

ADVISORY COMMITTEE'S RECOMMENDATION

Recommendation: FAVORABLE ACTION on Article 12, as amended, by a vote of 19-5-3.

Executive Summary:	<p>Article 12 would amend Article 4.1 (“ACCOUNTS AND AUDIT”), Section 4.1.2 (“AUDIT”) of the Town’s General Bylaws, in order to accomplish three things:</p> <ul style="list-style-type: none">a) prohibit the Town’s lead audit partner from serving for more than five consecutive years;b) limit the Town’s contract with an outside auditor to five years; andc) require the Town to seek competitive bids from audit firms at least every ten years. <p>The rotation of audit partners and firms is a very common and responsible financial practice, and this article seeks to require the practice within the Town’s Bylaws. Since the Warrant was published, Article 12 was amended after consultation with the Finance Director and the Audit Committee to permit an alternative procurement method and to allow for an extension of the ten year procurement requirement when warranted. The intent of the Article is considered to be a positive step forward in the financial governance of Brookline.</p>
Voting Yes will...	Require periodic rotation of the Town’s auditors and procurement of auditing services every ten years, and ensure that these policies are maintained over the long run in the Town’s Bylaws.
Voting No will...	Not mandate these requirements in the Town’s Bylaws, and rely instead on the policy adopted by the Audit Committee – which mirrors these requirements.
Financial impact	No significant financial impact is anticipated, other than the time and expense that might arise from soliciting bids as required in the Article.
Legal implications	The legal implications are considered to be positive. Thorough accurate audits are a legal requirement and contribute to good financial governance.

Overview

The Town of Brookline is subject to an annual financial audit. Within corporations, the regular rotation of auditors is a common best practice, and in some cases is required by law. The State of California, for example, requires such auditor rotation in local government. Article 12 is in step with both the recommendation of the Brookline Financial Advisory Committee (BFAC) and the existing rotation policy that has been adopted by the Town’s Audit Committee. Article 12 seeks to compel implementation of the rotation policy with an amendment of the Town’s Bylaws. The proposed amendment would restrict any individual from serving as the Town’s lead audit partner to a maximum of five consecutive years; limit the term of contracts between audit firms and the Town to five years; and require that the Town seek competitive bids from audit firms at

least every ten years. The competitive bidding process would not, however, preclude the incumbent audit firm from submitting a bid and being awarded the contract again, but would ensure that the Town has opportunities to review other competitive bids as well.

The petitioners reported that during their conversations with the Finance Director and the Audit Committee concerning Article 12, a recommendation was made by the Finance Director to include the opportunity for an alternative procurement method to competitive bidding in order to permit some flexibility in this regard, and a recommendation was made by the Audit Committee to include the option for an extension of the ten year for such procurement for up to two years in order to accommodate unforeseen events. In addition, the word “restrictions” was replaced with “conditions” in Section 4.1.2 as a “housekeeping” measure. The petitioners accepted each of these as “friendly” amendments.

Discussion

During the review of Article 12, consideration was given to the value of adopting a bylaw instead of simply maintaining a policy such as the Audit Committee has done, and it was determined that a bylaw would be more rigid in compelling compliance over the longer run. Questions were also raised about the value of soliciting a bid on an every ten year basis, particularly where it might create additional work and distraction for Town staff. Overall, both the Subcommittee and the full Advisory Committee felt that audits are important to the financial health and reputation of a town, and that soliciting bids allows for a renewed exploration of best practices, perhaps even gleaning some intellectual benefit from the process as well as financial. The Audit Committee supports what is proposed in Article 12, and has already adopted a policy that largely mirrors the requirements in the Article. However, it was noted that committee members change over time, as also does institutional memory, and as a bylaw, the structured discipline that is set forth in the framework of Article 12 can be expected to endure. Bylaws and policies are intended to ensure consistent compliance, and within either, the unexpected should be considered. An appropriate measure of flexibility is included in the amended version of Article 12 to allow for such flexibility and for timely compliance. It was noted that the Town has a relatively new Finance Director and Town Administrator, and that changing auditors during this transitory period could have been disruptive, and possibly risky. The current auditors, who are one of only a few who provide the service to municipalities in this area, have a long history with the Town and significant institutional knowledge. As amended, Article 12 anticipates this, and provides a mechanism for extending contracts when circumstances such as these occur. Generally, however, it is considered good practice to have regular rotations, invite in new eyes and perspectives, and open up the competitive bidding process. As amended, Article 12 strikes a good balance by providing required guidance to Town staff while also accommodating timely responsiveness to potential need.

As amended, Article 12 has the support of both the Finance Director and the Audit Committee.

Research Conducted 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>

The meeting recording can be found at <https://brooklinema.zoomgov.com/rec/play/nqLhgy3TThVAWDF1Ig1ElwjNHNdMC2k1BKer548FjLY9pK2L6jwY2MmXIVAR0iuofFNJ6ctdPmwJnfwG.wnMxE4EVPZfg-Jma?continueMode=true>.

Recommendation

By a vote of 19-2 with 4 abstentions, the Advisory Committee recommends FAVORABLE ACTION on Warrant Article 21 as amended. The clean version of the motion is shown below. After the vote summary table an appendix is included to show the differences between the amended motion and the version published in the Warrant.

ARTICLE 12 AMENDED MOTION

VOTED: That the Town amend Article 4.1 “Accounts and Audits” of the Town’s General By-laws as follows (language to be added appearing in underline):

ARTICLE 4.1

ACCOUNTS AND AUDITS

SECTION 4.1.1 ACCOUNTING SYSTEM

All accounts of the Town shall be kept in accordance with a uniform accounting system approved by the Massachusetts Department of Revenue.

SECTION 4.1.2 AUDIT

The accounts of the Town shall be audited by an independent auditor retained by the Town at such times and in such manner as determined by the Select Board, with the advice of the audit committee, subject to the following conditions: (a) no individual can serve as lead audit partner for the Town's audit for more than five consecutive years; (b) the Town's contract with an independent auditor cannot specify a term longer than five years; and (c) the Town must seek competitive bids or undertake an alternative procurement method at least every ten years, with the option of an extension of up to two years contingent on the approval of the Select Board.

SECTION 4.1.3 AUDIT REPORTS

All reports by the independent auditor shall be available for inspection by the public during regular business hours at the Town's offices. The audit report shall also be made available at the Main Library.

ARTICLE 12 ADVISORY COMMITTEE VOTES

Article Description	Require rotation of auditors
AC recommendation (Favorable Action unless indicated)	19-2-4
Ben Birnbaum	Y
Harry Bohrs	Y
Cliff Brown	Y
Patty Correa	Y
John Doggett	Y
Katherine Florio	Y
Harry Friedman	A
David-Marc Goldstein	Y
Neil Gordon	N
Susan Granoff	Y
Kelly Hardebeck	Y
Amy Hummel	N
Anita Johnson	A
Alisa Jonas	Y
Janice Kahn	Y
Pam Lodish	Y
Joslin Murphy	Y
Donelle O'Neal, Sr.	Y
Linda Olson Pehlke	Y
Markus Penzel	
David Pollak	Y
Stephen Reeders	Y
Carlos Ridruejo	
Lee Selwyn	Y
Alok Somani	A
Carolyn Thall	Y
Christine Westphal	A
Dennis Doughty *	
* Chairperson does not vote except to break a tie	

APPENDIX — Amendments to Warrant Article 12

For clarity, additions to the motion as filed are shown below in **bold underline**; deletions are shown in ~~striketrough~~.

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