

insight

2025 GOVERNMENT REPORT

Examining the Sustainability of Local Government Audits

Special Report to the Illinois General Assembly



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ICPAS serves an extraordinary community of more than 20,000 accounting and finance professionals in a variety of CPA and non-CPA roles positioned throughout the public accounting, corporate finance, not-for-profit, consulting, education, and government sectors.

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The State of Compliance

With nearly half of Illinois' units of local government delinquent and noncompliant with their financial reporting and audit requirements, legislative action is needed to create lasting change.



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Noncompliance with local government financial reporting and audit requirements is a pervasive issue throughout our country. But when it comes to Illinois, the issue intensifies. With more than 8,500 units of local government across the state, the state of their compliance can be, what we'd call, elusive.

When the Illinois CPA Society (ICPAS) and Township Officials of Illinois began discussing ways to address this, Dan Nugent, CPA, JD, assistant professor of accounting and business law at the University of Wisconsin-Platteville, was brought in to perform an extensive research project on compliance with current reporting requirements and to develop a streamlined reporting framework for compliance purposes. In his research report authored on our behalf, "Rethinking Reporting Requirements," Nugent determined that only 44% of Illinois' units of local government required to submit audit reports to the Illinois State Comptroller complied. What's more, 2023 data from the Illinois State Comptroller revealed that 48% of units of local government filed their reports late, with 113 filing reports over a year late, and 8% failed to file.

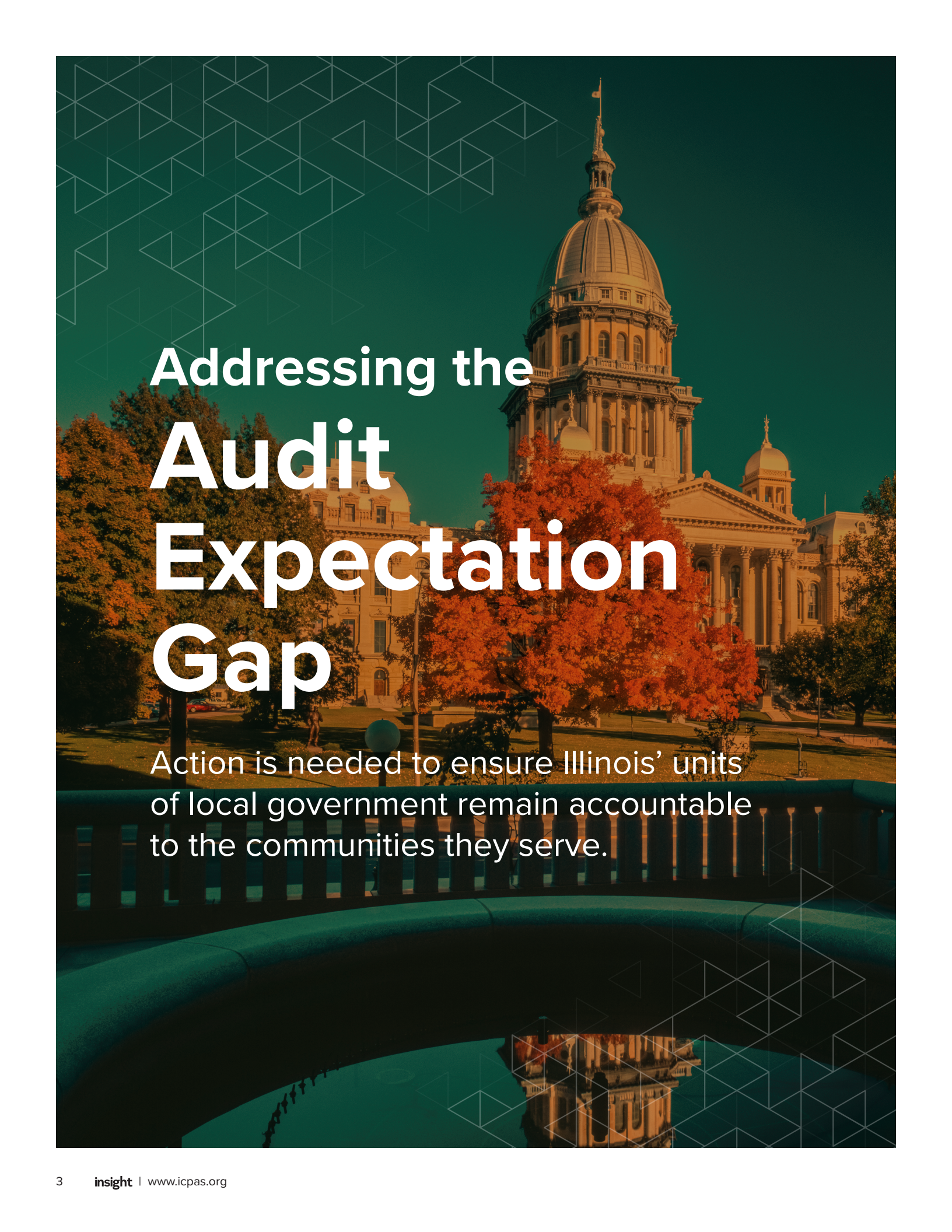
Our research found there's no single factor driving the high number of units of local government that are delinquent and noncompliant with their audit reporting requirements. Instead,

