


From: Cara 
To: Lewis, Pete and Tristan
Date: January 25, 2022
Re: My understanding of the Audit report versus the Annual report

Last year, Halifax voted to eliminate the office of elected auditors and to replace it with a retained public accounting firm. Separately, Halifax voted to have a retained public accounting firm do a look-back — i.e., to conduct a comprehensive audit of all funds of the town for fiscal year ending 2020. The board opened the bids responsive to the RFP at our meeting on June 1 and at our meeting on July 6, 2021, we voted to hire Batchelder Associates to conduct both audits - first 2020 and then 2021.

These decisions by the voters created a new reporting obligation on the part of the Selectboard. The board has a statutory obligation to discuss the public accountant's audit report at the first regular meeting after it receives the report, as well as statutory obligations with respect to the report's dissemination. The statute sets forth specific requirements concerning the manner in which the public accountant must conduct the audit (like that it be conducted according to "generally accepted government auditing standards"). And the statute identifies specific information that the accountant must include in the report. All of those obligations can be found at 24 VSA §1690, which is reprinted below.

A different statute governs the financial information that must be made available to voters at least ten days before town meeting - the information Halifax voters have, by custom, come to expect in the Town Report. *This is separate and apart from the reporting obligation when a town has hired an outside accountant.* The annual reporting obligations can be found at 24 VSA §§1682, 1683 and 1684, also reprinted below. Hiring an outside accountant does not change the substance of the annual reporting requirement; it just changes who must make sure it gets done.

There are, then, two distinct but not unrelated reporting requirements — one triggered by the production of an outside firm's audit report, and one triggered by town meeting. Furthermore, the *contents* of each of those reports is different. To help visualize the differences, VLCT created a chart showing where the annual information we must make available ahead of town meeting can be found within a comprehensive audit report. The point of this: the minimal *annual* reported information is a subset of that contained within a formal, comprehensive *audit* report.

Nevertheless, where a town, like Halifax, has opted for a full audit conducted by a CPA, we can't produce the *annual* report until the accountant is far enough along to be comfortable and confident that the numbers extracted for the *annual* report are reliable. For reasons I expect Batchelder Associates to help us understand, we're not there yet. But it's not unreasonable to think that the accountant will soon be able to extract the information required by §§1683 and 1684 even if the comprehensive audit report, with all of its annotations, narrative and outside sections, is not yet ready to be certified and delivered to the Selectboard. And again, when it is, the Selectboard will have to follow the reporting and dissemination obligations described in §1690.

§ 1690. Certified or public accountant to audit town accounts; warning; form

(a) The legislative body of a city, town, or incorporated village may upon its own motion contract with a public accountant, licensed in this State, to perform an annual financial audit of all funds of the town; or upon petition in writing of legal voters equal to five percent of the legal voters of the town or village, the legislative body shall insert in the warning for any annual meeting, or in the warning for a special meeting, which shall be called upon such petition, an article in substantially the following form:

"To see if the [city, town, or village] will vote to instruct the [legislative body] to employ a certified public accountant or public accountant licensed in this State, to perform an annual financial audit of all funds of the [city, town, or village]."

(b) Audits performed by a public accountant under this section shall be conducted in accordance with generally accepted government auditing standards, including the issuance of a report on internal control over financial reporting that shall 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 auditor's or public accountant's opinion is qualified, adverse, or disclaimed:

(1) the auditor or public accountant shall present the findings or opinion to the legislative body of the town and explain those material weaknesses or significant deficiencies or his or her 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 shall 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 shall 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 shall post the audit report and the accompanying report on internal control over financial reporting on the municipality's website, if the municipality has a website.

Title 24 : Municipal And County Government
(Cite as: 24 V.S.A. § 1682)

§ 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.

(2) At a duly warned annual or special meeting, the voters of the town may vote to provide notice of the availability of the auditors' report to the voters of the town in lieu of mailing or otherwise distributing the report itself. If the voters of the town vote to provide notice of availability, they must specify how notice of availability shall be given, and such notice of availability shall be provided to the voters of the town at least 30 days before the annual meeting.

(3) Upon request, the auditors shall mail or distribute a copy of the full report to a voter or resident of the town.

(4) When the auditors mail or distribute the report or provide notice of the availability of the report to the voters of the town, they shall at the same time deliver to the town clerk the copies required by section 1173 of this title and shall place all surplus copies in the custody of the town clerk before the first Tuesday in March.

(5) As used in this subsection, the term "resident" shall be defined as the term is defined in 17 V.S.A. § 2122(b).

(b) If a town has voted to eliminate the office of auditor, the findings of the public accountant employed in accordance with 17 V.S.A. § 2651b shall be mailed or otherwise distributed by the selectboard in the same manner that findings are required to be distributed by auditors.

Title 24 : Municipal And County Government
(Cite as: 24 V.S.A. § 1683)

§ 1683. Contents of report; municipal fiscal years

(a) The report shall show a detailed statement of the financial condition of such town for its fiscal year, a classified summary of receipts and expenditures, a list of all outstanding orders and payables more than 30 days past due, and show deficit, if any, pursuant to section 1523 of this title and such other information as the municipality shall direct. Individuals who are exempt from penalty, fees, and interest by virtue of 32 V.S.A. § 4609 shall not be listed or identified in any such report, provided that they notify or cause to be notified in writing the municipal or district treasurer that they should not be so listed or identified.

(b) The fiscal year of all school districts, charter provisions notwithstanding, shall end on June 30.

(c) The fiscal year of other municipalities shall end on December 31, unless the municipality votes at an annual or special meeting duly warned for that purpose to have a different fiscal year, in which case the fiscal year so voted shall remain in effect until amended.

(d) [Repealed.]

(Cite as: 24 V.S.A. § 1684)

§ 1684. Trust assets; indebtedness The auditors shall make a detailed statement showing:

(1) the condition of all trust funds in which the town is interested and a list of the assets of such funds, including the account of receipts and disbursements for the preceding year;

(2) what bonds of the town are outstanding and the rate of interest and the amount thereof; and

(3) what interest-bearing notes or orders of the town are outstanding and the serial number, date, amount, payee, and rate of interest of each and the total amount thereof.

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"