


City of Houston
Office of the City Controller
Audit Division

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INDEPENDENCE

POLICY –

The purpose of this policy is to provide guidance to ensure the Audit Division (AD) appropriately assesses threats to independence and responds to minimize risks to independence.

In performing the internal audit (IA) function, the AD applies the standards of independence and objectivity as promulgated by the Government Accountability Office (GAO) and the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing. Professional judgement is used to apply the generally accepted government auditing standards (GAGAS) Conceptual Framework Approach to independence at the audit organization, audit/engagement and individual auditor levels. This is the cornerstone of our existence as an IA function, the fulfillment of our mission statement and attainment of our objectives as outlined in the AD Charter.

The AD within the Office of the City Controller is considered an external audit organization for purposes of executing its' mission and objectives as reflected in the City Charter Article VIII, Section 7 and the Audit Division Charter.

Threats to independence, safeguards to mitigate or eliminate threats to independence and documentation requirements to support an auditor's compliance with independence standards are to be reviewed and documented at each level where an assessment of independence is made – the audit organization, the auditor and the audit/engagement levels.

AUDIT ORGANIZATION LEVEL

The Statement of Organizational Independence outlines the structure of the audit function and the Standards by which it is considered independent. The document is updated and signed by the Controller, City Auditor and audit managers upon changes to those positions, or when changes to the organizational structure occur.

AUDITOR LEVEL

The AD uses the Auditor's Statement of Independence submitted by each AD staff member annually to acknowledge their understanding of the policy requirements and to make AD management aware of any potential threats to independence. [Procedure No. 210.00, Independence](#), will be used in carrying out this assessment and any actions necessary to address potential impairment.

AUDIT/ENGAGEMENT LEVEL

Each AD member assigned to an audit/engagement completes and submits an Independence Statement prior to the start of the engagement to which they are assigned. This statement documents the AD's efforts to determine independence during any period of time falling within the period covered by the financial statements or subject

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matter of the engagement and during the period of the engagement. [Procedure No. 210.00, Independence](#), will be used to carry out the assessment and any actions necessary, including staff reassignment, to address potential impairments. If threats to independence are identified after report issuance, the effect of the threat on the engagement will be evaluated as prescribed in [Procedure No. 210.00, Independence](#).

INDEPENDENCE DURING NONAUDIT SERVICES

The AD in the City of Houston is organizationally independent from City operations and thus most nonaudit services are structurally protected from threats to independence. To ensure that independence threats are mitigated, steps are taken by the AD to ensure the nonaudit services will not impair independence of the AD and that City management understands its roles and responsibilities to effectively manage the area of responsibility as it relates to any nonaudit service performed.

Should City Management not accept its responsibilities (see responsibilities in [Procedure No. 210.00](#)) the AD follows [Procedure No. 215.00](#) for determining if the effect of such declination should result in the declining of the engagement or provision of nonaudit services.

RELEVANT PROFESSIONAL STANDARDS AND GUIDANCE

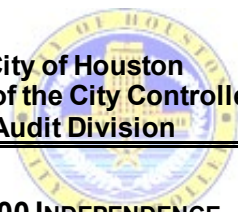
GAGAS (YELLOW BOOK)

INDEPENDENCE	
GENERAL REQUIREMENTS AND GUIDANCE	3.18 – 3.25
REQUIREMENTS: CONCEPTUAL FRAMEWORK APPROACH	3.26 – 3.34
IDENTIFYING THREATS	3.36 - 3.44
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PROVIDING NONAUDIT SERVICES	3.83 – 3.84
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DOCUMENTATION	3.107 – 3.108

IIA STANDARDS (RED BOOK)

1100 INDEPENDENCE AND OBJECTIVITY
1110 ORGANIZATIONAL INDEPENDENCE
1110.A1
1120 INDIVIDUAL OBJECTIVITY
1130 IMPAIRMENT TO INDEPENDENCE OR OBJECTIVITY
1130.A1

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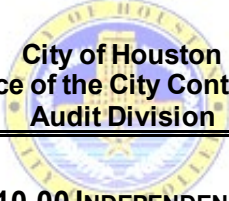
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- 1130.A2
- 1130.A3
- 1130.C1
- 1130.C2

IIA IMPLEMENTATION GUIDANCE

- 1100 INDEPENDENCE AND OBJECTIVITY
- 1110 ORGANIZATIONAL INDEPENDENCE
- 1120 INDIVIDUAL OBJECTIVITY
- 1130 IMPAIRMENT TO INDEPENDENCE OR OBJECTIVITY

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STATEMENT OF ORGANIZATIONAL INDEPENDENCE

One of the pillars of the Audit Division’s function is the requirement to be independent and objective in carrying out its mission. This involves maintaining a mental attitude and perspective of being removed in fact and appearance from the processes employed, the results, conclusions, and reporting of engagements and projects performed under the scope of authority. These parameters are set forth in the Audit Division (AD) Charter and are applied to the Division, functions, and individuals who are involved in the activities prescribed.

The City Controller is an independently elected official, with responsibilities outside the operational reporting structure of the City of Houston local government and is granted authority by the City Charter to conduct audits of City governments and operations (Chapter VIII, section 7.). Therefore, the Audit Division within the Office of the City Controller is considered an External Audit Organization and free from impairment to independence as stated in 3.53 and 3.54 of the *Government Auditing Standards*.

