



Office of the City Auditor

## INFORMATION CALENDAR

January 19, 2016

To: Honorable Mayor and Members of the City Council  
From: Ann-Marie Hogan, City Auditor  
Subject: 2015 City Auditor's Office Peer Review Results

### INTRODUCTION

The Association of Local Government Auditors' quality control review of our office has once again resulted in an opinion that the Berkeley City Auditor's Office's internal quality control system is suitably designed and operating effectively to provide reasonable assurance of compliance with Government Auditing Standards for audits and attestation engagements completed during the review period of November 2012 to October 2015.

### CURRENT SITUATION AND ITS EFFECTS

Auditors from Austin, Texas and Long Beach, California completed a peer review of the Berkeley City Auditor's Office. The peer review team followed the standards and guidelines contained in the Association of Local Government Auditors *Peer Review Guide* to conduct the work. They reviewed our internal quality control system and examined our completed audit work in order to determine whether our system operated to provide reasonable assurance of compliance with Government Auditing Standards issued by the Comptroller General of the United States. In the opinion of the peer review team, our internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with Government Auditing Standards for audits and attestation engagements during the review period of November 2012 through October 2015.

The peer review team identified key areas in which our office excels:

- Thorough documentation and clear connection between documentation and requirements in audit standards for both audit engagements and non-audit services, reflecting a significant improvement in documentation of threats to independence and safeguards for mandated non-audit services since our last review.
- Clear guidance to assist new employees with understanding audit steps.
- Inclusion of the fiscal impact section within our reports to clearly highlight impacts for the public.
- Expansion of testing in order to include broader citywide recommendations regarding issues that we found in one area but are likely occurring in other areas.

The peer review team also identified two areas in which our audit could improve and recommended corrective measures:

- Our office, by City Charter mandate, oversees the City's Payroll Audit Division. This not only creates a continuing barrier to our ability to audit that division, but also poses threats to our independence in both mind and appearance when our audits touch upon payroll activities. Although our office followed the appropriate standards and assessed threats to our independence when our audit work involved payroll activities overseen by our office, the peer review team determined that we could improve how we document our assessment of threats to our independence from an appearance standpoint and improve documentation of the safeguards we put in place to reduce or eliminate those threats. The peer review team recommended that we make it clear in our audit documentation that we limited our audit work to exclude areas overseen by our office.
- Our office routinely considers fraud risks in the context of our audit objectives during the planning phase of our audit work and conducts a risk assessment at the onset of each audit, which includes identifying fraud-related risks. However, the peer review team determined that we could more thoroughly document our consideration of fraud-related risks. The team recommended that we explicitly conduct fraud-risk brainstorming as part of our audit planning process and document our assessment as part of our overall audit risk assessment and/or end of planning documentation.

We agreed with the peer review team's observations and agreed to implement corrective action. In fact, we have already begun updating our audit procedures and related auditing tools, for example, our project-based risk-assessment matrix, to incorporate the recommended actions. As with all of our past peer reviews, we appreciate the opportunity to improve our internal quality control system. We remain committed to achieving excellence in our work and the recommendations made in this and all prior peer reviews help us in reaching that goal.

### BACKGROUND

To enhance the City of Berkeley Auditor's Office's accountability and effectiveness, the City Auditor proposed, and the City Council and Berkeley voters approved, an amendment to the City Charter that requires our audits to be performed in accordance with Government Auditing Standards. Those standards require us to receive a peer review once every three years. The City Auditor's Office has consistently passed peer reviews since our first peer review in 1997.

Government Auditing Standards help ensure that government auditors maintain competence, integrity, objectivity, and independence in planning, conducting, and reporting their work. Auditors enhance their credibility by following standards so their work can lead to improved government management, decision making, and oversight.

The mission of the City Auditor's Office is to provide independent oversight of City operations and to be a catalyst for improving City government. Our audits provide the City Manager, City Council, and the public with objective, timely, and accurate information about City program performance. Our audits help make government more accountable.

