

Introduction

Every year, towns must provide a financial audit report (“annual report” or “annual audit report”) to the voters. Vermont’s locally elected auditors (“elected auditors”) are responsible for reviewing the accounts of their municipalities, but Vermont law offers options for towns to use professional services. Selectboards can – on their own or required by voter petition – hire a licensed public accountant to perform an annual audit as a supplement to the elected auditor’s report, or voters can eliminate the elected auditor position entirely.

As municipal budgets grow and sources of revenue become more diverse, the task of auditing these financial records becomes more difficult. Some elected auditors lack any financial experience, and some may be assisted by a professional firm the selectboard has hired. Due to the complexities of municipal finances, many towns will significantly benefit from professional auditing services. Whether the selectboard chooses to hire these services on its own, or is required to by its voters, understanding the essential aspects of audit services and communicating those effectively to its certified public accountant are critical components of a successful audit.

Annual Audit Report

DEFAULT RULE

According to the Vermont statutes, the elected auditors must meet, at least 25 days before the town’s annual meeting, to “examine and adjust the accounts of all town officers and all other persons authorized by law to draw orders on the town treasurer,” and the auditors must “report their findings in writing and cause the same to be mailed or otherwise distributed to the legal voters of the town at least ten days before the annual meeting.” [24 V.S.A. §§ 1681, 1682\(a\)\(1\)](#). This report provides taxpayers with detailed information about the town’s financial status. However, this statutory default can be changed or impacted in various ways. The law provides the following options to towns for performing their financial audits:

OPTIONS FOR PERFORMING & REPORTING ANNUAL AUDIT

- **Elected auditors:** The elected auditors must prepare and publish an audit report that reviews the accounts of the town treasurer, selectboard, tax collector, and other town officials who submit bills for expenses to the town for payment on a monthly or annual basis. Their meeting(s) must be noticed by posting or publication at least 10 days in advance. See [17 V.S.A. § 2646](#), [24 V.S.A. §§ 1681, 1682, 1683](#).
- **Legal authority to hire:** The selectboard has the authority to hire a public accountant who is licensed in Vermont for a one-time professional audit. It can do so on its own accord, but it must do so when the voters petition (with at least 5% of voter signatures) and approve such an article at a special or annual town meeting. These audits must meet different, higher standards than the audit performed by the elected auditors because Vermont law says they must be conducted in accordance with generally accepted government auditing standards. The firm that is hired does not replace the elected auditors, nor will its work satisfy the elected auditor’s duties. In this case, the elected auditors perform and report their audit and the professional firm performs

an audit that the selectboard must report. See [17 V.S.A. § 2646](#), [24 V.S.A. §§ 1681, 1682, 1683, and 1690](#).

- **Legal mandate to hire:** The voters can eliminate the office of elected auditor, in which case the hired professional auditing firm will replace the elected auditors. Once the elected auditors are eliminated, the selectboard will bear the responsibility of mailing or otherwise distributing the findings of the professional accountant, licensed in Vermont, that the selectboard hired. In this case, the audit does not have to be as comprehensive as the option above (i.e., “legal authority to hire”), but the report must still satisfy the legal requirements below. See [17 V.S.A. § 2651b](#) and [24 V.S.A. § 1682\(b\)](#).

LEGAL REQUIREMENTS OF ANNUAL AUDIT REPORT

Unlike the so-called “town report” which is a creature of custom and can contain whatever information the selectboard decides, the annual audit report is a creature of statute and must meet the law’s explicit requirements, which is primarily the report’s contents and distribution. These and other requirements are discussed in detail in the Elected Auditors’ Handbook. Please refer to it for a thorough explanation of the report’s legal requirements that the auditors must satisfy. We have also developed an Annual Auditors’ Report FAQs resource online at <https://www.vlct.org/annual-auditors-report-faqs> for reference and additional information.

