May 15, 2014

The Honorable Brad Anders  
Chairman, Knox County Commission  
City County Building  
Suite 602  
400 Main Street  
Knoxville, TN 37902

Dear Chairman Anders,

It is with sincere concern that I write you regarding recent votes the Knox County Commission has taken that have significantly weakened governance over the county’s internal audit function and, by extension, the safety net for its citizens.

In March, the commission voted to alter the Charter of the Knox County Audit Committee to change its makeup. Specifically, it amended the charter relative to how two non-commission members are nominated and appointed.

Prior to this change, one of the two non-board members was recommended by The East Tennessee Chapter of The Institute of Internal Auditors (IIA), an organization that provides professional guidance and advocacy for internal auditors throughout the region. The other was recommended by Knoxville chapter of the Tennessee Society of Certified Public Accountants. Now, both non-board members of the Audit Committee will be recommended by the local chapter of the Tennessee Society of CPAs.

While the amended charter requires that one of the two appointees have internal audit experience, the change drastically shrinks the input on candidates from The IIA, the premier body of internal audit professionals, and by extension, the pool of qualified candidates available to serve on the Audit Committee.

Knox County’s Audit Committee no longer will benefit from candidates carefully vetted by a professional body whose members are trained to seek out inefficiencies, detect waste, identify risks, and improve operations in private- and public-sector organizations. Instead, it will be limited to candidates vetted by a body whose members focus primarily on fiscal matters.

A strong internal audit department must be able to deal with all challenges and threats faced by the organization. Today, the fastest-growing threats to the public and private sectors are in areas such as risk management and cybersecurity, not finance. Indeed, financial audit comprises only about 20 percent of what U.S. internal auditors do in 2014. The change to the audit committee membership fundamentally weakens the county’s internal audit function and its ability to protect the public interest.

That misguided step was then compounded by a second County Commission vote, on April 28, that removed all reference to The IIA’s International Standards for the Professional Practice of Internal Auditing from the Knox County Code. Until this change,
Knox County had been a leading public-sector internal audit model that relied on both The IIA’s standards (known as the Red Book) and the Government Accountability Office standards (known as the Yellow Book).

While the Yellow Book is an outstanding resource for government bodies, it has its limitations where government “internal audit” functions are concerned. Of most significance in this context, it makes virtually no reference to the vital relationship between the internal auditor and the audit committee. In contrast, the Red Book not only provides direction on the internal auditor’s responsibilities to, and relationship with, the audit committee, it also provides guidance that helps preserve the independence and integrity of the audit function.

By all accounts, Knox County’s new internal auditor is certainly qualified for the role, but from The IIA’s perspective, the governance structure to properly oversee the internal audit function has been significantly weakened.

What is most troubling is that both these steps were taken without significant public input. Beyond the recommendations from the Audit Committee, I have not been able to find any broad solicitation for community input. Indeed, the County Commission’s actions appear to have been ill-informed and ill-advised.

What’s more, the one instance where the local IIA chapter sought the county’s assurances of inclusion in the process (see attachment) was met by the current efforts to excise The IIA from the process completely. This does not bode well for future critiques, whether from the public or from the county’s internal auditor.

In the final analysis, the County Commission’s decisions on these vital matters were made without thorough and thoughtful consideration to the risks and consequences. Good governance allows the audit function to do its job. In my view, the county’s weakened governance structure increases the risk of significant fraud, waste, abuse, and mismanagement within the organization.

Sincerely,

Richard F. Chambers, CIA, CGAP, CCSA, CRMA
President and Chief Executive Officer
The Institute of Internal Auditors