

TOWN OF BROOKLINE ADVISORY COMMITTEE
Administration & Finance Subcommittee
Public Hearing
April 24, 2023 5:00 p.m.
Warrant Article 12 (Town Audits)

Attendance: Kelly Hardebeck, Harry Bohrs, Neil Gordon, Joslin Murphy, Alec Lebovitz, Mike Toffel, Perry Grossman, Donelle O’Neal

Recommendation: By a vote of 3 in favor, 1 opposed, and no abstentions, the subcommittee recommends favorable action on Warrant Article 12, as amended.

Executive Summary:	WA12 would amend Article 4.1 (“ACCOUNTS AND AUDIT”), Section 4.1.2 (“AUDIT”) of the Town’s General Bylaws. The proposed amendment would do three things: a) require that the Town’s lead audit partner cannot serve for more than five consecutive years; b) limit the Town’s contract with an outside auditor to five years; and c) require the Town to seek competitive bids from audit firms at least every ten years. The proposal includes a mechanism for extension, and does not prevent the retention of a firm assuming the guidelines have been adhered to. The rotation of audit partners and firms is a very common and responsible financial practice. This article seeks to preserve the practice within our Town Bylaws. Since the publishing of the Warrant, WA12 has been amended to allow extensions when warranted. The A&F Subcommittee believes this article, as amended, is a positive step forward in the financial governance of Brookline.
Voting Yes will...	Require the rotation of the Town’s auditors and open competitive bids for the service every ten years, ensuring that these policies are maintained over the long run.
Voting No will...	Not proscribe these requirements in our bylaws, and instead rely of the adopted policy of the Audit Committee – which mirror these bylaw changes.
Financial impact [if any]	None, other than what might arise from going out to bid on a regular basis.
Legal implications [if any]	Thorough accurate audits are not just a legal requirement; they also contribute to good financial governance.

Overview

The regular rotation of auditors is a common best practice in corporations, and is required by law for some. The State of California requires such rotation in local government. WA12 is in step with the recommendation made by BFAC, and these guidelines have recently been adopted as a standing policy by the Audit Committee. As stated by the petitioners: *This article would amend the Town bylaws to require lead audit partner rotation by restricting any individual from serving as Brookline’s lead audit partner to a maximum of five consecutive years, by limiting the term of an audit firm contract to five years, and by requiring that the Town seek competitive bids from audit firms at least every ten years. Such a competitive bidding process would not preclude the*

incumbent audit firm from submitting a bid and being awarded the contract, but would ensure that the Town would have opportunities to review other bids as well.

As amended, WA12 has the support of the Finance Director and Audit Committee as a Town bylaw.

Discussion

WA12 seeks to codify best practices in municipal auditing as recommended by the BFAC in the Town's Bylaws. The subcommittee discussed the value and difference of adopting a bylaw versus a policy. A policy can work well, when it works well. In contrast, a bylaw is a bit more rigid in compelling compliance over the longer run. Questions were raised about the value of going out to bid every ten years in that it could create additional work and distractions for Town staff, perhaps needlessly. However, an audit is somewhat unique and uniquely important to the financial health and reputation of a town. In addition, going out to bid allows for a renewed exploration of best practices, perhaps gleaned some intellectual benefit as well as financial. As stated, the Audit Committee supports this proposal and has recently officially adopted it as a policy of the Committee. With that said, committee members change over time, as does institutional memory. As a bylaw, the structured discipline set forth in the framework of WA12 can be expected to endure. Bylaws and policies are meant to ensure consistent compliance. However within either, the unexpected should be considered and an appropriate measure of flexibility is included in the amended WA to allow for timely compliance. It was noted that the Town has a relatively new Finance Director and Town Administrator, and that changing auditors during this recent transitional period could have been disruptive, and possibly risky. The current auditors have a long history with the Town and significant institutional knowledge. As amended, WA12 anticipates such things and provides a mechanism within the bylaw for extending contracts when circumstances such as these occur. Generally, however, it is good practice to have regular rotations, invite in new eyes and perspectives, and open up the competitive bidding process. The amended WA strikes a good balance, providing required guidance while also accommodating timely responsiveness to potential need.

Research (Provided by Petitioners)

SEC, "Commission Adopts Rules Strengthening Audit Independence,"
<https://www.sec.gov/news/press/2003-9.html>

California State Controller, "Auditor Rotation Requirements for Annual Audits of Local Governments," https://www.sco.ca.gov/aud_auditor_rotation_requirements.html

Ken Tysiac, "Mandatory audit firm rotation rules published in EU," Journal of Accountancy (May 28, 2014), <https://www.journalofaccountancy.com/news/2014/may/201410229.html>

The Brookline Fiscal Advisory Committee's Final Report (February 5, 2020)
<https://www.brooklinema.gov/DocumentCenter/View/21168/February-5- Final-BFAC-Report 5>

BFAC Report 1 (August 2021) of the Brookline Fiscal Advisory Committee Moderator's Committee <https://www.brooklinema.gov/DocumentCenter/View/25182/BFAC-MC-Report-1-of-3-August2021>

BFAC Report 2 (March 2022) of the Brookline Fiscal Advisory Committee Moderator's Committee <https://www.brooklinema.gov/DocumentCenter/View/30336/BFAC-MC-Final-Report-no-2--32322>

<https://www.gfoa.org/materials/audit-procurement>

Recommendation: By a vote of 3 in favor, 1 opposed, and no abstentions, the subcommittee recommends favorable action on WA12, as amended.

Hearing Recording:

Passcode: