Monitoring – External Audits

As Minnesotans, ever changing weather patterns play a big part in our daily lives, especially in the winter. We continually look for information about the weather and its related impacts. Will it snow today? How will my commute be? Is school closed? Fortunately, we have many organizations dedicated to monitoring and reporting this information, as well as our own observations. We gather the information, analyze risk, and make adjustments as we move through our day. We then make a plan to achieve our goals, one of which may be to book a trip to a warmer climate!

Similarly, agencies use monitoring to assess internal control systems, evaluate results of performance, and remediate deficiencies in a timely manner. Monitoring is the fifth element of an effective internal control structure. In a well-designed internal control system, monitoring is a combination of actions that help management achieve consistent results. We will cover monitoring in a three-part series of bulletins, looking at external audits, internal audits, and ongoing monitoring by management. The first part will focus on external audits.

External audits are separate evaluations to review operations and directly test how well intended internal controls work. Performed independently from the entity being audited, external audits offer greater objectivity because the reviewers do not have responsibility for the controls being evaluated. Testing controls of a process can help to identify weaknesses. Opportunity for fraud and misreporting are lower when third parties review operational and financial reporting processes on a regular basis.

The Office of Legislative Auditor, State Auditor, and CPA firms perform external audits of Minnesota government entities and businesses state agencies may partner with. The results of these audits can identify agency risks and gaps in controls. In the case of audits of federal funds, many organizations undergo a “single audit,” the results of which are contained in the Federal Audit Clearinghouse. This single source of information can be a valuable tool for checking how well an organization has managed its federally funded operations.

External audits are not a substitute for due diligence monitoring within your agency. In the next two bulletins we will discuss internal audits and functional monitoring which, combined with external audits, form the basis for a good monitoring function.

Action Steps:

- If you do business with federally funded organizations you may want to check their federal audit activity on the clearinghouse.
- Find out about the results of external audits conducted by the Office of the Legislative Auditor and the State Auditor.

Questions?

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