



# National State Auditors Association

December 7, 2011

John Sylvia  
Director  
Performance Evaluation and Research Division  
Building 1, Room W-314  
1900 Kanawha Boulevard East  
Charleston, WV 25305

Dear Mr. Sylvia:

We have reviewed the system of quality control of the West Virginia Office of the Legislative Auditor's Performance Evaluation and Research Division (the Division) in effect for the period September 1, 2010 through August 31, 2011. A system of quality control encompasses the Division's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with government auditing standards. The design of the system and compliance with it are the responsibility of the Division. Our responsibility is to express an opinion on the design of the system, and the Division's compliance with the system based on our review.

We conducted our review in accordance with the policies and procedures for external peer reviews established by the National State Auditors Association (NSAA). In performing our review, we obtained an understanding of the Division's system of quality control for engagements conducted in accordance with government auditing standards. In addition, we tested compliance with the Division's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the Division's policies and procedures on selected engagements. The engagements selected represented a reasonable cross-section of the Division's engagements conducted in accordance with government auditing standards. We believe that the procedures we performed provide a reasonable basis for our opinion.

Our review was based on selective tests; therefore it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it. Also, there are inherent limitations in the effectiveness of any system of quality control; therefore, noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, except for the effects of the deficiencies described below, the system of quality control of the West Virginia Office of the Legislative Auditor's Performance Evaluation and Research Division in effect for the period September 1, 2010 to August 31, 2011 has been suitably designed and was complied with during the period to provide reasonable assurance of conforming with government auditing standards.

## Reasons for Modified Opinion and Recommendation

A comprehensive system of quality control is composed of many important aspects, ranging from the design and documentation of the system and its communication, to the development of appropriate policy and procedures, to the organization's human resource policy and training practices that ensure staff have the capabilities and knowledge needed to conduct the audits, to its efforts to monitor and report on compliance with the established procedures. We identified deficiencies in several important aspects of the Division's system of quality control which caused the system to fail to prevent, identify, or correct recurring deviations from several audit standards, including:

**Competence:** GAGAS requires audit staff to collectively possess knowledge of the standards applicable to the type of work they are assigned and the education, skills, and experience to apply this knowledge to the work being performed. The Division does not have policies and procedures governing continuing education and professional development, did not communicate the requirements to audit staff, and staff did not meet the minimum continuing education requirements established by the standards. Additionally, in our discussions with audit management and staff, we found them unfamiliar with specific provisions of GAGAS applicable to their work.

**Quality Control and Assurance:** GAGAS requires audit organizations to establish a system of quality control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements. Although the Division references its written reports prior to release, this process alone is not sufficient to provide the organization with reasonable assurance that the organization and its personnel comply with all standards.

**Planning:** GAGAS requires auditors to adequately plan each audit to achieve the audit objectives and to document certain important aspects of that planning. The Division's policies and procedures do not sufficiently address several key aspects of this planning standard, including, but not limited to, planning for the management of audit risk and significance; consideration of the potential for fraud, abuse, or illegal acts; evaluation of internal controls; and the reliability of computer generated information.

**Evidence:** GAGAS standards require that auditors assess the reliability of evidence gathered from officials of audited entities, testimonial evidence, and computer-processed information. Also, auditors should determine whether evidence as a whole is sufficient and appropriate to support findings. The Division used information provided by officials of audited entities, testimonial evidence, and computer-processed information, but in many cases did not document the assessment of that evidence. Additionally, the Division's quality control policies and procedures do not require auditors to document whether evidence as a whole is sufficient and appropriate.

**Report Contents:** Among other things, GAGAS requires auditors to prepare reports that contain the objectives, scope, and methodology of the audit; a description of the scope of their work on internal control and any significant deficiencies; and a statement about the


auditor's compliance with GAGAS. For some of the audits we reviewed, the methodology did not adequately describe the nature and extent of the work performed to address the objectives. Reports also did not include the scope of work on internal control and any deficiencies that were significant within the context of the audit objectives. In addition, the reports did not include the correct GAGAS statement.

