATE],and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Basis for Qualified Opinions on Governmental Activities and Governmental Funds X and Y***

As discussed in Note X to the financial statements, management has not recorded a liability for compensated absences in governmental activities and also has not recorded an expense for the current period change in this liability. Accounting principles generally accepted in the United States of America require compensated absences attributable to employee services already rendered and not contingent on a specific event outside the control of the employer and employee be accrued as liabilities and expenses as employees earn the rights to the benefits. This would increase the liabilities, reduce net position, and change the expenses of the governmental activities. The amount by which this departure would affect the liabilities, net position and expenses of governmental activities has not been determined.

In addition, management has not adopted a methodology for reviewing the collectability of taxes receivable in the [*identify the affected major governmental funds, such as Major Governmental Funds X and Y*] and in governmental activities and, accordingly, has not included an allowance for uncollectible amounts. Accounting principles generally accepted in the United States of America require including an adequate allowance for uncollectible receivables, which would decrease the assets, fund balances, and net position, and change the revenues in the [*identify the affected major funds*] and in governmental activities. The amount by which this departure would affect the assets, fund balances, net position, and revenues of the [*identify the affected major funds*] and governmental activities has not been determined. [[6]](#endnote-6)

***Qualified Opinions***

In our opinion, except for the matters described in the *Basis for Qualified Opinions on Governmental Activities and Governmental Funds X and Y* paragraphs above, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the [*identify the affected major governmental funds*] of the [ENTITY NAME], [COUNTY NAME] County, Ohio (the Government), as of and for the year ended as of [FYE DATE], and the respective changes in its financial position thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Unmodified Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the **[aggregate]** discretely presented component unit**(s)**, [*identify major funds not affected by the previously described adverse and qualified opinions*] and the aggregate remaining fund information of the [ENTITY NAME], [COUNTY NAME] County, Ohio (the Government), as of and for the year ended as of [FYE DATE], and the respective changes in financial position and**,** **where applicable** **its cash flows,** thereof and the **respective<<DELETE IF ONLY ONE BUDGETARY FUND COMPARISON** budgetary comparison**[s]** for the General and [list major special revenue funds][[7]](#endnote-7) thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America. [[8]](#endnote-8)

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of Americarequire this presentation to include *Management’s Discussion and Analysis*, **[***Required budgetary comparison schedule****(s)*** and *Schedules for infrastructure assets accounted for using the modified approach*,**]** listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiring to management about the methods of preparing the information, and comparing the information for consistency with management’s responses to our inquiries and to the basic financial statements, and for consistency with other knowledge we obtained during our audit of the basic financial statements.

We do not opine or provide any assurance on the required supplementary information.

Although our opinions on the basic financial statements are not further affected, we believe *Management’s Discussion and Analysis* departs from Governmental Accounting Standards Board guidelines:

* As discussed in the *Basis for Qualified Opinions on Governmental Activities and Governmental Funds X and Y paragraph above,* the tables derived from the Governmental Activities’ financial statements omit a liability for compensated absences and an allowance for uncollectible taxes.
* Also, as discussed in the *Basis for Adverse Opinion on Enterprise Fund A and Qualified Opinion on Business-Type Activities* paragraph above, the tables in *Management’s Discussion and Analysis* derived from the Business Type Activity financial statements omit amounts for Enterprise Fund A.

*Supplementary and Other Information*

Our audit was conducted to opine on the Government’s basic financial statements taken as a whole.

**[**The introductory section, the financial section’s combining statements, individual fund statements and schedules, and the statistical section information**][[9]](#endnote-9)** present additional analysis and **is/are** not a required part of the basic financial statements.

The Schedule of Federal Award [Receipts and] Expenditures [also] presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is [also] not a required part of the financial statements.

The aforementioned **[**statements**]** **and [**schedules**]** are management’s responsibility, and derive**(s)** from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this informationto the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconcilingthis information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America.

*(Use bullet points only if there are multiple qualifications, such in this example.)*

* As discussed in the *Basis for Adverse Opinion on Enterprise Fund A and Qualified Opinion on Business-Type Activities* paragraph above, the combining **[and individual fund]** statements **[and schedules]** for Enterprise Funds omit Enterprise Fund A.
* Because of the significance of the matter discussed in the *Basis for Adverse Opinion on Enterprise Fund A and Qualified Opinion on Business-Type Activities* paragraph above, it is inappropriate to and we do not opine on the combining **[and individual fund]** statements **[and schedules]** for Enterprise Funds.
* In our opinion, except for the omission of an allowance for uncollectible taxes in Funds X and Y as discussed in the Basis for Qualified Opinions on Governmental Activities and Governmental Funds X and Y paragraph above, the combining [and individual] Governmental Fund statements [and schedules] are fairly stated in all material respects in relation to the financial statements as a whole.
* Also, in our opinion, the statements for [aggregate] discretely presented component unit(s), and the combining [and individual] fund statements [and schedules] for [identify major funds not affected by the previously described adverse and qualified opinions] and the aggregate remaining fund information are fairly stated in all material respects in relation to the financial statements as a whole.

We did not subject the introductory section and statistical section information to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or any other assurance on **it / them**.[[10]](#endnote-10)

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated [REPORT DATE], on our consideration of the Government’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Government’s internal control over financial reporting and compliance.

