



An Overview of Municipal Audits Frequently Asked Questions

1) What is a financial audit?

A financial audit is an examination of a municipality's financial records, accounts, business transactions, accounting practices and internal controls.

2) Should a municipality have an annual audit? What if we are a very small town?

DLS best practice suggests an annual financial audit. However, one may be required. For a small town with limited resources an audit every two years with agreed upon procedures, an engagement in which the auditor issues a report on specific financial procedures of the municipality, in the off years may suffice.

3) When am I required to have an audit?

The current threshold under the Federal Single Audit Act of 1984, as amended, requires that there be a financial audit or, a specific program audit, if granted by the appropriate federal oversight or cognizant agency whenever \$750,000 or more in federal funds are expended during any one fiscal year. For continuing disclosure annual report requirements, audited financial statements must be submitted to the Municipal Securities Rulemaking Board and/or the United States Department of Agriculture if the debt is a USDA loan. A regional school district must have an annual audit as required by [G.L. 71, § 16A](#).

4) What type of audit do I need? Will an annual audit detect fraud in my community?

There are many different types of audits, such as financial audits, information systems audits, operational/performance audits, investigations/forensic audits and more. Your audit firm can help you define your needs. An annual audit may or may not help detect fraud. Auditing standards state that management and governing bodies are responsible for fraud detection. Auditors must provide reasonable assurance that the "books" are free of misstatements and that "material" issues with the "books" could be the result of fraud. In other words, they must consider the possibility of fraud and raise a red flag to the client if they suspect fraud.

5) Which body and/or official(s) in municipality should select the audit firm?

Ideally, an audit firm should be selected by the audit committee established by the municipality. The selection process can be determined by the jurisdiction and is dependent on the audit needs of the municipality and any other legal requirements.

6) What is an audit committee?

An audit committee is a group of individuals chosen to select the outside audit firm and determine the audit objectives as well as attend the exit interview, monitor the progress of corrective actions recommended in the audit, and participate in the audit presentation to the selectboard or city/town council. The audit committee should not be composed of potential subjects of the audit (e.g., municipal managers and staff), but could include members of the finance committee or city council and residents with relevant experience or background.

7) For how long should a municipality retain the same audit firm?

The Government Finance Officers Association recommends multiyear agreements of at least five years in duration, after which a full competitive selection process or rotation of senior engagement staff should occur.

8) Do I have to go out to bid to select an audit firm?

State law (Chapter 30B, the Uniform Procurement Act) exempts contracts for certified public accountant services including audit services. However, a competitive selection process may be used to select an audit firm despite the exemption. It is important to note that if federal funds are used to pay for these audit services or an if audit is a federal requirement or if an audit is required by a federal grant or is a condition for receiving federal aid, then federal procurement requirements may apply. The state procurement exemption would not apply in this case. You should consult your federal grant agreement, federal grantor agency or other federal guidance for more information.

9) Where can I find a list of Accounting firms that specialize in governmental audits?

The Massachusetts Society of Certified Public Accountants' (MSCPA) website contains a listing of [CPA's in Massachusetts](#). DLS can provide a list of firms currently conducting municipal audits in Massachusetts. We also recommend speaking with a like-sized community with similar needs for audit firm referrals.

10) How much will an audit cost and what will the audit firm do?

Audit procurement, like any other supply or service procurement, must have clear fees, specifications, scopes of work and terms and conditions. You must dictate what the auditor does including the type of audit and compliance with applicable standards. The scope or work and other factors will determine the fee. Reviewing what jurisdictions of similar size pay for their audits may provide some guidance about cost.

11) How should I prepare for an audit?

Your records should be complete, available, easily accessible, and “auditable” meaning the records are complete and accurate to the best of your knowledge and there is sufficient “back up” to support what is in your “books.” Also, ensure staff allocate appropriate time to respond to auditor questions and information requests.

12) How will my municipality know the results of the audit?

The audit firm will provide audited financial statements with the audit opinion and other required disclosures and information. There are four types of audit opinions:

- “Unmodified opinion”: Financial statements are fairly presented and comply with applicable framework
- “Qualified opinion”: Financial statements are fairly presented with an exception of a specified area
- “Adverse opinion”: Financial statements are misstated or inaccurate
- “Disclaimer of opinion”: Opinion cannot be rendered
- The municipality will also receive a management letter, if included in the contract for services, which provides a list of internal control weaknesses and operating inefficiencies. Pertinent financial officials should respond to each comment and develop action plans for each citation, work with auditor to uncover root causes of deficiencies and measure effectiveness of new procedures periodically.

13) How should the results of the audit be presented by the audit firm?

The results of the audit should be presented by the audit firm at an open meeting, such as a meeting of the Board of Selectmen or city/town council. The report and other audit-related materials may be provided to the audit committee and whatever committee will receive the audit firm presentation. The audit report and other documents provided to the jurisdiction are public records.

14) What are the benefits of an audit?

An audit is a valuable management tool for assessing community’s fiscal performance that can reveal underlying causes of financial distress. It serves as a resource for credit rating agencies. Also, use of the audit report and management letter can assist with improving financial controls and practices. Audit reports may also identify internal control weaknesses and vulnerabilities to fraud.

Additional Resources:

Chapter 30B procurement assistance is available from the Office of the Inspector General's hotline at 617-722-8838 and 30Bhotline@mass.gov. More information about the Massachusetts Certified Public Purchasing Official (MCPPO) training program may be found at <https://www.mass.gov/oig-education-and-training>.

In addition, the Division of Local Services, Technical Assistance Bureau is available to assist your community for free. Our comprehensive Financial Management Review is an operational overview of local accounting, treasury, collection, assessing, and overall administrative functions that is designed to improve day-to-day management practices and procedures through specific, hands-on tools, guidance, and strategies for improving local government. We also provide Strategic Planning, Analysis, and Benchmarking by highlighting strategies and opportunities to strengthen municipal financial operations by analyzing data, policies, procedures, workflows, staffing levels, job descriptions, and shared-service opportunities. Click [here](#) to view more information about the Technical Assistance Bureau's services.

Please also visit [DLS' Municipal Finance Training & Resource Center](#) to learn more about this and other local finance topics.