



NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER  
STATE AND LOCAL GOVERNMENT FINANCE DIVISION  
AND THE LOCAL GOVERNMENT COMMISSION

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DEPUTY TREASURER

**Memorandum 2010-24**

**TO:** Local Government Officials and Certified Public Accountants

**FROM:** Sharon Edmundson, Director  
Fiscal Management Section

**SUBJECT:** Contract to Audit Accounts (Form LGC-205) and Approval of Interim and Final Invoices

**DATE:** March 15, 2010

As the audit process begins for the 2009-2010 fiscal year, we offer our summary review of changes in professional education requirements, current Single Audit requirements and recently issued accounting and auditing standards. Also presented here are the procedures for the approval of audit contracts and invoices. **Local Government Commission (LGC) approval is required for all contracts and invoices for audit services, including special audits and agreed-upon procedures, for local governments, public authorities, and charter schools.**

In addition to the changes we instituted last year, we have made two additional changes to the 2010 contract. The first is the requirement for the auditor to include a calculation of the coverage ratio for revenue bonds. Most auditors are providing that information already but this is now included in the contract for clarity. The second is a change in the requirement for auditors to submit a copy of their most recent accepted peer review report. This item is discussed further on page 8 of this memo.

As is our practice, contract forms dated 1/1/2009 and 1/1/2010 may be used to contract for audits of the June 30, 2010, fiscal year. A copy of the *Contract to Audit Accounts* can be downloaded from the State and Local Government Finance Division page on the North Carolina Department of State Treasurer's website at [www.nctreasurer.com](http://www.nctreasurer.com). A sample *Request for Audit Proposals (RFP) for Audit Services* modified for GASB 34 and the revised GAO Independence Standards also are available on the website under "Auditing and Reporting Resources".

To provide for a more efficient processing of the audit contract, we have included at the end of this memorandum a checklist of items for your review. We recommend that parties to the contract review the list before submission of the contract to our office in order to avoid delays in processing due to avoidable errors. We also have included a form to be completed if your contact information has changed from the prior year. **It is not necessary to complete and submit that form unless your contact data has changed.**

Below is a brief summary of the changes in auditing standards that will be effective for 2010 audits and beyond. Auditors of local governments in North Carolina are required to conduct their audits in accordance with these and all generally accepted auditing standards.

### **Recently Issued Auditing Standards and Interpretations**

#### **Statement on Auditing Standards No. 117**

The Auditing Standards Board has issued Statement on Auditing Standards (SAS) No. 117, *Compliance Audits*, which supersedes SAS No. 74, *Compliance Audit Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance*. SAS No. 117 was primarily developed in response to the results of a federal study on the quality of audits performed under OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, which showed that improvements were needed in many areas.

SAS No. 117 addresses the application of Generally Accepted Auditing Standards (GAAS) to a compliance audit such as a single audit, including incorporating the risk assessments standards into the single audit. The SAS requires the auditor to adapt and apply the AU sections of the AICPA *Professional Standards* to a compliance audit and provides guidance on how to do so. It identifies the AU sections that are not applicable to a compliance audit, defines terms related to compliance audits and used in the SAS, and identifies the elements to be included in an auditor's report on a compliance audit.

SAS No. 117 is effective for compliance audits for fiscal periods ending on or after June 15, 2010 (June 30, 2010 year end and later for North Carolina governments). Auditors and Local Government Financial Officials are encouraged to refer to the AICPA Governmental Audit Quality Center web-site for additional developments on compliance audits ([www.aicpa.org/GAQC](http://www.aicpa.org/GAQC)).

#### **Statement on Auditing Standards No. 115**

The Auditing Standards Board has issued Statement on Auditing Standards (SAS) No. 115 *Communicating Internal Control Matters Identified in an Audit*. SAS No. 115 supersedes SAS No. 112 of the same title. SAS No. 115 aligns the definitions and related guidance for evaluating deficiencies in internal control with the definitions and guidance in SSAE No. 15 and in Public Company Accounting Oversight Board Auditing Standards No. 5.

SAS No. 115 revises the definitions of the terms "material weakness" and "significant deficiency".

SAS No. 115 does not include a list of deficiencies that ordinarily would be considered at least significant deficiencies.

SAS No. 115 revises the list of deficiencies in internal control that are indicators of **material weaknesses** to consist of:

- ... Restatement of previously issued financial statements to reflect the correction of a material misstatement due to an error or fraud;
- ... Ineffective oversight of the entity's financial reporting and internal control by those charged with governance. Please note that in SAS 112, this was listed as an indicator of at least a significant deficiency.

SAS No. 115 revised illustrative written communication of material weaknesses and significant deficiencies to management and those charged with governance.

SAS No. 115 is effective for audits of financial statements for periods ended on or after December 15, 2009, and should be implemented for North Carolina entities with fiscal year ends of December 31, 2009 or later. A sample of the revised report and the list of deficiencies in internal control that are indicators of material weaknesses can be found at our website. Our office requires that a copy of the SAS No. 115 report (if one is issued) be submitted to us along with the audited financial statements. We are of the opinion that if a Yellow Book report is issued, then a SAS No. 115 report does not necessarily have to be issued. If the auditor chooses to issue a SAS 115 report when a Yellow Book report also is issued, both reports should cite the same significant deficiencies and material weaknesses.

