<u>Questions Raised at Meetings:</u>

In-house vs. Outsourcing the auditor?

- Outsourced: "In-house" audit staff is outweighed by the financial benefits produced from implementation of audit recommendations and from the expertise gained from years of service with a given organization. Opponents also disagree with the notion that an "outsourced" audit function is more independent from organizational politics. They maintain that because management is paying for services rendered, independence from political pressure is severely compromised.
- In-House: Overhead costs (salary, fringe benefits and operating overhead) are more costly than if provided by an independent contractor. An external organization can steer clear of the political aspects inherent in operating within the organization.
  - Many times, local government audit offices will use both in-house and outsourced staff.

What is the criteria for independence in the Auditing Standard Book?

a. Independence of Mind: The state of mind that permits the performance of an audit without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism.

b. Independence in Appearance: The absence of circumstances that would cause a reasonable and informed third party, having knowledge of the relevant information, to reasonably conclude that the integrity, objectivity, or professional skepticism of an audit organization or member of the audit team had been compromised.

Auditors should be independent from an audited entity during:

a. any period of time that falls within the period covered by the financial statements or subject matter of the audit, and:

b. the period of the professional engagement, which begins when the auditor agree to perform an audit. The period lasts for the entire duration of the professional relationship (which, for recurring audits, could cover many periods) and ends with the formal or informal notification, either by the auditors or the audited entity, of the termination of the professional relationship or by the issuance of a report, whichever is later. Accordingly, the period of professional engagement does not necessarily end with the issuance of a report and recommence with the beginning of the following year's audit or a subsequent audit with a similar objective.

GAGAS's practical consideration of independence consists of four interrelated sections, providing:

a. A conceptual framework for making independence determinations based on facts and circumstances that are often unique to specific environments;

b. requirements for and guidance on independence for audit organizations that are structurally located within the entities they audit;

c. requirements for and guidance on independence for auditors performing nonaudit services, including indication of specific nonaudit services that always impair independence and others that would not normally impair independence; and:

d. requirements for and guidance on documentation necessary to support adequate consideration of auditor independence.

Auditors should apply the conceptual framework at the audit organization, audit, and individual auditor levels to:

a. identify threats to independence;

b. evaluate the significance of the threats identified, both individually and in the aggregate; and:

c. apply safeguards as necessary to eliminate the threats or reduce them to an acceptable level.

- If no safeguards are available to eliminate an unacceptable threat or reduce it to an acceptable level, independence would be considered impaired.

A threat to independence is not acceptable if it either (a) could impact the auditor's ability to perform an audit without being affected by influences that compromise professional judgment or (b) could expose the auditor or audit organization to circumstances that would cause a reasonable and informed third party to conclude that the integrity, objectivity, or professional skepticism of the audit organization, or a member of the audit team, had been compromised.

- Auditors should evaluate threats both individually and in the aggregate because threats can have a cumulative effect on an auditor's independence.

- Facts and circumstances that create threats to independence can result from events such as the start of a new audit; assignment of new staff to an ongoing audit; and acceptance of a nonaudit service at an audited entity. Many other events can result in threats to independence. Auditors use professional judgment to determine whether the facts and circumstances created by an event warrant use of the conceptual framework. Whenever relevant new information about a threat to independence comes to the attention of the auditor during the audit, the auditor should evaluate the significance of the threat in accordance with the conceptual framework.

- Auditors should determine whether identified threats to independence are at an acceptable level or have been eliminated or reduced to an acceptable level. In cases where threats to independence are not at an acceptable level, thereby requiring the application of safeguards, the auditors should document the threats identified and the safeguards applied to eliminate the threats or reduce them to an acceptable level.

When an auditor identifies threats to independence and, based on an evaluation of those threats, determines that they are not at an acceptable level, the auditor should determine whether appropriate safeguards are available and can be applied to eliminate the threats or reduce them to an acceptable level. The auditor should exercise professional judgment in making that determination, and should take into account whether both independence of mind and independence in appearance are maintained. The auditor should evaluate both qualitative and quantitative factors when determining the significance of a threat. In cases where threats to independence are not at an acceptable level, thereby requiring the application of safeguards, the auditors should document the threats identified and the safeguards applied to eliminate the threats or reduce them to an acceptable level. Certain conditions may lead to threats that are so significant that they cannot be eliminated or reduced to an acceptable level through the application of safeguards, resulting in impaired independence. Under such conditions, auditors should decline to perform a prospective audit or terminate an audit in progress.

If a threat to independence is initially identified after the auditors' report is issued, the auditor should evaluate the threat's impact on the audit and on GAGAS compliance. If the auditors determine that the newly identified threat had an impact on the audit that would have resulted in the auditors' report being different from the report issued had the auditors been aware of it, they should communicate in the same manner as that used to originally distribute the report to those charged with governance, the appropriate officials of the audited entity, the appropriate officials of the organizations requiring or arranging for the audits, and other known users, so that they do not continue to rely on findings or conclusions that were impacted by the threat to independence. If the report was previously posted to the auditors' publicly accessible website, the auditors should remove the report and post a public notification that the report was removed. The auditors should then determine whether to conduct additional audit work necessary to reissue the report, including any revised findings or conclusions or repost the original report if the additional audit work does not result in a change in findings or conclusions.

Safeguards could eliminate those threats or reduce them to an acceptable level. Examples of safeguards include:

a. consulting an independent third party, such as a professional organization, a professional regulatory body, or another auditor;

b. involving another audit organization to perform or reperform part of the audit;

c. having a professional staff member who was not a member of the audit team review the work performed; and

d. removing an individual from an audit team when that individual's financial or other interests or relationships pose a threat to independence.

Depending on the nature of the audit, an auditor may also be able to place limited reliance on safeguards that the entity has implemented. It is not possible to rely solely on such safeguards to eliminate threats or reduce them to an acceptable level. Examples of safeguards within the entity's systems and procedures include:

a. an entity requirement that persons other than management ratify or approve the appointment of an audit organization to perform an audit;

b. internal procedures at the entity that ensure objective choices in commissioning nonaudit services; and

c. a governance structure at the entity that provides appropriate oversight and communications regarding the audit organization's services.

    - What has changed and what difference has having a performance auditor made in other cities?
    - How long have various entities had an auditor? Will the auditor assess risk/improvements or cost saving? Or both?

Performance vs Financial auditing

- Performance auditor in a broad sense is to examine whether or not a governmental entity is achieving its full efficiency and effectiveness. They ensure that the entity is complying with legal and administrative requirements, assessing the management systems of the entity and weighing the risk of losses, possible waste and abuse of county resources.
- A financial auditor works to evaluate the financial health of an organization. A financial auditor will work to analyze information from a program's financial statements/documents in order to determine whether any fraud or errors have occurred. They also present the financial report to the public, officials and program and work to find ways to enhance efficiency and cost effectiveness.

What are some general requirements seen for elected or appointed auditors?

- (According to Portland's office) Most requirements are based on the Yellow Book which include:
    - Certification (such as a CPA or CIA)
    - Ethical standards
    - Credential requirements -- limits the pool of people able to run/be appointed but increases legitimacy of the person in that position
    - Some require past experience (such as the ballot proposal requiring 5 years of past experience)

Suggestions from Meeting:

Split "scope" (in the matrix) up into "powers of the auditor" and "finances"
Look at recent audit reports that cities have generated
Standardized profile for each city
We should consider more characteristics

- What do you want to accomplish?
- What has gone wrong that you want to fix?
- What are the systematic failures that need fixing?