



FY 2017 Recommended Budget Budget Question

Board Question #: 3

BUDGET QUESTION: Provide more details on the Senior Accountant that will focus on Internal Audit (IA). What are the pros and cons of hiring the position versus contracting out?

RESPONSE: Finance staff met with County Administration to discuss options for this position. As proposed, during the initial period (prior to the official rollout of the IA department) the position would focus on providing policy compliance review, high-level support for the implementation of the County's new financial system, assisting with implementation of other financial technology improvements, and assisting the Controller with the development of the County's first IA department, ultimately transitioning to be one of the two person team.

County Administration is setting up a meeting with Mr. Ross and Finance staff to discuss his concerns and the pros and cons of hiring the position versus contracting out.

During the March 8, 2016 Budget work session there was a conversation about the difference in our existing external auditors and the proposed internal auditor position. Currently the County only uses external audit services as it is required by Virginia Code, our Bond Agreements and various funding covenants to have an external audit of our annual Financial Statements (which can be found on the County's website). The 150 page Comprehensive Financial Audit Report (CAFR) is quite involved. Our external auditors provide us a letter (shown on pages 15-17 of the FY 2015 CAFR) conveying their opinion on whether the information we reported on pages 18-83 is fairly represented.

Internal auditing is significantly different and more useful to the monitoring of and improvements to our daily operations and controls. Below are definitions of both types of auditors to help clarify.

Internal auditing helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance (business) processes. Internal auditors in the public sector place an added emphasis on providing assurance on performance and compliance with policies and procedures. Concerned with all aspects of the organization - both financial and nonfinancial - the internal auditors focus on future events as a result of their continuous review and evaluation of controls and processes. Internal auditors represent an integral part of the organization - their primary clients are management and the board.

In contrast, **external auditing** provides an independent opinion of a company's financial statements and fair presentation. This type of auditing encompasses whether the statements conform with Generally Accepted Accounting Principles, whether they fairly present the financial position of the organization, whether the results of operations for a given period of time are represented accurately, and whether the financial statements have been affected materially (i.e., whether they include a misstatement that is likely to influence the economic decisions of financial statement users).