



## ANNUAL CONFIRMATION OF ORGANIZATIONAL INDEPENDENCE OF THE INTERNAL AUDIT DIVISION

City Manager's Office – Internal Audit Division

Governmental Affairs Committee  
March 6, 2019

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### BACKGROUND

1. April 12, 2016 - City Council adopted Resolution 22988
  - A. Established Internal Audit Governing Rules to provide framework for conduct of internal audit function
  - B. Rules require Internal Audit Division to annually confirm its organizational independence



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## DISCUSSION

1. Government Accountability Office's (GAO)
  - A. Accepted government auditing standards cite reporting recommendations for government audit shops internal organization
  - B. Chapter 3, Section 3.56 - government internal auditors who work under the direction of the audited entity's management are considered structurally independent if the following criteria are met:



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## DISCUSSION

- 1) Accountable to head of government entity or those charged with governance;
- 2) Reports engagement results both to head of government entity and those charged with governance;
- 3) Located organizationally outside line management function of unit under audit;
- 4) Has access to those charged with governance; and
- 5) Sufficiently removed from pressures to conduct engagements and report findings without fear of reprisal



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## DISCUSSION

2. Institute of Internal Auditors (IIA) Practice Advisory 1110-1 states the Chief Audit Executive:
  - A. Must report to a level within organization that allows internal audit activity to fulfill its responsibilities
  - B. Must confirm to board, at least annually, organizational independence
  - C. Reporting functionally to board and administratively to organization's chief executive officer, facilitates organizational independence



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## INTERNAL AUDIT DIVISION CONFIRMATION OF ORGANIZATIONAL INDEPENDENCE

1. The Internal Audit Division confirms that it:
  - A. Meets required criteria of an internal audit function working under direction of management, as prescribed by GAGAS
  - B. Meets the organizational independence requirements outlined by the IIA's Practice Advisory 1110-1



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## INTERNAL AUDIT DIVISION REPORTING STRUCTURE

Administratively to City Manager or his/her designee	Functionally to City Council through Governmental Affairs Committee
<ul style="list-style-type: none"> <li>• Budgeting and management accounting</li> <li>• Human resource administration, including personnel evaluations and compensation</li> <li>• Internal communications and information flows</li> </ul>	<ul style="list-style-type: none"> <li>• Approves the Internal Audit Governing Rules and any updates</li> <li>• Approves the Internal Audit Workplan</li> <li>• Receives communications from Internal Audit on the performance relative to its Workplan and other matters</li> <li>• Makes appropriate inquiries of management and Internal Audit to determine whether there are inappropriate scope or resource limitations</li> </ul>



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## RECOMMENDATION

That the Governmental Affairs Committee receive and file the annual confirmation of organizational independence of the Internal Audit Division.



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