

NORTH CAROLINA
DEPARTMENT OF STATE TREASURER



BRADFORD B. BRINER
STATE TREASURER OF NORTH CAROLINA

Module 5: Annual Audit Process



Annual Audit

- The Local Government Budget and Fiscal Control Act (LGBFCA) requires each local government and public authority to have an audit performed annually by an independent certified public accountant.^[1]
- The auditor performs various audit procedures to examine the unit's accounts.
- Completed audits are submitted to LGC staff for review and made available to the public on the [LGC website](#).



^[1][G.S. 159-34\(a\)](#)



Audit Contracts

- The governing board is responsible for selecting and entering into a contract with a qualified auditor.^[2]
- It is a best practice to periodically issue a Request for Proposal (RFP) for audit services.
 - Consider issuing an RFP every 3-5 years.
- [Audit contract forms](#), [sample RFPs](#) and other audit resources are available on the [LGC website](#).



Audit contracts must include specific requirements^[3] and be approved by the LGC prior to any work starting.^{[4][5]}

^[2][G.S. 159-34\(a\)](#) ^[3][20 NCAC 03 .0502 \(c\)](#) ^[4][G.S. 159-34\(a\)\(v\)](#) ^[5][20 NCAC 03 .0501](#)



When is LGC Approval Required?

The LGC **must approve**:

- Audit contracts (before work begins)
- Audit invoices (before they are paid by the unit)^[6]

The LGC does **not approve**:

- Audits
 - While the completed audit must be filed with and reviewed by the LGC, the LGC does not approve audits.
- Auditors
 - The LGC maintains a [list of firms](#) offering audit and non-audit services.
 - This list is offered purely as a resource for local governments.
 - Neither the LGC nor its staff recommend, endorse, or approve firms.

^[6][G.S. 159-34\(a\)](#)



Modified and Unmodified Opinions

The auditor will give an opinion on whether the unit's financial statements are presented in accordance with generally accepted accounting principles.

This can take one of two forms:

1. Unmodified opinion
2. Modified opinion





Modified and Unmodified Opinions

An unmodified opinion is issued when:

- The auditor determines that a unit's financial statements are presented **fairly**, meaning they provide a generally accurate picture of the unit's finances.
- There are **no material misstatements** – misstatements that could give a false impression of the unit's financial position.

An unmodified opinion is not:

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



Modified and Unmodified Opinions

A modified opinion is issued when:

- The auditor determines that a unit's financial statements contain **material misstatements**, which create a wrong or misleading picture of the unit's finances.
 - Material misstatements may include incorrect or missing information.



In most cases, LGC staff will not accept an audit with a modified opinion.



Assessment of Internal Controls

- In addition to determining if financial statements are presented fairly, the auditor must also review the unit's system of internal controls.^[7]
- **Internal controls** are policies and procedures that a unit implements to protect assets and ensure accountability.
- The auditor will provide a letter with findings and recommendations for improving internal controls.



^[7] [20 NCAC 03 .0502 \(c\)\(2\)](#)



Audit Deadline and Amended Contracts

- Completed audits for fiscal years ending June 30, 2025, and later are due to the LGC six months after fiscal year end (**December 31**).
 - See the [LGC staff blog](#) for more information on the new due date.
- Amended contracts are required for any audits submitted on or after **January 1**.
 - The amended contract must specify the revised date the unit plans to file its completed audit.
 - There is no “grace period” for submission of amended contracts.
 - Specific instructions and the contract amendment form are available on the [LGC website](#).

Throughout the audit process, the governing board should:

- Set expectations that the audit will be on time.
- Ask for routine updates from staff about the status of the audit.



Auditor's Presentation

- No later than 45 days after filing the completed audit with the LGC, the auditor must make a presentation to the board at an official meeting in open session.^[8]
- The governing board should come prepared and ask questions as needed.
- Governing board members should have a strong understanding of the information being presented.