#### ENVIRONMENTAL SUSTAINABILITY

The peer review team maintained workpapers in electronic format, which greatly reduced the use of paper and ink. There are no other identifiable environmental effects or opportunities associated with the subject of this report.

#### POSSIBLE FUTURE ACTION

We might examine our operations to determine a reasonable and suitable course of action that will permanently eliminate threats to our independence both in mind and appearance in relation to the non-audit activities we must perform by City Charter mandates.

#### FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

None known at this time.

#### CONTACT PERSON

Ann-Marie Hogan, City Auditor (510) 981-6750

#### Attachments:

- 1: External Quality Control Review Opinion Letter and Management Letter
- 2: City Auditor Response to External Quality Control Review Management Letter



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# External Quality Control Review

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of the  
Berkeley City Auditor's Office

Conducted in accordance with guidelines of the  
**Association of Local Government  
Auditors**

for the period November 2012 to October 2015

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## Association of Local Government Auditors

December 3, 2015

Ann-Marie Hogan  
Berkeley City Auditor  
2180 Milvia Street, 3rd Floor  
Berkeley, CA 94704

We have completed a peer review of the Berkeley City Auditor's Office for the period of November 1, 2012 to October 31, 2015). In conducting our review, we followed the standards and guidelines contained in the *Peer Review Guide* published by the Association of Local Government Auditors (ALGA).

We reviewed the internal quality control system of your audit organization and conducted tests in order to determine whether your internal quality control system operated to provide reasonable assurance of compliance with *Government Auditing Standards* issued by the Comptroller General of the United States. Our procedures included:

- Reviewing the audit organization's written policies and procedures.
- Reviewing internal monitoring procedures.
- Reviewing a sample of audit and attestation engagements and working papers.
- Reviewing documents related to independence, training, and development of auditing staff.
- Interviewing auditing staff, management, and City officials to assess their understanding of, and compliance with, relevant quality control policies and procedures.

Due to variances in individual performance and judgment, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

Based on the results of our review, it is our opinion that the Berkeley City Auditor's Office's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for audits and attestation engagements during the review period of November 2012 through October 2015.

We have prepared a separate letter offering suggestions to further strengthen your internal quality control system.

Corrie Stokes, CIA, CGAP, CFE  
City of Austin, TX

Jennifer Rethwisch, CFE  
City of Long Beach, CA



## Association of Local Government Auditors

December 3, 2015

Ann-Marie Hogan  
Berkeley City Auditor  
2180 Milvia Street, 3rd Floor  
Berkeley, CA 94704

We have completed a peer review of the Berkeley City Auditor's Office for the period of November 1, 2012 to October 31, 2015 and issued our report thereon dated December 3, 2015. We are issuing this companion letter to offer certain observations and suggestions stemming from our peer review.

We would like to mention some of the areas in which we believe your office excels:

- Thorough documentation and clear connection between documentation and requirements in audit standards for both audit engagements and non-audit services, reflecting a significant improvement in documentation of threats to independence and safeguards for mandated non-audit services since your last review.
- Clear guidance to assist new employees with understanding audit steps.
- The inclusion of the fiscal impact section within your reports to clearly highlight impacts for the public.
- Expansion of testing in order to include broader citywide recommendations regarding issues that are found in one area but are likely occurring in other areas.

We offer the following observations and suggestions to enhance your organization's demonstrated adherence to *Government Auditing Standards*:

- Standard 3.23 requires that "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." Standard 3.44 further requires that "...If the auditor cannot, as a consequence of constitutional or statutory requirements over which the auditor has no control, implement safeguards to reduce the resulting threat to an acceptable level... the auditor should disclose the nature of the threat that could not be eliminated or reduced to an acceptable level and modify the GAGAS<sup>1</sup> compliance statement accordingly."

