

<b>ATTRIBUTE POLICIES</b>	POLICY No. <b>110.00 INDEPENDENCE</b> LAST REVISED: <i>MAY 20, 2016</i>	<b>PAGE 1 OF 6</b>
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## **INDEPENDENCE**

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### **POLICY –**

The purpose of this policy is to appropriately assess compliance and threats to independence. In performing the Internal Audit (IA) Function, the Audit Division (AD) applies the standards of independence and objectivity as promulgated by the Generally Accepted Government Auditing Standards (GAGAS) and the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing. The GAGAS Conceptual Framework Approach to Independence is applied at the Audit Organization, Audit/Engagement and Individual Auditor Levels. This is paramount to the cornerstone of our existence as an AD and in the fulfillment of our mission statement and attainment of our objectives as outlined in the AD Charter.

The Audit Division within the Office of the City Controller is considered an External Audit Organization for purposes of executing its' mission and objectives embedded 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 levels, and the Audit/Engagement.

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### **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, CA, and audit managers upon changes to those positions, or when changes to the organizational structure occur.

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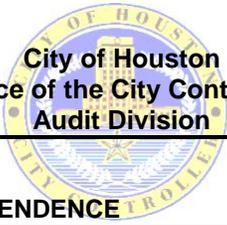
### **AUDITOR LEVEL**

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. Policy No. 210.00, Independence, shall be used in carrying out the assessment and any actions necessary to address potential impairment.

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### **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 before the assignment begins. Policy No. 210.00, Independence, shall be used in carrying out the assessment and any actions necessary, including reassignment, to address potential impairment.



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**INDEPENDENCE DURING NONAUDIT SERVICES**

The AD in the City of Houston is organizationally independent from City Operations and thus most non-audit services are structurally protected from threats to independence. To ensure that such threats are mitigated, steps are taken by the AD to ensure the non-audit 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.

Should City Management not accept its responsibilities (see responsibilities in Policy No. 210.00) the AD follows Policy No. 215.00 for determining if the effect of such declination should result in the declining of the engagement or provision of non-audit services.

**RELEVANT PROFESSIONAL STANDARDS AND GUIDANCE**

**GAGAS**

INDEPENDENCE	
DEFINITION	3.02 – 3.06
PERSONAL IMPAIRMENTS	3.07 – 3.09
EXTERNAL IMPAIRMENTS	3.10, 3.11
ORGANIZATIONAL INDEPENDENCE	
DEFINITION	3.12
EXTERNAL AUDIT	3.13 – 3.15
INTERNAL AUDIT	3.16 – 3.19
NON-AUDIT SERVICES	3.20, 3.21
OVERARCHING INDEPENDENCE PRINCIPLES	3.22 – 3.24
NON-AUDIT SERVICES	3.25 – 3.30

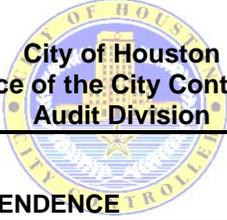
**IIA STANDARDS**

INDEPENDENCE AND OBJECTIVITY	1100
ORGANIZATIONAL INDEPENDENCE	1110, 1110.A1
INDIVIDUAL OBJECTIVITY	1120
IMPAIRMENTS	1130, 1130.A1, 1130.A2, 1130.C1, 1130.C2

**IIA PRACTICE ADVISORIES**

ORGANIZATIONAL INDEPENDENCE	1110 – 1
INDIVIDUAL OBJECTIVITY	1120 – 1
IMPAIRMENT TO INDEPENDENCE OR OBJECTIVITY	1130 – 1
INDEPENDENCE OF THE EXTERNAL ASSESSMENT	1312 – 4
TEAM IN THE PUBLIC SECTOR	

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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 3.28,b. and 3.29,a. 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:

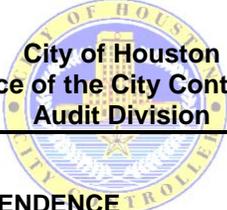
**POSSIBLE ORGANIZATIONAL IMPAIRMENTS TO THE AUDIT DIVISION'S INDEPENDENCE**

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 non-audit services as noted in 3.10 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 non-audit services as noted in 3.10 of GAGAS and 1130 of the Standards*).

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

  
**City of Houston**  
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**Audit Division**

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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.

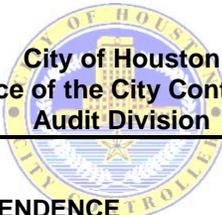
**Examples of Possible Threats to Auditor Independence**

- 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;
- 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 those induced by 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

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Business positions or offices

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

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Family relationships with other City employees or other potential auditees

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Other situations not identified above

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**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**

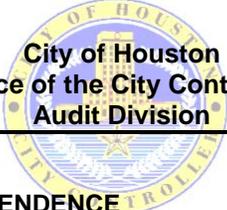
I understand that I am also responsible to make timely written notification in the event any other circumstance arises during the course of this year that might impair or appear to impair my independence with respect to any audit or engagement.

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Auditor

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Date


  
**City of Houston**  
**Office of the City Controller**  
**Audit Division**

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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