



Vermont League of Cities & Towns

THE LOCAL AUDIT:

LEGAL REQUIREMENTS OF THE ANNUAL REPORT

CARL ANDEER, STAFF ATTORNEY II

MUNICIPAL ASSISTANCE CENTER

BASIC LEGAL REQUIREMENTS FOR AUDIT
REPORT

OTHER OPTIONS FOR FULFILLING ANNUAL
AUDIT

CONSIDERATIONS FOR HIRING PROFESSIONAL
FIRMS

HIGHLIGHT RESOURCES and then Q&A

AGENDA

INTRODUCTION & GLOSSARY

Annual financial
audit report =
“annual
report/report”

Locally elected
auditors = “elected
auditors”

Annual report vs.
“town report”

Professional
accountant/firm
= “CPA/licensed
accountant”

Note on
governance
charters

PERFORMING & REPORTING AUDIT

- **24 V.S.A. § 1681. Auditors; duties; meeting**

(a)(1) **Town auditors** shall meet at least 25 days before each annual town 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.** (Emphasis added.)

- **24 V.S.A. § 1682. Report; distribution**

(a)(1) **The auditors shall report their findings in writing and cause the same to be mailed or otherwise distributed to the voters of the town at least ten days before the annual meeting.** (Emphasis added.)

[24 V.S.A. §§ 1681, 1682\(a\)\(1\).](#)

LEGAL REQUIREMENTS OF ANNUAL AUDIT REPORT: CONTENTS

After completing a review of the town's books and financial statements, the auditors must prepare a report that complies with the minimum statutory contents required by [24 V.S.A. §§ 1683](#) and [1684](#):

1. A detailed statement of the financial condition of the town for its fiscal year;
2. A classified summary of receipts and expenditures;
3. A list of all outstanding orders and payables which are more than 30 days past due;

LEGAL REQUIREMENTS OF ANNUAL AUDIT REPORT: CONTENTS

4. Any existing deficit pursuant to [24 V.S.A. § 1523](#);

“...A "deficit" is the excess of the current liabilities and liability reserves of the fund over its current assets; or, where the fund has also other resources and obligations, the excess of its obligations over its resources...”

LEGAL REQUIREMENTS OF ANNUAL AUDIT REPORT: CONTENTS

5. The conditions of all trust funds with a list of the assets of the funds, including the receipts and disbursements for the preceding year;
6. Any outstanding bonds with their rates of interest and amounts;

LEGAL REQUIREMENTS OF ANNUAL AUDIT REPORT: CONTENTS

7. Any outstanding interest-bearing notes or orders with the serial number, date, amount, payee, interest rate, and total amount; and
8. Other information the voters have directed (voted) to include.

NOTE: this does **not** include school information, only town information.

NOTE ON CONTENTS

Potential additions to the report:

- Historical comparison spreadsheet by elected auditors.
- Town report by selectboard and others.

PERFORMING THE AUDIT – SEE AUDITORS HANDBOOK CHAPTER 6

Five basic steps for elected auditors:

- (1) Gather information;
- (2) Gain an understanding of the system
(the accounting procedures and controls being used in the town);
- (3) Evaluate the system;
- (4) Test the system; and
- (5) Prepare an audit report.

CREATING THE REPORT REQUIRES COOPERATION BETWEEN EACH AUDITOR...

- All auditors have equal right and responsibility. Each has the same right of access to the books and input to the work assigned to the auditors by law.
- When joint authority is given to three or more, the concurrence of a majority of such number shall be sufficient and shall be required in its exercise.

1 V.S.A. § 172

- An action of only one auditor in auditing the town's accounts has no official significance.

St. George v. Tilley, 87 Vt. 427 (1914)

...AND WITH OTHER TOWN OFFICERS

- Auditor's job requires the cooperation of other town officers and access to their records and accounts.
- Every town officer who receives or disburses town funds must allow auditors to see their "books" to perform the annual audit.
- Potential penalties for town officer's willful refusal to provide information to auditors.

LIMITS OF AUTHORITY

- Auditor's authority is only as specifically given in statute (and what is incidental or necessary to carry out those functions)
- "Settle their accounts" / "adjust all accounts of town officers" (24 V.S.A. §§ 1681, 992).
- Not authorized to audit outside agencies – even those that receive town funds
- Not authorized to "audit" other areas or functions of town government
- Risks to acting outside of authority:
 - Liability exposure
 - Not getting paid

LEGAL REQUIREMENTS OF ANNUAL AUDIT REPORT: DISTRIBUTION

Pursuant to [24 V.S.A. § 1682](#), the auditors must “report their findings in writing and cause the same to be mailed or otherwise distributed to the voters of the town at least ten days before the annual meeting.”