a multitude of regulatory, legislative, environmental, and economic factors are contributing to the layered complexity and noncompliance experienced today. This realization leads us to believe that today's compliance framework and audit reporting requirements are simply unsustainable.

With this in mind, a more streamlined and consistent approach to local government financial reporting and auditing is imperative to preserving transparency and protecting the public interest.

Our units of local government exist to serve the people of Illinois. Accountability to local taxpayers is achieved through transparency and reporting compliance in a sustainable, straightforward, and understandable way. It's time Illinois policymakers bring forward a single local government audit act that modernizes our state's regulatory framework and reflects the environment our units of local government operate in today.

A handwritten signature in white ink, appearing to read "Martin Green", set against a dark blue background.



Addressing the Audit Expectation Gap

Action is needed to ensure Illinois' units of local government remain accountable to the communities they serve.

Case Study: Audit Complexities

The Kankakee River Valley Airport Authority was statutorily created in 1991 as a precursor authority for a third Chicago airport. Creation of this authority by the Illinois General Assembly also included a nominal one-time appropriation of roughly \$2,000. Consistent with the dormancy of plans for a third Chicago airport, the statutorily created authority remains in existence but dormant.

In 2012, the Illinois Auditor General performed a financial statement audit using government audit standards required by the business-type activities of the dormant authority. At the time, the authority held total assets in a PNC Bank account of \$2,052 in cash, with just \$1 in interest earned during fiscal year 2012. Despite no financial activity or transactions other than the accrued interest, approximately 139 hours were expended to complete the financial audit.

Although the Kankakee River Valley Airport Authority doesn't fall within the local government reporting requirements due to its unique status, the audit hours expended on a dormant entity are illustrative of the complexities of government audits.

There's a mistaken belief by many that the primary purpose of an audit is to detect fraud. The reality is there's a knowledge gap when it comes to audits, and this creates an expectation gap. In practice, there are various types of audits. Audits intended to detect fraud are forensic audits (aka investigative in nature), which are more targeted and extensive using forensic audit standards. Audited financial statements, the type of audit local governments must comply with, are designed to present 1) any significant material weaknesses in the government's system of internal controls, and 2) proposed remedies. In turn, audits and auditors can help units of local government be transparent, efficient, effective, and accountable, better positioning them to ultimately serve the public interest.

"Audits can expose sensitive accounting, financial, operational, compliance, and accountability issues in an already highly scrutinized political context. For example, audits may shed light on accounting errors, fraud, waste, abuse, and mismanagement," wrote Ross Baldwin, CPA, CFE, CIA, CGMA, and Ryan McDonough, CPA, Ph.D., in "Best Practices for State and Local Government Auditors."

In relation to local governments, the authors emphasize financial audits (and auditors) are "critical to ensuring transparency, efficiency, effectiveness, and accountability in government," and "provide an independent opinion about whether the financial statements are presented fairly, in all material respects, [and] in conformity with generally accepted accounting principles (or other accounting and reporting standards a government may be required to follow)."

The issue today? Many local governments are unable to meet legacy audit requirements that date back to 1968. The world has significantly changed since those audit requirements were put in place.

Local Government Audits & Compliance Complexity

Monitoring of local government finances falls under the purview of the Illinois State Comptroller and its Local Government Division. As the repository of local government annual financial reports (AFR) and audit reports, the division is responsible for the efficiency, transparency, and accountability of the financial reporting process for Illinois' units of local government. This information is posted on the comptroller's website for public access and consumption.

Importantly, Illinois' units of local government, regardless of size and revenues, are required, at minimum, to electronically file an AFR with the division. An AFR—a multipurpose information report that doesn't require certified public accountant (CPA) preparation—includes information required by the Local Government Registry Act (15 ILCS 405/23.7), like public official information, disclosure of accounting systems, debt, utility ownership, applicability of home rule, tax increment financing, pension retirement benefits, government entity

appropriations, funds and account groups, revenues, disbursements, fund balances, and indebtedness.