Best Practices for Elected Auditors

PERFORMING THE AUDIT

The practical obligations of elected auditors vary significantly from town to town, depending on the complexity of the town's finances, whether the town employs professional auditors, and other factors. In towns where elected auditors do the work without the assistance of a hired professional auditor, the elected auditors should expect to spend a great deal of time poring over the records of the treasurer and other officials and inspecting the town's checkbooks and bank statements for accuracy. In addition to the 25-day requirement, the treasurer must also settle with the auditors five days prior to each annual town meeting. [24 V.S.A. § 1578](#). While the law refers to one meeting at least 25 days before the date of the annual town meeting, the auditors should expect to meet as often as necessary to fulfil their duties. Doing so will require them to become familiar with the town’s accounting methods, internal controls, etc., and this realistically won’t happen in a day. Preparing the written audit report can also be a fairly large task, particularly if the auditors are newly elected and inexperienced in preparing financial reports. We have developed these five basic, high-level tips for elected auditors to follow when performing an audit, which are explained in more detail in Chapter 6 of the Elected Auditor’s Handbook.

Five basic steps for elected auditors:
<i>(1) Gather information;</i>
<i>(2) Gain an understanding of the system (the accounting procedures and controls being used in the town);</i>
<i>(3) Evaluate the system;</i>

(4) Test the system; and

(5) Prepare an audit report.

Please consult our Elected Auditors’ Checklist online [here](#) for more practical advice and technical information.

USING PROFESSIONAL AUDIT RESULTS TO FORMULATE REPORT

As explained above, the selectboard can hire a professional auditing firm to perform a one-time, comprehensive audit and must do so when a petitioned article to do so is approved by the voters. Unless the town has voted to eliminate the office of elected auditor, hiring a professional accountant will not relieve the elected auditors of their statutory responsibilities. The reporting and posting requirements referenced below (in Tip #1, legal requirements) are in addition to – not a replacement of – the elected auditors’ duties to prepare and publish their own annual auditors’ report. However, it is rarely necessary for the elected auditors to duplicate the work of the professional accountants. Instead, the elected auditors can use the results of the professional audit in formulating their audit report to the town voters, so long as they present the information in the manner prescribed by law. In some towns, the elected auditors can assist the professional accountants by collecting and presenting relevant information at the beginning of the audit process. The elected auditors in these towns often speak with the professional accountants prior to beginning the audit and again as they review or have questions or comments about the professional audit report. Elected auditors might also provide a valuable service to the selectboard and citizens by helping to interpret and understand the results of the professional audit and helping to resolve issues or implement recommendations. This chart helps instruct elected auditors and selectboards on which elements of the professional accountant’s report can be used to formulate their annual report.

Information required to be included in the elected auditors’ report (24 V.S.A. §§ 1683, 1684)	Where it may be found within the report of the professional accountant
A detailed statement of the financial condition of the town for its fiscal year	Balance sheet
Summary of receipts and expenditures classified by budget category	Statement of revenues, expenditures, and changes in fund balance
List of all outstanding payables which are more than 30 days past due	This will not be found in the professional audit report, but the treasurer should have a schedule of payables prepared that ties out to the total payables shown in the liability section of the professional audit’s balance sheet
Report of deficit, if one exists	Balance sheet
The conditions of all town trust fund, with a list of the assets of the funds, including the	Information is found in the financial reports, specifically: (a) information regarding non-expendable trust funds under "permanent"

receipts and disbursements for the preceding year	government funds; and (b) information regarding expendable trust funds under "fiduciary funds"
Any outstanding bonds of the town with the rate of interest and the amounts	In the back of the audit in a section called "Notes to the financial statements"
Any outstanding interest-bearing notes or orders of the town with the serial number, date, amount, payee, rate of interest and total amount thereof	In the back of the audit in a section called "Notes to the financial statements"

ADDITIONS TO THE REPORT

Strictly speaking, the law only requires the elected auditors to gather and report the financial information listed in 24 V.S.A. §§ 1683 and 1684. In addition to the information required by law, many elected auditors include in their reports a simple spreadsheet for the town that shows the major accounts for the previous three to four years, and the proposed budget for the following year along with corresponding percentage increases and decreases. This gives the townspeople the information needed to evaluate the current year's budget in light of past years' experience.