- Method
- Notice of Availability
- To whom and by whom?
- When?

LEGAL REQUIREMENTS OF ANNUAL AUDIT REPORT: DISTRIBUTION

Method ([24 V.S.A. § 1682](#)):

- Sending printed copies of the report by U.S. mail; or
- Having printed copies of the report hand-delivered to all voters of the town.

An article for a vote to **change** the method would be as follows:

“Shall the town provide notice of the availability of the annual town report by *[insert method of providing notice]* at least 30-days before the annual meeting in lieu of mailing or otherwise distributing the report to the voters of the town pursuant to 24 V.S.A. § 1682?”

LEGAL REQUIREMENTS OF ANNUAL AUDIT REPORT: DISTRIBUTION

Notice of Availability per 24 V.S.A.
§ 1682:

- At least 30 days before the meeting;
- Indicates report's location;
- Copy to be mailed or distributed to any voter or resident, upon request.

LEGAL REQUIREMENTS OF ANNUAL AUDIT REPORT: DISTRIBUTION

To whom and by whom?

- To all qualified voters of the town.
- By the elected auditors or, if the office was eliminated, the selectboard.

LEGAL REQUIREMENTS OF ANNUAL AUDIT REPORT: DISTRIBUTION

To whom?

- Copies to town clerk (two copies to each library in town, one copy to VSARA, two + copies in town office with regular binding).
- Surplus copies to town clerk before Town Meeting Day.
- Copy to be mailed or distributed to any voter or resident, upon request.

LEGAL REQUIREMENTS OF ANNUAL AUDIT REPORT: DISTRIBUTION

When?

- At least ten (10) days before Town Meeting Day.
- Mail or otherwise distributed = does not need to be received by voters ten (10) days prior, just mailed or notice of availability provided.
- Minimum timeframe, can go earlier.

[24 V.S.A. § 1682\(a\)\(1\).](#)

LEGAL REQUIREMENTS OF ANNUAL AUDIT REPORT: ADOPTION?

ADOPTION AND LEGAL EFFECT OF THE REPORT

- NOT required but many towns adopt it.
- If adopted, not an admission of liability.

OPTIONS FOR PERFORMING & REPORTING ANNUAL AUDIT

- **Option 1, default rule:** elected auditors perform and report audit. See [17 V.S.A. § 2646](#), [24 V.S.A. §§ 1681, 1682, 1683, 1684](#).
- **Option 2, legal authority to hire:** selectboard can hire professional and elected auditors remain; higher standards for professional audit. See [24 V.S.A. § 1690](#). **Supplemental/Additional.**
- **Option 3, legal mandate to hire:** voters eliminate elected auditors, selectboard **must** hire licensed accountant. See [17 V.S.A. § 2651b](#) and [24 V.S.A. § 1682\(b\)](#).

CONSIDERATIONS FOR HIRING & WORKING WITH PROFESSIONAL FIRMS

-
- understand the legal requirements a comprehensive audit must meet before hiring a firm;
 - understand the types and scopes of various audits. Determine your needs and customize your RFP accordingly.

USING PROFESSIONAL AUDIT RESULTS TO FORMULATE 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 funds, with a list of the assets of the funds, including the receipts and disbursements for the preceding year	Information is found in the financial reports, specifically: (a) information regarding non-expendable trust funds under "permanent" 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"

RESOURCES

MAC Finance Topics Page at <https://www.vlct.org/municipal-assistance/municipal-topics/finance>

- [Model RFP for Auditing Services](#)
- Model Finance Policies
- Internal Controls Checklist
- Financial Auditing & Reporting Info Sheet

MAC Town Meeting Resources Page at <https://www.vlct.org/municipal-assistance/municipal-topics/town-meeting>

- Annual Auditors' Report FAQs

AUDITORS HANDBOOK



This Photo by Unknown Author is licensed under CC BY-SA

MAC MEMBER
INQUIRY SERVICE

INFO@VLCT.ORG

(802) 229-9111
M-F, 8:30AM-4:00PM