In reviewing the Office's audits for the review period, we observed that the auditor performed work that directly related to a charter mandated non-audit service (payroll) provided by the office. While the service was assessed utilizing the conceptual framework and safeguards were applied, the safeguards do not appear to have reduced the risk to an acceptable level from an appearance standpoint.

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<sup>1</sup> GAGAS: Generally Accepted Government Auditing Standards

In situations where there is a risk that you may audit your own work, such as audits involving the mandated payroll responsibilities overseen by the City Auditor, we suggest making it clear that you are limiting the extent of your work to exclude areas overseen by the auditor.

- Standards 6.30-6.31 require that "In planning the audit, auditors should assess risks of fraud occurring that is significant within the context of the audit objectives... Audit team members should discuss among the team fraud risks, including factors such as individuals' incentives or pressures to commit fraud, the opportunity for fraud to occur, and rationalizations or attitudes that could allow individuals to commit fraud..." and "When auditors identify factors or risks related to fraud that has occurred or is likely to have occurred that they believe are significant within the context of the audit objectives, they should design procedures to obtain reasonable assurance of detecting any such fraud."


In reviewing the Office's audit work papers, we observed that while some fraud-related risks were identified in the risk assessment documents, explicit consideration of fraud risks in light of the audit objectives could be more thoroughly documented.

We suggest explicitly conducting fraud risk brainstorming as part of the audit planning process and documenting this assessment as part of the risk assessment and/or end of planning documentation.

We extend our thanks to you, your staff and the other city officials we met for the hospitality and cooperation extended to us during our review.



Corrie Stokes, CIA, CGAP, CFE  
City of Austin, TX



Jennifer Rethwisch, CFE  
City of Long Beach, CA



The Association of Local Government Auditors  
Awards this

# *Certificate of Compliance*

to

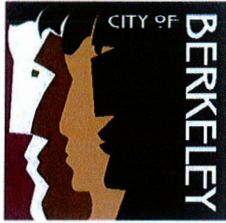
*City Auditor's Office  
City of Berkeley, California*

Recognizing that the organization's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for audit and attestation engagements during the period November 1, 2012 through October 31, 2015.

Matt Weller  
ALGA Peer Review Committee Chair

Kymber Waltmunson  
ALGA President





Office of the City Auditor  
Ann-Marie Hogan, City Auditor

December 9, 2015

Ms. Corrie Stokes, City Auditor, City of Austin, Texas  
Ms. Jennifer Rethwisch, Senior Auditor, City of Long Beach, California

Dear ALGA Peer Review Team,

We are pleased that the Association of Local Government Auditors' quality control review of our office has once again resulted in an opinion that the Berkeley City Auditor's Office's internal quality control system is suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for audits and attestation engagements during the review period of November 2012 through October 2015.

Your management letter identified the following key areas in which you believe our office excels:

- Thorough documentation and clear connection between documentation and requirements in audit standards for both audit engagements and non-audit services, reflecting a significant improvement in documentation of threats to independence and safeguards for mandated non-audit services since our last review.
- Clear guidance to assist new employees with understanding audit steps.
- Inclusion of the fiscal impact section within our reports to clearly highlight impacts for the public.
- Expansion of testing in order to include broader citywide recommendations regarding issues that are found in one area but are likely occurring in other areas.

We plan to implement your suggestions to improve our documentation of independence considerations regarding the charter mandated non-audit service of overseeing the Payroll Division by making it clear that we limited the extent of our work by excluding payroll areas overseen by our office; and to explicitly conduct fraud-risk brainstorming as part of our audit planning process and document that assessment as part of our overall audit risk assessment and/or end of planning documentation (i.e., audit survey memo).

We appreciated your informal comments about positive perceptions of our office by city staff and management, and about the significant investment of time needed to comply with independence requirements regarding nonaudit services such as payroll and contract registration.

We wish to extend our thanks to the Peer Review Team for your time and constructive comments.

Sincerely,

Ann-Marie Hogan, City Auditor, City of Berkeley