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TO: Jerry Weiers, Glendale Mayor
Joyce Clark, Glendale Vice Mayor
Jamie Aldama, Council Member
Ian Hugh, Council Member
Raymond Malnar, Council Member
Lauren Tolmachoff, Council Member
Bart Turner, Council Member
Kevin Phelps, City Manager

RE: Ordinance No. 019-43 – An Ordinance of the Council of the City of Glendale, Maricopa County, Arizona, amending Glendale City Code, Chapter 2, Article III, Sec. 2-54, To create an Independent Internal Audit Program and an Audit Committee

The Institute of Internal Auditors (The IIA) recently learned of a proposal being considered by the Glendale City Council to eliminate the office of the City Auditor. In the May 7th Arizona Republic article, the City Manager indicates that his proposal would make for a better, more independent process that would allow for more complex audits. However, the City Manager's proposal undermines the independence of the internal audit function. The IIA, as the global voice for the profession of internal audit, is concerned that by adopting the City Manager's recommendation, the City Council will undermine the important independent assurance provided by a properly resourced internal audit function.

The IIA is the acknowledged leader, principal educator, and recognized authority of the internal audit profession and maintains the International Professional Practice (IPPF). The IPPF includes the official Definition of Internal Auditing, the International Standards for the *Professional Practice of Internal Auditing (Standards)*, and the Code of Ethics. As a part of the IPPF, the definition of internal audit states the fundamental purpose, nature, and scope of internal auditing:

Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management control, and governance processes.

An independent audit function enhances accountability to taxpayers and helps ensure that public funds are spent in the public interest. If structured and staffed appropriately, an independent audit department can proactively prevent problems by evaluating controls through regular reviews. Since an internal audit function is more familiar with city operations and processes, they are quicker to respond to requests and available to follow-up on recommendations and implementations.

We believe that the City of Glendale should maintain the current structure of its internal audit function to continue to provide objective insights, improve efficiency of operations, assess controls, evaluate risk and protect assets, and ensure compliance with laws and regulations.

To ensure that the City's internal audit function is independent, objective, appropriately staffed, has an appropriate reporting structure, and functions in conformance with Professional Standards, we recommend the following:

Internal Audit needs to be Independent

Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out its responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out these responsibilities, the chief audit executive must have direct and unrestricted access to city management and the city council. The City Auditor must also be free from any undue influence of city management. This influence can appear in many forms including administrative or functional reporting relationships, budgetary influence, and decision making around personnel issues (e.g., hiring/firing and compensation decisions).

Internal Audit needs to be Objective

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.

Internal Audit needs to be Appropriately Staffed

The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan. Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimizes the achievement of the approved plan. Staffing decisions should be at the discretion of the appointed City Auditor and should not be subject to influence from city management.

Internal Audit needs an Appropriate Reporting Structure

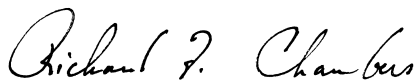
The chief audit executive must report to a level within the city that allows the internal audit activity to fulfill its responsibilities. In a municipal environment, this is most often achieved by appointment of the City Auditor directly by the City Council. Alternatively, city council may choose to establish an independent audit committee made up of a majority independent citizens. In either case, the City Council (or the independent audit committee) maintains full responsibility of the appointment and performance of the City Auditor, similar to the reporting relationship the City Manager maintains with the City Council. The City Council should view the Internal Audit function as its primary partner in providing effective, independent oversight of city operations.

Internal Audit needs to function in Conformance with Professional Standards

The IIA *Standards* (commonly referred to as the Red Book) have been adopted, fully embraced and referenced by organizations across the globe including the Basel Committee on Banking Supervision (BCBS), the United States Federal Reserve, federal, state and local government entities as well as 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 quality, professional, and ethical practices across all industries as well as public enterprises. As such, the IIA urges the City Council to reconsider the City Manager's proposal to alter the structure of the audit function. We would welcome the opportunity to provide additional guidance or information to assist you in this matter. Please contact Kathy Anderson, The IIA's Managing Director of North American Advocacy at kathy.anderson@theiia.org or at 407-937-1291 if you have any questions or would like to discuss further.

Sincerely,



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