

Office of the County Auditor Auditor's Analysis

Council Bill 11-2023 Introduced: March 6, 2023

Fiscal Impact:

The passage of this legislation may result in up to \$5,000 of savings. The Howard County Auditor's Office (the Office) FY 2024 requested budget includes \$5,000 to pay for the Office's scheduled peer review from the Association of Local Government Auditors (ALGA), however the actual amount is unknown at this time.

The cancellation of this peer review may be a direct result of the Office no longer adhering to generally accepted government auditing standards (GAGAS) due to an inability to safeguard against the independence threats that would result from the passage of CB11-2023.

See **Attachment 1** for ALGA's written testimony and **Attachment 2** for excerpts from GAGAS that reference independence.

Additionally, we are trying to determine how this legislation would be implemented, which may create inefficiency and quality issues for both the Office and the County Council (the Council). These concerns are available upon request.

Purpose:

To establish new procedural requirements for the County Auditor and the Council to follow as the Office performs services authorized by Sections 212 and 213 of the Howard County Charter.

Other Comments:

The role of the County Auditor is to serve as a "watch dog" over the affairs of the Executive Branch, ensuring public funds are spent in accordance with budgets adopted by the Council and other provisions of the County Charter and County Code. As noted above, much of the concern centers around independence and the role of the County Auditor's Office. While budgeted as part of the Council, the Office has historically been able to remain functionally independent of the Council. Inserting the Council into the process will jeopardize that independence.

The Office currently performs audits according to standards defined by the U.S. Government Accountability Office, referred to as GAGAS or the "Yellow Book". The Yellow Book provides a framework for performing high-quality audit work with competence, integrity, objectivity, and independence to provide accountability and to help improve government operations and services.

These standards provide the foundation for auditors and audit organizations to lead by example in the areas of independence, transparency, accountability, and quality through the audit process.

Specifically, the standards and related guidance outline the requirements for auditor knowledge and competence, audit execution and reporting, and audit organization quality control. Auditors of federal, state, and local government programs use these standards in objectively executing audits and reporting results. Our review of surrounding jurisdictions determined that the following local offices adhere to GAGAS in conducting audits:

- Baltimore County Office of the County Auditor
- Anne Arundel County Office of the County Auditor
- Prince George's County Office of Audits and Investigations
- Baltimore City Department of Audits

As noted above, the Office is scheduled to undergo an ALGA peer review in FY 2024. The peer review is performed every three years and is critical to ensuring our audit process conforms with the quality control and professional education requirements under GAGAS. ALGA has more than 300 organizational members and more than 2,500 individual members. The membership includes auditors from cities, counties, utility districts, transit agencies, tribal governments and more.

The Office's membership in ALGA not only provides a forum for our audit processes to be peer reviewed, but it also enabled our staff to directly participate and/or lead five peer review teams for various government audit organizations throughout the United States in the past 12 months. These peer reviews provided invaluable benchmarking knowledge and access to significant audit expertise that would be lost if our Office must withdraw its ALGA membership as an outcome of CB11-2023.

Attachment 1



Association of Local Government Auditors

March 16, 2023

Howard County Council
3430 Court House Drive
Ellicott City, MD 21043

Dear Honorable Members of the Howard County Council,

We are writing to express concern about Bill No. 11-2023, introduced March 6, 2023, which, if enacted, will limit the ability of the Howard County Auditor's Office to perform certain audits independently. We are aware of the February 14th Howard County Auditor's report that precipitated this proposed Bill, and in no way condone some of the language used in that report. Although it appears that the intent of the Bill is to increase coordination between the Howard County Auditor's Office and the County Council and require the Howard County Auditor's Office to be more accountable, certain proposed amendments in the Bill create undue influence threats for the Howard County Auditor's Office. According to the [Government Auditing Standards](#) issued by the Comptroller General of the United States, examples of circumstances that create undue influence threats for an auditor or audit organization include the following:

- External interference or influence that could improperly limit or modify the scope of an engagement or threaten to do so.
- External interference with the selection or application of engagement procedures or in the selection of transactions to be examined.
- Unreasonable restrictions on the time allowed to complete an engagement or issue the report. External interference over assignment, appointment, compensation, and promotion.
- Authority to overrule or to inappropriately influence the auditors' judgment as to the appropriate content of the report.
- Threat of replacing the auditor or the audit organization based on a disagreement with the contents of an audit report, the auditors' conclusions, or the application of an accounting principle or other criteria.

