



Important Information and Instructions on the FY 2026 Audit Contract (Updated February 2026)

Changes to the FY 2026 Contract Form

Several changes were made to the FY 2026 contract form; a summary of substantive changes follows. Please carefully read and review the contract in its entirety before using or signing the contract.

Units of local government that utilize the contract form provided by the LGC must use the 2026 contract form for all FY 2026 audits. The FY 2026 contract version is number "Rev. 02/2026" in the top right corner.

Because the FY 2026 contract form reflects recent updates to single audit thresholds (see redline changes to Paragraph 2), it should **not** be used for prior year audits. Instead, units are advised to use the FY 2025 contract form (Rev. 12/2024) for all prior year audits for which a contract has not yet been submitted to the LGC. The [FY 2025 contract form](#) and [instructions](#) are available on the Department of State Treasurer website.

Paragraph 1

The Auditor shall audit all statements and disclosures required by "U.S. Auditing Standards – AICPA (Clarified)," referred to as generally accepted auditing standards (GAAS) and additional required legal statements and disclosures of all funds and/or divisions of the Governmental Unit(s). 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 shall be rendered in relation to (as applicable) the governmental activities, the business-type activities, the aggregate DPCUs, each major governmental and enterprise fund, and the aggregate remaining fund information (non-major government and enterprise funds, the internal service fund type, and the fiduciary fund types). ~~The basic financial statements shall include budgetary comparison information in a budgetary comparison statement, rather than as RSI, for the General Fund and any annually budgeted Special Revenue funds.~~ Budgetary comparison information shall be prepared in accordance with applicable GASB standards. Budget-to-actual comparisons at the level of the legally adopted budget ordinance shall be presented as required supplementary information and shall not be included in the basic financial statements. Any other budgetary comparison information shall be presented only as supplementary information for funds required to be budgeted under NCGS Chapter 159, Article 3.

Paragraph 2

At a minimum, the Auditor shall conduct the audit and render the report in accordance with GAAS. If the Governmental Unit expended \$100,000 or more in combined Federal and State financial assistance during the reporting period, the Auditor shall perform the audit in accordance with *Generally Accepted*

Government Auditing Standards (GAGAS). The Governmental Unit is subject to federal single audit requirements in accordance with Title 2 US Code of Federal Regulations Part 200 Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards, Subpart F (Uniform Guidance) and the State Single Audit Implementation Act. ~~Currently the threshold is \$750,000 for a federal single audit and \$500,000 for a State Single Audit.~~ Currently the threshold is \$1,000,000 for federal and state single audits, or such other threshold as applicable for the fiscal year under audit. This audit and all associated audit documentation may be subject to review by federal and State agencies in accordance with federal and State laws, including the staff of the Office of State Auditor (OSA) and the Local Government Commission (LGC). If the audit requires a federal single audit in accordance with the Uniform Guidance (§200.501) the Auditor and Governmental Unit(s) should discuss, in advance of the execution of this contract, the responsibility for submission of the audit and the accompanying data collection form (~~form SF-FAC~~) to the Federal Audit Clearinghouse as required under the Uniform Guidance (§200.512) to ensure proper submission.

~~Effective for audits of fiscal years beginning on or after June 30, 2023, the LGC will allow auditors to consider whether a unit qualifies as a State low-risk auditee. Please refer to "Discussion of Single Audits in North Carolina" on the LGC's website for more information.~~

If the audit and Auditor communication 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 (NC State Board).

Paragraph 5

If this audit engagement is subject to the standards for audit as defined in *Government Auditing Standards*, (2018 revision ~~or subsequent revisions~~, as applicable) issued by the Comptroller General of the United States, then by accepting this engagement, the Auditor warrants that he or she 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 the most recent peer review report to the Governmental Unit(s) and to the Secretary of the LGC prior to the execution of an audit contract. Subsequent submissions of the report are required only upon report expiration or upon the Auditor's receipt of an updated peer review report. If the audit firm ~~received~~ receives a peer review rating other than pass, the Auditor shall not contract with the Governmental Unit(s) without first contacting the Secretary of the LGC for a peer review analysis that may result in additional contractual requirements.

If the audit engagement is not subject to *Government Auditing Standards* or if financial statements are not prepared in accordance with U.S. generally accepted accounting principles (GAAP) and fail to include all disclosures required by GAAP, the Auditor shall provide an explanation as to why in an attachment to this contract or in an amendment.

Paragraph 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 LGC Staff, within six months of fiscal year end. ~~At the time of the execution of this contract, if the parties know that the anticipated submission date of the audit exceeds six months after fiscal year end, a written explanation shall be provided to the Secretary of the LGC on this contract form (see the space provided on Page 7).~~ If it becomes necessary to amend the audit fee or the date that the audit report will be submitted to the LGC, an amended contract along with a written explanation of the change shall be submitted to the Secretary of the LGC for approval.