### **Highlights to the *Contract to Audit Accounts***

The following are items to be considered in planning for audit engagements.

1. **Acceptable contract forms** - For 2009-2010 fiscal year audits, only contract forms with revision dates of Rev. 2009 or Rev. 2010 may be used. Contracts with revision dates prior to Rev. 2009 will not be approved. (See the top left corner of the *Contract to Audit Accounts* for the revision date.)
2. **Units with outstanding revenue bonds** - Item #10 of the contract states that the auditor will audit all required legal disclosures of the governmental unit. Those auditors working with local governmental units that have outstanding revenue bonds will include in the notes to the audited financial statements, a calculation demonstrating compliance with the revenue bond rate covenant. Additionally, the auditor should be aware that any other bond compliance statements or additional reports required in the authorizing bond documents need to be submitted to the LGC simultaneously with the local government's audited financial statements unless otherwise specified in the bond documents.
3. **Significant Deficiencies and Material Weaknesses** - Item #7 of the contract states that all matters defined as *significant deficiencies or material weaknesses* in AU 325 of the AICPA Professional Standards [Statements on Auditing Standards (SAS) No. 115] will be communicated to the Governing Board in writing. Further, a copy of any written communications concerning matters that the auditor believes will benefit management, whether or not required by AU 325, must be sent to this office. This includes the SAS No. 115 report, *Communicating Internal Control Related Matters Identified in an Audit*; the

SAS No. 114 report, *The Auditor's Communication With Those Charged with Governance*; and any other letters written to management concerning their fiscal policies. **If, at a minimum, a management letter is not issued for a local government, then the auditor must submit a signed statement on the audit firm's letterhead to this office indicating that a management letter was not issued.** Final invoices will not be approved by the LGC until the management and governance letter(s) or a statement that 'no management letter was issued,' is received by our office.

OMB Circular A-133 and *Government Auditing Standards* require the auditor to report all *significant deficiencies*. Any *significant deficiencies* cited in the management letter also must be included in the Yellow Book report and/or identified as a finding in the single audit report.

4. **Additional investigative audit work required** - Item #12 to the contract requires the auditor to inform the governing board in writing of the need for any additional investigations as a result of the audit and any additional fees required. This includes additional work required as a result of deficiencies in accounting records, compliance violations, or potential criminal activities. **The audit contract should be amended to reflect the additional work and additional fees. Any amendment to the contract must be voted on by the governing board in a public meeting and approved by our office. Any additional invoices also must be approved by our office.**
5. **Due date for audit reports and audited financial statements** - Local governmental units and independent auditors are encouraged to contract for audit engagements as early as possible so that the auditor may promptly begin performance of the audit engagement. Item #18 of the contract states that the contract should be approved before the audit begins. Interim audit work is encouraged and in fact may be essential as part of the evaluation of the internal control structure required in a compliance audit.

It is our policy to require financial statements to be submitted no later than four months after the end of the fiscal year. **Therefore, Item #6 of the contract must require audited financial statements for fiscal years ending June 30th to be submitted by October 31st. Contracts (other than amended contracts) submitted with a due date (in Item # 6) later than 4 months after the fiscal year-end will not be approved by this office.**

Auditors submitting final audited financial statements after **December 1st** (for June 30th year-end audits) **will be required to submit an amended contract** before final invoice approval can be given. After December 1<sup>st</sup>, **final** and **interim** invoice approval will require **three** copies of an amended contract, **a written explanation of the delay in submitting the audited financial statements, and a description of corrective actions to be taken to ensure the timely completion of future audit engagements.** The amended contract should include a modified due date and must be signed by the original parties to the contract, unless the duties of the original parties have been assumed by other persons. **All amendments to the audit contract must be approved by a vote of the governing board in a public meeting.**

6. **Issuance of a qualified opinion** - The contract is prepared contemplating that an unqualified opinion will be issued. If the auditor becomes aware of circumstances that will prevent the issuance of an unqualified opinion, the auditor should immediately contact the staff of the LGC. G.S. 159-34(a) requires units of local government to have annual financial statements prepared in accordance with generally accepted accounting principles and that those statements be audited in accordance with generally accepted auditing standards. When the unit can prevent a qualification by performing additional work or contracting with a third party to perform additional work, we require that work to be performed. An audit report with a qualified opinion is acceptable only in circumstances where it is not possible or practical to prevent the qualification through additional work. In this case, the amended contract must state in Item #3 or #4 the reasons for the qualification. **A final invoice for the audit of financial statements upon which a qualified opinion is issued will not be approved without a contract amended in this manner.**
  
7. **Submission of audited financial statements to the LGC - The responsibility for filing the bound reports with the LGC is assigned to the auditor in Item #11 of the contract.** The failure to submit these copies by **December 1st**, regardless of when copies are presented to the unit, will result in an amended contract being required for invoice approval. In most cases, the unit still has an obligation to supply other organizations with copies of its audited financial statements. The auditor is responsible for submitting **two bound copies (three for councils of governments and units with participating Public Safety Answering Points (PSAPs) that must report to the State 911 Board)** of the audited financial statements and the management letter to the LGC when a single audit has been performed under the requirements of the federal Single Audit Amendments of 1996 and OMB Circular No. A-133, when a single audit is required to be performed under the requirements of the State Single Audit Implementation Act only, or a financial audit is required to be performed in accordance with Government Auditing Standards. If reports are received unbound they will not be reviewed by the LGC and will be returned to the auditor for binding.

