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December 29, 2004

VIA FACSIMILE

Mr. Frank C. Roberts
Board Chairman
Los Angeles County Metropolitan Transportation Authority

Dear Mr. Roberts:

On December 21, 2004, Mr. William Bernsdorf, Managing Director of the Management Audit Services Department (MASD) met with me and my senior staff at his request and made a series of allegations which, if true, seriously affect the independence of this organization.

The MTA policy governing Audit Independence (see attached) clearly states that the audit organization and the individual auditors shall be organizationally independent and free from personal and external impairments and shall maintain an independent attitude and appearance. In addition, the Government Auditing Standards (see attached) governing the MASD require that, in all matters relating to the audit work, the audit organization and the individual auditors should be free both in fact and appearance from personal, external, and organizational impairments to independence.

I am looking into Mr. Bernsdorf's allegations and will report my findings to the Board as expeditiously as possible.

Sincerely,

William T. Waters
Inspector General

Cc: MTA Board Members



**Los Angeles County
Metropolitan Transportation Authority
Office of Inspector General**

STATEMENT OF AUDIT POLICY NO. 3

AUDIT INDEPENDENCE

I. AUTHORITY

The Charter of the Los Angeles County Metropolitan Transportation Authority Office of Inspector General (MTA OIG) provides, in Section VI, that it is the responsibility of the Inspector General to provide policy direction for a Audits. The purpose of this Statement is to provide that policy direction.

II. APPLICABILITY

This statement applies to all audits conducted by, or for, the MTA. These include audits conducted by the MTA OIG, Management Audit Services (MAS), and contracts for audit services awarded by the MTA.

III. AUDIT POLICY

Audit Independence

In all matters relating to MTA audits, the audit organization and the individual auditors, (whether employed directly by the MTA or employed by contract), shall be organizationally independent and free from personal and external impairments and shall maintain an independent attitude and appearance.

To achieve organizational independence, the MAS shall report to the Chief Executive Officer or the Deputy Chief Executive Officer. Audit organizations shall be organizationally located outside the staff or line management function of any unit they might be expected to audit.

Audit managers, supervisors, and the audit staff, shall be alert to circumstances in which auditors may not be impartial, or may not be perceived to be impartial. The audit organization shall have procedures in place to help determine if personal impairments to independence exist.

Factors external to the audit organization may restrict the audit or interfere with the auditor's ability to form independent and objective opinions and conclusions. The audit organization shall have procedures in place to promptly and fully report any external impairments.

IV. CONSULTATION WITH THE MTA OIG

The MTA OIG shall be consulted on any and all questions concerning the applicability of this Statement of Audit Policy to particular instances and circumstances.

V. IMPLEMENTING PROCEDURES

The MTA OIG and MAS shall prepare and publish written instructions which implement all aspects of this audit policy. Copies of implementation procedures shall be provided to the Inspector General as they are prepared. Full implementation is expected within 90 days of the date of this Statement of Audit Policy.

VI. COORDINATION

This Statement of Audit Policy has been coordinated with the Management Audit Services Department prior to release.

VII. APPROVAL

 /S/
ARTHUR SINAI
INSPECTOR GENERAL

 10-1-99
DATE

General Standards

Introduction

3.01 This chapter prescribes general standards and provides guidance for performing financial audits, attestation engagements,¹⁵ and performance audits. These general standards concern the fundamental requirements for ensuring the credibility of auditors' results. Credibility is essential to all audit organizations performing work that government leaders and other users rely on for making decisions, and is what the public expects of information provided by auditors. These general standards encompass the independence of the audit organization and its individual auditors; the exercise of professional judgment in the performance of work and the preparation of related reports; the competence of audit staff, including the need for their continuing professional education; and the existence of quality control systems and external peer reviews.

3.02 These general standards provide the underlying framework that is critical in effectively applying the field work and reporting standards described in the following chapters when performing the detailed work associated with audits or attestation engagements and when preparing related reports and other products. Therefore, these general standards are required to be followed by all auditors and audit organizations, both government and nongovernment, performing work under generally accepted government auditing standards (GAGAS).

Independence

3.03 The general standard related to independence is:

In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, should be free both in fact

¹⁵See chapter 6 for an additional general standard auditors should follow when performing an attestation engagement.

and appearance from personal, external, and organizational impairments to independence.

3.04 Auditors and audit organizations have a responsibility to maintain independence so that opinions, conclusions, judgments, and recommendations will be impartial and will be viewed as impartial by knowledgeable third parties. Auditors should avoid situations that could lead reasonable third parties with knowledge of the relevant facts and circumstances to conclude that the auditors are not able to maintain independence and, thus, are not capable of exercising objective and impartial judgment on all issues associated with conducting and reporting on the work.

3.05 Auditors need to consider three general classes of impairments to independence—personal, external, and organizational.¹⁶ If one or more of these impairments affects an individual auditor's capability to perform the work and report results impartially, that auditor should either decline to perform the work, or in those situations in which the government auditor, because of a legislative requirement or for other reasons, cannot decline to perform the work, the impairment or impairments should be reported in the scope section of the audit report.

¹⁶Nongovernment auditors should also follow the AICPA code of professional conduct and the code of professional conduct of the state board with jurisdiction over the practice of the public accountant and the audit organization. All auditors should also be aware of and comply with any applicable government ethics laws and regulations and any other ethics requirements (such as those of the state boards of accountancy) associated with their activities.