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**1. BACKGROUND**

- 1.1 An internal auditor provides independent and objective evaluations of an organization's financial and operational activities. The Institute of Internal Auditors (IIA) defines internal auditing as "an independent objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."
- 1.2 This policy formalizes the responsibilities, reporting lines, and protocols of Internal Audit within the structure of the City of Santa Rosa. It establishes Internal Audit objectives and provides for uninhibited and complete authority to fulfill its objectives, with procedures to address obstacles and issues.

**2. PURPOSE:**

To establish the policy for the internal audit function.

- 2.1 This policy applies to all employees of the City. The Internal Audit function is to be managed in accordance with this policy.
- 2.2 The City Council of the City of Santa Rosa, the City Manager and city Department Heads are collectively responsible for the effective and efficient administration of the City of Santa Rosa organization as a whole. This responsibility encompasses the requirements for sound financial management, including adequate reporting, maintaining an effective system of internal controls, compliance with applicable rules and regulations, and maintaining the highest standards of ethical conduct. The Internal Audit Unit has been established within the Financial Reporting Division of the Finance Department.
- 2.3 Internal Audit supports the continuous improvement of programs, policies, and initiatives at the City of Santa Rosa and contributes to the achievement of departmental objectives by providing timely and objective information, assurance, and advice to the City Manager, the City Council, and the Long Term Financial Policy and Audit Sub-Committee.
- 2.4 The Internal Audit function, as part of the Finance Department, is guided by the Mission, Vision, and Value statements of that office along with the City's Mission and Vision statements.

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**3. POLICY:**

**3.1 Independence and Objectivity**

The Internal Audit function must be independent to retain objectivity. The independence of the Internal Audit function allows internal auditors to make assessments impartially and without bias while avoiding conflicts of interest. Auditor independence is also essential for the citizens and management of the City to receive an unbiased account of the results of internal audit work.

3.1.1 To ensure independence, the Internal Auditor reports organizationally to the Deputy Director of Finance, Financial Reporting Division, while the Long Term Financial Policy and Audit Sub-Committee provides guidance to the Internal Audit function and directly receives all reports. The Chief Financial Officer ~~provides~~ shall deliver audit updates and reports to the Long Term Financial Policy and Audit Sub-Committee, and when necessary, the City Council.

3.1.2 Internal auditors use rigorous approaches and methods in their engagements to retain objectivity. Internal auditors neither subordinate their own assessments to those of others, nor place themselves in situations where they would be unable to make objective professional assessments.

**3.2 Authority**

The Internal Audit function is enabled to complete its mission by City of Santa Rosa City Council; the California Government Code §1236; the US Government Accountability Office's (GAO) Yellow Book §3.3; and the IIA Standards on Independence.

**3.3 Access and Confidentiality**

Except where prohibited by law, the Internal Audit staff are granted authority for full, free, and unrestricted access to all of the organization's functions, records, files, information systems, personnel, contractors, physical properties, and any other item relevant to the function, process, or division under review. In addition, Internal Audit staff shall be granted access to vendor records as provided for by the City's standard contract language related to records maintenance and City access to records.

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3.3.1 Documents and information presented to Internal Audit shall be handled in the same prudent and confidential manner as by those employees normally accountable for them. The Internal Auditor ~~Manager~~ shall be ultimately responsible for handling and safeguarding of any information deemed to be confidential under state or federal law.

**3.4 Professional Standards**

Internal Audit uses the following standards in the completion of their audits:

- 3.4.1 The Standards and Code of Ethics produced by the IIA and published in the Professional Practices Framework
- 3.4.2 The Standards and Principles produced by the Government Accountability Office (GAO) and published in the Government Auditing Standards

**3.5 Objectives of the Internal Audit Unit**

- 3.5.1 **Auditing Services:** The primary objective of internal auditing services is to provide independent assurance to City officers and management that the assets of the City of Santa Rosa are safeguarded, operating efficiency is enhanced, and compliance with prescribed laws and the policies of the City of Santa Rosa is maintained. Included in the objective is an independent assessment of the City’s risk awareness and its system of internal controls to manage risks.
- 3.5.2 **Consulting and Advisory Services:** Internal Audit objectives for the consulting and advisory services are to provide management with assessments and advice for improving financial and management processes that will advance the goals and objectives of the organization. In particular, the objectives are to provide the assessments and advice ~~as early as possible on the front-end of projects~~ so that risks may be identified and managed quickly and that internal controls may be designed. Consulting and advisory services are provided as resources allow.