The LGC provides the additional required copy of the reporting package to the State agency that most commonly distributes funds to that type of government to allow the agency to follow up on identified compliance and internal control problems. We will distribute this copy of the audit report for the following types of entities to the agencies indicated below. The Agencies listed below utilize only copies of the reporting package that have first been reviewed by the staff of the LGC, copies sent directly to these agencies by the unit or auditor will be discarded.

<u>Unit of Government</u>	<u>State Agency Receiving Copy of Report from LGC</u>
Boards of Education and Charter Schools	Department of Public Instruction
Counties	Department of Health and Human
Services	
Regional Mental Health Centers	Department of Health and Human
Services	
Councils of Governments	Department of Health and Human Services and Department of Commerce
District Health Departments	Department of Health and Human
Services	
Hospitals	Department of Health and Human
Services	
Municipalities	Department of Transportation
Regional Libraries	Department of Cultural Resources
Regional Airports	Department of Transportation

The audit report we send to the Department of Health and Human Services (DHHS) will be utilized by all of the divisions within that agency. Each local government will be responsible for providing copies to other State agencies that provided assistance in programs that had findings. In addition to the copies required to be submitted to the LGC and the federal clearinghouse, one copy of the reporting package must be submitted to each State grantor that provided State financial assistance, except for the State agencies that receive copies of the reports from the LGC as noted above.

**Submission of audit reports by Municipalities to the N.C. Department of Transportation** - The Local Government Commission requires **two** bound copies (**three if the unit has a participating PSAP**) of **tax levying municipal** audit reports be submitted, regardless of the level of audit performed. The LGC will forward the second copy to the NC Department of Transportation (DOT) upon review and approval of the audit.

All others units whose audits are not performed under Single Audit or Government Auditing Standards or do not have a participating PSAP should submit only a **single bound** copy of the audited financial statements to the LGC. All audited financial statements **are to include a management letter or a letter stating no management letter was issued. (See item 3 above.)**

8. **Secondary market disclosure requirements** - Item #11 of the contract acknowledges the use of the audited financial statements by units with outstanding debt that are subject to secondary market disclosure requirements under Rule 15c2-12 of U.S. Securities and Exchange Commission Act of 1934. As part of the disclosure process, units generally must make these disclosures annually by January 31st. Effective July 1, 2009 due to a rule change by the SEC, the Electronic Municipal Market Access (EMMA) of the Municipal Securities Rulemaking Board (MSRB) is the only official repository for continuing disclosure. **All filing for continuing disclosure must be done electronically through the EMMA system. Documents must be in pdf format and word-searchable (that is, allowing the user to search for specific terms used within the document through a search or find function).** Registration for EMMA is required and can

**be time-consuming. We urge units to register early to avoid last minute struggles with meeting the disclosure deadline.**

9. **Use of engagement letters** - If the auditor and unit clarify their audit arrangements by use of an engagement letter, **a copy of the letter should be included with the contract when submitted to our office. The engagement letter is to be referenced in Item #15 of the audit contract.** The engagement letter will be void as to any terms that conflict with the audit contract. (See Item #14 of the Contract to Audit Accounts). Contracts with engagement letters that contain indemnification clauses will not be approved by our office. The auditor and unit may not by mutual agreement exclude audit-related services from the scope of the contract and from approval of the Secretary of the LGC. Any agreement relating to the audit engagement (i.e. engagement letter) that is not attached to and referenced in the Contract to Audit Accounts will not be enforceable. Audit fees should be specified in the contract as Item # 9 or a reference given to the engagement letter or addendum if the fee structure is included in one of these.
  
10. **Additional State Requirements to Audit Certain Federal Programs as Major** – The Office of State Auditor (OSA) performs the Single Audit for the State of North Carolina. For several major programs of the State, a local government will make eligibility determinations. Under the 2003 federal Compliance Supplements, OSA would have to either test the eligibility determinations made by local governments or rely upon the testing of eligibility by local government auditors. The OSA, North Carolina Association of County Commissioners (NCACC), North Carolina Association of Certified Public Accountants (NCACPA), and several county finance officers agreed that the local government auditors would test this new eligibility requirement. In order to meet the objectives of this compliance requirement, the OSA will identify major programs of the State that have eligibility determinations made by the local government. OSA will determine which local governments need to have the program included as a major program in their audits. OSA has committed to make this notification as early in April as possible each year. A complete discussion of this requirement can be found in LGC Memorandum No. 993.  
  
