



ALGA

Association of Local Government Auditors

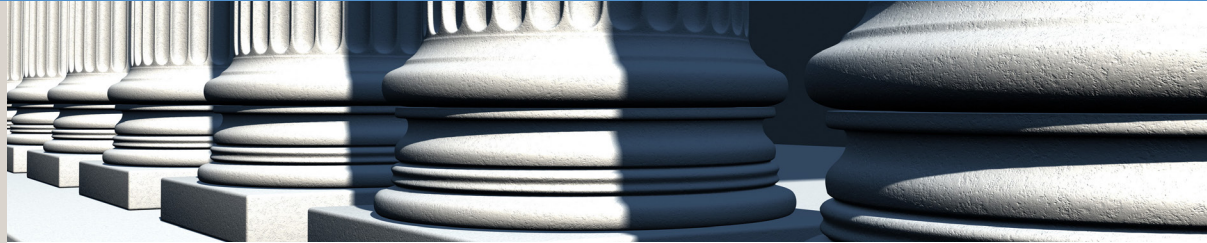
Audit Funding Methods that Improve Independence

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.

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ALGA Advocacy Committee Website Resource

Independence is key to effectively auditing an organization and adding value for the public. Establishing a dedicated funding stream — whether by a voter-approved initiative or in ordinance — can take time but result in improved independence for an audit function, because it ensures the audit function is less subjected to outside pressures.

[ALGA's Model Legislation](#) identifies sufficient funding as an important element of an effective audit function. The audit activity must have funding appropriate to its specific responsibilities. Decisions about funding for the audit organization should not be controlled by managers or officials subject to audit.

Financial autonomy is one of 10 indicators the World Bank uses in an index of independence of supreme audit institutions in its client countries.¹ In other words, how much control does the auditee have over the audit function's budgetary allocations? Limitations on resources can impact staffing autonomy and the types of audits performed, two other indicators in the World Bank's model.

Many audit shops are supported by their jurisdiction's General Fund or through an overhead model. A few jurisdictions have a minimum threshold established for the audit function's budget. This limits management and political pressures the audit function may be subjected to during the budget process:

- **San Francisco** – In 2003, voters approved a proposition that requires the mayor and the Board of Supervisors to allocate at least 0.2% of the city's overall budget to the controller's Audit Fund.²
- **The Office of Inspector General for the City of Chicago** – Section 2-56-010 of city ordinance requires that for each fiscal year, the office budget shall be at least 0.14% of the annual appropriation of all funds.
- **Washington State Auditor's Office** – More than half of the office's funding is from local governments to pay for state audits of the local jurisdictions. About a quarter of the state office's funding comes from a 2005 voter-approved sales tax for performance and cybersecurity audits. The remainder is from legislative appropriations to audit state agencies.

Where it is not possible to establish a minimum funding level, the World Bank methodology notes that financial autonomy should be assessed based on legal framework and operational practices. This is to ensure the audit organization is free to propose its budget requirements to decisionmakers without constraints from the audited entity.

Chief audit executives and audit committees should assess what funding approach works best to support their audit function. While the use of General Fund and overhead methods are common ways to fund an audit shop, they give management and the elected body a fair amount of control over the shop's resources. Establishing a dedicated funding stream can be a good long-term alternative to supporting the office and protecting its independence.

NOTES

¹ World Bank. (2021) *Supreme Audit Institutions Independence Index 2021 Global Synthesis Report*. EFI Insight-Governance. Washington, DC: World Bank. p. 37

² Budgetary independence does not necessarily imply independence in all respects. San Francisco's audit function is not structurally independent since it's audit function reports to the city controller. The city controller is appointed by the mayor.

