



ALGA

Association of Local Government Auditors

Guidance on Outsourcing and Co-Sourcing Audits

ALGA 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.

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 inclusiveness.

ALGA Member Services



449 Lewis Hargett Circle
Suite 290
Lexington, KY 40503



(859) 276-0686



algaonline.org



Independent in-house auditors are the most effective and efficient way to deliver local government performance audit services. When local government officials are considering outsourcing audit work there are several risk factors to consider. Most importantly, the governing body should scrutinize any suggestions for outsourcing audits to ensure that the outsourcing method and subsequent management and oversight of the contract provides for and maintains the auditor's independence from management. Moreover, using contracted services to conduct audits might in some cases result in the governing body receiving less value for the money spent (compared to in-house audit services).

ALGA recommends that local governments retain independent, in-house staff capacity to conduct audits (as well as oversee co-sourced or outsourced audits) to provide the most transparent, independent and cost-effective approach to auditing for accountability. In-house auditors are better positioned to more quickly respond to requests from elected officials, monitor policy implementation and program performance, understand the organization's culture, build trust with elected officials and management, monitor or follow up on how management implements audit recommendations. Unlike consultants, in-house auditors develop an in-depth knowledge of the entity that can be leveraged in their audit work and are available to provide continuity of review and oversight. Their commitment to long-term improvements within the organization assists elected officials in carrying out their responsibilities for good governance and prudent use of the entity's resources.

Outsourcing the audit function has 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 independence of the contracted auditors and credibility of their audits. In the absence of an independent auditor overseeing procurement and contract administration (such as when management or an official in the reporting chain of management directly selects and oversees the contracted auditors) the contracted auditors, the audit itself, or the audit report may be subject to management influence or interference. Additionally, some consultants hired to perform "auditing services" often issue reports that are not audits and may not assist elected officials in carrying out their duties. To safeguard the value of government audit services:

- Although not recommended, if a local government decides to outsource the audit function, they should retain at the very minimum an independent in-house chief audit executive.
- The government's chief audit executive (i.e., the head of the in-house audit function) and [audit committee](#) should retain responsibility for managing requests for proposal and awarding the contract that outsources the audit function as well as coordinating and monitoring all audits performed under contract. This will promote transparency and quality.

Co-sourcing performance audits can have benefits

Co-sourcing or hiring additional resources 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 with contracted assistance to respond more quickly to unexpected needs or to obtain specific subject-matter expertise. To safeguard the value of government audit services:

- Independent in-house auditors should be responsible for managing requests for proposal and awarding and monitoring contracts for co-sourced audits or subject-matter expertise. This will promote transparency and quality.

Mitigating risks when outsourcing annual financial audits

It is possible to outsource annual financial audits and retain a strong, independent in-house audit function. Local governments typically contract for required financial statement audits with accounting firms that specialize in financial audits. To protect the integrity of audit results and ensure clear communication with the governing body, governments should ensure:

- Independent in-house auditors and audit committee should be responsible for managing requests for proposal and awarding the contract that outsources the financial audit as well as coordinating and monitoring all audits performed under the contract. This will promote transparency and quality.

Related/Additional Guidance

[Auditor Independence](#)

[Funding the Audit Function: Money Well Spent](#)

[Audit Committee Guidance](#)

More Info

To find additional resources from the Advocacy Committee, visit the committee page on ALGA's website at algaonline.org.