The comptroller is responsible for collecting and analyzing AFRs (and audit reports when applicable) from units of local government and ensuring compliance with statutory deadlines. A host of acts and codes also authorize the comptroller to withhold state funds from noncompliant units of local government, impose fines for failure to file financial reports, and/or have an independent audit performed at the expense of the local government, including the State Comptroller Act (15 ILCS 405/2), Governmental Account Audit Act (50 ILCS 310/5), Illinois Municipal Code (65 ILCS 5/8), Counties Code (55 ILCS 5/6-31006), and the Township Code (60 ILCS 1/80-20).

Adding to the compliance complexity, units of local government that meet specific but varying audit thresholds (outlined in the various statutory audit requirements below) must also submit a financial statement audit to the comptroller within 180 days from the end of their fiscal years.

Adhering to these multiple acts and codes—each adding layers of reporting requirements beyond the seminal Governmental Account Audit Act originally enacted in 1968—and meeting their statutory provisions means complying with several layers of financial reporting and audit requirements. Consider:

- **Governmental Account Audit Act (50 ILCS 310/5):** Governs the auditing of financial accounts for certain units of local government. The act ensures transparency and accountability in the financial operations of these entities by requiring regular audits. Units of local government with revenues below \$850,000 must file an AFR and be audited every four years. Units of local government with revenues exceeding \$850,000 must file an AFR and be audited annually.

Illinois' Layered Local Government Audit Requirements

Audit Act	Statute	Entity	Annual Financial Report	Audit Threshold	Audit Frequency	Audit Scope
Governmental Account Audit Act	50 ILCS 310/5	Specified units of local government	Yes	Revenue <\$850K	Every 4 years	CPA audit
			Yes	Revenue >\$850K	Annually	CPA audit
Illinois Municipal Code	65 ILCS 5/8* (HB 1082-104th GA)	Municipalities	Yes	Population <1,000	NA	NA
			Yes	Population <1,000 and owns municipal utility or has bonded debt	Every 4 years	CPA audit with no material findings
			Yes	Population >1,000	Annually	CPA audit
Counties Code	55 ILCS 5/6-31006	Counties	Yes	NA	Annually	CPA audit
Township Code	60 ILCS 1/80-20	Townships	Yes	Revenue <\$850K	Every 4 years and at the conclusion of township supervisor's term	Annual inspection by independent audit committee
			Yes	Revenue >\$850K	Annually and at the conclusion of the supervisor's term or when a vacancy occurs	CPA audit

- **Illinois Municipal Code (65 ILCS 5/8):** Imposes audit requirements based on municipal population. Municipalities with populations of less than 1,000 residents are required to file an AFR. Further, municipalities with populations of less than 1,000 residents that also own a municipal utility or have bonded debt must file an AFR and be audited every four years, providing previous audits didn't have material adjustments reported to municipal government management and the elected governing board. Municipalities with populations exceeding 1,000 residents must file an AFR and be audited annually.
- **Counties Code (55 ILCS 5/6-31006):** Provides that every Illinois county must file an AFR and have an audit of all funds and accounts annually.
- **Township Code (60 ILCS 1/80-20):** Establishes audit requirements based on revenues for townships at the conclusion of each township supervisor's term or when a vacancy occurs. Townships with revenues below \$850,000 must file an AFR, have accounts inspected by an independent audit committee annually, and be audited every four years. Townships with revenues exceeding \$850,000 must file an AFR and be audited annually.

From these four acts and codes alone, you can see how challenging maintaining compliance with the complex layering of the financial reporting and audit requirements is at present.

Modern Factors Impacting Local Government Audit Compliance

Today, there are several factors contributing to the efficacy of local government audits and compliance (or lack thereof) with the various reporting requirements.

To start, Illinois' sheer number of units of local government are a notable burden to regulate, monitor, audit, and serve. Putting this into perspective, as of January 2025, the Illinois State Comptroller reports there are 8,505 units of local government across the state—one of the highest counts in the nation.

In fact, this number of units of local government simply outstrips the economies of scale of CPAs who specialize in performing government audits. ICPAS, the American Institute of CPAs (AICPA), and other associations and state CPA societies across the country have collectively been working with various stakeholders to address the underlying challenges to restore a vibrant supply of CPAs specialized in government audits. However, the pool of CPAs who perform this work is primarily being driven by consolidation across the profession, retirements of CPAs serving governmental entities, and the risks and the complex and burdensome government audit standards.

To illustrate the complexity, the last printed version of the AICPA's "Codification of Statements on Auditing Standards" (2021) grew to 1,835 pages from 1,379 previously—the 2024 update has since only been published electronically due to length. Similarly, the 2024 revision to the United States Government Accountability Office's "Government Auditing Standards" jumped to 153 pages regarding financial audits versus the 79 in the 2007 edition.