For those units that have eligibility determinations for the Single Audit for the State of North Carolina, the auditor will have to complete and submit additional documentation with the contract and audit report. Additional documentation that is required by the local government auditor is a one page “Turnaround Document” and a CPA Representation letter addressed to the **State Auditor, The Honorable Beth A. Wood, CPA**. This document is submitted to our office along with the audit report. The OSA, as part of their audit documentation to satisfy the federal eligibility compliance requirement, will use the turnaround document. Copies of both the turnaround document and representation letter may be obtained at our Single Audit Resources website. **The LGC will not approve invoices for audit reports that do not have the required turnaround document and CPA representation letter enclosed with the audit-reporting package.**
  
11. **Peer reviews to be provided to governmental units and LGC** - By accepting an audit engagement that is subject to the standards for audit as set forth in Government Auditing Standards issued by the Comptroller General of the United States, the auditor warrants that he/she will meet all of these standards, as well as the standards for a peer review and

continuing professional education. Item #5 of the contract requires the independent auditor to provide a copy of their most recent peer review report to the governmental unit and the Secretary of the LGC for any qualifying contracts submitted after the acceptance date of the peer review report, even if that acceptance is conditional. For example, if a firm received a peer review report dated January 5, 2010, and it is accepted by the Peer Review Program on February 21, 2010, the firm must submit that peer review report to the LGC for any contracts submitted after that date, i.e. 2010 contracts submitted in March, 2010, regardless of the date of any prior peer review report.

12. **Fee Structure-** The fees structure under Item #9 is divided into 3 elements: year-end bookkeeping assistance, audit, and preparation of financial statements.

The fee for each element may be a fixed amount, a variable amount, or a combination of both. The fixed fee must be stated as a fixed dollar amount. The variable fee must be stated as a rate per hour or rate per some other unit of work. For instance, some contracts specify a certain rate per major program for the compliance portion of the audit. Variable rates for the contract must be shown on the face of the contract or in the engagement letter or addendum attached to the contract. A maximum limit may or may not be stated.

If both a fixed and a variable fee are shown, the contract must clearly indicate how those fees are to be determined. The contract should specify what services the fixed portion covers. The contract may show a minimum or maximum fee. The variable fee must be stated as a rate per hour or rate per some other unit of work. If standard hourly rates are submitted on a separate sheet, all parties should confirm the rates before LGC approval of contract. The contract may reference the engagement letter for more details on the fee such as hourly rates and caps on total fees. If the parties agree to this presentation the contract should specify the page number(s) where this information can be located in the engagement letter. A copy of the engagement letter must be attached to the contract.

Each invoice should show all calculations necessary to compute the fee from the rates shown in the contract.

Auditors performing Yellow Book and Single Audits may perform very limited bookkeeping services for their client. Therefore, we anticipate that the line for year-end bookkeeping assistance under item # 9 will be blank or contain limited fees. Please refer to Memo #994 for further discussion of this issue. Fees for proposing adjusting entries should be included with fees for audit services.

13. **Signatures that must appear on the contract** - The mayor or chairman of the governing board must sign the contract and type or print his/her name and title in the space provided. The manager or executive director cannot sign in place of the mayor or chairperson. The representative of the audit firm should print or type his/her name above his/her signature. The audit firm representative must be a partner or someone with the authority to legally contract for the firm. The Finance Officer of the governmental unit must **sign** and **date** the preaudit certificate on the bottom of page three of the contract. (The pre-audit certificate is not required for public hospitals or charter schools.)

The contract form includes a signature line for the Chairman of the Audit Committee. We feel that for those of you that have established an audit committee, the committee should be a part of the contracting process. For units that have not established an audit committee, this line should be marked "N/A".

14. **Audit Committees-** Units with audit committees should fully utilize them. In order for the unit and the auditor to understand what is occurring at each stage of the audit, communication between the two parties is essential. Regular meetings between the auditor and audit committee are strongly encouraged in order to discuss and resolve issues that arise during the course of the audit. Units without audit committees are encouraged to establish such a committee.
15. **Local governmental units preparing a CAFR** - Local governmental units that are preparing a CAFR routinely need additional preparation time which may prevent the auditor from submitting final bound and printed copies of the CAFR to this office by October 31st. We allow two options to overcome this problem. First, we will accept reports that meet the terms of the audit contract for the purpose of invoice approval. These bound reports should be complete, accurate and contain any required compliance reports. The appropriate number of bound copies should be forwarded to our office. Two copies of the final bound CAFR should be forwarded to our office when completed.

Second, a unit or auditor may prefer to submit a single camera-ready copy of a CAFR to be reviewed for invoice approval. This copy must include all signed opinions and reports as well as all necessary statements and schedules. We will still need to receive the appropriate number of final bound copies as soon as they become available.

### **Approval of Interim and Final Invoices**

As addressed earlier in this memo, auditors performing a Yellow Book or Single Audit may not perform bookkeeping services or make management decisions for the client. Consequently, if year-end bookkeeping is needed to prepare the records for audit, the auditor cannot do it. A determination should be made as early as possible if bookkeeping services are needed so that the unit may secure the needed assistance of a third party (unless the audit is a GAAS audit) and that the audit may proceed in a timely matter.

