



Legislative Analysis

Bill Number: HB 5391 (House Amendment 1)

Sponsor: Representative Manley (D-Joliet)

ISACo Position: Under review during discussions of possible amendments

Government Reporting Enhancement and Transparency Act

House Amendment 1 completely replaces the underlying bill to create the Government Reporting Enhancement and Transparency Act, which proposes to consolidate Illinois' fragmented local government financial reporting and audit laws into a single, statewide framework.

The legislation establishes a uniform reporting system for most units of local government (excluding entities already audited by or under the authority of the Auditor General) and is intended to standardize financial reporting, improve transparency, and better align audit requirements with the size and complexity of each government.

The Core Mechanism: A Four-Tier Reporting System

Beginning with fiscal years starting after December 31, 2027, local governments would be assigned to one of four reporting categories based on their annual cash receipts from external sources during the three immediately preceding fiscal years.

Category 1 - Smallest Local Governments (Less than \$100,000)

- The smallest units of government would not be required to obtain an independent CPA audit.
- Instead, they would complete a standardized financial reporting template reviewed by a three-person panel of independent electors.

Category 2 - Small-to-Mid-Sized Governments (\$100,000 - \$3.5 million)

- These governments would engage an independent CPA to perform Agreed-Upon Procedures (AUPs) rather than a comprehensive financial audit.

Category 3 – Mid-Sized Governments (\$3.5 million but less than \$35 million)

- Governments in this category would prepare financial statements using the prescribed cash basis of accounting.
- Those statements would be audited by an independent CPA in accordance with Generally Accepted Auditing Standards (GAAS) and Generally Accepted Government Auditing Standards (GAGAS).
- They also would be subject to Agreed-Upon Procedures established under the Act.

Category 4 – Largest Governments (\$35 million or more)

- Governments with annual external cash receipts of \$35 million or more during each of the three immediately preceding fiscal years would be classified as Category 4.
- These governments would prepare financial statements in accordance with Generally Accepted Accounting Principles (GAAP).
- Independent CPA firms would conduct comprehensive audits under GAAS and GAGAS and perform required Agreed-Upon Procedures.

Key Provisions Affecting Illinois Counties

Higher Reporting Standards for Larger Counties

Many of Illinois' larger counties are likely to fall within Category 4, although classification will depend on meeting the statutory external cash receipt thresholds.

For counties in Category 4, the legislation requires:

- Preparation of GAAP-compliant financial statements;
- Independent financial audits conducted under GAAS and GAGAS;
- Completion of Comptroller-prescribed Agreed-Upon Procedures; and
- Participation in the Act's CPA firm selection process.

The legislation also establishes a statewide CPA selection process that generally requires local governments to periodically solicit qualifications from audit firms, with staggered implementation during the transition period through 2033.

Periodic CPA Firm Selection and Potential Local Costs

The amendment should not be characterized as imposing a strict mandatory auditor rotation. Instead, it requires responsible officials to conduct a public request-for-qualifications process at least once every eight fiscal years. The incumbent CPA firm may participate and may be selected again; in years when the full selection process is not required, the legislation permits annual retention of the current firm following an evaluation and price negotiation.

Even when the incumbent firm is retained, the prescribed procurement process may increase administrative costs. Counties and other local governments would need to prepare and approve the RFQ, post it through the Comptroller's system, review and rank responsive firms, develop a shortlist, solicit fixed-fee proposals, negotiate price, document the selection, and approve a one-year contract. These duties may require substantial time from elected officials, audit committees,

finance personnel, legal counsel, and purchasing staff, particularly for governments with complex operations or multiple component units and funds.

If the process results in selection of a new CPA firm, additional transition costs are likely. A new auditor must become familiar with the government's accounting systems, internal controls, funds, grants, debt, prior audit findings, and reporting practices, while local staff must assemble background materials, explain historical transactions, respond to additional questions, and coordinate access to records. The loss of an incumbent firm's institutional knowledge can lengthen fieldwork and increase both professional fees and staff time, especially during the first engagement year.

The effect may be more pronounced in regions with few firms qualified and willing to perform governmental audits. A mandatory statewide cycle of RFQs could concentrate demand during assigned transition years, reduce the number of responsive proposals, or lead firms to price onboarding, travel, staffing constraints, and engagement risk into higher bids. This concern is in tension with the legislation's stated effort to use limited audit capacity more efficiently and with the observation below that the number of CPA firms willing to conduct governmental audits has declined. Although periodic competition could produce savings in some cases, local governments should not assume that the selection requirement will reduce costs, particularly where the incumbent is the only practical or cost-effective provider.