As a result, units of local government are facing fewer options and rising costs and risks associated with maintaining their financial reporting and audit compliance. In particular, downstate units of local government are finding it challenging to find CPAs and auditors who geographically specialize in government audits. And, unfortunately, little is likely to change without a combination of regulatory reform and an increased supply of CPAs with the specialized skills to effectively serve governmental entities.

The Way Forward

Due to the numerous factors highlighted throughout this report, the compliance requirements for units of local government are difficult to meet and aren't sustainable in their current form. In other words, a comprehensive legislative solution is needed.

At this point, it's imperative that regulators and the Illinois General Assembly come together to reevaluate local government financial reporting and audit requirements with a focus on sustainably

capturing these entities’ fiscal activities and accountability. Things to consider during this reevaluation could include:

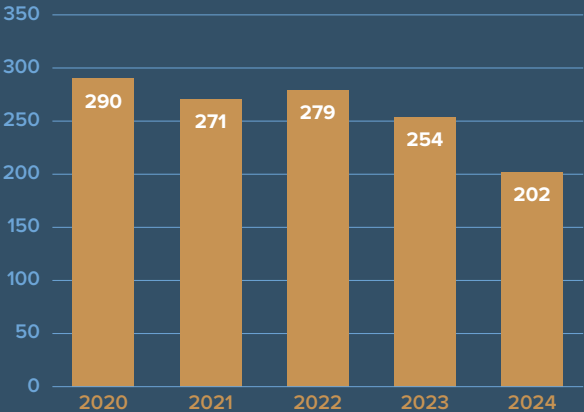
- Focusing on accountability for the public’s resources.
- Simplifying the reporting framework so it can be understood and implemented by local government officials and staff with varying levels of accounting sophistication and without always engaging a CPA.
- Retaining the same level of independent, third-party reports from CPAs but without the work and costs required of a comprehensive financial audit.
- Requiring minimal resources for compliance by units of local government.
- Addressing the audit expectation gap, which is the mistaken belief that the primary purpose of an audit is to detect fraud.

With the above goals in mind, ICPAS and the local government stakeholder organizations it has engaged with on this matter recommend the Illinois General Assembly pass legislation consolidating all local government financial reporting and audit requirements into one statute on government fiscal activity and accountability based on annual cash receipts from all external sources. The benefits of such a statute would be multifaceted:

1. One centralized audit statute outlining categorical audit thresholds for units of local government would greatly simplify the reporting and compliance framework.
2. Established and clear annual cash receipt thresholds for audits ensure midsize and large units of local government continue to have substantive audit requirements based on the new, singular statute and new reporting framework.
3. Smaller units of local government falling below the audit thresholds would no longer be required to submit time-consuming and costly audits of financial statements. Instead, procedures performed by CPAs and findings would be submitted.
4. The simplified and streamlined audit and reporting framework, including the audit exemption for small units of local government, could attract CPAs and CPA firms back to serving governmental entities, expanding the pool of professionals accessible to units of local government of all sizes.
5. Large CPA firms will be free to complete the more complex audits of midsize and large units of local government.
6. Implementing a new reporting framework within a revised audit engagement model will help attract smaller CPA firms and sole practitioners, thereby expanding audit capacity for smaller units of local government.

The reality is that the Governmental Account Audit Act was enacted in 1968, and the world—and the state of our state—has changed dramatically since then. Although the act has sparingly been amended by multiple acts and codes since then, the simple truth is that Illinois’ audit requirements today aren’t so simple, and they haven’t progressed with the times. When accounting for all the factors highlighted in this report, it’s clear why units of local government, both large and small, are challenged to meet their compliance requirements, which have proven to be unsustainable in their current form. A comprehensive legislative solution is needed to establish a new financial reporting and audit framework that reflects today’s economies of scale and ensures the sustainability and transparency of local government financial reporting and, ultimately, accountability of the expenditure of governmental funds. ©

Fewer Illinois CPAs Serving Local Governments



Unique Illinois CPAs signing off on local government audits.
State of Illinois, Office of Comptroller Local Government
Data Warehouse (March 2025 Update).

Growing Complexity

AICPA’s Codification on Auditing Standards



2009 Codification

1,379 pages (~1.1 lbs.) | Published through SAS 116



2021 Codification

1,835 pages (~1.4 lbs.) | Published through SAS 144



2024 Codification

Electronic only due to length | Published through SAS 149

U.S. Comptroller General’s Government Auditing Standards



2007 Revision

79 pages for financial audits



2024 Revision

153 pages for financial audits



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