**THIS OPINION SHELL SHOULD NOT BE USED FOR 12-31-21 & SUBSEQUENT FYEs.**

**Example A-7 (SLG Chapter 16.07 - .08 and .34): Report on Basic Financial Statements That Includes an Adverse Opinion on the Governmental Activities Because Certain Compensated Absences are Omitted [[1]](#endnote-1)**

**(NOTE: You can modify this for other adverse opinions, too. See Example A-10 for multiple qualifications)**

**INDEPENDENT AUDITOR’S REPORT [[2]](#footnote-1)**

[ENTITY NAME]

[COUNTY NAME]

[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[[3]](#endnote-2) of the [ENTITY NAME], [COUNTY NAME], Ohio[[4]](#endnote-3) (the Entity), as of and for the year ended [FYE DATE], and the related notes to the financial statements, which collectively comprise the Entity’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 us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about 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 consider internal control relevant to the Entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Entity'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 audit opinions.

***Summary of Opinions***

***Basis for Adverse Opinion on the Governmental Activities, Business-Type Activities, Enterprise Funds A and B, and Aggregate Remaining Fund Information***

As discussed in Note **[X]** to the financial statements, management has not recorded a liability for compensated absences or current period expense for the changes thereto, for Governmental Activities, Business-Type Activities, Enterprise Funds A and B, and the Aggregate Remaining Fund Information. Accounting principles generally accepted in the United States of America require that 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, which would increase the liabilities, reduce net position and change the expenses[[5]](#endnote-4) of Governmental Activities, Business-Type Activities, Enterprise Funds A and B, and the Aggregate Remaining Fund Information. The amounts by which this departure would affect these liabilities, expenses and net positions, cannot reasonably be determined.

***Adverse Opinions***

In our opinion, because of the significance of the matter described in the *Basis for Adverse Opinion on the Governmental Activities* paragraph, the financial statements referred to above do not present fairly the financial position of the Governmental Activities, Business-Type Activities, Enterprise Funds A and B, and the Remaining Fund Information of the Entity, as of [FYE DATE], or the changes in financial position or cash flows for the year then ended in conformity with 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 general fund, [name major funds not effected by the adverse opinion] and discretely presented component unit**(s)**, of the Entity, Ohio as of [FYE DATE], and the respective changes in its financial position thereofand the **respective<<DELETE “respective”** if only one budgetary fund comparison budgetary comparison**[s]** for the General and [list major special revenue funds][[6]](#endnote-5) thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Emphasis of Matter [[7]](#endnote-6)[[8]](#endnote-7)***

As discussed in Note **X** to the financial statements, during 20XX, the Entity adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. XX, *[include name/title of GASB Statement in italics]*.  We did not modify our opinion regarding this matter.

***Other Matters [[9]](#endnote-8)***

*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*,**]** and schedules of net pension and other post-employment benefit liabilities and pension and other post-employment benefit contributions 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. As a result of our limited procedures, we believe management’s discussion and analysis does not conform to Governmental Accounting Standards Board guidelines, since as discussed in the *Basis for Adverse Opinions on the Government-wide, Business-Type Activities, Enterprise Funds A and B, and Aggregate Remaining Fund Information* paragraph, management has omitted compensated absence amounts necessary to complete the tables derived from the government-wide financial statements, which is a required part of Management’s Discussion and Analysis. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance. [[10]](#endnote-9)

*Supplementary and Other Information*

Our audit was conducted to opine on the Entity’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**][[11]](#endnote-10)** present additional analysis and **is/are** not a required part of the basic financial statements.

**[**The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.**]**

The **[statements] and [schedules]** are management’s responsibility, and derive**(s)** from and relate**(s)** directly to the underlying accounting and other records used to prepare the basic financial statements. Because of the significance of the matter described in the *Basis for Adverse Opinions on the Government-wide Financial Statements*, it is inappropriate to and we do not express an opinion on the financial section’s combining statements, individual fund statements and schedules.

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.[[12]](#endnote-11)**  **(Omit paragraph if no “other information” included.)**

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

In accordance with *Government Auditing Standards*, we have also issued[[13]](#endnote-12) our report dated [REPORT DATE], on our consideration of the Entity’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 Entity’s internal control over financial reporting and compliance.

**[Auditor Signature]**

[City, State]

[REPORT DATE]

1. Depending on the nature and magnitude of the GAAP departure, it is possible an auditor would

issue a qualified rather than an adverse opinion. Further, depending on the nature and magnitude of the facts and circumstances leading to an adverse opinion on one or more opinion units, it is possible that the auditor would conclude that it is appropriate to issue an adverse opinion on the financial statements taken as a whole. (See SLG paragraphs 16.10 and 16.35). This example assumes that the auditor has concluded that the GAAP departure warrants an adverse opinion on the governmental activities, but not on the financial statements taken as a whole. Another auditor could make a different judgment and issue either a qualified opinion (see example A-10) or issue an adverse opinion on the financial statements taken as a whole, using the type of report illustrated in example A-8. [↑](#endnote-ref-1)
2. Updated October 2021 for changes and clarifications to footnote 8 and clerical corrections. Changes not marked.