An independent government audit function, operating under applicable government auditing standards such as the *Government Auditing Standards*, plays a key role in effective governance, public accountability, and transparency. To be independent, the audit function should be outside of the reporting line of areas subject to audit, should have operational autonomy to determine appropriate audit scope and procedures, and should be obligated to report audit results without fear of reprisal.

Elected officials can hold audit organizations accountable without jeopardizing their independence by requiring the organization to undergo [peer review](#) in accordance with professional standards and by establishing and tracking [performance measures](#). The Association of Local Government Auditors (ALGA) has published additional best practices for local government auditing on our website (www.algaonline.org), including [Auditor Independence](#). If you would like any additional information, please reach out to our committee member in Baltimore, Thandee Maung, at Thandee.Maung@baltimorecity.gov.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Amanda Noble', is positioned above the typed name.

Amanda Noble
Atlanta City Auditor
Chair, ALGA Advocacy Committee

Cc: Justin Anderson, ALGA President

Attachment 2

Independence Considerations for CB11-2023 Fiscal Analysis

Source: GAO Yellow Book

GAGAS 3.19

Auditors and audit organizations should avoid situations that could lead reasonable and informed third parties to conclude that the auditors and audit organizations are not independent and thus are not capable of exercising objective and impartial judgment on all issues associated with conducting the engagement and reporting on the work.

GAGAS 3.21

Independence comprises the following:

- a. Independence of mind: The state of mind that permits the conduct of an engagement 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 to reasonably conclude that the integrity, objectivity, or professional skepticism of an audit organization or member of the engagement team had been compromised.

GAGAS 3.22

Auditors and audit organizations maintain their independence so that their opinions, findings, conclusions, judgments, and recommendations will be impartial and will be viewed as impartial by reasonable and informed third parties.

GAGAS 3.27

Auditors should apply the conceptual framework at the audit organization, engagement team, 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.

GAGAS 3.28

Auditors should reevaluate threats to independence, including any safeguards applied, whenever the audit organization or the auditors become aware of new information or changes in facts and circumstances that could affect whether a threat has been eliminated or reduced to an acceptable level.

GAGAS 3.30

Auditors should evaluate the following broad categories of threats to independence when applying the GAGAS conceptual framework:

- e. Undue influence threat: The threat that influences or pressures from sources external to the audit organization will affect an auditor's ability to make objective judgments.

GAGAS 3.37

Threats to independence may be created by a wide range of relationships and circumstances. Circumstances that result in a threat to independence in one of the categories may result in other threats as well.

GAGAS 3.42

Examples of circumstances that create undue influence threats for an auditor or audit organization include existence of the following:

- a. External interference or influence that could improperly limit or modify the scope of an engagement or threaten to do so, including exerting pressure to inappropriately reduce the extent of work performed in order to reduce costs or fees.
- b. External interference with the selection or application of engagement procedures or in the selection of transactions to be examined.
- c. Unreasonable restrictions on the time allowed to complete an engagement or issue the report.
- d. External interference over assignment, appointment, compensation, and promotion.
- e. Restrictions on funds or other resources provided to the audit organization that adversely affect the audit organization's ability to carry out its responsibilities.
- f. Authority to overrule or to inappropriately influence the auditors' judgment as to the appropriate content of the report.
- g. Threat of replacing the auditor or the audit organization based on a disagreement with the contents of an audit report, the auditors' conclusions, or the application of an accounting principle or other criteria

GAGAS 3.47

A threat to independence is not at an acceptable level if it either

- a. could affect the auditors' ability to conduct an engagement without being affected by influences that compromise professional judgment or
- b. could expose the auditors 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 an auditor, had been compromised.