

20 NCAC 03 .0502 is amended as published in 35:1 NCR 28 with changes as follows:

**20 NCAC 03 .0502            AUDIT CONTRACT**

(a) The Secretary may promulgate a standard audit contract designed to include the specific requirements in Subdivision-Paragraph (c) of this Rule. The Secretary may revise the standard audit contract from time to time as circumstances require 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) Governmental 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 Subdivision-Paragraph (c) of this Rule.

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

(1) The scope of the audit shall include all funds and ledgers of the governmental-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 fully explained as to the circumstances of the particular situation.

(2) The audit shall include a review of the internal control system of the governmental-government unit as provided by generally accepted auditing standards. The auditor shall forward a management letter to the government unit, detailing ~~his~~ the auditor's findings and recommendations for improvement. The auditor shall forward a copy of the management letter to the Secretary. Commission.

~~[(3) 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.]~~

(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.

~~(3)~~ (4) The auditor shall, after ~~the~~ 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 ~~qualified~~ or if an opinion is disclaimed or not included for any reason, sufficient reasons 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. Commission.

~~(4) [(5) The fee for the audit engagement shall be stated. [All audit engagement fees and terms shall be clearly stated and shall allow for the computation of a final fee.] The fee may be stated as a fixed dollar amount or as a rate per hour or day, either with or without a maximum.~~

~~(5)~~~~(6)~~ 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 ~~[must]~~ 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 ~~[must]~~ shall develop a "Response to the Auditor's Findings, Recommendations, and Fiscal Matters," if required under Rule ~~[20 NCAC 03 .0508.]~~ .0508 of this Section.

The Secretary shall verify auditors' compliance with the presentation requirement of Paragraph ~~[(e)(6)]~~ (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.

~~(5)~~ (7) The auditor shall promptly notify the governing body and the Secretary ~~commission~~, if circumstances disclosed ~~by~~ during the audit call for ~~a~~ an expanded scope of work more detailed investigation by the auditor ~~beyond that than necessary under ordinary conditions indicated by the~~ auditor's audit planning and risk assessment.

~~(6)~~ (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) [The Commission is the state's agency charged with the duty of advising and assisting unit officials in all phases of fiscal management, and with promoting sound fiscal management, careful borrowing, and sound debt management practices as described in Rule 20 NCAC 03 .0101. To fulfill these duties, and pursuant to its authority under G.S. 159-34(b), the Commission may establish relevant criteria for gathering financial data to timely assist and identify units that are facing or may face fiscal management challenges or distress.] For purposes of this Section, the following definitions apply:

- (1) ~~Financial Performance Indicators~~ “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 ~~[include, but are not limited to,]~~ 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 ~~[from time to time]~~ establish.
- (2) ~~Financial Performance Indicators of Concern~~ “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;  
Amended Eff. November 1, 2020.*

20 NCAC 03 .0505 is amended as published in 35:1 NCR 30 with changes as follows:

**20 NCAC 03 .0505            AUDIT BILLINGS**

(a) All invoices for services rendered in an audit engagement as defined in Rule 20 NCAC 3 .0503 of this Section shall be submitted to the Commission-Secretary for approval before any payment is made. Payment before approval is a violation of law pursuant to G.S. 159-34(a).law.

~~(b) Invoices to be approved shall be submitted in duplicate to the [Secretary.] Secretary at the mailing address of the Commission.~~

~~(c)~~(b) Invoices shall be approved only under the following circumstances:

- (1) ~~There~~there is a valid contract;
- (2) ~~The~~the report of audit has been received;
- (3) ~~The~~the audit billing ~~and the report of audit conform~~ conforms to the requirements of the contract and of this Section;
- (4) ~~Except in the case of a fixed fee,~~ the audit billing shows all calculations necessary to compute the fee from the rates and terms shown in the contract; and
- (5) ~~There~~there are no circumstances known to the ~~secretary~~ Secretary indicating that the audit report may fail to conform to the requirements of the contract and of this Section. ~~a failure on the part of the auditor to perform the audit as provided in this Section.~~

Notwithstanding the above, the Commission-Secretary may approve interim billings up to a maximum of 75 percent ~~of a fixed or maximum fee, or, in the case where there is no fixed or maximum fee, up to a maximum of 75 percent of the last year's~~ billings for the last annual audit of the subject ~~unit.~~ unit submitted to the Secretary. Provided however, that the Secretary or a deputy secretary may approve a higher or lower ~~amount, on an interim billing~~ amount if he or she finds that such would be more equitable under a particular set of circumstances.

*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;*

*Amended Eff. November 1, 2020.*

20 NCAC 03 .0508 is adopted as published in 35:1, NCR 30 with changes as follows:

**20 NCAC 03 .0508      RESPONSE TO THE INDEPENDENT AUDITOR'S FINDINGS,  
RECOMMENDATIONS, AND FISCAL MATTERS**

(a) If the governing body of a ~~unit of local government or public authority~~ government unit is notified by its independent auditor that the audited financial statements presented to the governing body included one or more significant deficiencies, material weaknesses, other findings or if the auditor determined that Financial Performance Indicators of Concern were identified based on information presented in the audited financial statements, then the governing body shall develop a "Response to the Auditor's Findings, ~~Recommendations~~ Recommendations, and Fiscal Matters" (~~"Response"~~) ("Response"), pursuant to this Rule, signed by a majority of the members of the governing ~~body~~ body. ~~The governing body shall and forward a copy of this response submit the Response~~ to the Secretary within 60 days of the auditor's presentation.

(b) The Response shall address each significant deficiency, material ~~weaknesses~~ weakness and other ~~finding(s)~~ audit finding presented to the governing body and shall provide a ~~financial~~ plan to address each Financial Performance Indicator of Concern reported to the governing ~~body~~ body. ~~and The Response~~ shall include the following:

(1)      Audit Findings

(A)      A written description of the ~~procedure~~ procedure, or process, or action plan developed by the ~~local government~~ government unit to address each finding, including all material weaknesses and significant deficiencies, 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 successors.

(B)      The description ~~must shall~~ must provide specific and detailed steps with measurable results sufficient detail that allow the governing body and the auditor to conclude can determine that the ~~procedure~~ procedure, or process, or action plan as implemented and followed by the staff of the government unit, will reasonably address the specific audit finding, ~~and is being properly implemented~~. The description may include such information as the date for implementation, the position titles responsible for implementation, ~~the~~ positions performing the procedures or processes, ~~the~~ frequency of performance, and other matters necessary to evaluate the success of the procedure or process.

(2)      Financial Performance Indicators of Concern

(A)      A written description of the ~~plan~~ procedure, process, or action plan developed by the ~~governing body~~ government unit to address each Financial Performance Indicator of Concern.

(B)      The ~~plan~~ description ~~must shall~~ must provide specific and detailed steps with measurable results that allow the governing body to and the auditor can determine conclude that it will reasonably address ~~the~~ each specific Financial Performance

~~Indicator(s)~~Indicator of Concern. The description may include such information as the time period required for improvement, any governing body action required for implementation, the steps to increase revenue or reduce expenses, the frequency of performance evaluation, and other matters necessary to evaluate the success of the plan.

~~(c) (C)~~ If the governing body disagrees with an audit finding, it shall ~~fully~~ describe in detail its disagreement and explain the factors that support this ~~determination.~~ determination in its Response.

*History Note: Authority G.S. 159-3(f); 159-34;  
Eff. November 1, 2020.*