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**MEMORANDUM #2017-07**

TO: Local Government Auditors  
FROM: Sharon Edmundson, Director, Fiscal Management Section  
SUBJECT: Auditors Responsibilities and the Role of SLGFD Staff  
DATE: September 16, 2016

Recent developments in governmental auditing and accounting have brought to light some concerns about the nature of the guidance that the State and Local Government Finance Division (SLGFD) makes available on its website and via other means.

The Local Government Commission was created in the 1930s as a direct result of the high number of defaults on public debt by counties and municipalities during the Great Depression. The General Assembly formed the LGC to oversee local government debt and granted the LGC powers through the Local Government Budget and Fiscal Control Act (LGBFCA) that enable the Commission to take action if a government is in danger of defaulting. Over time, the body of knowledge in the government finance arena has increased and evolved to the point that we now have guidance in the form of standards, requirements, policies, and procedures that are set by various groups including government agencies and regulatory bodies. This guidance covers both the accounting for and auditing of government financial transactions.

As government finance evolved, so did the role of the LGC. The Commission is now staffed by the State and Local Government Finance Division (SLGFD) of the Department of State Treasurer. The LGBFCA has been modified multiple times to accommodate the changing environment, including the requirement for local governments to have an annual audit on a set of financial statements that have been prepared in accordance with Generally Accepted Accounting Principles (GAAP). Because the SLGFD is charged with overseeing the fiscal health of local governments and public authorities, we rely heavily on those GAAP financial statements. We use the data in those reports to help us determine the creditworthiness of a unit, to determine if the unit needs assistance with its financial operations, and at times to determine if it is necessary for the LGC to take formal action to intercede.

In an effort to assist units with the application of GAAP, the Division regularly provides guidance through the form of memorandums, presentations, and sample financial statements and reports that incorporate the requirements of GAAP accounting and statement presentation as well as compliance with North Carolina statutes and federal guidelines. This benefits both the units and the Division because it improves consistency in the reporting which provides data that can be relied on for analysis.

Our guidance assists unit staff that are preparing the financial statements and the external, independent CPAs with their audits of local governments. The sample financial statements provide a template they can use to assist them in the development of their audited financial reports. Other guidance instructs how to account for specific types of transactions. The compliance supplements (developed by State agencies) that the Division is statutorily required to make available give auditors the requirements for auditing State funds being expended by local governments (see G.S. 159-34(c)). We also make available Federal compliance supplements (developed by Federal agencies) that provide guidance on auditing federal funds. However, the auditing procedures listed in the supplements are suggested procedures and therefore not fail proof; additional procedures, included at the auditors' discretion, might be necessary in order for the auditors to adhere to the auditing standards.

It is important to note that while we believe that what we provide is useful information, and that it is accurate to the best of our ability, it does not take the place of auditing standards. The Division is not and was never intended to be the sole or even primary source of guidance on how to conduct a governmental audit. We provide tools and information that we believe will assist local government auditors in their work, and also assist local governments in understanding the work and the role of the local government auditor. However, our review of the annual audit should not be considered part of the auditors' quality control process. Our desk review is solely focused on the audit report itself and the consistent reporting among local units. The review cannot be expected to determine if the audit was performed in accordance with the applicable auditing standards. Therefore, auditors should not place any unwarranted reliance on the desk review. The AICPA Peer Review program, as well as reviews performed by other regulatory entities, is designed to assist local firms with their systems of quality control.

In summary, the LGC and the SLGFD staff take their roles very seriously and rely on the audited financial statements as one of our primary sources of financial information by which we determine the fiscal health of our local entities. We provide as much assistance as we can to help local entities and their auditors with this important task. However, it is the local government auditors' responsibility to know, understand, and apply the appropriate auditing standards to their work.