

CHALLENGES TO AUDITOR INDEPENDENCE

PAST THE POINT OF
NO RETURN

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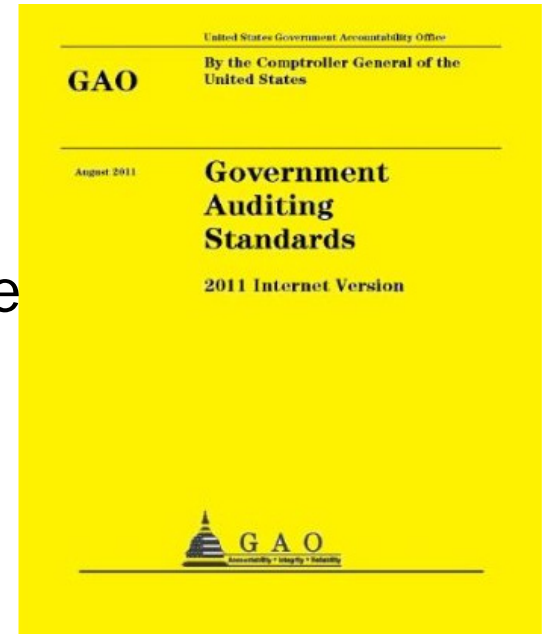
MAMIAF DECEMBER 5, 2013
OVERLAND PARK, KS

OBJECTIVES

- Identify threats to independence
- Discuss impairment signs and signals
- Provide tips for safeguarding independence

GOVERNMENT AUDITING STANDARDS

- **GAS 3.02 Independence**
 - “...auditor...must be independent”
- **GAS 3.03**
 - Independence of Mind & in Appearance
 - Integrity
 - Objectivity
 - Professional Skepticism



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MAMIAF 2013

STOCKTON, CA

THE POSITIVES

- Inland Port
- University of the Pacific
- 1,000 miles of delta waterways
- Colorful Gold Rush history
- Notable Stocktonians
 - Dave Brubeck
 - Janet Leigh
 - Chris Isaak
- Asparagus Capital
- Great Central Valley location, near
 - Lake Tahoe
 - Yosemite
 - California Coast
 - San Francisco
 - Wine Country



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STOCKTON, CA

THE CHALLENGES

- Violence
- Gangs
- Illiteracy
- Home foreclosures
- Forbes most miserable city
- Chronic unemployment
- Proximity to other metro areas
- Filed for bankruptcy June 28, 2012



GAS 3.14B FAMILIARITY THREAT

- How many years?
- How many audits?
- How many retirement luncheons?
- How many department head meetings?
- How many executive retreats?
- How many battles?