^[8] [20 NCAC 03 .0502 \(c\)\(5\)](#)



Auditor's Presentation

The presentation will include:^[9]

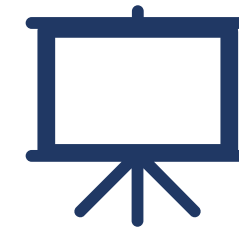
- A description of the auditor's findings, including any issues related to the unit's finances, internal controls, or compliance with applicable regulations.
- An update on the status of the prior year's audit findings.
- Values of Financial Performance Indicators (calculated from the amounts reported in the financial statements).
- Notification if the board must develop a "Response to the Auditor's Findings, Recommendations, and Fiscal Matters" due to the presence of **Financial Performance Indicators of Concern (FPICs)** (defined on the following slides).

^[9][20 NCAC 03 .0502 \(c\)\(5\)\(A\)-\(D\)](#)



Financial Performance Indicators of Concern

- The LGC developed a list of Financial Performance Indicators and defined specific “concern” levels.
- **Financial Performance Indicators of Concern** or **FPICs** are defined as “Financial Performance Indicators with values which may indicate inadequate financial conditions or fiscal management concerns within the government unit.”^[10]



As of FY2021, the auditor is required to report FPICs to the governing board at the time the audit is presented.^[11]

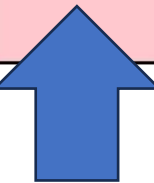
^[10] [20 NCAC 03 .0502 \(e\)\(2\)](#) ^[11] [20 NCAC 03 .0502 \(c\)\(5\)\(C\)-\(D\)](#)



Financial Performance Indicators of Concern

- Financial Performance Indicators are calculated by entering unit data into the [Data Input Workbooks](#) provided by LGC staff.
- Once the necessary data is entered, values for each Financial Performance Indicator are calculated, and those that do not meet specified thresholds will turn **red**.
- These **red** values in the Unit Results column are **Financial Performance Indicators of Concern - FPICs**.

	Minimum Threshold	Unit Results
The General Fund had total fund balance less than zero - Fund Deficit	Positive Fund Balance	(\$1,500)





Financial Performance Indicators of Concern

- If FPICs are identified, the governing board must submit a response to the LGC describing **in detail** its plan to address and remedy each specific FPIC.^[12]
 - Exceptions: If the auditor identifies **only** a lack of segregation of duties and/or a lack of expertise, and no additional FPICs are present, no response is required.



^[12][20 NCAC 03 .0508](#)