~~Revised June 2021 to remove Comprehensive Annual Financial Report acronym. Changes not marked.~~ [↑](#footnote-ref-1)
3. 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)
4. As discussed in SLG 16.58, insert “, a component unit of [PRIMARY GOVERNMENT],” if applicable. [↑](#endnote-ref-3)
5. Modify financial statement elements to fit the circumstances. Include or omit assets, liabilities,

 deferred or inflows of resources, deferred outflows of resources, revenues, expenditure,

 expenses, fund balances and net position. [↑](#endnote-ref-4)
6. Delete the 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-5)
7. Modify this example when a client properly adopts a new GASB pronouncement (including required disclosures and restatements) and it materially affects the financial statements (see AU-C 708.08).

*Do not include EOM paragraphs for new standards with immaterial financial statement effects, or standards that effect only disclosures.* [↑](#endnote-ref-6)
8. ***COVID-19 Guidance:***

**Additional language regarding COVID-19 and a related draft disclosure, draft emphasis-of-matter paragraph, and draft GAGAS opening paragraph sentence can be found** [**here**](file:///C%3A/Users/Public/AuditGuidance/Financial/COVID19Guidance.pdf)**.** [↑](#endnote-ref-7)
9. **Comparative Financial Statements**

 Note: “c*omparative financial statements” means* only *complete* financial statements for one or more prior periods included for comparison with the current financial statements. (“Total only” columns are *in*complete presentations.)

Per AU-C 700B.46, when we are the continuing auditor we would refer to these statements in our opinion; however, when the prior period was audited by a predecessor auditor the following is an example ***other matter*** paragraph (See AU-C 700B.55).

*Prior Period Financial Statements Audited by a Predecessor Auditor*

The financial statements of the [ENTITY NAME], [COUNTY NAME], Ohio (the Entity), as of and for the year ended [FYE DATE], were audited by predecessor auditor whose report dated [DATE], expressed an unmodified opinion on those statements. **<< modify as necessary if other than an unmodified opinion was issued.**

 **Comparative Information**

AU-C 700B uses the term *comparative information* for partial presentations. (e.g. “Total Only” columns). (*Comparative statements* refer only to *complete* p/y presentations.)

Per AU-C 700B.48 We should include one of the following ***other matter*** paragraphs to describe comparative information (from SLG 16.50):

*Report on Summarized Comparative Information*

*We* have previously audited the Entity's 20XX-1 financial statements, and we expressed unmodified opinions on the respective 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 dated [DATE]. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 20XX-1 is consistent, in all material respects, with the audited financial statements from which it has been derived. **<< modify as necessary if other than an unmodified opinion was issued, including the nature of, and the reasons for opinion modifications (see SLG 16.50 footnote 18).**

Or:

The financial statements of the Entity as of and for the year ended December 31, 20XX-1 from which the comparative information for December 31, 20XX-1 was derived were *audited by a predecessor auditor.* An unmodified opinion was issued [DATE] by the predecessor auditor. **<< modify as necessary if other than an unmodified opinion was issued.**

 [↑](#endnote-ref-8)
10. Modify this paragraph in the following circumstances. See AU-C 730 and SLG 16.66-.73:

	1. The required supplementary information is omitted.
	2. Some required supplementary information is missing and some is presented in accordance with the prescribed guidelines.
	3. The auditor has identified material departures from the prescribed guidelines.
	4. The auditor is unable to complete the procedures in AU-C 730.05.
	5. The auditor has unresolved doubts about whether the required supplementary information is presented in accordance with prescribed guidelines. [↑](#endnote-ref-9)
11. Modify the list of *supplementary information* paragraph as necessary. See SLG 16.74.79. 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.

Remove reference to *Schedule of Expenditures of Federal Awards* when reporting over it is instead included in the Single Audit Letter.

***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-10)
12. This last sentence derives from AU-C720, and relates to financial or nonfinancial information that

 is neither RSI nor *supplementary information* subject to AU-C725. *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 programs to agree this information to supporting documentation. For example, you should agree 10-year statistical tables to the prior-year Annual Comprehensive Financial Report to assure the prior years’ amounts did not inadvertently change. (SLG 16.80-.84) [↑](#endnote-ref-11)
13. Modify this to say “will also issue” when issuing an Annual Comprehensive Financial Report opinion separately from remainder of the report which is issued at a later time. [↑](#endnote-ref-12)