



# Association of Local Government Auditors

## **AUDIT COMMITTEE AND AUDITOR INDEPENDENCE**

Presentation to:  
San Diego City Council  
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## OBJECTIVES

1. Applaud Council's decision to support an independent audit committee and auditor
2. Urge Council and voters to support conformance with *Government Auditing Standards*
3. Explain independence and its importance



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## WHY ESTABLISH AN INDEPENDENT AUDITOR?

- Enhance accountability
- Earn and increase taxpayer confidence and respect for government
- Provide an independent and objective perspective



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## INDEPENDENCE . . .

- Required by *Government Auditing Standards*
- Separates audit function from management, who may:
  - Be protective of their programs
  - Interfere with investigations
  - Prevent full disclosure of issues
- Can be achieved by Council appointment or voter election



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## KEY ELEMENTS OF EFFECTIVE AUDIT FUNCTIONS

- Organizational independence
- Formal mandate
- Unrestricted access
- Sufficient funding
- Competent leadership
- Competent staff
- Stakeholder support
- Professional auditing standards



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## WHAT'S IN A NAME?

- City Auditor
- Inspector General
- Internal Auditor:
  - Public Sector
  - Private Sector



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## WHY ESTABLISH AN AUDIT COMMITTEE?

- Improve oversight of financial and budgetary controls
- Demonstrate leadership in ethics and accountability
- Learn more about how city is managed



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## WHO SUPPORTS INDEPENDENT AUDIT COMMITTEES?

- Treadway Commission Report of 1987
- Securities and Exchange Commission
- Government Finance Officers' Association
- Sarbanes-Oxley Act of 2002
- American Institute of Certified Public Accountants Standards and Generally Accepted Government Auditing Standards
- Institute of Internal Auditors





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## AUDIT COMMITTEE OVERSIGHT RESPONSIBILITIES

- Commercial firm providing annual financial statement audit:
  - Selection of firm
  - Open communication among parties
  - Quality, timely financial and compliance reporting
  - Annual audit process; response to management letter
  - Reporting to Council on internal controls and budgetary and financial matters



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## **AUDIT COMMITTEE OVERSIGHT RESPONSIBILITIES (continued)**

- Independent performance auditor (city auditor):
  - Staffing and oversight (if Council appointed auditor)
  - Recommending or selecting city auditor
  - Recommending salary and budget for staff auditors
  - Advising on annual audit plan
  - Evaluating city auditor's performance



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## AUDIT COMMITTEE COMPOSITION

- Defined in charter or legislation
- Five to seven members; staggered terms
- Common structures:
  - Legislative body
  - Committee of legislative body
  - Citizen based
  - Mix of government and citizen representatives
  - Organization based



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## AUDIT COMMITTEE SKILLS

- Collective expertise in:
  - Accounting, auditing, and financial reporting
  - Management and business practices
  - Risk management
- Certifications often required:
  - Certified Public Accountant
  - Certified Internal Auditor
  - Certified Management Accountant



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## THANK YOU

**FOR ADDITIONAL INFORMATION, CONTACT:**

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