Financial Performance Indicators of Concern

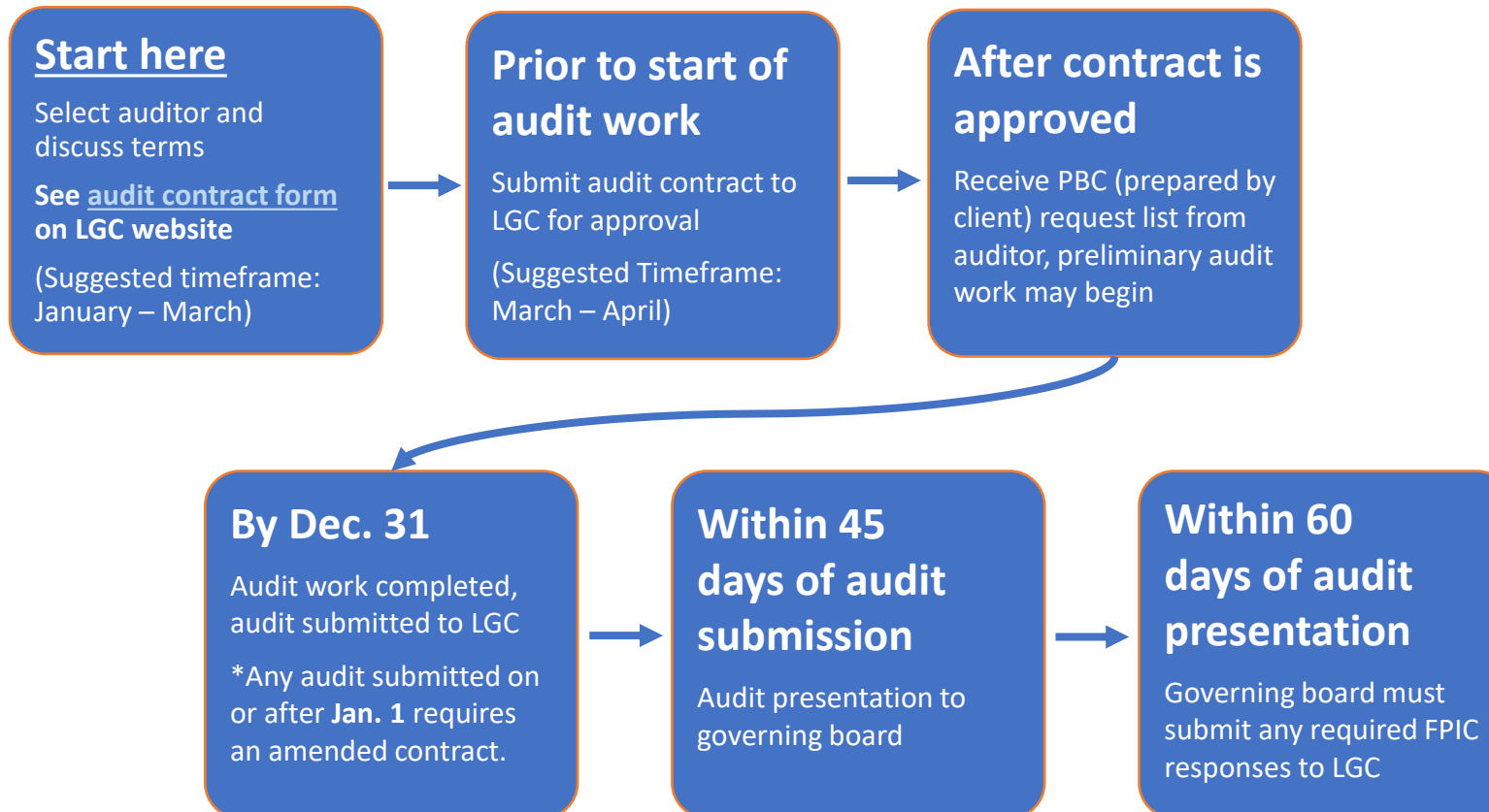
FPIC responses must be signed by a majority of the governing board and submitted to the LGC no later than **60 days** after the audit is presented to the board **or** before the unit is included on the LGC agenda for debt approval.^[13]

- Sample FPIC responses and related resources are available on the [LGC website](#).
- Completed responses should be uploaded to the [LGC File Transfer Portal](#).
- The LGC will review FPIC responses carefully to determine if the unit is taking appropriate action, with particular attention to repeated FPICs.

^[13]See Module 7: Establishing a Debt Policy



Annual Audit Timeline





Resources

- [Audit Resources](#)
- [Submitting Your Audit](#)
- [LGC Staff Blog: FY2025 Audit Due Dates](#)
- [Annual Audit Reports Submitted To LGC](#)
- [Financial Performance Indicators of Concern](#)
- [Financial Performance Indicators and Responses to the LGC](#)
- [FPIC Sample Responses and Resources](#)
- [SLGFD Memo #2023-04: How to Respond to Financial Performance Indicators of Concern \(FPICs\)](#)



Resources



- UNC School of Government
 - NC Finance Connect
 - Finance Calendar of Duties
 - NC Local Government Finance 101
 - NC League of Municipalities
 - North Carolina Association of County Commissioners
 - Government Finance Officers Association - Best Practices & Resources
- **Contact LGC Staff:** (919) 814-4300
 - **Visit the LGC Website**
 - **Sign up for the LGC Staff Blog**
 - **Stay up to date with SLGFD Memos**



Quiz: 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?

