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Council Policy Statement

Category: INTERNAL AUDIT

Specific Subject: Internal Audit Framework

PURPOSE:

To establish a City Council policy formalizing the responsibilities, reporting lines, and protocols of internal audit within the structure of the city.

BACKGROUND:

Internal audit is governed by an Internal Audit Framework (framework) that defines the requirements, audit standards, and responsibilities for internal audit activities. An Internal Audit Framework is a formal document that establishes the internal document activity's position within the organization, including the nature of the internal auditor's functional reporting relationship with City Council; it authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and it defines the scope of internal audit activities. Final approval of the Internal Audit Framework resides with the City Council.

This framework defines the mission, scope, commitment to quality, authority and accountability, independence and responsibility of the city's Internal Audit Division.

POLICY:

Mission

The city's Internal Audit Division provides highly reliable, independent, objective assurance and consulting services designed to safeguard city resources and improve city operations. The Internal Audit Division accomplishes this by bringing a systematic, disciplined approach to evaluating and recommending improvements to the effectiveness of risk management, controls and governance processes.

Scope

The scope of the Internal Audit Division's authority includes all operations under the direction of the City Council and the city manager. It encompasses the examination and evaluation of the adequacy and effectiveness of the city's systems of internal controls and the quality of performance in carrying out assigned responsibilities.

The scope of work performed by the Internal Audit Division is to determine whether the city's network of risk management, control and governance processes as designed and represented by management, is adequate and functioning to ensure:

- Risks are appropriately identified and managed;
- Significant financial, managerial, and operating information is accurate, reliable and timely;

- The process to acquire resources is economical, used efficiently, and are adequately protected;
- Programs, plans, and projects are operated within the fiduciary standards and regulatory requirements, are compliant with city policies and stated objectives are achieved;
- Quality service and continued improvement are fostered within the city's control process;
- Significant legislative and regulatory issues impacting the city are recognized, addressed appropriately, and interaction with governance groups occurs;
- Employees' actions comply with policies, standards, procedures, and applicable laws and regulations;
- Contractors are meeting contract requirements in conformance with applicable laws, regulations, policies, procedures, and best practices;
- Existing policies and procedures are appropriate, updated and being followed; and
- Opportunities for improving management control, streamlining processes, and improving public perception are implemented.

Access & Authority

The Internal Audit Division has the authority to audit all areas of the city and is authorized to:

- Have full, free, and unrestricted access to all records, functions, operations, systems, property, and personnel pertinent to carrying out any engagement. The Internal Audit Division will maintain confidentiality of all information provided subject to legal requirements. Documents provided to the Internal Audit Division will be handled in the same prudent manner as by those employees normally accountable for them.
- Select audit topics, set audit frequencies, determine scope of work, and apply the techniques required to accomplish audit objectives.
- Conduct investigations of any suspected inappropriate activity, including suspected fraudulent acts.
- Have access to the necessary city personnel in functions where audits are being performed, as well as external consultants that provide other specialized services. Access to third parties will be handled in accordance with contractual terms. All employees will cooperate fully in making available material or information requested by the Internal Audit Division or any external auditors managed by the Internal Audit Division.

The Internal Audit Division is not authorized to:

- Initiate or approve accounting transactions external to internal audit; or
- Direct the activities of any employee not part of the Internal Audit Division except to the extent such employees have been appropriately assigned to auditing teams.

Independence and Objectivity

To be structurally independent, the Internal Audit Division is set up to report functionally to the City Council and administratively to the Deputy City Manager of Administrative Services. The City Council members are elected to office, and thus, responsible to the citizens and taxpayers of the city. The Internal Audit Division is not part of any department that the Deputy City Manager of Administrative Services oversees. The Internal Audit Division has no direct responsibility to, or authority over, any area subject to its audit, review, or investigation. Therefore, the Internal Audit Division is organizationally independent from those areas that it reviews, audits, and/or investigates.

The Internal Audit Division will report results and have direct access to the City Council. The Internal Audit Division will report any impairment to independence, or unjustified restriction or limitation to

audit selection, scope, procedures, frequency, timing, or report content promptly to the city manager and the City Council. These reporting relationships not only ensure independence, but also assure comprehensive audit coverage and adequate consideration of audit recommendations. Additionally, the City Council will be notified upon any appointment, replacement, or dismissal of the internal auditor.

The position of internal auditor fulfills the independence requirement by separating the duty from the Deputy City Manager of Administrative Services. As such, the internal auditor will sign all official correspondence including, but not limited to final audit reports, audit announcement letters, and letters of communication to other city departments and elected officials.

The Internal Audit Division will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. The Internal Audit Division will make balanced assessments of all the relevant circumstances and not be unduly influenced by personal interests or by others in forming judgments.

Professionalism

The Internal Audit Division is guided by government auditing standards and determines the processes for operating and conducting its work according to government auditing standards in its policies and procedures manual. The Internal Audit Division will perform and report on all audit activities with due professional care in accordance with its policies and procedures manual.

Responsibility

The Internal Audit Division is responsible for all internal auditing activities for the City of Carlsbad. Its primary responsibility is to conduct performance audits that improve the economy, efficiency, and effectiveness of city government. The Internal Audit Division will also conduct other non-audit services that are advisory in nature, if these services do not impair the auditor's independence. Additionally, the Internal Audit Division is responsible for the following:

- Develop and perform work based on a flexible annual audit plan, considering risks and control concerns expressed by management and/or the City Council, submitted to the city manager and the City Council for review and approval each year. This provides the City Council with an opportunity to approve the annual internal audit plan or to provide comments and feedback for modification of the schedule projects.
- Review and adjust the annual audit plan as necessary in response to changes in the city's operations, programs, controls, and/or identified risks. The city internal auditor will communicate significant revisions to the annual audit plan to the city manager and the City Council for review and approval. The city manager has authority to approve minor changes or insignificant modifications to the annual audit plan through an expedited process.
- Report audit findings to appropriate personnel, including the city manager, the City Council, and city personnel responsible for implementing recommendations.
- Communicate results of audit activities and progress on the annual audit plan twice a year to the city manager and the City Council.
- Provide management with adequate time to respond to audit findings and include management's response in the audit report.
- Follow up on audit findings recommendations and provide periodic follow up reports summarizing the status of corrective actions taken.
- Ensure that staff participating in internal audit activities possess the knowledge, skills, and other competencies needed to meet the requirements of this framework.

- Ensure that staff participating in internal audit activities are independent during any period of time that falls within the period covered by the subject matter of the audit and the period of the professional engagement.

City management is responsible for the following:

- Maintain an effective system of internal controls, document policy and procedures, and ensure information is accurate, timely, and reliable.
- Cooperate with the Internal Audit Division and promptly reply to requests and recommendations.
- Respond to audit findings and recommendations.
- Assure timely implementation of agreed-upon corrective actions to audit recommendations or accept the risk of non-implementation.

Any changes made to this document must be approved by the City Council.