



Office of the City Auditor Policies and Procedures

Number: 3.1.2

Title: Assessing and Certifying Auditor Independence

Original Date:
Revision Date:
Last Review Date:
Approved by:

04/04/1994

01/23/2008

I. References

- A. See *Government Auditing Standards* (GAS), July 2007 Revision, Sections 3.01-3.11, Sections 3.22-3.24 and Sections 3.40-3.43.
- B. Also see related OCA policy 3.1.3 entitled “Assessing Audit Team Competence.”

II. Policy

- A. The Office of the City Auditor (OCA) and staff shall always act in the public interest. The independence of the Office of the City Auditor and staff shall be clearly established for each project.
- B. In all matters relating to audit work, OCA and staff shall be free both in fact and appearance from:
 - 1. Personal,
 - 2. External, and
 - 3. Organizational impairments to independence.
- C. If one or more of these impairments affects OCA’s or staff’s capability to perform the work and report results impartially, OCA or the affected staff shall resolve the impairment(s) in a timely manner by:
 - 1. Declining to perform the work, or
 - 2. If OCA or the staff cannot decline to perform the work, the impairment(s) shall be:
 - a. Reported to OCA management,
 - b. Documented in the work papers,
 - c. Removed if possible,
 - d. If not removed, then reported in the scope section of the audit report.

- D. If an impairment to independence is identified after the audit report is issued, OCA will evaluate the impact of the impairment on the audit and notify the appropriate entities if necessary, as described in GAS Section 3.06.

III. Purpose

To establish independence guidelines for audit services that comply with the standards stated in the *Government Auditing Standards*, Chapter Three. See OCA Policy 2.2.1 for guidance regarding independence and non-audit services.

IV. Definitions

- A. **Certification** – An auditor’s attestation of personal independence verified by the Deputy City Auditor as noted below and documented through the *Auditor Assignment & Independence Form* which is required for each OCA audit project.
- B. **Impairment** – A situation in which auditors are not able to maintain independence and thus not able to exercise objective and impartial judgment on all issues associated with conducting the audit or reporting the work.
 - 1. **Appearance of Impairment** – Situation, based on the impressions of objective third parties with knowledge of the relevant information, which could cause the third parties to conclude that auditors are not capable of exercising objective and impartial judgment on all issues related to conducting the audit and reporting the results.
 - 2. **Personal Impairment** – An obstacle, including a personal relationship or belief specific to an auditor or contributor to the audit, which prevents or inhibits the auditor from exercising objective and unbiased judgment during the conduct of the audit.
 - 3. **External Impairment** – An obstacle, imposed by an entity or party outside of OCA, which places unreasonable pressure or restrictions on the conduct of or reporting on the results of an audit. Such obstacles may include undue pressure to complete the audit quickly, unjustifiable restrictions to the access to records or personnel needed to complete the audit, or unwarranted pressure to alter audit conclusions or findings.
 - 4. **Organizational Impairment** – An obstacle, related to OCA’s placement within the City organizational structure, which restricts OCA’s ability to perform audit work and report the results of that work impartially.

- C. **Independence** – The ability, in both fact and appearance, of all auditors who can directly influence the outcome of an audit to maintain and exercise objective and impartial judgment on all issues associated with conducting and reporting on audit work.
1. **Personal Independence** – The ability, in both fact and appearance, of individual auditors to be and remain free from personal relationships or beliefs that might cause them to limit the extent of the inquiry, limit disclosure, or weaken or slant audit findings in any way.
 2. **External Independence** – The ability of audit organizations to be and remain free from outside factors that might restrict the work or interfere with auditors’ ability to form objective and impartial opinions, findings, and conclusions.
 3. **Organizational Independence** – The ability of an audit organization to perform and report the results of audit work objectively without being negatively affected, restricted, or influenced by the organization’s placement within the structure of the government entity being audited.
- D. **Personal Relationship** – Association between an auditor and the entity being audited or a person associated with the entity being audited which might cause auditors to limit the extent of the inquiry, limit disclosure, or weaken or slant audit findings in any way. Examples of personal relationships that are likely to create personal impairments to independence include, but are not limited to, the following:
1. auditor has an immediate or close family member or friend who is a director, officer, or employee in a position to directly influence the program or subject matter under audit;
 2. auditor has preconceived (personal, ideological, social, or political) ideas toward individuals, groups, organizations, or objectives of a particular program that could bias the audit;
 3. auditor is seeking employment from the audited entity/program during the conduct of the audit;
 4. auditor has a direct or substantial financial interest in the entity/program under audit; and
 5. auditor currently or previously created, authorized, executed, or maintained official business records of the entity/program under audit.

