DRAFT: CREATION OF AUDIT COMMITTEE
7/13/2007

ISSUE	MAYOR	IBA	CITY ATTORNEY
Composition	There is hereby created an Independent Audit Committee consisting of five (5) members. The Audit Committee shall be an independent body. To insure its independence, the Audit Committee shall be composed of two (2) members of the City Council for the City of San Diego and three (3) members of the public.	There is hereby created an Independent Audit Committee consisting of five (5) members. The Audit Committee shall be an independent body. To insure its independence, the Audit Committee shall be composed of three (3) members of the City Council for the City of San Diego and two (2) members of the public.	
Appointment of Members	Public members of the Audit Committee shall possess the independence, experience and technical expertise necessary to carry out the duties of the Audit Committee. This expertise includes but is not limited to basic knowledge of accounting and auditing standards. Public members shall be nominated by the Manager and confirmed by the City Council.	One of the three (3) appointed City Council members shall serve as the Chair of the Audit Committee. (Source: Resolution R– 302281). Public members of the Audit Committee shall possess the independence, experience and technical expertise necessary to carry out the duties of the Audit Committee. This expertise includes but is not limited to basic knowledge of accounting and auditing standards. Public members shall be nominated and confirmed by the City Council.	
Compensation and Terms	The public members of the Audit Committee shall serve without compensation for terms of five years	The terms of the three (3) appointed City Council members should be arranged to ensure that	

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	until their successors are appointed. Public members of the Audit Committee are limited to two (2) full consecutive terms, with one (1) term intervening before they become eligible for reappointment.	there is always one member with experience serving on the Audit Committee. (Source: Audit Committee Charter)	
Purpose	The purpose of the Audit Committee is to assist the City Council in fulfilling its oversight responsibilities regarding financial statements and auditing, accounting and related reporting processes and systems of internal controls regarding finance, accounting, financial reporting, and business practices and conduct established by City management and the Council. The Audit Committee shall have not authority or responsibility to prepare or direct the preparation of the City's financial statements.	**ADD** (The bullets below are extracted from the Purpose and Intent portion of Audit Committee Charter / Municipal Code section 22.4301 for the Audit Committee.): • Provide independent, legislative oversight of the City's: accounting and financial reporting processes, financial internal controls, internal financial audit function and audits of the City's financial statements; • Assist the City Council with legislative oversight of the above;	

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		• Review the financial reports and other financial information provided by the City, the City's disclosure controls and procedures, and its internal financial controls; • Consider the reports of and interact with the City's internal auditor in connection with the internal auditor's performance of an independent internal financial audit function; • Assume direct responsibility, with appropriate consultation with the Mayor or his designee, for the appointment, compensation, retention and where appropriate, replacement of the	

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		outside auditor to the City in preparing or issuing an audit report or related work; • Oversee the work and independence of the outside auditor, approve all auditing services and permitted non-audit services provided by the outside auditor, and resolve any disagreements between the Mayor and the outside auditor regarding financial reporting.	
Duties	In carrying out its oversight functions, the Audit Committee shall: (a) So long at the Audit Committee is independent and comprised as described above, the Audit Committee shall be responsible for oversight of the work of the City's Internal Auditor for the purpose of preparing or issuing audit	In carrying out its oversight functions, the Audit Committee shall: (a) ~~So long at the Audit Committee is independent and comprised as described above,~~ The Audit Committee shall be responsible for oversight of the work of the City's	

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	reports or related work. (b) In consultation with the City Manager, be responsible for the appointment, compensation, retention and, where appropriate, replacement of any registered public accounting firm selected to be the City's independent auditor for the purposes of preparing or issuing an audit up to and including the City's annual audited financial statements. Meet with the independent auditors prior to the audit for each fiscal year to review the planning, staffing and scope of the audit. (c) Review and discuss the City's annual audited financial statements and any periodic financial statements with the City Manager, the City's Internal Auditor and the independent auditors. (d) Based on its review and discussions with management and the independent auditors, recommend to the City Council whether the City's	Internal Auditor for the purpose of preparing or issuing audit reports or related work. The Internal Auditor will report to and be accountable to the Audit Committee. The Audit Committee should approve the annual compensation of the Internal Auditor and annual budget of the Office of the Internal Auditor and be responsible for the annual performance review of the Internal Auditor.	

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	audited financial statements should be received by the City Council. (e) Review major changes to the City's auditing and accounting principles and practices as suggested by the independent auditors or management. (f) Review and discuss with the City Manager and the independent auditors the adequacy and effectiveness of the City's internal controls and the effectiveness of the City's disclosure controls and procedures. (g) Review and discuss with the City Manager and the independent auditors: (1) Any material financial or non-financial arrangements that do not appear on the City's financial statements; (2) Any transactions or courses of dealing with parties related to the City that are significant in size or involve terms		

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	or other aspects that differ from those that would likely be negotiated with independent parties, and that are relevant to an understanding of the City's financial statements; (3) Material financial risks that are designated as such by management or the independent auditors. (h) Establish procedures for the receipt, retention and treatment of complaints received by the Audit Committee regarding accounting, internal accounting controls or auditing matters; and the confidential, anonymous submission by the City's employees or members of the public of concerns regarding accounting or auditing matters. (i) Obtain, review and discuss with the independent auditors annually or more often if deemed necessary by the Audit		

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	Committee a report by the independent auditors describing (i) the independent auditors' internal quality-control procedures, and (ii) any material issues raised by the most recent internal quality control review or peer review of the independent auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the independent auditors, and the steps taken to address those issues. (j) Review the report by the independent auditors concerning: (i) all critical accounting policies and practices to be used; (ii) alternative treatments of financial information within GAAP that have been discussed with management officials, ramifications of the use of such alternative disclosures and treatments, and		

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	the treatment preferred by the independent auditors; and (iii) any other material written communications between the independent auditors and the City's management. (k) Review and discuss with the independent auditors annually or more often if deemed necessary by the Audit Committee, all relationships the independent auditors have with the City in order to evaluate the independent auditors' continued independence, and receive from the independent auditors on an annual basis a written statement regarding the auditors' independence.		