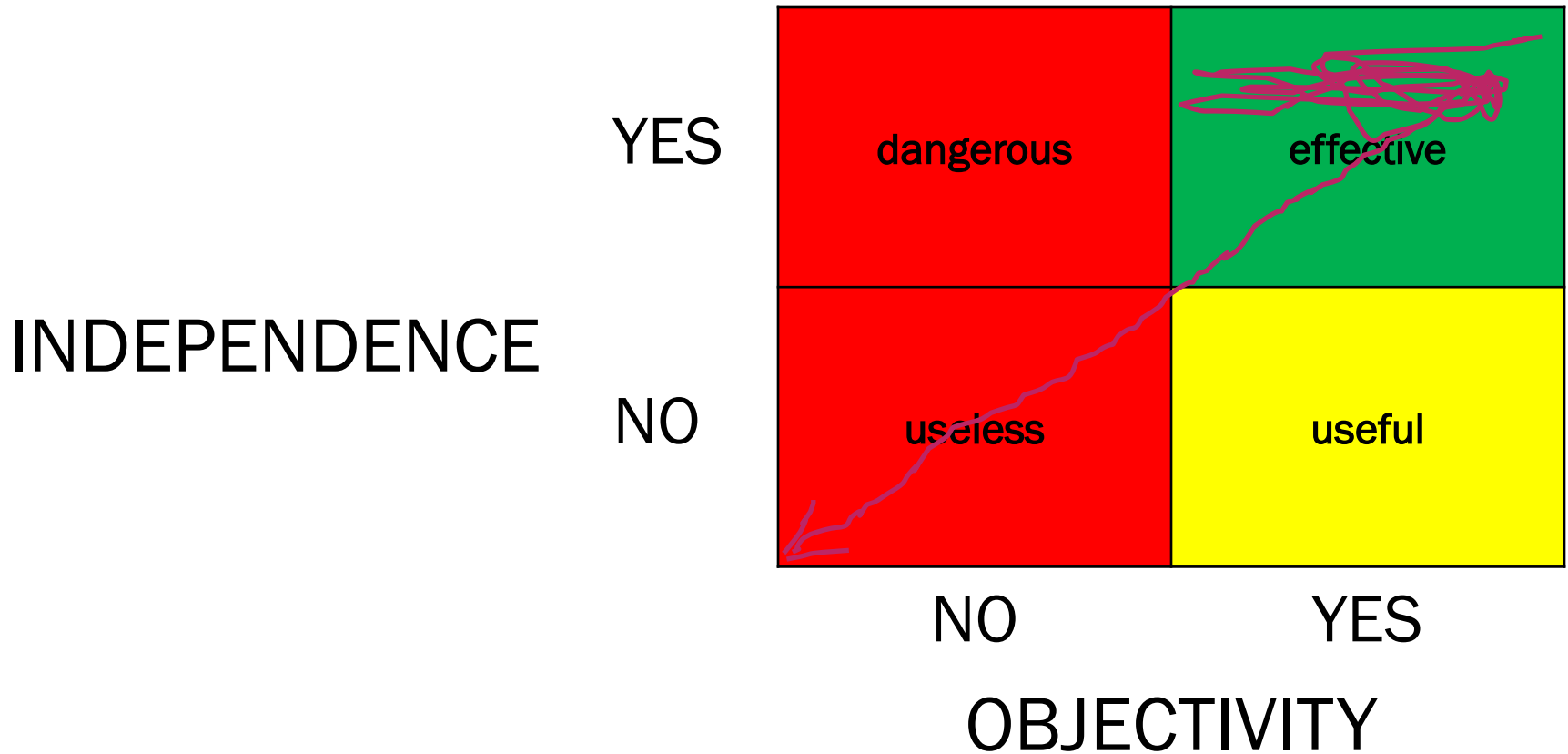
INDEPENDENCE AND OBJECTIVITY

INDEPENDENCE	YES		
	NO		
		NO	YES
		OBJECTIVITY	

INDEPENDENCE AND OBJECTIVITY

INDEPENDENCE	YES	dangerous	effective
	NO	useless	useful
		NO	YES
		OBJECTIVITY	

INDEPENDENCE AND OBJECTIVITY



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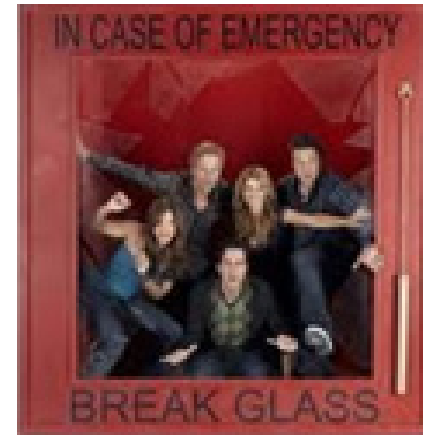
FACTORS ERODING I&O

- **Years of service**
- **Organization's inability to handle the basics**
 - Banks recs. & A/R monitoring
 - ARRA reporting
- **Financial Crisis**
 - No time for audits
 - Too many audits
 - Need for financial help and expertise

IN CASE OF EMERGENCY...

BREAK GAS

- **Natural Disaster**
 - Audit EOC?
 - Work EOC?
 - Fill sandbags?
- **Financial Disaster**
 - Keep auditing?
 - Pitch in and help?



SLOW EROSION OF INDEPENDENCE

- Former audit staff
- Volunteer work, employee committees
- Little hills you wouldn't die on
- Pressure to soften (or toughen) audit results

IMPAIRMENTS BEYOND AUDITOR'S CONTROL

- Structure
- Management abdication
- Informal reporting structure
- Perception

TIPS:

MONITOR YOUR OBJECTIVITY

- Little voice in your head
- Take the independence checklist seriously
- Examine yourself from a different viewpoint
 - LinkedIn connections
 - Lunch companions
 - Working relationships
- Peer Review

FISCAL DISTRESS IN LOCAL GOVERNMENT

FOCUS ON
STOCKTON, CA

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OBJECTIVES

- **Detail causes & symptoms of fiscal crisis**
- **Discuss impact on services & citizens**
- **Describe auditing and accountability in Stockton**

FOCAL POINTS

- **Retiree medical benefit**
- **Pension obligation bonds**
- **Enhanced retirement**
 - 3% @ 50 for safety
 - 5% COLA for all
- **Illegal fund transfers**
- **Union contracts**

CAUSES AND SYMPTOMS OF FISCAL CRISIS

➤ Causes

- State/voter imposed
- Structure
- Processes

➤ Symptoms

- Excessive compensation
- Weak technical skills
- Failed projects
- Wasteful spending
- Ineffective controls

IMPACT ON SERVICES AND CITIZENS

- **Many programs on life support**
 - Reduced hours
 - Stayed on across-the-board cut path
- **Public safety weakened**
- **Infrastructure crumbling**
- **Further eroded public view of local government**
- **Cost**

AUDITING IN STOCKTON

➤ Financial Auditing

- Reliance on external firms
- CAFR status
- Single Audit status
- Audit firm turnover

➤ City Auditor

- Initial resistance
- Continued resistance
- Erosion of independence & objectivity
- Outsourcing

Questions

Fiscal Distress in
Local Government
Focus on Stockton
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