



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: September 16, 2008

TO: Mayor and Councilmembers

FROM: Accounting Division, Finance Department

SUBJECT: Statement On Auditing Standards No. 114 - Auditor Communication With Those Charged With Governance

RECOMMENDATION:

That Council designate the Chair of the Finance Committee to serve as the liaison between the City's independent auditors and City Council regarding matters associated with the conduct of the annual audit of the City's financial statements.

DISCUSSION:

The Auditing Standards Board has issued Statement on Auditing Standards (SAS) No. 114 -Auditor Communication with those Charged with Governance. The provisions of this statement are applicable to the City beginning with the fiscal year ended June 30, 2008.

In the wake of well publicized audit failures and emerging best practices in corporate governance, expectations have increased for auditors to communicate openly and candidly with those charged with governance regarding significant findings and issues related to the audit. SAS 114 used the term "those charged with governance" to refer to those with responsibility for overseeing the strategic direction of the entity's financial reporting process. It uses the term "management" to refer to those who are responsible for achieving the objectives of the City and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for the City's financial statements.

SAS 114 describes the principal purpose of communication with those charged with governance and stresses the importance of effective two-way communication. SAS 114 also requires the auditor to determine the appropriate person(s) in the government with whom to communicate particular matters. These matters include, but are not limited to: 1) an overview of the planned scope and timing of the audit, 2) representations the auditor is requesting from management, and 3) any unresolved disagreements between the auditors and management.

Staff recommends that Council designate the Chair of the Finance Committee to serve as the liaison with the City's independent auditors for purpose of the communications addressed in SAS 114. This would include attending meetings, along with staff, with the independent auditors during the annual financial audit as well as other times when additional communication is required.

Staff presented this recommendation to Finance Committee on September 9, 2008 and Finance Committee unanimously voted to recommend that Council approve this recommendation.

PREPARED BY: Rudolf J. Livingston, Accounting Manager

SUBMITTED BY: Robert D. Peirson, Finance Director

APPROVED BY: City Administrator's Office