

**Sent via email**

February 17, 2020

TO: Honorable Members of the Audit Committee  
Honorable Mayor Kevin Faulconer  
Honorable Members of the City Council  
Honorable City Attorney Mara Elliott  
Andrea Tevlin, Independent Budget Analyst

The Institute of Internal Auditors (IIA) was recently advised of a proposal being submitted by the Office of the City Auditor (OCA) requesting an amendment to the City Charter that would provide the City Auditor with the authority to obtain independent legal counsel. Our understanding is that, currently, the City Attorney provides advice and counsel to **both** the City Auditor and City Officials. Public sector auditors have unique challenges given the natural pressures that arise when working for and around elected officials, auditing the use of public funds, and having their work available for public review. To fulfill their service to the public, public sector auditors must perform audits in a completely objective manner, free from potential interference or influence and bias. This includes reporting findings objectively, even if those findings may have negative outcomes for elected officials.

An independent audit function, as articulated in the widely accepted *International Standards for the Professional Practice of Internal Auditing*, enhances accountability to taxpayers and helps to ensure that public funds are properly spent. Standard 1100: Independence and Objectivity, states: Internal audit “must be independent and the internal auditor must be objective in performing their work.” It’s important to note that, if structured and staffed appropriately, an independent audit department can proactively prevent problems by evaluating controls through regular reviews.

To ensure the City's internal audit function remains independent, objective, and operates in conformance with the professional *Standards*, The IIA recommends the following:

**Internal Audit Must Be Supported by, but not Subordinate to, the City Council and City Management.**

The City Council must embrace the importance of independence and objectivity in the city's internal audit function so that it can provide informed recommendations on how to effectively achieve objectives, ensure mitigation of related risks, and safeguard taxpayer dollars. It is vital that the City Council drive a culture in which all city employees understand the importance and value of the internal audit function.

**To Be Effective, Internal Audit Must Be Independent.**

To explain the Standard 1100 cited above, internal audit must not be restricted by an individual or function that, in any way, may threaten its ability to carry out its responsibilities in an unbiased manner. To achieve this independence, the OCA must have direct and unrestricted access to both city management and other city officials. The City Auditor must also be free to perform its duties without any undue influence of city management, appointed or elected. Such detrimental influence can appear in many forms, including inappropriate administrative or functional reporting relationships, budgetary constraints, and decision-making around personnel issues (e.g., hiring/firing and compensation).

**Internal Audit Must Be Objective.**

Objectivity is required by the *Standards*, ensuring internal auditors' work is of high quality and is not compromised. This demands that internal auditors do not subordinate their judgment on audit matters to others. The IIA believes that providing the OCA with the authority to obtain independent legal counsel when deemed necessary would help prevent potential, perceived or actual conflicts of interest that may arise due to the City Attorney's client relationship with the City. Furthermore, the majority of the OCA's audit reports are required to be made public, potentially exposing actions of the City that could impact the city's legal liability and reputation. That's why it is vital that the OCA have the ability to obtain independent legal counsel to ensure unfettered accountability to the public. In my past positions as Inspector General for the Tennessee Valley Authority and Deputy Inspector General of the U.S. Postal Service, independent legal counsel was a critical component for ensuring audit reports and recommendations were free of any conflicts of interest, real or perceived. There is also precedence for city auditors to obtain independent legal counsel when necessary. In 2017, voters in Portland, Oregon, passed a measure providing this authority to the City Auditor's office.

**Internal Audit Must Function in Full Conformance with Professional Standards.**

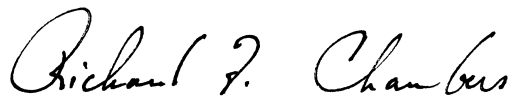
Professional *Standards* for the practice of internal auditing, contained in the *International Professional Practices Framework* (IPPF) or Red Book, are implemented and embraced by organizations in the United States and across the globe. This includes adoption by the Basel Committee on Banking Supervision (BCBS), the U.S. Federal Reserve, federal, state and local government entities, and publicly traded and privately held organizations of all sizes. Conformance to the *Standards* strengthens the delivery of internal audit services,

which in turn helps improve governance, manage risks, and implement controls to more effectively achieve established organizational goals.

The IIA is dedicated to supporting professional and ethical practices across the public and private sectors. We strongly encourage the City of San Diego and its Audit Committee to reaffirm the City Auditor's obligation "to advance open and accountable government through accurate, independent, and objective audits that seek to improve the economy, efficiency, and effectiveness of City government," by approving the proposal to provide the City Auditor with the authority to obtain independent legal counsel. Only this will best serve the citizens of the city.

We welcome the opportunity to provide additional guidance and other information to assist the Audit Committee as it deliberates this issue. Please contact Kathy Anderson, The IIA's Managing Director of North American Government & Stakeholder Relations, at [kathy.anderson@theiaa.org](mailto:kathy.anderson@theiaa.org) or 407-937-1291 if you have any questions or would like to discuss further.

Sincerely,

A handwritten signature in black ink that reads "Richard F. Chambers". The signature is written in a cursive style with a large initial 'R' and 'C'.

Richard F. Chambers, CIA, QIAL, CGAP, CCSA, CRMA  
President and Chief Executive Officer