

NORTH CAROLINA
DEPARTMENT OF STATE TREASURER



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IMPORTANT INFORMATION AND INSTRUCTIONS ON THE 2021 AUDIT CONTRACT

The audit contract form (LGC-205) is intended to standardize the submission of contract information and reduce the amount of time required for contract review and approval. All auditors and units are encouraged to use the LGC-205 form; those who use the form must use the current version of the form available on the DST website (revised versions are available in October of each year). Important information and instructions on completing and submitting the audit contract follow.

For additional assistance please contact:
LCG.Contract@nctreasurer.com | (919) 814-4299

Important Note Regarding the 2021 Contract Form

In the past two years, substantial changes have been made to the audit contract form to reflect updates to Yellow Book standards (2020 contract form) and North Carolina Administrative Code (2021 contract form). These changes are all reflected in the 2021 audit contract forms.

However, units and their auditors may occasionally need to submit contracts for fiscal years prior to the effective dates of these changes. In an effort to minimize the number of versions of contract forms available while ensuring that all applicable contract terms are included, we have included these two changes in the 2021 contract form, but have noted that they are only applicable to audits for fiscal year ends on or after the implementation date of the changes.

We ask that all units and their auditors use the **2021 contract form for all new audits**, noting that:

- Item 27 (related to 2018 Yellow Book updates) is applicable only to audits with fiscal year ends June 30, 2020 and later, and is noted as such in the terms of the contract.
- Item 28 (related to a change in North Carolina Administrative code that will be implemented in 2021) is applicable only to audits with fiscal year ends June 30, 2021 and later, and is noted as such in the terms of the contract.



Changes to the 2021 Contract Form

Several changes were made to the 2021 contract form, primarily as the result of recent modifications to North Carolina Administrative Code. A summary of the changes follows.

1) Contract Body - *NEW* Item 28

28. 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 20 NCAC 03 .0508.

Reference for change: [20 NCAC 03 .0502](#)

Explanation of change: This language was included to ensure that the contract form meets the new requirements and conditions that must be included in all contracts as a result of the recent changes to 20 NCAC 03 .0502 (c)(5). *This requirement is applicable to audits with fiscal year ends June 30, 2021 and later.*

2) Contract Body - *NEW* Item 29

29. 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.

Reference for change: [20 NCAC 03 .0502](#)

Explanation of change: This language was included to ensure that the contract form meets the new requirements and conditions that must be included in all contracts as a result of the recent changes to 20 NCAC 03 .0502 (c)(6). This item formalizes the requirement for units to provide




data based on the audited financial statements via the Data Input Workbook provided by LGC Staff No additional reporting requirements are intended.

3) Fees Page – Clarification to Identification of SKE Individual

Explanation of change: An additional checkbox was added to allow the unit/auditor to indicate if an audit is a GAAS audit only or for an audit for a fiscal year end prior to June 30, 2020 and therefore not subject to the requirement to identify a SKE individual.

If applicable: Individual at Governmental Unit designated to have the suitable skills, knowledge, and/or experience (SKE) necessary to oversee the non-attest services and accept responsibility for the results of these services:

Name:	Title and Unit / Company:	Email Address:

 OR Not Applicable (Identification of SKE Individual not applicable for GAAS-only audit or audits with FYEs prior to June 30, 2020.)

4) Fees Page – Modification to Interim Billing Language

Modified language - *Prior to submission of the completed audited financial report, applicable compliance reports and amended contract (if required) the Auditor may submit invoices for approval for services rendered, not to exceed 75% of the billings for the last annual audit of the unit submitted to the Secretary of the LGC.*

Reference for change: [20 NCAC 03 .0505](#)

Explanation of change: The language regarding interim invoices was modified to bring it into conformance with recent changes to 20 NCAC .03 .0505. The maximum amount of invoices approved prior to submission requirements is 75% of the billings submitted to the LGC for the last annual audit. This is applicable to **all** contracts – there is no longer a distinction between “fixed fee” and “variable fee” contracts.



Instructions on Completing the Audit Contract

1) Contract Forms

There are 3 contract forms available:

- Standard Contract (for all units other than charter schools)
- Charter School Contract (contract language is identical to standard contract, but signature pages include fields to list all schools included in the audit)
- Contract Amendment (to amend date or fees of original contract)

Note that there is no longer a hospital contract form. Nearly all of the hospital contract language was identical to the standard contract language; therefore, the separate hospital contract has been eliminated and language has been added to the standard contract, as needed, to address hospital-specific exclusions to contract terms.