**3.6 Scope of Internal Audit Activity**

The scope of Internal Audit work shall include, but not be limited to, determining whether:  
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- 3.6.1 Programs are operating within the highest fiduciary standards and are directed toward the requirements defined in federal, state, and local laws, regulations, government ordinances and rules, and the policies and procedures of the organization;
- 3.6.2 Programs and processes are consistent with industry best practices, using the best public and private examples as benchmarks;
- 3.6.3 Significant legislative or regulatory issues impacting the organization are recognized and addressed appropriately;
- 3.6.4 Significant financial, managerial, and operating information is accurate, reliable, and timely;
- 3.6.5 Resources are economically acquired, efficiently used, and adequately protected;
- 3.6.6 Existing policies and procedures are appropriate and updated;
- 3.6.7 Operations, processes, and programs are consistent with established missions, objectives, and goals and are being carried out as planned;
- 3.6.8 Risks within and outside the organization are appropriately identified and managed;
- 3.6.9 Quality service and continuous improvement are fostered in the organization's control process;
- 3.6.10 Contractors, including third-party administrators, are meeting contract requirements in conformance with applicable laws, regulations, policies, procedures, and best practices.

**3.7 Roles and Responsibilities**

The responsibility of Internal Audit is to serve the City organization in a manner that is consistent with the Standards for the Professional Practice of Internal Auditing and with

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professional standards of conduct in the Code of Ethics of the Institute of Internal Auditors (IIA). In addition, when appropriate and necessary and depending on the type of audit being conducted, Internal Audit follows the ethical and professional standards promulgated by the American Institute of Certified Public Accountants (AIPCA) and by the Government Accountability Office (GAO).

**3.7.1 Long Term Financial Policy and Audit Sub-Committee**

Except where prohibited by law, the Long Term Financial Policy and Audit Sub-Committee shall ensures that the Internal Audit staff, for the purpose of carrying out assigned responsibilities, are given full access to departmental records, databases, workplaces, and employees, and have the right to obtain information and explanations from departmental employees.

Specifically, the Long Term Financial Policy and Audit Sub-Committee has the following responsibilities:

- 3.7.1.1 Ensure that the Internal Audit Unit is free to work independently and objectively, i.e. free from the influence of those being audited.
- 3.7.1.2 Ensure that the Chief Financial Officer has direct access to the Chair of the Long Term Financial Policy and Audit Sub-Committee, and is accountable to the Long Term Financial Policy and Audit Sub-Committee.
- 3.7.1.3 Ensure that the Internal Audit Unit is appropriately tasked and resourced, and has sufficient authority and standing to carry out its tasks effectively.
  - Approve the Internal Audit Unit’s responsibilities and authority;
  - Approve the risk-based Internal Audit Plan;
  - Ensure the necessary access to information to enable the Internal Audit Unit to fulfill its mandate.

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- Ensure that the Internal Audit Unit is equipped to perform in accordance with appropriate professional standards for internal auditors.

3.7.1.4 Receive communications on the Internal Audit Unit's performance relative to its plan and other matters.

3.7.1.5 Review and monitors management's responsiveness to the Internal Audit staff's findings and recommendations.

3.7.1.6 Monitor and assesses the quality and effectiveness of the Internal Audit Unit.

- Annually receive a report on the results of the internal quality assessment reviews collected from internal auditees;
- Review the results of the peer review report issued every 3 years by an external audit firm.

**3.7.2 Executive Management**

Annually, the Finance Department, in conjunction with the City Manager's Office and Executive Management, will develop a risk assessment. This risk assessment is the basis for the Annual Audit Plan, approved by the Long Term Financial Policy and Audit Sub-Committee.