

NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER



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STATE TREASURER OF NORTH CAROLINA  
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STATE AND LOCAL GOVERNMENT FINANCE DIVISION

# Module 5: Annual Audit Process

# Annual Audit Process

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- LGBFCA requires each local government and public authority to have an audit annually by an independent certified public accountant.
- The auditor performs various audit procedures to examine the unit's accounts.



# Annual Audit Process

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Auditor will give an opinion on whether the financial reports are presented in accordance with generally accepted accounting standards.

1. Unmodified (clean)
2. Modified (issues)



# Annual Audit Process

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## Unmodified opinion is not:

1. Everything is 100% correct
2. A guarantee there has been no fraud
3. Statement that the unit did a good job with public funds



# Annual Audit Process

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- Report on internal controls may include:
  1. Material weaknesses
  2. Significant deficiencies
- Statutory or compliance violations may be disclosed in the notes to the financial statements.



# Annual Audit Process

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- Governing board is responsible for selecting and entering into a contract with a qualified auditor
- The LGC must approve the contract prior to any work starting.
- It is a best practice to issue a Request for Proposal (RFP) periodically for an auditor. Consider this practice every 3-5 years. See our resources [here](#).



# Annual Audit Process

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- Annual audit for June 30 year end is due to the LGC by October 31<sup>st</sup>.
- The governing board should set expectations that audit will be on time.
- Governing board may ask for routine updates from staff about the audit process if timeliness is a concern.



# Annual Audit Process

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- Beginning with the 2021 fiscal year, auditors must present the findings of the audit to the governing board at a public meeting.
- Governing Boards should feel free to ask questions.
- Governing boards must understand the information being presented at a high level.





# Auditor's Presentation

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Within 45 days from sending report to LGC, the auditor's presentation to Board should include:

- Description of findings, including material weaknesses and significant deficiencies or statutory violations;
- Status of the prior year audit findings;
- Values of Financial Performance Indicators (FPICS – calculated from the amounts reported in the financial statements); and
- Notification if the board needs to develop a “Response to the Auditor's Findings, Recommendations, and Fiscal Matters”.



# Financial Performance Indicators

- LGC developed a list of Financial Performance Indicators and then defined “healthy” versus “concern” levels.
- The auditor is required to report these indicators to the governing board at the time the audit is presented.

Performance Indicator Worksheet		City of Dogwood		Fiscal Year 2021									
Unit Name:		City of Dogwood											
Unit Number:		50xxx											
<b>GENERAL FUND:</b>				<b>Minimum Threshold</b>	<b>Unit Results</b>								
<p><b>Fund Balance Available</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Value</th> </tr> </thead> <tbody> <tr> <td>2019</td> <td>29.62%</td> </tr> <tr> <td>2020</td> <td>24.45%</td> </tr> <tr> <td>2021</td> <td>24.45%</td> </tr> </tbody> </table>				Year	Value	2019	29.62%	2020	24.45%	2021	24.45%	34% – Average of similar units is 63%	24.45%
Year	Value												
2019	29.62%												
2020	24.45%												
2021	24.45%												
<b>WATER SEWER FUND:</b>				<b>Minimum Threshold</b>	<b>Unit Results</b>								
<p><b>Quick Ratio-Water and Sewer</b></p> <table border="1"> <thead> <tr> <th>Year</th> <th>Value</th> </tr> </thead> <tbody> <tr> <td>2019</td> <td>7.34</td> </tr> <tr> <td>2020</td> <td>4.95</td> </tr> <tr> <td>2021</td> <td>0.84</td> </tr> </tbody> </table>				Year	Value	2019	7.34	2020	4.95	2021	0.84	Equal or greater than 1	0.84
Year	Value												
2019	7.34												
2020	4.95												
2021	0.84												



# Financial Performance Indicators of Concern

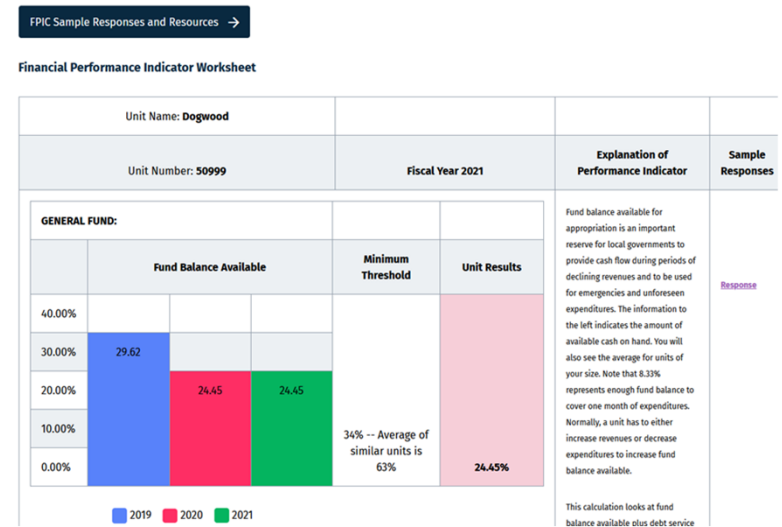
- A Financial Performance Indicator of Concern that is **red** is outside the thresholds set by the LGC.
- All red performance indicators require the government to submit a response to the LGC regarding the outcome of their audit and planned actions.

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# Financial Performance Indicators of Concern

- LGC developed samples of FPIC responses that finance officers can use to draft responses.
- Instructions and sample response documents are posted on our website at 2021 Audit Review Process
- Responses are due to LGC 60 days after the audit is presented to the governing board or before a unit is included on the LGC agenda for debt approval.



# Resources

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LGC Staff (919)-814-4300

[LGC Website](#)

<https://www.sog.unc.edu>

[www.nclm.org](http://www.nclm.org)

[www.ncacc.org](http://www.ncacc.org)

<https://www.gfoa.org/best-practices--resources>



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## Module 5

1. How often does the LGBFCA require each local government to have an audit?
2. Who is responsible for selecting and entering into a contract with a qualified auditor?
3. Does the auditor have to present the findings of the audit to the governing board at a public meeting?