Paragraph 7

It is agreed that GAAS include a review of the Governmental Unit's (Units') systems of internal control and accounting as they relate to accountability of funds and adherence to budget and law requirements applicable thereto; that the Auditor shall make a written report, which may or may not be a part of the written report of audit, to the Governing Board setting forth the Auditor's findings, together with his or her recommendations for improvement. That written report shall include all matters ~~defined as determined to be~~ "significant deficiencies and material weaknesses" in accordance with AU-C §265 "Communicating Internal Control Related Matters Identified in an Audit" of ~~the AICPA Professional Standards (Clarified)~~ GAAS. The Auditor shall file a copy of that report with the Secretary of the LGC.

For GAAS or *Government Auditing Standards* audits, if an Auditor issues an AU-C §260 report, "Auditor's Communication With Those Charged With Governance," commonly referred to as a "Governance Letter," LGC staff does not require the report to be submitted unless the Auditor cites significant findings or issues from the audit, as defined in AU-C §260 paragraphs 12 - 14. This would include issues such as difficulties encountered during the audit, significant or unusual transactions, uncorrected misstatements, matters that are difficult or contentious ~~reviewed with~~ for which the Auditor consulted outside the engagement team and, in the Auditor's judgment, are significant and relevant to those charged with governance, and other findings or issues that the Auditor believes are significant and relevant matters. If matters identified during the audit were required to be reported as described in AU-C §260 paragraphs 12 - 14 and were communicated in a method other than an AU-C §260 letter, the written documentation must be submitted.

Paragraph 13

~~If the audit firm is required by the NC State Board, the NCACPA Peer Review Committee, or the Secretary of the LGC to have a pre-issuance review of its audit work, there shall be a statement in the engagement letter indicating the pre-issuance review requirement. There also shall be a statement that the Governmental Unit(s) shall not be billed for the pre-issuance review. The pre-issuance review shall be performed prior to the completed audit being submitted to LGC Staff. The pre-issuance review report shall accompany the audit report upon submission to LGC Staff.~~

~~If the audit firm is required by the Secretary of the Local Government Commission to obtain a pre-issuance review or take corrective action as a result of peer review findings or quality control deficiencies, such corrective action shall be consistent with the authority and requirements of the North Carolina State Board of Certified Public Accountant Examiners, the AICPA Peer Review Program, and established Local Government Commission practice, including the use of report addenda or other remedial measures, as appropriate.~~

Paragraph 14

~~The Auditor shall submit the report of audit in PDF format to LGC Staff.~~

~~In accordance with G.S. 159-34, the Finance Officer of the Unit is responsible for filing the audited financial statements with the Secretary of the Local Government Commission.~~

~~The Auditor may upload the audit report and related documents through the LGC's electronic submission system; however, submission shall not be deemed complete until the Finance Officer has reviewed and certified the submission.~~

The Auditor, Finance Officer, other Unit staff member designated by the Finance Officer, or a third party approved by the Unit may enter all Data Input Report information except the information on the “transmittal doc info” tab. The “transmittal doc info” tab must be completed by the Auditor.

The Finance Officer shall review, approve, and certify the accuracy and completeness of the Data Input Report (DIR) in the LGC’s LOGOS system prior to LGC review, regardless of whether the DIR is prepared by the Auditor or the Unit.

Finance Officer certification is required for any corrected or revised submissions.

Finance Officer certification of the DIR shall be completed in a timely manner following notification that the DIR is ready for review and within time frames prescribed by the LGC. Failure to complete certification in a timely manner may result in the audit being considered late due to unit action rather than auditor performance

The Auditor shall conduct the audit in accordance with generally accepted auditing standards and shall ensure that the financial statements are prepared in accordance with generally accepted accounting principles as of the fiscal year end. Budget-to-actual comparisons at the level of the legally adopted budget ordinance shall be presented in required supplementary information, separate from the basic financial statements, and shall not be included in the audit opinion. The Auditor shall confirm that such information reconciles to the financial statements and is consistent with applicable accounting guidance and any LGC reporting requirements.

The Finance Officer shall certify in a timely manner that all data inputted in LOGOS used for preparation of the financial statements and required supplementary information is complete and accurate.

For audits of units other than hospitals, the audit report should be submitted when (or prior to) submitting the final invoice for services rendered. The report of audit, as filed with the Secretary of the LGC, becomes a matter of public record for inspection, review and copy in the offices of the LGC by any interested parties. Any subsequent revisions to these reports shall be sent to the Secretary of the LGC. These audited financial statements, excluding the Auditors’ opinion, may be used in the preparation of official statements for debt offerings by municipal bond rating services to fulfill secondary market disclosure requirements of the Securities and Exchange Commission and for other lawful purposes of the Governmental Unit(s) without requiring consent of the Auditor. If the LGC Staff determines that corrections need to be made to the Governmental Unit’s (Units’) financial statements and/or the compliance section, those corrections shall be provided within three business days of notification unless another deadline is agreed to by LGC Staff.

