



City of Arts & Innovation

Governmental Affairs Committee Memorandum

TO: GOVERNMENTAL AFFAIRS COMMITTEE DATE: MARCH 6, 2019

FROM: INTERNAL AUDIT DIVISION WARDS: ALL

SUBJECT: ANNUAL CONFIRMATION OF ORGANIZATIONAL INDEPENDENCE OF THE
INTERNAL AUDIT DIVISION

ISSUE:

Receive and file the annual confirmation of organizational independence of the Internal Audit Division.

RECOMMENDATION:

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

BACKGROUND:

On April 12, 2016, the City Council adopted Resolution 22988, establishing the Internal Audit Governing Rules, which provide the framework for the conduct of the internal audit function as an independent and objective assurance and consulting activity. The Rules require the internal Audit Division to annually confirm its organizational independence to the City Council through the Government Affairs Committee.

DISCUSSION:

Auditing Standards Independence and Reporting Recommendations

The Government Accountability Office's (GAO) generally accepted government auditing standards (GAGAS, issued July 2018) cite reporting recommendations for government audit shops that are internal to an organization. Chapter 3 (Ethics, Independence, and Professional Judgment), Section 3.56 of GAGAS notes the following guidelines for government internal auditors:

*"Government internal auditors who work under the direction of the audited entity's management are considered **structurally independent for the purposes of reporting internally**, if the head of the audit organization meets all of the following criteria:*

- a. *is accountable to the head or deputy head of the government entity or to those charged with governance;*
- b. *reports the engagement results both to the head or deputy head of the government entity and to those charged with governance;*
- c. *is located organizationally outside the staff or line management function of the unit under audit;*
- d. *has access to those charged with governance; and*
- e. *is sufficiently removed from pressures to conduct engagements and report findings, opinions, and conclusions objectively without fear of reprisal.*

Additionally, the Institute of Internal Auditors (IIA) Practice Advisory 1110-1 states the following regarding organizational independence:

“The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.

“The chief audit executive (CAE), reporting functionally to the board and administratively to the organization’s chief executive officer, facilitates organizational independence.”

Internal Audit Division Confirmation of Organizational Independence

The Internal Audit Division confirms its organizational independence and that current reporting structure meets the required criteria of an internal audit function working under the direction of management, as prescribed by GAGAS. It further meets the organizational independence requirements outlined by the IIA’s Practice Advisory 1110-1. Below is the current dual reporting structure of the Internal Audit Division:

Internal Audit Division Reporting Structure

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

FISCAL IMPACT:

There is no fiscal impact associated with this recommendation.

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Certified as to
availability of funds: Edward Enriquez, Chief Financial Officer/City Treasurer
Approved by: Carlie Myers, Deputy City Manager
Approved as to form: Gary G. Geuss, City Attorney

Attachments:

1. Internal Audit Division Confirmation of Independence Statement
2. Presentation