A significant portion of the auditor's total charges could be determined by the condition of the local government's accounting records. Communications between the local governmental unit and its independent auditor about the condition of the accounting records should be established prior to setting a fee for the audit engagement. This is particularly important when the auditor is performing its initial review of the client. The local governmental unit should discuss with the auditor the preparations and assistance that can be provided by its personnel before the auditor begins the audit. The work to be performed by each party should be clearly defined before the contract is signed.

1. **Setting the fee for the audit engagement** - The fee for the audit engagement may be stated as a fixed dollar amount or as a rate per hour or day, with or without a maximum limit being stated. If a fixed fee for the audit is not stated, the invoice should show all calculations necessary to compute the fee from the rates shown in the contract. Fees for non-auditing services, such as systems design, management consulting, training of personnel and accounting services performed on a regular basis (i.e., monthly or quarterly), should not be included in the fee for the audit and bills for these services should not be submitted to the LGC for approval. **However, once a contract is signed, all accounting, bookkeeping, and financial reporting services necessary to prepare for the audit, as permitted by the auditing standards applicable to the audit, are covered by the audit contract, and invoices for these services must be approved by this office as required by G.S. 159-34.** Contracts will not be approved if these fees have not been detailed. Also, if fees are discussed in the engagement letter, they also must be disclosed in Item #9 of the contract and a copy of the engagement letter attached to the contract. **If the original contract contemplates that only an audit will be performed, the auditor should indicate "N/A" on the fee lines for year-end bookkeeping assistance and preparation of the financial statements.**
2. **Unforeseen circumstances requiring additional work** - Circumstances requiring additional work and compensation are sometimes inevitable. The contract can and should be revised as soon as these conditions become known (Item #13 - Contract to Audit Accounts). Invoices in excess of a fixed fee contract cannot be approved without a properly executed contract amendment with the appropriate signatures of all involved parties. **Payments for any procedures related to possible criminal activity must be covered by the audit contract, and this office must approve invoices for those services.**
3. **Progress billings** - Progress billings may be made if the local governmental unit and the auditor both concur. The staff of the LGC may only approve up to 75% of a fixed fee contract. On variable fee contracts, approval of interim billings is based on **75% of the fixed portion of the fee** (if there is a fixed portion) or 75% of the **prior year's total fee**, whichever is greater. If a portion of the fee is variable, the entire fee is considered variable. **No progress billings for June 30th year-end audits will be approved after December 1st without receipt of the audited financial statements or a properly amended contract with a due date extending beyond December 1<sup>st</sup> and a written letter of explanation.**
4. **Approval of invoices by the LGC** - No interim or final bills for audit services may be paid by the local governmental unit prior to approval by the Secretary of the LGC. Before

any invoices can be approved, there must be an approved contract on file with the LGC. Invoices are to be submitted in **triplicate**. Upon approval by the Secretary, the original and one copy will be returned to the auditor.

5. **Submission/approval of final invoices** - Final invoices for audit services are normally submitted to our office with the unit's audited financial statements. We will contact auditors by fax if revisions to reports are required; otherwise, sending approved invoices by mail is our means of communicating that the audit reports and audited financial statements have been accepted. Final invoices may be submitted separately from the audited financial statements; however, they cannot be approved until we receive all required copies of the report and management letter or a letter stating that no management letter will be issued and LGC approved copy/changes are reaccepted. [Note: An exception involves the situation in which a local governmental unit is printing its CAFR. In this case, final invoices can be approved when the final camera-ready form of the CAFR (including the required signed opinions, reports, and schedules related to a single audit) is approved by our office. A cover letter should accompany the copy of the CAFR clarifying this situation. Two copies of the printed CAFR should be submitted as soon as they are available. As an alternative, we will approve invoices on the basis of financial statements that satisfy the requirements of the audit contract if a unit is preparing a CAFR.
  
6. **Requests for revisions/corrections to audit reports or audited financial statements** - Corrections and/or revisions requested by the staff of the LGC must be received within 5 business days of notification to the auditor. Once received by the LGC staff the audit corrections will be reviewed. After corrections are accepted/approved by the staff of the LGC final invoice approval is made. Auditors may submit copies of corrected pages, which will be inserted into the original report or audited financial statements by our staff. If the number of corrections is extensive, new bound copies of the report may be requested. If changes are made to the report, the unit and the auditor must change **all** copies of the report that have been distributed. If additional copies have been sent to other federal or State agencies, those copies should reflect any corrections made. Anytime an audit report or audited financial statements are revised after being submitted to the LGC, revised copies must be sent to the LGC, regardless of whether the revisions were requested by the LGC.

### **Review of Drafts of Audited Financial Statements**

Our office will review opinionated camera ready final BOUND copies only for those units that are issuing a comprehensive annual financial report or have a scheduled bond sale. In those cases we must receive an opinionated camera ready final BOUND paper copy of the entire report and the management letter. However, there is no deadline for submitting these BOUND drafts for review. At this time we are not able to review electronically submitted versions of audit reports. Paper, BOUND copies of the drafts must be submitted to us.