Columbus, Ohio

[REPORT DATE]

1. As discussed in paragraph 14.53, the auditor should issue an adverse opinion on a major fund opinion unit when a major governmental or enterprise fund is omitted from the financial statements. (That paragraph also discusses how the auditor should modify the opinion on the remaining fund information if the major fund is included in the financial statements but not as a major fund.) However, depending on the nature and magnitude of the other GAAP departures illustrated in this report, it is possible that the auditor might issue an adverse opinion on one or more of the opinion units affected by the omitted or misclassified major fund, or on the financial statements as a whole. This example assumes that the auditor has concluded that a qualified   
   (rather than ***adverse***) opinion on business-type activity major enterprise fund A is appropriate. Another auditor could make a different professional judgment. (See similar situations handled differently in examples A-5 and A-7) [↑](#endnote-ref-1)
2. If we combine *discrete component units* and *remaining fund information* into one opinion unit under the circumstances permitted by footnote 7 to Exhibit 4-1 (following section 4.73) in SLG, revise this phrase as follows:

   “ . . . governmental activities, the business-type activities, each major fund and the [aggregate] discretely presented component unit and remaining fund information . . . “ [↑](#endnote-ref-2)
3. As discussed in SLG 14.58, insert “, a component unit of [PRIMARY GOVERNMENT],” if applicable. [↑](#endnote-ref-3)
4. As there are multiple opinions provided in this report, the heading to this section illustrates identifying the opinion units to which the basis for the opinion modifications apply to more clearly communicate the opinion units associated with modification. [↑](#endnote-ref-4)
5. This example presumes that the omitted major fund is part of the primary government’s legal entity. If, instead, the omitted major fund is a blended component unit and the only component unit, the auditor could instead issue a report on the primary government, as discussed in paragraphs 14.54-57and illustrated in examples A-11 and A-12. [↑](#endnote-ref-5)
6. This example assumes there was no significant short-term fund liability. Therefore, the

   qualification affects governmental activities but not governmental funds. [↑](#endnote-ref-6)
7. Delete reference to the budgetary comparisons from the opinion paragraph, and refer to it with the “MD&A / RSI paragraph” if the budgetary comparisons are presented as RSI [↑](#endnote-ref-7)
8. As with any implementation of a new accounting principle, auditors should evaluate the need for an Emphasis of a Matter (EOM) paragraph in the opinion using the guidelines in AU-C 706 and AU-C 708.  Per AU-C 706, an EOM refers to a matter appropriately presented or disclosed in the financial statements that we as auditors feel is of such importance that it is fundamental to user’s understanding of the financial statements.

   If the client adopts a new GASB and there is an immaterial impact on the financial statements, whether or not disclosed in the notes, no EOM should be added to the opinion.

   If the client adopts a new GASB and there is a material impact on the financial statements (see AU-C 708.08) and:

   * The auditee included the appropriate note disclose, auditors should issue an EOM in the opinion. See example language below.
   * The auditee did not include the appropriate note disclosure, auditors should request the auditee adjust their note disclosures.
     + - If the auditee adjusts the footnotes to include the omitted material disclosure, auditors should include the EOM in the opinion.
       - If the auditee does not adjust the footnotes to include the omitted material disclosure, auditors should modify the opinion accordingly.

   An Other Matter (OM) paragraph is not appropriate in these circumstances.

   Use the following paragraph (including the heading) the year the auditee implements if it meets the criteria described above:

   * For OCBOA & AOS Basis reporting (where applicable), this paragraph should follow the accounting basis paragraph.
   * For GAAP reporting it should follow the opinion paragraph

   GASBs 63 & 65 are used in the example below but this guidance is applicable for implementation of any new accounting principle. Note: GASB 63 / 65 are not applicable for AOS Basis.

   ***Emphasis of Matter***

   As discussed in Note **X** to the financial statements, during the year ended December 31, 2012, the Government adopted the provisions of Governmental Accounting Standard No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*.  We did not modify our opinion regarding this matter. **<< Delete reference to No. 65 if the auditee did not early implement.** [↑](#endnote-ref-8)
9. Modify the list of *supplementary information* paragraph as necessary. See SLG 14.74 -.79. Also:

   If an opinion qualification on the financial statements also affects the supplementary information, include a statement that, in the auditor's opinion, ***except for*** the effects on the supplementary information of (refer to the paragraph in the auditor's report explaining the qualification), this information is fairly stated, in all material respects, in relation to the financial statements as a whole. See AU-C 725.09(f) and AOS auditors consult with CFAE.

   We must disclaim on this information if we render an adverse opinion or disclaimer of opinion. AOS auditors consult with CFAE.

   ***Important:***  We normally consider materiality for each opinion unit. However, our in-relation-to opinion on supplementary information is in relation to the financial statements as a whole. Therefore, we consider materiality at a level representing the entire governmental entity. [↑](#endnote-ref-9)
10. This last sentence derives from AU-C 720 (SAS118), and relates to financial or nonfinancial information that is neither RSI nor *supplementary information* subject to AU-C 725 (SAS119). Examples include *introductory information* or *statistical tables*, which are not subject to an “in –relation – to opinion.”

    Our responsibility for this “unaudited” information is only to read it**\*** to determine if (1) material inconsistencies exist between it and the audited statements, or (2) this information includes material misstatements of fact. If you identify a material inconsistency or misstatement of fact and management is unwilling to correct it, AOS auditors consult with CFAE.

    \* While standards only require us to “read it,” you should apply the procedures from our specimen program for *finalizing the audit* to agree this information to supporting documentation. For example, you should agree 10 - year statistical tables to the prior-year CAFR to assure the prior years’ amounts did not inadvertently change. (See SLG 14.80-.84) [↑](#endnote-ref-10)