

**LOCAL GOVERNMENT AUDITS**  
**Meeting the Challenges of Financial Reporting**

**HB5391(Manley)**

Illinois' large number of units of local governments, bifurcated and conflicting statutory reporting requirements, lack of financial training, complexities of audits, and the limited pool of CPAs and CPA firms performing governmental audits have created challenges for units of local government to comply with financial reporting to the Comptroller's Local Government Division.

With that being said, in an attempt to address transparency and accountability of local government finances, HB 5391, "The Government Reporting Enhancement and Transparency Act" consolidates multi-layered local government audit requirements into one statute with four categories of governments based on annual external revenues with levels of escalating reporting requirements. The four categories would apply to all units of local government that include:

| <b>Category</b> | <b>Report(s)</b>              | <b>Annual Cash Receipts \$ Threshold</b> | <b>Frequency</b> | <b>Scope</b>                                                                                                |
|-----------------|-------------------------------|------------------------------------------|------------------|-------------------------------------------------------------------------------------------------------------|
| 4               | Two signed electronic reports | >\$35M                                   | Annual           | 1) GAAP <sup>1</sup> - GAAS/GAGAS <sup>5</sup><br>2) AUPs <sup>3</sup><br>3) Other Contractual <sup>4</sup> |
| 3               | Two signed electronic reports | \$3.5M - < \$35M                         | Annual           | 1) Cash <sup>2</sup> - GAAS/GAGAS <sup>5</sup><br>2) AUPs <sup>3</sup><br>3) Other Contractual <sup>4</sup> |
| 2               | One signed electronic report  | \$100K - <\$3.5M                         | Annual           | AUPs <sup>3</sup>                                                                                           |
| 1               | Comptroller Template          | <\$100,000                               | Annual           | Independent Elector Audit Committee Inspection                                                              |

The legislation establishes reporting requirements and directs the Comptroller to adopt, through administrative rules, tailored to the needs of the many different types of local governments, including fire protection districts and other special districts. These government-type-specific procedures will be developed through a consultative process with local government experts and CPAs. Further, the legislation also requires the Comptroller to support the competitive selection of CPA firms, ensuring transparency in the RFQ process for firm selection, and to create a searchable online database for reports, compensation disclosures, and audit findings.

Notably, HB 5391 provides relief for small units of local government from a full financial statement audit to a financial review by a CPA using the *Statements on Standards for Attestation Engagements* and, in some instances, an independent elector audit committee inspection for the smallest units of local government. The reporting framework will incentivize CPAs and CPA firms to provide services to smaller units of local government, thereby broadening the pool of service providers and allowing specialized government financial audit firms to focus on the larger governments.

HB 5391 includes a transition timeline for implementation beginning for FY2028, with a phased transition through FY2033. The legislation updates or repeals existing statutes to align with the new framework.

Lastly, the proponents recognize the need to reinstitute annual statewide training with local government officials by region on audit requirements and financial reporting.

In sum, HB 5391 serves the public's interest through transparency and accountability of local government's finances and compliance with state laws.

Proponents:

Illinois CPA Society

Township Officials of Illinois

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<sup>1</sup> The local government would prepare its financial statements using U.S. GAAP.

<sup>2</sup> The local government would prepare its financial statements using the cash basis.

<sup>3</sup> Agreed-upon procedures would review cash expenditures, cash receipts, bond and banking requirements, and reconciliations of accounts from a fiscal perspective and review procedures for complying with FOIA, OMA, records retention, capital asset recordkeeping, and compensation of officials from an accountability perspective. These would only follow the AICPA's *Codification of Statements on Standards for Attestation Engagements* (107 pages).

<sup>4</sup> Other contractual includes a Single Audit or bond covenants, when applicable.

<sup>5</sup> The financial audit would follow the AICPA's *Codification of Statements on Auditing Standards* and the GAO's *Yellow Book*.