Paragraph 27

~~Applicable to audits with fiscal year ends of June 30, 2020 and later.~~ For all non-attest services, the Auditor shall adhere to the independence rules of the AICPA Professional Code of Conduct and *Government Auditing Standards, 2018 or 2024 Revision* (as applicable). Preparing financial statements in their entirety shall be deemed a “significant threat” requiring the Auditor to apply safeguards sufficient to reduce the threat to an acceptable level. If the Auditor cannot reduce the threats to an acceptable level, the Auditor cannot complete the audit. If the Auditor is able to reduce the threats to an acceptable level, the documentation of this determination, including the safeguards applied, must be included in the audit workpapers.

Paragraph 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. See 20 NCAC 03.0502(e)(6).~~ of the LGC through the LGC's LOGOS system, including completion of the Data Input Report (DIR). Submission is not complete and shall not be accepted by the LGC until the Finance Officer has reviewed and certified the DIR in accordance with Paragraph 14 of this contract.

Paragraph 33/34

33. Applicable to audits with fiscal year ends of June 30, 2025, and later. The Unit authorizes the LGC to grant access to the LGC's LOGOS system, including the Data Input Report (DIR), to employees of the contracted audit firm who are associated with and acting on behalf of the firm for purposes of performing audit and reporting services under this contract. Such access shall be limited to the scope necessary to perform contracted services and shall not relieve the Auditor or the Unit of their respective responsibilities under this contract.

~~33-34. Modifications to the language and terms contained in this contract form (LGC-205) are not allowed. Changes or edits to the text of this contract form are not permitted, except for the Secretary's authority to revise or update this contract form pursuant to LGC Rule 20 NCAC 03.0502.~~

New Field – Explanation for Late Audit Per Paragraph 6

For contracts with an anticipated audit submission date exceeding six months after fiscal year end, please use this space to explain the reason for the late submission, as required by Paragraph 6 of this contract form:

Instructions on Completing the Audit Contract Form

1) Contract Forms

The LGC-205 Standard Audit Contract Form is organized as follows:

- LGC-205 Form A (unit and auditor information, submission date, contract terms)
- LGC-205 Form B (fee information and requirements, signature pages)

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.

For information about amending the audit contract, see “Amended Contracts” below. A link to the separate LGC 205 Amended Audit Contract Form is provided there.

2) Date Audit Will Be Submitted

Audit report due dates for all units except housing authorities are six months after fiscal year end (audits for housing authorities are due 10 months after fiscal year end). The date provided in this field should reflect the date the auditor will submit the audit report to the secretary of the LGC. Please note the added language in Paragraph 6 of Form A requiring a written explanation if, at the time the contract is executed, the parties know that the audit will be submitted after the deadline. Audit reports submitted after the deadline are considered late and will trigger a Financial Performance Indicator of Concern (FPIC).

3) Fees Page

The fee section must be completed for both the Primary Government and the discretely presented component unit (DPCU), if applicable.

Paragraph 1 of Form B 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” (see Form A, Paragraph 17).

Fees must be stated as specific dollar amounts. Any fees presented as descriptions or references will result in the contract being rejected and returned for correction. If the fees are detailed in an addendum, the addendum must be acknowledged in writing by the Governmental Unit.

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.

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

Submitting the Contract

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

- Page one
- Fees page
- Signature page(s)

2) Prepare a single PDF file containing the following:

- Completed LGC-205 Standard Audit Contract Form
- Engagement letter
- Peer review report (*required only if current peer review report is not on file with the LGC – see Form A, Paragraph 5*)
- Contract addendum (*if applicable*)

3) Upload the File

- Access the LGC File Transfer Portal at <https://lgcportal.nctreasurer.com/>.
- Select "Contracts" and then "Standard Contracts."
- Complete the information required on the upload form, attach your PDF file and submit.
- Confirmation emails will be sent to all email addresses provided in the upload form.

Other Important Information

Staff Review

Upon receipt of the contract materials, staff will review the contract and notify the unit and auditor by email (using the email addresses provided in the LGC File Transfer Portal) either that the contract is approved or of 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.

Amended Contracts

If an audit cannot be completed by the date specified in the original contract 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 an [amended contract form](#).

Please note that there is no “grace period” for the submission of an amended contract. If an audit is not submitted on or before the date specified in the audit contract, an amended contract is required.

For assistance please contact: LGC.Contract@nctreasurer.com

Submission of Invoices (units other than hospitals)

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

As stated in Rule 20 NCAC 03 .0505, “All invoices for services rendered in an audit engagement as defined in Rule .0503 of this Section shall be submitted to the Secretary for approval before any payment is made. Payment before approval is a violation of law pursuant to G.S. 159-34(a).”

Note that this section does not apply to hospitals.

For assistance please contact: LGCInvoice@nctreasurer.com