



Association of Local Government Auditors

January 28, 2013

Mr. Martin Matson, Comptroller
Office of the Comptroller, City of Milwaukee
200 East Wells Street
Milwaukee, WI 53202

Dear Mr. Matson,

The noncompliance opinion was based on serious deficiencies in your quality control system relating to independence and quality control. As your office accepted the noted deficiencies relating to quality control and only disagreed with the peer review team's assessment of the organization's independence, I will only address that issue. I would like to point out that this assessment received a high level of scrutiny within the Association of Local Government Auditors' organization prior to issuance and that the peer review team's assessment had no opposition.

With respect to reaching the independence assessment, meeting the five criteria stated in Government Auditing Standard 3.31 does not automatically or by default make an audit organization independent. This set of standards (GAS 3.27 through GAS 3.31) speaks to only organization structure. Noncompliance with these standards was not questioned in either the opinion or management letter.

Independence comprises both independence in mind and appearance. Under the conceptual framework approach to independence, audit organizations should identify threats to independence, evaluate the significance of any threats identified, and apply safeguards to eliminate or reduce the threats to an acceptable level. The related standards are found in GAS 3.02 through GAS 3.26. These are the independence standards that were cited in the opinion and management letters as the basis for the noncompliance opinion.

Without going into the level of detail of the opinion letter, the independence noncompliance assessment was derived from the duties and functional responsibilities that the elected Comptroller is required to perform. As stated in the opinion letter, these duties and functional responsibilities "create a significant impairment to the independence of the audit function under *Generally Accepted Government Auditing Standards*." They appear to create a self-review and management participation threat to independence that "could lead reasonable and informed third parties to conclude that the auditors are not independent and thus are not capable of exercising objective and impartial judgment on all issues associated with conducting the audit and reporting on the work."

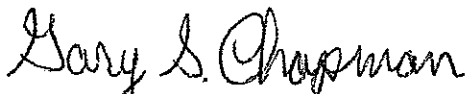
The peer review team identified instances where the audit organization directly or indirectly performed audits that fell within the reporting lines under the authority and control of the Comptroller. In our opinion, this created an appearance of independence impairment and a finding of noncompliance with the applicable independence standards.

To eliminate or reduce the identified threats to independence to an acceptable level, the peer review team recommended that the structure of the organization be evaluated and to consider placing the audit organization under the authority of your Common Council or an audit committee. While this recommendation deals with the organization's structure, it does not imply that this was the cause for the noncompliance assessment. Another option might be to reduce or eliminate some of the Comptroller's duties and functional responsibilities that were found to be in conflict with the audit organization's independence. This would address the actual cause for the noncompliance assessment; however, it may not be feasible depending on whether those conflicting duties and functional responsibilities were mandated by some local or state laws.

In your response, your office indicated that it has already strengthened its compliance with the independence standards by requiring the Audit Manager sign the audit report and officially documenting the requirement to submit audit reports to the Common Council. While these changes appear to enhance your independence, they do not affect the opinion expressed on your office's compliance with *Government Auditing Standards* during the period July 1, 2011, through June 30, 2012.

As this letter was formally requested by your office, it should become part of the peer review report package and be distributed along with the peer review opinion and management letters and your response letter. Please let me know if I can be of any further assistance.

Sincerely,

A handwritten signature in black ink that reads "Gary S. Chapman". The signature is written in a cursive, flowing style.

Gary S. Chapman, CIA, CGAP, CFE, CICA
Chair, ALGA Peer Review Committee