

**INTERNAL
CITY AUDITOR**
APRIL 20, 2016



DEFINITION OF INTERNAL AUDITING

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. ”

The Institute of Internal Auditors

WHO ARE INTERNAL AUDITORS

- Internal Auditors can be employees of the City or outsourced.
- Although internal auditors can be City employees, the City Charter/Code can provide a framework for them to operate independently reporting to either the City Commission or City Manager.
- The internal audit function can also be outsourced so the work performed is under contract vs. using City employees .

WHO ARE EXTERNAL AUDITORS

- External Auditors are not employees of the City.
- External Auditors are contractors with certified public accounting firms who conduct financial audits of the City's expenditures, contracting, procurement, risk management, management of operations etc.
- External Auditors conduct a required annual general audit of the City's operations.

INTERNAL AUDIT PURPOSE

- Emphasis is on providing the City with objective information to determine whether the required high degree of public accountability is maintained, and to assist management in improving the efficiency and effectiveness of government operations and activities.
- Internal Auditors focus on accountability, internal controls, compliance and on improving management efficiency. They can also focus on financial matters.

EXTERNAL AUDIT PURPOSE

- The external auditor performs, under contract, an annual audit of the financial records of the City and the Federal and State regulatory audits.
- Their emphasis is on the fairness and appropriateness of financial representations.
- External audits consider whether the annual accounts give a true and fair view and are prepared in accordance with legal requirements.

INTERNAL AUDIT OPTIONS

- Some organizations find it necessary to outsource some or all of their internal audit function. Out of the 30 responses we received from the 105 Cities we surveyed in Florida, seventeen (17) contract out the internal audit function.
- The Institute of Internal Auditors (IIA) suggests that the following factors be considered when evaluating possible outsourcing arrangements.

OUTSOURCED INTERNAL AUDITOR CONSIDERATIONS

- Independence of the external service provider
- Allegiance of in-house resources versus that of external service provider
- Professional standards followed by the external service provider
- Qualifications of the service provider
- Flexibility in staffing resources to meet engagement needs or special requests
- Availability of resources
- Retention of institutional knowledge for future assignments
- Access to best practice or insight to alternative approaches
- Receptiveness to external service providers
- Insight into the organization by the external service provider
- Coordination with external auditor
- Retention, access to and ownership of work papers
- Acquisition and availability of specialty skills
- Cost considerations
- Good-standing membership in an appropriate professional organization
- Culture of the organization

IN HOUSE INTERNAL AUDITOR CONSIDERATIONS

- Internal Auditors need a strong leader and must not be afraid to bring potential problems to light
- Internal Auditors need frequent, open and direct lines of communication and freedom to address meaningful organizational risks
- Internal Auditors may need specialists to deal with complex or difficult transactions
- Internal Auditors should be familiar with subject matter but should not be so closely tied to the area that their neutrality is impaired
- Internal Auditors should be appraised for professional qualifications and educational backgrounds
- Internal Auditors should be provided with a internal auditing policy, scope of auditing plans and resources allocated to the audit function
- Internal Auditors should be continuously appraised for proficiency, professionalism, quality assessments and assurance

INTERNAL AUDIT COST ESTIMATES

- A cost estimate was initially prepared that included only the City Auditor position and one Administrative Assistant, along with all associated benefits, operating, and related costs; as a “bare bones” assessment of what would be necessary to establish the new operations of an Internal Auditor function as traditional in-house full time City employees. (approx. \$450,000)
- Subsequently, recognizing the scale of the City’s needs and what comparable Internal Auditor functions were needed to “do the job properly”; cost estimates were amended to include two additional Staff Auditor positions, along all associated benefits, operating, and related costs. (approx. \$900,000)
- Additionally, if the City were to pursue the option of creating an Internal Audit function by contracting/out-sourcing to a private firm, an open competitive process would allow selection of those professional services at a defined hourly rate, times the number of hours utilized throughout the year. (Cost Annually Variable by Hours Utilized)

EXECUTIVE SUMMARY

- 105 cities/counties were surveyed and 30 responses were received. Seventeen (17) contract with external auditors and thirteen (13) employ internal auditors.
- Of the thirteen (13), eight (8) report to the City/County Commission, two (2) report to the City Manager, two (2) report to the Finance Director , and one (1) reports to the Budget Director.
- Of the 31 Municipalities in Broward County that were surveyed, two (2) outsource the internal auditing function, three (3) have an in house internal auditing function and twenty three (23) contract with external auditors for financial reporting .
- Two of the 31 Municipalities surveyed were unresponsive.
- None of the agencies reported having employed a part-time auditor.

EXECUTIVE SUMMARY

- The purpose of an internal auditing function is to provide checks and balances, safeguard tax payer's assets, enhance performance, accountability and responsibilities and improve the City's/Counties overall financial/operational effectiveness and efficiency. They also review commission agenda items, contracts and amendments, and are assigned special projects.
- Audits are selected through a combination of processes which include: a comprehensive review of the nature, extent and level of risks associated with the processing of financial transactions, materiality thresholds, and operational activities; requests from City Commission; request from City Management; audit judgment; and credible information provided by third parties (i.e. Fraud hotline). Based on these factors an Annual Audit Plan is developed.

QUESTIONS