Along with the structure as outlined above, the City Controller, City Auditor, and Audit Manager(s), assure this concept as it applies to the AD on an annual basis and/or as required. These elements joined together meet the requirement for Organizational Independence required under Standard 1110 of the International Standards for the Professional Practice of Internal Auditing as issued by the Institute of Internal Auditors (IIA).

Identify audit areas that may be affected or where organizational independence may be impaired:

POSSIBLE ORGANIZATIONAL IMPAIRMENTS TO THE AUDIT DIVISION’S INDEPENDENCE

I have reviewed the activities, functions, organizational structure, and reporting lines with respect to City Administration and the component Departments, programs, and processes. I am not aware of any circumstances that might impair or lead others to question the AD’s ability to be independent, impartial, and objective on any audit/engagement, except as indicated above or on attached pages (*this includes external impairments and required disclosure related to nonaudit services as noted in 3.52 and 3.65 of GAGAS and 1130 of the Standards*).

RESPONSIBILITY TO UPDATE THIS DISCLOSURE

I understand that I am also responsible to make timely written notification in the event any other circumstance arises during the course of this year that might impair or appear to impair the AD’s independence with respect to any audit or activity (*this includes external impairments and required disclosure related to nonaudit services as noted in 3.52 and 3.65 of GAGAS and 1130 of the Standards*).

City Controller	Date
City Auditor	Date
Audit Manager	Date
Audit Manager	Date


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AUDITOR'S STATEMENT OF INDEPENDENCE

AUDITOR: _____ **POSITION:** _____

Internal auditors are independent when they can carry out their work freely and objectively. Independence permits internal auditors to render the impartial and unbiased judgments essential to properly conduct audits and/or other engagements.

We, as internal auditors, are expected to maintain an independent mental attitude in order to be capable of exercising objective and impartial judgment on all issues associated with conducting the audit/engagements, reporting on the work performed, and being viewed as such by objective third parties with knowledge of the relevant information. Professional Standards also require us to promptly notify the audit manager, City Auditor and/or the City Controller, in writing, concerning any situation that would impair, in fact and/or appearance, our or the Audit Division's independence on an audit/engagement. If we have any doubt whether a situation may result in impairment, we will resolve in favor of disclosure.

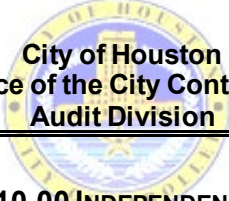
Examples of Possible Threats to Auditor Independence

- Immediate family or close family member who is a director or officer of the audited entity or is otherwise able to exert direct and significant influence over the entity or program under audit or other close relationships that may lead an auditor to take positions that are not objective;
- Financial interest that is direct, or is significant/material though indirect, in the audited entity or program;
- Responsibility for managing an entity or decision making that could affect operations of the entity or program being audited;
- Concurrent or subsequent performance of an audit by the same individual who maintained the official accounting records of the audited organization during the scope period of the engagement;
- Preconceived ideas toward individuals, groups, organizations, or objectives of a particular program that could bias the audit;
- Biases, including political, ideological, or social convictions that result from employment in or loyalty to, a particular type of policy, group, organization, or level of government;
- Impaired objectivity resulting from auditing an area for which the auditor previously had responsibility over, until at least one year has lapsed;
- Offer of or application for a position with the auditee during the preceding year. An offer of or intention to apply for a position with the auditee once the audit is in progress must also be reported;

Examples of Possible External Threats to Organizational Independence:

- External interference or influence that could improperly limit or modify the scope of an audit or threaten to do so;
- Unreasonable restrictions on the time allowed to complete an audit or issue the report; and
- Externally imposed restriction on access to records, government officials or other individuals needed to conduct the audit.

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Each auditor should identify situations involving the following:

Non-City (outside) employment

Business positions or offices

Business financial interests held by the auditor or his/her spouse

Family relationships with other City employees or other potential auditees

Other situations not identified above

POSSIBLE PERSONAL IMPAIRMENTS TO MY INDEPENDENCE

I have reviewed my personal situation with respect to the City administration and the component departments, programs, and processes. I am not aware of any circumstances that might impair my ability, in fact and appearance, to be independent, impartial, and objective on any audit/engagement, except as indicated above or on attached pages.

RESPONSIBILITY TO UPDATE THIS DISCLOSURE

I understand that I am also responsible to make timely written notification in the event any other circumstance arises during the course of this year that might impair or appear to impair my independence with respect to any audit or engagement.

Auditor

Date


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CHANGE HISTORY

CHG #	DATE	SECTION	DESCRIPTION/REASON
1	3/31/2016	All	General edits and grammatical corrections.
2	3/31/2016	Auditor's Statement of Independence; Examples of Possible Threats to Auditor Independence	Added new sentence to address concerns resulting from 2014 Peer Review regarding a non-documented threat to independence impairment not previously documented in the P&P
3	5/20/2016	All	Additional minor edits
4	7/1/2019	Relevant Professional Standards	Updated to reflect updates to Professional Standards
5	4/20/2020	Engagement Independence	Added sample form
6	7/18/2022	Policy; Audit/Engagement Level	Edits to add clarifying language resulting from peer review observations.