Some elected auditors represent in the town auditors' annual report that "the audit was done in compliance with generally accepted auditing standards" or that "the report was prepared using generally accepted accounting principles." Unless the elected auditors are also licensed professional accountants, these statements are generally false and misleading and could lead to liability problems for the auditors and the town. Only CPAs have the training and expertise to utilize these standards and principles.

Tips for Hiring & Working with a Professional Auditing Firm

Although towns are not required to have outside professional audits performed, a comprehensive audit from a certified public accountant (CPA) can significantly benefit a town by disclosing weaknesses in its financial control system. They can help expose fraud or abuse and present an accurate report of the town's financial condition to the voters. While VLCT continues to support elected auditors and their work, we recommend that every town obtain periodic or regular audits from a CPA. Ideally, a town would have a professional audit conducted annually. However, if that is not possible, VLCT recommends that a professional audit should be conducted at least every three years. Here are MAC's top tips for hiring and working with a professional accountant.

TIP #1: Understand the legal requirements a comprehensive professional audit must meet before hiring a firm.

Audits performed by a certified (CPA) or public accountant who is licensed in Vermont and hired pursuant to [24 V.S.A. § 1690\(a\)](#) must be conducted in accordance with generally accepted government auditing standards. [24 V.S.A. § 1690\(b\)](#). There are no such standards for elected auditors. The work of the professional accountant is done to ensure that the financial statements fairly and accurately represent the financial condition of the town and follow the appropriate government accounting standards as defined by the Government Accounting Standards Board (GASB).

Among other requirements, professional accountants must issue a report on internal control over financial reporting that must be provided to recipients of the financial statements. When there are material weaknesses or significant deficiencies found in the internal control over financial reporting or the professional accountant's opinion is qualified, adverse or disclaimed, these additional steps are required of the professional accountant and the selectboard pursuant to [24 V.S.A. § 1690\(b\)](#):

- (1) the professional auditor must present the findings or opinion to the town's legislative body and explain those material weaknesses or significant deficiencies or their opinion at a meeting duly warned for the purpose;
- (2) after the audit report is delivered to the legislative body of a municipality, the notice for the next meeting of the legislative body must also notify the voters of the availability of the audit report and the accompanying report on internal control over financial reporting;
- (3) the next published annual report of the town must include a summary of material weaknesses or significant deficiencies found in the internal controls over financial reporting or a statement that the audit report sets forth an opinion that is qualified, adverse, or disclaimed; and
- (4) the legislative body must post the audit report and accompanying report on internal control over financial reporting on the municipality's website, if the municipality has a website.

TIP #2: Understand the types and scopes of various audits. Determine your needs and customize your RFP accordingly.

Understanding the scope of the audits under each of the three options above will be important so that towns can comply with legal requirements and reduce unnecessary costs. A comprehensive "1690" audit must meet higher standards than the annual audit report and the content requirements of 24 V.S.A. §§ 1683 and 1684. When the elected auditors' office is eliminated, though, the scope of the professional audit can be more limited to those Section 1683 and 1684 content requirements because the professional auditor is essentially replacing the auditors and stepping into their statutory shoes. Therefore, a selectboard that hires a professional auditor to replace the elected auditors must communicate clearly with the firm to ensure everyone has shared expectations. A comprehensive audit that must meet higher standards will likely cost more than an audit that meets the statutory requirements for an annual report and can be unnecessarily cost prohibitive. It is important for the selectboard to understand these different requirements and then develop a customized request for proposals (RFP) to clearly and concisely communicate to firms what the board is seeking. The Municipal Assistance Center has developed a template for reference, which is online at <https://www.vlct.org/resource/model-rfp-auditing-services>.