Specialized Reporting Framework for Circuit Clerks

The amendment directs the Office of the Comptroller to develop reporting and audit guidance specifically for Illinois circuit clerks.

In developing those standards, the Comptroller must consult with:

- The Administrative Office of the Illinois Courts (AOIC);
- A statewide organization representing circuit clerks;
- The Local Government Advisory Board; and
- A statewide certified public accounting organization.

The legislation recognizes that circuit clerks administer court-related fees, fines, and trust funds that differ significantly from traditional county financial operations and establishes reporting standards tailored to those unique responsibilities.

Revenue Calculations Based on External Cash Receipts

A government's reporting category is determined using cash receipts from external sources rather than internal accounting transfers.

This distinction is particularly important for counties because they routinely move funds among departments and accounts or administer pass-through funds for other governmental entities. Excluding internal transfers helps ensure that routine accounting activity does not artificially increase a county's reporting category.

New Delinquency Review Process

The legislation creates a structured compliance process for governments that fail to meet required reporting deadlines.

If a local government remains delinquent beyond the statutory grace period (after accounting for any extensions granted by the Comptroller), the Comptroller may initiate additional compliance reviews, require corrective action, publish notices of delinquency, and conduct continuing reviews until compliance is achieved.

For Category 4 governments, the Act also authorizes the Comptroller to assess late filing fees of up to \$100 per day, as provided in the legislation.

Transition Period Before Full Implementation

Recognizing the scope of the new reporting requirements, the amendment delays implementation until fiscal years beginning after December 31, 2027, and phases in certain requirements over several years.

The transition period provides counties and other local governments additional time to:

- Modernize financial reporting systems;
- Update accounting practices;
- Procure CPA services under the new selection process;
- Train financial staff; and
- Prepare for compliance before the new reporting framework becomes fully operational.

Witness Slips

The following organizations filed witness slips on House Amendment 1 for the March 25, 2026, hearing in the House Executive Committee. The bill was approved 12-0 with the understanding that the sponsor would work with opponents to address concerns.

Proponents

Illinois CPA Society
Illinois Municipal League

Opponents

City of Chicago
Illinois Association of Park Districts

No Position

Office of the Comptroller
Township Officials of Illinois

Reasons for Introduction

Although House Amendment 1 does not include a formal statement of legislative intent, the public record suggests the legislation was introduced to comprehensively modernize Illinois' local government financial reporting and audit system.

For decades, Illinois has maintained a patchwork of statutes governing financial reporting and audit requirements for various types of local governments. Counties, municipalities, townships, park districts, libraries, and numerous special districts have been subject to different reporting standards established through separate laws enacted over many years. House Amendment 1 seeks to consolidate many of these requirements into a single statutory framework.

The legislation also reflects recommendations developed by the Illinois CPA Society, which commissioned research examining Illinois' local government audit laws. According to the Society, the resulting report was intended to serve as the basis for legislation that would consolidate the state's numerous audit statutes into a more uniform system. The Society has publicly stated that House Bill 5391 was introduced at the request of the Illinois CPA Society and Township Officials of Illinois.

Another apparent objective is to better align financial reporting requirements with the size and complexity of each local government. Rather than requiring similar audit procedures for all units of government, the legislation establishes a four-tier system based on annual external cash receipts. Under this approach, the smallest governments would be subject to simplified reporting requirements, while larger governments would continue to undergo more comprehensive financial reporting and auditing.

The legislation also appears intended to address practical challenges facing the governmental auditing profession. Publicly available materials from the Illinois CPA Society note that the number of CPA firms willing to perform governmental audits has declined in recent years. By reserving the most comprehensive audit requirements for governments with the greatest financial activity, the legislation seeks to make more efficient use of limited governmental auditing resources while maintaining accountability for larger entities.

Finally, the amendment significantly expands the responsibilities of the Office of the Illinois Comptroller by establishing a centralized statewide reporting system. The Comptroller would be responsible for developing standardized reporting templates, establishing minimum agreed-upon procedures, maintaining reporting registries, developing guidance for specific types of local governments, administering compliance reviews, and overseeing implementation of the new reporting framework. Collectively, these provisions suggest an overarching policy objective of creating a more consistent, transparent, and standardized system of local government financial reporting throughout Illinois.