V. **Procedures/Responsibilities**

- A. The **City Auditor (CA)** and **Deputy City Auditor (DCA)** are ultimately responsible for reviewing and certifying audit team and organizational independence for all audits conducted by OCA through oversight and approval of the steps undertaken pursuant to procedures set forth herein. If either the **CA** or **DCA** (or both) is

formally excluded from participation, alternative arrangements must be made to fulfill the usual responsibilities on the audit. In this event, the reasons for exclusion and special arrangements to cover their responsibilities must be documented in the audit working papers.

- B. During planning, as noted in OCA policy 3.1.3 “*Assessing Audit Team Competence*,” the **DCA** will certify that the staff assigned to the audit collectively possess the competence, knowledge, skills and experience to perform the work as required in Section A of the *Auditor Assignment & Independence Form*.
- C. During planning, the **Assistant City Auditor (ACA)** and **Auditor in Charge (AIC)** will review a list of OCA audit and non-audit projects for the preceding five years and consider whether any independence conflicts might exist.
 - 1. The list will be produced from the OCA time-accounting system and will include project titles and names of the OCA staff that worked on the project.
 - 2. If potential independence conflicts are identified, the ACA will examine the situation further (e.g., by reviewing the project report and/or work papers, interviewing staff, etc).
 - 3. Where actual or perceived conflicts are found, the ACA will take action to address the conflict by amending the objectives, scope or staffing of current project.
 - 3. This review will be documented by the **AIC** and reviewed by the **ACA** in Section C of the *Auditor Assignment & Independence Form*.
- D. During planning and throughout the audit as needed, **each individual contributing to the audit** shall review the OCA policies and *Government Auditing Standards* on impairments to independence and then assess his or her own independence.
 - 1. Each individual who is free of impairments will complete Section B of the *Auditor Assignment & Independence Form* and attest to his or her independence.
 - 2. Each individual shall disclose any impairment(s) that may affect or appear to affect the performance of his or her duties or restrict the scope of the audit to the **AIC** or to the **ACA** if the **AIC** is the individual impaired.
 - 3. Team members should also be alert to impairments related to other projects throughout the audit and report them upon discovery to the **AIC** or **ACA** for appropriate action.
 - 4. The **AIC** in consultation with the **ACA, DCA, and CA** will determine the appropriate action to take, in accordance with the requirements of *GAS*, in the event an impairment is reported or discovered before, during, or after the audit.

- E. Throughout the audit, the **AIC** shall ensure that independence has been assessed and documented for all persons contributing to the audit, and that this fact has been documented.
1. The **AIC** shall use Section B of the *Auditor Assignment & Independence Form* and any other necessary documentation to accomplish this.
 2. The **AIC** shall also ensure that all external or other impairment(s) which may have affected the audit are documented in the work papers, stated in the scope section of the report, and reported to the **ACA** for the audit.
 3. The **AIC** shall prepare the necessary documentation related to independence, including having every audit team member and contributor sign the *Auditor Assignment & Independence Form*.
 4. The **DCA** shall review and verify (to the extent possible) the independence attestations of audit team members and contributors on the *Auditor Assignment & Independence Form* and certify the attestations through his or her signature at the bottom of Section B.
- F. The **CA** shall ensure that any personal, external or organizational impairment affecting the audit, if any, are properly mitigated or reported.
1. Before issuance of an audit report, the **CA** shall review and approve staff certification of independence and certify staff's professional proficiency according to this policy.
 2. The **CA** shall indicate his or her review and approval by completing Section D of *Auditor Assignment & Independence Form*.
- G. The **ACA** shall review and sign off on the *Auditor Assignment & Independence Form* (all sections) prior to issuance of the report, and the form shall be maintained in the Administrative Binder for the audit.