

Internal Audit Framework

Introduction

The City of Pasadena (City) maintains an audit function that reports to the City Manager through the Assistant City Manager with responsibility to report its activities to the City Manager and City Council through the Audit Committee. This Framework formalizes the responsibilities, reporting lines, and protocols of Internal Audit within the structure of the City. It establishes Internal Audit's objectives and provides for uninhibited and complete authority to fulfill its objectives. This Framework defines the mission, scope, commitment to quality, authority and accountability, independence and responsibility of the City's Internal Audit group.

Mission

The City's Internal Audit group provides highly reliable, independent, objective assurance and consulting services designed to add value and improve City operations. The Internal Audit group accomplishes this by bringing a systematic, disciplined approach to evaluating and recommending improvements to the effectiveness of risk management, controls and governance processes.

Scope

The scope of work performed by the City's Internal Audit group is to determine whether the City's network of risk management, control and governance processes as designed and represented by management, is adequate and functioning to ensure:

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

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- 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, and improving public perception are implemented.

Commitment to Quality

The City's Internal Audit group commits to providing world-class service through timely, unbiased, value-added assurance and consulting services. The Internal Audit group will work as a team with City employees to improve processes and meet strategic goals and objectives. The group will enhance the services we provide by continuously improving our audit activities.

California Government Code Section 1236 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' International Professional Practices Framework (IPPF) or the Government Auditing Standards issued by the Comptroller General of the United States, as appropriate. As a government entity that must comply with this Government Code Section, the City will adopt the Institute of Internal Auditors' IPPF Standards for its internal audits. The City's Internal Audit group will adhere to the following professional standards and codes:

- City of Pasadena Employee Code of Conduct and Ethics
- The Core Principles for the Professional Practice of Internal Auditing, Definition of Internal Auditing, Code of Ethics and International Standards for the Professional Practice of Internal Auditing (Standards) produced by the IIA and published in the *International Professional Practices Framework (IPPF)*;
- The professional and ethical standards issued by the American Institute of Certified Public Accountants (AICPA) for attestation engagements.
- The professional and ethical standards issued by ISACA and published as the Information Systems Auditing Standards
- City of Pasadena Internal Audit Policies Manual

Authority and Accountability

The City's Internal Audit group reviews all departments, programs, functions, systems, contracts and activities for the City based on the approved audit plan or specific requests approved by the City Manager and/or City Council.

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The Internal Audit group is authorized to:

- Have full, free and unrestricted access to all relevant information, functions, operations, systems, property, personnel and other relevant materials necessary to accomplish its work. All employees will cooperate fully in making available material or information requested by Internal Audit or any external auditors managed by the Internal Audit group. Access to contracted third parties will be handled in accordance with contractual terms. The Internal Audit group will maintain confidentiality of all information provided subject to legal requirements. Documents provided to the Internal Audit group will be handled in the same prudent manner as by those employees normally accountable for them;
- Allocate Internal Audit resources, set audit frequencies, select audit subjects, determine scope of work, and apply the techniques required to accomplish audit objectives; and
- Obtain the necessary assistance of personnel in functions where audits are being performed, as well as other specialized services from external consultants.

The Internal Audit group is not authorized to:

- Initiate or approve accounting transactions external to Internal Audit; or
- Direct the activities of any employee not part of Internal Audit except to the extent such employees have been appropriately assigned to auditing teams.

The Internal Audit group, in the discharge of duties, is accountable to the City Manager through the Assistant City Manager and the City Council through the Audit Committee to:

- Report significant issues related to the processes for controlling the activities, including potential improvements to those processes, and periodically provide information concerning such issues until the issue is fully resolved; and
- Provide periodic information on the status and results of the annual audit plan, the progress of management action plans on open audit recommendations, and a summary of status on issues reported through the Fraud, Waste and Abuse Hotline.

Independence

The City's Internal Audit group is independent of the activities it reviews. Specifically, Internal Auditors may not review for a minimum of one year, areas where they were responsible for the design or operation of an area. Internal Auditors are responsible for maintaining their independence and integrity in all services they provide.



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All Internal Audit activities shall remain free from interference relative to matters of audit selection, scope, procedures, frequency, timing, or report content to maintain independence and objectivity. The Internal Audit Manager shall report any impairment to independence, or unjustified restriction or limitation to audit selection, scope, procedures, frequency, timing or report content promptly to the City Manager and City Council through the Audit Committee.

As a means of ensuring independence, the Internal Audit Manager will report to the City Manager through the Assistant City Manager. This structure permits the rendering of impartial and unbiased judgment essential to the proper conduct of audits.

Responsibilities

The Internal Audit group is responsible for:

- Developing and executing a flexible risk based audit plan including any risks and control concerns identified by management and/or City Council; and submitting that plan to the City Manager and City Council for review and approval;
- Preparing or updating the annual agency-wide risk assessment and incorporating the results into the annual audit plan;
- Implementing the annual audit plan, as approved, including as appropriate, any special tasks or projects requested by management;
- Reporting significant audit findings in compliance with the Internal Audit Policies Manual to the City Manager, and the City Council through the Audit Committee;
- Providing management with adequate time to respond to audit findings and include management's response in the audit report;
- Following up on audits to ensure agreed-upon corrective actions have been implemented and provide periodic follow up reports;
- Presenting quarterly reports to the City Manager and Audit Committee highlighting progress on the Audit Plan;
- Maintaining a professional audit group with sufficient knowledge, skills, experience and professional certifications to meet the requirements of this Framework;
- Conducting objective and constructive assurance services;
- Consulting services, which are advisory in nature, can be provided as long as the services do not impair Internal Audit's independence and fall within the scope outlined in the Framework;
- Exercising due professional care in all of Internal Audit's work products;
- Conducting all work in a professional manner;



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- Coordinating external audits of the City of Pasadena;
- Considering external auditors and regulators' scopes of work, as appropriate, for the purpose of providing optimal audit coverage at a reasonable overall cost; and
- Coordinating the investigation with the City Attorney's Office or Human Resources Department for all issues reported through the Fraud, Waste and Abuse Hotline in compliance with City of Pasadena's Fraud Prevention, Reporting and Investigation Policy. Summarizing and reporting to the City Manager and City Council the resolution of all issues received through the Fraud, Waste and Abuse Hotline.

Management is responsible for:

- Maintaining an effective system of internal controls, documenting policy and procedures, and ensuring information is accurate, timely and reliable;
- Complying with policies and procedures;
- Cooperating fully with auditors during discharge of their duties including prompt reply to the Internal Audit group's requests and recommendations; and
- Providing a response to audit findings and recommendations.
- Assuring timely implementation of agreed-upon corrective actions to audit recommendations.

In the future, when changes are made to this document, the changes must be ratified by the City Manager and the Audit Committee Chairman.

APPROVED:

City of Pasadena

Audit Committee Chairman

MICHAEL J. BECK

TERRY TORNEK

City Manager

Mayor