

20 NCAC 03 .0502 AUDIT CONTRACT

(a) The Secretary may promulgate a standard audit contract designed to include the specific requirements in Paragraph (c) of this Rule. The Secretary may revise the standard audit contract provided that the contract continues to include the requirements of this Section. The requirements may be included in the contract either specifically or by reference to this Section.

(b) Government units and their independent auditors may submit contracts on their own forms provided that the form includes all requirements, either specifically or by reference, in Paragraph (c) of this Rule.

(c) The following requirements and conditions shall be included in all contracts for government units:

- (1) The scope of the audit shall include all funds and ledgers of the government unit, and the requirement that the audit shall be conducted in accordance with generally accepted auditing standards and shall include such tests of the accounting records and such other procedures (including direct confirmation of tax, utility and other receivables) as are considered by the auditor to be necessary in the circumstances. Exceptions to the scope of the audit may be made only by specific approval of the Secretary or a deputy secretary and only for reasons that are explained as to the circumstances of the particular situation.
- (2) The audit shall include a review of the internal control system of the government unit as provided by generally accepted auditing standards. The auditor shall forward a management letter to the government unit, detailing the auditor's findings and recommendations for improvement. The auditor shall forward a copy of the management letter to the Secretary.
- (3) All audit engagement terms shall be stated, and all audit engagement fees shall be stated and show the amounts and calculations necessary to compute the final fee.
- (4) The auditor shall, after completion of his or her examination, submit to the governing body a report of the audit with as many copies as requested in the contract. The report shall include all funds and ledgers included in the scope of the audit, and an expression of opinion on the financial statements included therein. If the expression of opinion is in any way modified or if an opinion is disclaimed or not included for any reason, the reason therefor shall be included in the report of audit. Copies of the audit report and any special reports issued as a result of the audit engagement shall be transmitted forthwith to the Secretary.
- (5) The auditor shall present the audited financial statements including any compliance reports to the government unit's governing body or audit committee in an official meeting in open session as soon as the audited financial statements are available but not later than 45 days after the submission of the audit report to the Secretary. The auditor's presentation to the government unit's governing body or audit committee shall include:
 - (A) the description of each finding, including all material weaknesses and significant deficiencies, as found by the auditor, and any other issues related to the internal controls or fiscal health of the government unit as disclosed in the management letter, the Single Audit or Yellow Book reports, or any other communications from the auditor regarding internal controls as required by current auditing standards set by the Accounting Standards Board or its successor;
 - (B) the status of the prior year audit findings;
 - (C) the values of Financial Performance Indicators based on information presented in the audited financial statements; and
 - (D) notification to the governing body that the governing body shall develop a "Response to the Auditor's Findings, Recommendations, and Fiscal Matters," if required under Rule .0508 of this Section.

The Secretary shall verify auditors' compliance with the presentation requirement of Subparagraph (c)(5) of this Rule.

- (6) Information based on the audited financial statements shall be submitted to the Secretary for the purpose of identifying Financial Performance Indicators and Financial Performance Indicators of Concern.
- (7) The auditor shall notify the governing body and the Secretary if circumstances disclosed during the audit call for an expanded scope of work by the auditor beyond that indicated by the auditor's audit planning and risk assessment.
- (8) No agreement(s) relating to the audit engagement but not attached to and referenced in the audit contract shall be enforceable by any party to said agreement(s).

(d) Form LGC-205 (standard audit contract) shall be provided for the convenience of those auditors and government units who wish to use the form.

(e) For purposes of this Section, the following definitions apply:

- (1) "Financial Performance Indicators" are values derived from information included in the audited financial statements that assist the Secretary in improving the comparability of reporting a given government unit's financial condition and financial performance. These criteria include adequacy of a government unit's fund balance; liquidity or the ability to meet short-term obligations; solvency or the ability to meet long-term obligations; debt service coverage; leverage; and such other indicators of financial condition and financial performance as the Secretary may establish.
- (2) "Financial Performance Indicators of Concern" are Financial Performance Indicators with values which may indicate inadequate financial conditions or fiscal management concerns within the government unit.

*History Note: Authority G.S. 159-3(f); 159-34;
Eff. February 1, 1976;
Readopted Eff. September 23, 1977;
Pursuant to G.S. 150B-21.3A, rule is necessary without substantive public interest Eff. January 9, 2018;
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