



*City of Arts & Innovation*

# City Council Memorandum

**TO: HONORABLE MAYOR AND CITY COUNCIL      DATE: FEBRUARY 23, 2016**

**FROM: CITY MANAGER'S OFFICE      WARDS: ALL**

**SUBJECT: ACTION PLAN TO STRENGTHEN THE CITY'S INTERNAL AUDIT FUNCTION  
BASED ON A PEER REVIEW AND INDUSTRY BEST PRACTICES**

## **ISSUE:**

The issue for City Council is to receive and provide input on the Action Plan to strengthen the City's Internal Audit function, per the recommendations in the recently completed Independent Audit Report ("Peer Review") of the City of Riverside's Internal Audit Division, and industry best practices.

## **RECOMMENDATION:**

That the City Council receive and provide input on this report and attached peer review and action plan.

## **BACKGROUND:**

On July 28, 2015, the City Council endorsed the Financial and Performance Audit Program, providing for comprehensive and independent financial and performance audits of all departments by qualified experts on a five-year rotating basis. The first three departments audited are the Human Resources Department, Finance Department and Riverside Public Utilities. In addition, the City Council requested an independent audit of the City's Internal Audit Division (IAD).

In September, 2015 the City Manager's Office contacted various consultants with specific experience conducting a peer review of the internal audit function. In October, 2015 the City Manager's Office selected Courtney Ruby Consulting Services (CRCS) to conduct the independent audit.

The scope of work was to:

- Assess the City's internal audit function against the Institute of Internal Auditor's guidance "The Role of Auditing in Public Sector Governance", to determine if the function includes all of the key elements of an effective public sector auditing organization;
- Conduct an external quality control review, hereinafter referred to as a peer review, to assess IAD's compliance with the International Standards for the Professional Practice of Internal Auditing (IIA Standards);
- Assess the IAD's auditing practices against industry standards and best practices;

- Assess the IAD's Fraud Hotline practices against industry standards and best practices;
- Assess the adequacy of IAD's performance measures; and
- Assess the staffing capacity of the IAD.

Independent of the peer review, the City Manager's Office and Internal Audit worked together to reevaluate the current services provided by Internal Audit, and changes necessary to enhance the value of Internal Audit's work to the various City departments, decision makers and City residents. This reassessment has identified four areas where changes are necessary:

1. Organizational and Functional Reporting – Formalize the role of Internal Audit through Governing Rules; establish a functional reporting relationship with the City Council through a City Council Committee.
2. Organizational Framework -- Capacity and capability through which Internal Audit can evolve as it defines, implements, measures, controls and improves its processes and practices.
3. Services and Quality Control - Adopt Government Auditing Standards; develop quality assurance and continuous improvement programs.
4. Marketing - Promote the value of Internal Audit internally and externally.

The peer review includes many recommendations that align with the above four categories. Management's responses to the peer review recommendations are provided in the Action Plan (see Attachment 1). The chart below reflects the alignment of management's proposed initiatives, as outlined above, with the peer review recommendations.

Functional Reporting	Organizational Framework	Services & Quality Control	Marketing
1.2 - 1.3	1.4 - 1.5	1.6 - 1.7	1.8
2.1 - 2.2	2.4	2.3	3.4
2.8 - 2.9	3.6	2.5 - 2.7	
3.1	4.3	2.10 - 2.13	
3.9		2.11	
4.6 - 4.7		3.2 - 3.3	
		3.5	
		3.7 - 3.8	
		3.10 - 3.15	
		4.1 - 4.2	
		4.4 - 4.5	

### **FISCAL IMPACT:**

There will be fiscal impacts associated with some of the proposed changes, such as additional training for Internal Audit and ongoing peer reviews. These changes will be incorporated into the two-year budget for the City Council review and approval.

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Certified as to  
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Approved as to form: Gary G. Geuss, City Attorney

Attachments:

1. Independent Audit Report of the City of Riverside's Internal Audit Division and Action Plan to Strengthen the Independent Audit function
2. CM Presentation
3. CRCS Presentation