2) Audit Report Due Date

The due date provided must be no later than four months after the end of the fiscal year, even though amended contracts may not be required until a later date.

3) Fees Page

The fee section must be completed for both the Primary Government and the DPCU (if applicable).

Paragraph 1 includes information related to independence standards and must be completed, if applicable.

The terms and fees specified in the engagement letter must agree with those in the audit contract. "In case of conflict between the terms of the engagement letter and the terms of this contract, the terms of this contract shall take precedence" (reference contract paragraph 17).

Please be sure that hourly rates or other rates are clearly stated in detail. If the fees are detailed in an addendum, the addendum must be acknowledged in writing by the Governmental Unit.

For units other than hospitals, the 75% cap for interim invoice approval is calculated as 75% of the billings for the last annual audit of the unit submitted to the Secretary of the LGC. *Note that the LGC does not approve invoices for hospitals.*

A report of audit fees paid by each governmental unit is available on the DST website on the [Audit Resources](#) page.

4) Signature Pages

There are two signature pages: one for the Primary Government Unit and one for the DPCU. Please ensure all fields on the pages are completed. Note that all sections require a typed/printed name as well as signature – please ensure both are included in each section.



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Be sure to provide current email addresses for the audit firm and finance officer as these will be used to communicate official approval of the contract.

The pre-audit certificate section for the Primary Government Unit and the DPCU (if applicable) must be signed and dated by the appropriate party. A pre-audit certificate is not required for hospitals and charter schools.

5) Charter Schools

Please note on the audit contract form if the name of the charter holder or any of the charter schools has changed since the date of the last audit report.

Submitting the Contract

1) Ensure all fields are completed and signatures provided (as applicable) on:

- page one of the contract
- the fees page
- the signature page(s)

2) Submit a single PDF file (following upload instructions below) containing:

- Audit contract
- Engagement Letter
- Peer Review Report
(required only if current peer review report is not on file with the LGC – reference contract item 5)
- Contract addendum *(if applicable)*

3) Upload the File

- Access the Leapfile portal at <https://nctreasurerslgfd.leapfile.net>
- Select "NC Dept. of the State Treasurer - State and Local Government Division - Document Upload Portal"
- Select "LGC Contracts"
- Complete contact information as required
- Enter in the subject line "Unit Name 20XX Contract" (example: "Dogwood 2018 Contract")
- In the Message/Description/Instructions box, enter the email addresses of the auditor and unit finance officer
- Check delivery option if you desire notification that we have downloaded your files (note: this notification does not mean that the audit contract has been reviewed, only that we have received and downloaded your files)
- Select the bar that reads "Select files to send (Regular Upload)"
- Upload documents by selecting "Browse" then "Upload and Send"



Other Important Information

LGC Staff Review

Upon receipt of the contract materials, LGC Staff will review the contract and notify the unit and auditor by email (using the email addresses provided on the signature page(s)) that either the contract is approved, or the steps to be taken to secure approval. Please note that this email is your official notice of audit contract approval and a printed copy will not be provided.

DPCU Audit Contract Requirements

If a DPCU is subject to the audit requirements of the Local Government Budget and Fiscal Control Act and a separate audit report is issued for that DPCU, a separate audit contract is required for the DPCU. If a separate audit report is not being issued for the DPCU and is to be included in the Primary Government's audit report, the DPCU must be named with the Primary Government on the audit contract for the Primary Government. The board chairperson of the DPCU must also sign the audit contract in addition to the elected leader of the Primary Government.

Submission of Invoices (units other than hospitals)

A valid contract must be in place for the LGC to approve invoices, and all invoices must be submitted to and approved by the LGC prior to payment.

"All invoices for services rendered in an audit engagement as defined in 20 NCAC 03 .0503 shall be submitted to the Commission for approval before any payment is made. Payment before approval is a violation of law." 20 NCAC 03 .0505

Note that this section does not apply to hospitals.

Amended Contracts:

If an audit cannot be completed by the due date or if the fees specified in the original contract are modified, the Auditor or Governmental Unit must file an Amended Contract form (Amended LGC-205). Please refer to the "Audit Contract Amendment Instructions" for details on completing and submitting a contract amendment.

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