### **Requests for Audit Fee Information**

Audit contract fees and terms for North Carolina local governmental units are public information. We frequently receive requests for this information from local governmental units and independent auditors. It is our responsibility to maintain adequate documentation and to provide accurate information to benefit both the local governmental unit and the independent auditor. We appreciate your cooperation and assistance in accomplishing this goal. A listing of audit fees is available on our website at [www.nctreasurer.com](http://www.nctreasurer.com), under "State and Local Government Finance," then "Auditing and Reporting Resources". "Auditors and Audit Fees questions concerning invoices should be directed to Lisa Olson at (919) 807-2382 or [lisa.olson@nctreasurer.com](mailto:lisa.olson@nctreasurer.com)

If you have questions or comments related to this memo, please contact Becky Dzingeleski for contract issues at (919) 807-2396 or [becky.dzingeleski@nctreasurer.com](mailto:becky.dzingeleski@nctreasurer.com). Please contact Jim Burke for compliance audit issues (919) 807- 2389 or [james.burke@nctreasurer.com](mailto:james.burke@nctreasurer.com). A fill-in copy (in pdf format) of the 2008 contract is available on our website at [www.nctreasurer.com](http://www.nctreasurer.com). Select "State and Local Government Finance", then "Auditing and Reporting Resources", then "Memos". The contract form will be at the beginning of the list of documents.

## IMPORTANT

In an effort to streamline our communications efforts and increase our efficiency in publishing new documents, we are increasing the use of email as a means of notifying units of government and their auditors of newly available resources. We feel that transmitting data electronically is more efficient and more easily shared with other staff, in addition to eliminating postage and printing costs. In that regard, please provide us with an active email address to which we should send notification of new publications. **If your contact information has changed, please complete and fax this form to our office. If there is no change in your contact information it is not necessary to complete this form.**

Name of Unit: \_\_\_\_\_

Contact: \_\_\_\_\_

Active email address  
(primary means of communication): \_\_\_\_\_

Fax number (secondary means of communication): \_\_\_\_\_

**IF YOUR CONTACT INFORMATION HAS CHANGED  
PLEASE FAX THIS COMPLETED PAGE TO OUR OFFICE  
AT (919) 807-2398, CALL LISA OLSON AT (919) 807-2382 OR  
EMAIL LISA.OLSON@NCTREASURER.COM.**

### CONTRACT TO AUDIT ACCOUNTS

File in Triplicate.

of \_\_\_\_\_  
Governmental Unit

On this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_  
Auditor

\_\_\_\_\_  
Mailing Address  
\_\_\_\_\_, hereinafter referred to as

the Auditor, and \_\_\_\_\_ of \_\_\_\_\_, hereinafter referred  
Governing Board Governmental Unit  
to as the Governmental Unit, agree as follows:

1. The Auditor shall audit all statements and disclosures required by generally accepted accounting principles and additional required legal statements and disclosures of all funds and/or divisions of the Governmental Unit for the period beginning \_\_\_\_\_, \_\_\_\_\_, and ending \_\_\_\_\_. The non-major combining, and individual fund statements and schedules shall be subjected to the auditing procedures applied in the audit of the basic financial statements and an opinion will be rendered in relation to (as applicable) the governmental activities, the business-type activities, the aggregate discretely presented component units, each major governmental and enterprise fund, and the aggregate remaining fund information (nonmajor government and enterprise funds, the internal service fund type, and the fiduciary fund types).
2. At a minimum, the Auditor shall conduct his/her audit and render his/her report in accordance with generally accepted auditing standards. The Auditor shall perform the audit in accordance with Government Auditing Standards if required by the State Single Audit Implementation Act, as codified in G.S. 159-34. If required by OMB Circular A-133 and the State Single Audit Implementation Act, the auditor shall perform a Single Audit. This audit and all associated workpapers may be subject to review by Federal and State agencies in accordance with Federal and State laws, including the staffs of the Office of State Auditor (OSA) and the LGC. If the audit and/or workpapers are found in this review to be substandard, the results of the review may be forwarded to the North Carolina State Board of CPA Examiners.
3. *This contract contemplates an unqualified opinion being rendered.* If financial statements are not prepared in accordance with generally accepted accounting principles (GAAP), or the statements fail to include all disclosures required by GAAP, explain that departure from GAAP in the space below:
4. *This contract contemplates an unqualified opinion being rendered.* The audit shall include such tests of the accounting records and such other auditing procedures as are considered by the Auditor to be necessary in the circumstances. *Any limitations or restrictions in scope which would lead to a qualification should be fully explained in an attachment to this contract.* The audit will have no scope limitations except:
5. If this audit engagement is subject to the standards for audit as defined in Government Auditing Standards, July 2007 revisions, issued by the Comptroller General of the United States, then the Auditor warrants by accepting this engagement that he has met the requirements for a peer review and continuing education as specified in Government Auditing Standards. The Auditor agrees to provide a **copy of their most recent peer review report regardless of the date of the prior peer review report** to the Governmental Unit and the Secretary of the Local Government Commission prior to the execution of the audit contract. (See Item 21.)
6. It is agreed that time is of the essence in this contract. All audits are to be performed and the report of audit submitted to the LGC by \_\_\_\_\_, \_\_\_\_\_. If it becomes necessary to amend the due date of the audit a written explanation of the delay must accompany the amended contract.
7. It is agreed that generally accepted auditing standards include a review of the Governmental Unit's system of internal control and accounting as same relates to accountability of funds and adherence to budget and law requirements applicable thereto; that the Auditor will make a written report, which may or may not be a part of the written report of audit, to the Governing Board setting forth his findings, together with his recommendations for improvement. That written report must include all matters defined as "significant deficiencies and material weaknesses" in AU 325 of the AICPA Professional Standards. The Auditor shall file a copy of that report with the Secretary of the Local Government Commission.
8. All local government and public authority contracts for annual or special audits, bookkeeping or other assistance necessary to prepare the Unit's records for audit, financial statement preparation, any finance-related investigations, or any other audit-related work in the State of North Carolina require the approval of the Secretary of the Local Government Commission. Invoices for services rendered under these contracts shall not be paid by the Governmental Unit until the invoice has been approved by the Secretary of the Local Government Commission. (This also includes any progress billings.) [G.S. 159-34 and 115C-447] All

