



ALGA

Association of Local Government Auditors

ALGA Recommends Independent In-House Audit Capacity

ALGA's Mission

ALGA empowers our local government auditing community through excellence in advocacy, education, communication, and collaboration to protect and enhance the public good, while embracing diversity, equity, and inclusion.

Advocacy Committee

The committee works to promote the value of independent performance auditing throughout the local government community.

The committee provides professional resources and support to those in local government communities without audit functions, with new audit functions and with established audit functions.

The committee also provides support for local government communities that are considering diminishing the capacity of the audit function.

Contact Us

449 Lewis Hargett Circle
Suite 290
Lexington, KY 40503
(859) 276-0686
algaonline.org

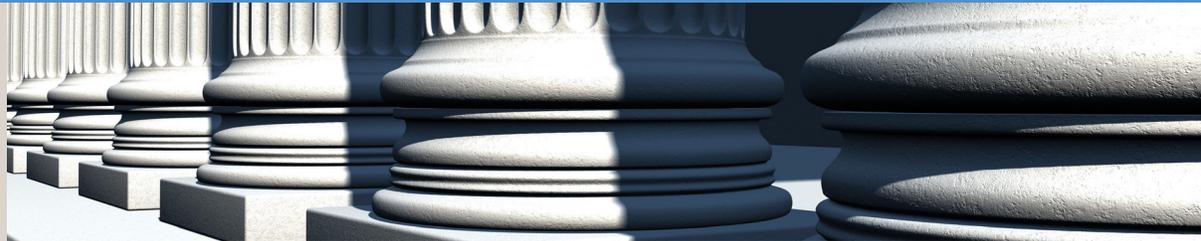
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Local governments should retain independent, in-house staff, which provides the most effective, efficient, and transparent approach to auditing for accountability.

In-house auditors are positioned to:

- Better understand the local government's culture and organization;
- More quickly respond to requests from elected officials;
- Build sustained trust with elected officials and management;
- Monitor long-term performance and implementation of audit recommendations; and
- Objectively manage co-sourced or outsourced audits.

Unlike consultants, in-house auditors develop an in-depth knowledge of the local government that can be leveraged in their audit work and provide continuity of review and oversight. Their commitment to long-term improvements within the local government enhances elected officials' ability to carry out their responsibilities for good governance and prudent use of the local government's resources. Independent in-house auditors are the most effective and efficient way to deliver performance audit services, providing more value for the money spent when compared to outsourcing.

Outsourcing the entire audit function comes with critical risks

Outsourcing an entire audit function removes key benefits of an independent, in-house audit function and carries significant risks. Specifically, contracting out the entire audit function poses significant risks to the credibility and independence of the contracted auditors and their audits.

- The contracted auditors, the audit itself, or the audit report may be subject to management influence or interference, particularly when management directly selects and oversees the contracted auditors, and there is no independent auditor to manage the procurement and contract.
- Some consultants hired to perform "auditing services" do not perform audits that adhere to auditing standards of quality, objectivity and independence, issuing reports with findings and recommendations that can be unreliable and may not assist elected officials in carrying out their duties.

ALGA strongly discourages outsourcing the audit function completely. However, if under limited circumstances a local government has a need to outsource its audit function, the governing body must vigorously scrutinize any outsourcing plan to ensure that the outsourcing method and subsequent oversight of the contract maintains the auditor’s independence from management. To safeguard the value of government audit services, local governments should:

- Retain at the very minimum an independent in-house chief audit executive (i.e., the head of the in-house audit function).
- Empower the chief audit executive and audit committee with the responsibility for managing the request for proposal and awarding the contract that outsources the audit function as well as coordinating and monitoring all audits performed under contract.
- Require that audit work be done in accordance with recognized auditing standards, and that all reports must specify which standards were followed. This promotes quality control, professional judgement, and independence.

If properly managed, co-sourcing performance audits can be beneficial.

Co-sourcing or contracting for a specific performance audit can strengthen an independent, in-house audit function. Co-sourcing allows the in-house audit function to add to its capabilities, respond more quickly to unexpected needs, and/or obtain specific subject-matter expertise. In turn, the contracted assistance can leverage the in-house staff’s organizational knowledge to enhance the audit work performed.

To ensure the quality, independence and transparency of audit services, the local government must:

- Require that independent in-house auditors be responsible for managing requests for proposal and awarding and monitoring contracts for co-sourced audits or subject-matter expertise.

Risks must be mitigated when outsourcing annual financial audits.

Local governments can simultaneously outsource annual financial audits and retain a strong, independent in-house audit function. In fact, local governments typically contract for required financial statement audits with accounting firms that specialize in financial audits. The in-house audit function’s knowledge of the organization’s internal controls can assist the contracted financial audit work.

To protect the integrity of audit results and to promote quality control, professional judgement and independence, local governments must:

- In addition to generally accepted auditing standards, require the financial statement audit work be conducted in accordance with *Government Auditing Standards* in the United States or the *Public Sector Accounting Board Standards* in Canada. All reports must specify these standards were followed.

