

City of Santa Clara

Internal Audit Charter



Prepared by the City Auditor's Office

July 2019

City of Santa Clara
1500 Warburton Avenue
Santa Clara, California 95050



Internal Audit Charter

A. INTRODUCTION

The City Auditor's Office is an independent office that reports to the City Council through the Audit Committee. This Internal Audit Charter formalizes the internal audit activities, purpose, authority, and responsibility of the Office. It establishes the City Auditor's Office's position within the organization; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of the City Auditor's Office's activities.

B. MISSION

The purpose of the City Auditor's Office is to provide independent and objective assurance and consulting services designed to add value and improve City operations. Our mission is to promote honest, efficient, effective and fully accountable City government through accurate, independent and objective audits. The City Auditor's Office accomplishes this by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of the organization's governance, risk management, and internal control.

C. SCOPE OF WORK

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organization's governance, risk management and internal controls. Internal audit assessments include evaluating whether:

- Risks are appropriately identified and managed;
- Significant financial, managerial, and operating information is accurate, reliable and timely;
- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations;
- Programs, plans, and projects are operated within the fiduciary standards and regulatory requirements, are compliant with City policies, and stated objectives are achieved;
- Resources and assets are acquired economically, used efficiently, and adequately protected;
- Quality service and continuous improvement are fostered within the City's control process;
- Significant legislative or regulatory issues impacting the organization are recognized and addressed properly;
- 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,



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and improving public perception are implemented.

D. RESPONSIBILITY

The City Auditor's Office is responsible for:

- Developing a flexible Annual Audit Workplan using risk-based methodology, including any risks or control concerns identified by management and/or City Council; and submitting the workplan to the Audit Committee for review and approval;
- Preparing or updating the annual citywide risk assessment and incorporating the results into the Annual Audit Workplan;
- Implement the Annual Audit Workplan, as approved, including, as appropriate, any special tasks or projects requested by the Audit Committee and/or management;
- Issuing and/or presenting periodic audit reports to the Audit Committee. The Audit Committee will review and recommend the Mayor and City Council to note and file the reports;
- Providing management with adequate time to respond to audit findings and include management's response in the audit report;
- Establishing a system to follow up on reported audit findings to ensure agreed-upon corrective actions have been implemented;
- Performing consulting services, beyond internal auditing assurances services, to assist management in meeting its objectives as long as the services do no impair the auditor's independence. Examples may include facilitation, reviewing process design, training and advisory services.
- Coordinating the investigation with the City Attorney's Office or Human Resources Department of all issues reported through Fraud, Waste and Abuse Hotline.
- Administering the annual external financial audit and single audit contract for the City and Stadium Authority;
- Maintaining sufficient knowledge, skills, experience and professional certifications to meet the requirements of this Charter;
- Conducting objective and constructive assurance services; and
- Exercising due professional care in all work products.

E. ACCOUNTABILITY

The City Auditor, in the discharge of his/her duties, is accountable to the City Council through the Audit Committee. All audit reports will be reviewed by the Audit Committee and subsequently shall be submitted to the Mayor and City Council for review. The City Auditor shall:

- Provide periodic information on the status and results (Audit Status Report) of the Annual Audit Work Plan and the sufficiency of department



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- resources to the Audit Committee;
- Provide the progress of management action plans on open audit recommendations (Audit Recommendation Report) to the Audit Committee for review annually;
- Summarize and report to the Audit Committee the resolution of all issues received through the Fraud, Waste and Abuse Hotline; and
- Report significant issues related to the processes for controlling activities, including potential improvements to those processes, and provide information concerning such issues until the issue is fully resolved.

F. INDEPENDENCE AND OBJECTIVITY

The City Auditor's Office activity will remain free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude. All internal audit personnel auditing activities shall be directed by the Audit Committee.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment, including assessing specific operations for which they had responsibility within the previous year.

Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements.

The City Auditor or internal auditor staff may be asked to take on additional roles and responsibilities outside of internal auditing, such as compliance or risk management activities. These roles and responsibilities may impair, or appear to impair, the organizational independence of the internal audit activity or the individual objectivity of the internal auditor. Safeguards must be in place to limit impairments to independence or objectivity. The internal auditors must:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- Refrain from assessing specific operations for which they were previously responsible for within the previous year.
- Make balanced assessments of all available and relevant facts and circumstances.



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- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgement.

The City Auditor will confirm to the Audit Committee, at least annually, the organizational independence of the internal audit activity. The City Auditor shall also report any interference or unjustified restriction or limitation to audit selection, scope, procedures, frequency, timing or report content to the Mayor and City Council through the Audit Committee.

G. AUTHORITY

The City Auditor's Office, with strict accountability for confidentiality and safeguarding records and information, is authorized to:

- Have full, free, and unrestricted access to all functions, systems, records, physical properties, and personnel information pertinent to carrying out the projects in the Audit Work Plan. All employees are requested to assist the City Auditor's Office activity in fulfilling its roles and responsibilities.
- Implement and execute all activities proposed in the Audit Program.
- Obtain necessary assistance of personnel within the City where they perform audits, as well as other specialized services within the City.
- Obtain necessary assistance from outside consultants to assist in completing the Audit Work Plan.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply audit techniques required to accomplish the audit objectives.
- Have full and unrestricted access to the Audit Committee and City Council.

The City Auditor's Office staff are not authorized to:

- Perform any operational duties that are outside of the City Charter for the City or its affiliates.
- Initiate or approve accounting transactions external to the City Auditor's Office.

H. STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING

California Government Code Section 1236(a) states that all city, county, city and county, and district employees that conduct audits or that conduct audit activities of those respective agencies shall conduct their work under the general and specified standards prescribed by the Institute of Internal Auditors or the Government Auditing Standards issued by the Comptroller General of the United



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States, as appropriate. The City Auditor's Office governs itself by adherence to the mandatory elements of the Institute of Internal Auditors' International Professional Practices Framework (IPPF), including:

- Core Principles for Professional Practice of Internal Auditing (Standards);
- Code of Ethics;
- IPPF; and
- Definition of Internal Auditing

I. QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

The City Auditor's Office will maintain a quality assurance and improvement program that covers all aspects of the City Auditor's Office activity. The program will include an evaluation of the City Auditor's Office's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the City Auditor's Office activity and identifies opportunities for improvements.

The City Auditor will communicate to the Audit Committee on the City Auditor's Office activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.

J. AMENDMENT OF THE CHARTER

The City Auditor is responsible for maintenance of this Internal Audit Charter to ensure that it is reviewed annually and is revised as necessary. Any amendment is subject to review and approval by the Audit Committee.

Lisa M. Gillmor
Audit Committee Chair / Mayor

Approval Date

Linh Lam
City Auditor

Acknowledged Date