## Contract to Audit Accounts (cont.)

(name of unit)

invoices should be submitted in **triplicate** to the Secretary of the Local Government Commission. The original and one copy will be returned to the Auditor. Approval is not required on contracts and invoices for system improvements and similar services of a non-auditing nature.

9. In consideration of the satisfactory performance of the provisions of this agreement, the Governmental Unit shall pay to the Auditor, upon approval by the Secretary of the Local Government Commission, the following fee which includes any cost the Auditor may incur from work paper or peer reviews or any other quality assurance program required by third parties (Federal and State grantor and oversight agencies or other organizations) as required under the Federal and State Single Audit Acts:

**Year-end bookkeeping assistance – [For audits subject to Government Auditing Standards, this is limited to bookkeeping services permitted by revised Independence Standards]** \_\_\_\_\_

### Audit \_\_\_\_\_

#### Preparation of the annual financial statements \_\_\_\_\_

10. The auditor working with local governmental unit that has outstanding revenue bonds will include in the notes to the audited financial statements, whether or not required by the revenue bond documents, a calculation demonstrating compliance with the revenue bond rate covenant. Additionally, the auditor should be aware that any other bond compliance statements or additional reports required in the authorizing bond documents need to be submitted to the LGC simultaneously with the local government's audited financial statements unless otherwise specified in the bond documents.
11. After completing the audit, the Auditor shall submit to the Governing Board a written report of audit. This report shall include, at least, Management's Discussion and Analysis, the financial statements of the governmental unit and all of its component units and notes thereto prepared in accordance with generally accepted accounting principles, combining and supplementary information requested by the client or required for full disclosure under the law, and the Auditor's opinion on the material presented. The Auditor shall furnish the required number of copies of the report of audit to the Governing Board as soon as practical after the close of the accounting period.
12. **The Auditor shall file** with the Local Government Commission two BOUND copies of the report of audit. If reports are received unbound they will **not** be reviewed by the LGC and will be returned to the auditor for binding. In addition, if the North Carolina Office of the State Auditor designates certain programs to be audited as major programs, a turnaround document and a representation letter addressed to the State Auditor shall be submitted to the Local Government Commission. Two bound copies of the report of audit should be submitted if the audit is performed only under the provisions of the State Single Audit Implementation Act or a financial audit is required to be performed in accordance with Government Auditing Standards. Three bound copies of the audit are to be submitted for Councils of Governments. Two bound copies of the audit should be submitted for tax levying Municipalities. Otherwise, one bound copy shall be submitted. Units that operate a 911 fund need to provide an additional copy to the number stated above. Bound copies of the report shall be filed with the Local Government Commission when (or prior to) submitting the invoice for the services rendered. The report of audit, as filed with the Secretary of the Local Government Commission, becomes a matter of public record for inspection and review in the offices of the Secretary by any interested parties. Any subsequent revisions to these reports must be sent to the Secretary of the Local Government Commission. These audited financial statements are used in the preparation of Official Statements for debt offerings (the auditors' opinion is not included), by municipal bond rating services, to fulfill secondary market disclosure requirements of the Securities and Exchange Commission, and other lawful purposes of the government, without subsequent consent of the auditor. If it is determined by the LGC that corrections need to be made to the unit's financial statements they should be provided within three days of notification unless, another time frame is agreed to by the LGC.
13. Should circumstances disclosed by the audit call for a more detailed investigation by the Auditor than necessary under ordinary circumstances, the Auditor shall inform the Governing Board in writing of the need for such additional investigation and the additional compensation required therefore. Upon approval by the Secretary of the Local Government Commission, this agreement may be varied or changed to include the increased time and/or compensation as may be agreed upon by the Governing Board and the Auditor.
14. If an approved contract needs to be varied or changed for any reason, the change must be made in writing, signed and dated by all parties and pre-audited if the change includes a change in audit fee. This document and a written explanation of the change must be submitted in triplicate to the Secretary of the Local Government Commission for approval. No change shall be effective unless approved by the Secretary of the Local Government Commission, the Governing Board, and the Auditor.
15. Whenever the Auditor uses an engagement letter with the client, Item 16 is to be completed by referencing the engagement letter and attaching a copy of the engagement letter to the contract to incorporate the engagement letter into the contract. In case of conflict between the terms of the engagement letter and the terms of this contract, the terms of this contract will control. Engagement letter terms are deemed to be void unless the conflicting terms of this contract are specifically deleted in Item 22 of this contract. Engagement letters containing indemnification clauses will not be approved by the Local Government Commission.

**Contract to Audit Accounts (cont.)**

(name of unit)

- 16. There are no special provisions except:
- 17. A separate contract should not be made for each division to be audited or report to be submitted. A separate contract must be executed for each component unit which is a local government and for which a separate audit report is issued.
- 18. The contract must be executed, pre-audited, signed by all parties and submitted in triplicate to the Secretary of the Local Government Commission. The mailing address is 325 North Salisbury Street, Raleigh, North Carolina 27603-1385. The physical address is 4505 Fair Meadow Lane, Suite 102, Raleigh, North Carolina 27607-6449.
- 19. The contract is a tri-party agreement and is not valid until it is approved by the Local Government Commission. Upon approval, the original contract will be returned to the Governmental Unit, a copy will be forwarded to the Auditor, and a copy retained by the Secretary of the Local Government Commission. The audit should not be started before the contract is approved.
- 20. There are no other agreements between the parties hereto and no other agreements relative hereto that shall be enforceable unless entered into in accordance with the procedure set out herein and approved by the Secretary of the Local Government Commission.
- 21. If this audit engagement is not subject to Government Auditing Standards, then Item 5 shall be listed as a deleted provision in Item 22. An explanation must be given for deleting this provision.
- 22. All of the above paragraphs are understood and shall apply to this agreement, except the following numbered paragraphs shall be deleted: (See Item 15.)

Firm \_\_\_\_\_

By \_\_\_\_\_  
(Please type or print name)

\_\_\_\_\_  
(Signature of authorized audit firm representative)

Email Address: \_\_\_\_\_

Date \_\_\_\_\_

Approved by the Secretary of the Local Government Commission as provided in Article 3, Chapter 159 of the General Statutes or Article 31, Part 3, Chapter 115C of the General Statutes.

\_\_\_\_\_  
For the Secretary, Local Government Commission

\_\_\_\_\_  
(Signature)

Date \_\_\_\_\_

By \_\_\_\_\_  
(Please type or print name and title)

\_\_\_\_\_  
(Signature of Mayor/Chairperson of governing board)

Date \_\_\_\_\_

Email Address \_\_\_\_\_

By \_\_\_\_\_  
(Chair of Audit Committee- please type or print name)

\_\_\_\_\_  
(Signature of Audit Committee Chairperson)

Date \_\_\_\_\_  
(If unit has no audit committee, this section should be marked "N/A.")

Email address \_\_\_\_\_

This instrument has been preaudited in the manner required by The Local Government Budget and Fiscal Control Act or by the School Budget and Fiscal Control Act.

\_\_\_\_\_  
Governmental Unit Finance Officer (Please type or print name)

\_\_\_\_\_  
(Signature)

Date \_\_\_\_\_

**(Preaudit Certificate must be dated.)**

Email address \_\_\_\_\_

## **Checklist for Contracts To Audit Accounts (Form LGC-205) (Most Common Errors Resulting in Contract Being Returned)**

- Item No. 1 - Is the fiscal year-end date correct?
- Item No. 6 - Is the due date correct? For all units, the contract due date can be no later than 4 months after the end of the fiscal year, even though amended contracts may not be required until a later date.
- For variable fees for services, are the hourly rates or other rates clearly stated? If issued separately (detailed by position's hourly rates) has the separate page been acknowledged by the government?
- For fees for services that are a combination of fixed and variable fees, are the services to be provided for the fixed portion of the fee clearly stated? Are the hourly rates or other rates clearly stated for the variable portion of the fee?
- If the auditor is performing an audit under the yellow book or single audit rules, has year-end bookkeeping assistance been limited to those areas permitted under the revised GAO Independence Standards? Although not required, we encourage units and auditors to disclose the nature of these services in the contract or an engagement letter.
- Item No. 15- If there is a reference to an engagement letter or other document, has the engagement letter or other document been acknowledged by the governmental unit and attached to the contract submitted to the LGC?
- Does the engagement letter contain an indemnification clause?  
If so, the clause must comply with Memo # 986.
- Has the preaudit certificate been **Signed** and **Dated**?
- Has the name and title of the Mayor or Chairperson of the governing board been typed or printed on the contract?
- Have all parties **Signed** and **Dated** the contract?
- Has the most recent peer review report been included with the contract?