**Recommendation:** The West Virginia Office of the Legislative Auditor's Performance Evaluation and Research Division should develop an appropriate system of quality control that addresses all components and requirements of GAGAS. This should include parameters that ensure adequacy of the system design and documentation, as well as provisions to ensure adequate communication of requirements to all staff, and effective monitoring of the system by management or their designees. The system should include appropriate policies, procedures and practices that address continued staff development and training in GAGAS requirements; documentation of all required aspects of audit planning; documenting the assessment of the sufficiency and appropriateness of audit evidence; and a more complete discussion of required reporting elements.

In the attached correspondence dated February 3, 2012, the West Virginia Office of the Legislative Auditor's Performance Evaluation and Research Division provided its response to the report recommendation.



Joseph Schussler, CPA, CGFM  
Team Leader  
National State Auditors Association  
External Peer Review Team



John F. Buyce, CPA, CIA, CGFM  
Concurring Reviewer  
National State Auditors Association  
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John Sylvia  
Director

February 3, 2012

Joe Schussler, Team Leader  
National State Auditors Association  
External Peer Review Team  
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Nashville, TN 37243-1402

Dear Mr. Schussler:

I would like to express my appreciation to you and the peer review team for your time and effort in reviewing the operations of the Performance Evaluation and Research Division (PERD) within the West Virginia Office of the Legislative Auditor. Your overall approach was to express an opinion on our system of quality control, our compliance with the system, and our compliance with generally accepted government auditing standards (GAGAS). I have reviewed your Letter of Opinion dated December 7, 2011, as amended, and I accept the findings of your review as fair and helpful. Although you observed some concerns within certain aspects of our system of quality control, your opinion is that the system has been suitably designed and was complied with during the review period to provide reasonable assurance of conforming with government auditing standards. We appreciate this acknowledgment. We have always had a high regard for producing quality reports in compliance with government auditing standards. It is also important to note that your findings focus strictly on internal procedures and in no way express concern with the accuracy of the reports you reviewed.

The peer review process has been very helpful in identifying areas in which we can improve our internal operations. I want this division to benefit to the fullest extent from your observations, and we are in the process of making the recommended changes. Specifically, PERD will increase the hours of continuing professional education in order to ensure that staff obtain the necessary 80 hours over a two-year period. We are making changes to our Policy and Procedures Manual to give specific instruction on this requirement, and we have implemented a monitoring procedure to keep track of each individual's continuing professional education.

You also commented that some of the audits you reviewed did not adequately meet GAGAS reporting requirements. This is a fair assessment. Our procedures require all reports to have a Scope, Objective and Methodology section in an appendix, as required by GAGAS, and

they describe the purpose and manner in which we conducted the audit. However, I agree that we need to expand the description of the nature and extent of our audit work in the Methodology section. Furthermore, the Scope will include a discussion on the scope of work on internal controls and any deficiencies that were significant within the context of the audit objectives. In addition, our reports are now citing the correct GAGAS statement as recommended. These changes will also be reflected in our Policy and Procedures Manual.

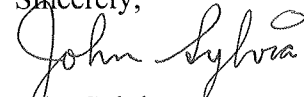
I concur with your observations on our planning procedures. Our Policy and Procedures Manual provides extensive instruction on the planning elements required by GAGAS. We require auditors to consider in the planning stage the potential for fraud, abuse, and illegal acts. Auditors are also required to assess internal controls, and the reliability of computer-generated information as they relate to the audit objective. Nevertheless, our manual does not require that these planning aspects be documented, and we need to include planning for the management of audit risk.

For the most part I agree with your opinion that we lacked documentation of our assessment of evidence. I am hesitant to agree completely because it should be noted that our indexing and referencing procedure documents our determination of the sufficiency and appropriateness of evidence. As you are aware, our indexing procedure lays out all of the evidence of a report by the audit team. The referencing procedure assesses all of the evidence of a report by an independent analyst by correlating every statement of fact in the report to the supporting evidence to determine if the evidence is appropriate and sufficient for each statement. The referencer prepares a Reference Report and all matters are to be resolved before the final report is issued. The referencer is provided wide latitude to question anything in an audit. Thus, if a referencer appropriately questions the need for better evidence, or even the accuracy of a finding in its totality, I have ordered audit plans to be modified and additional work to be done, or for findings to be removed from an audit. Although the indexing and referencing procedure documents our assessment of evidence, this is not clearly defined in the Reference Report or by our Policy and Procedures Manual. Therefore, it is understandable that the peer review team did not perceive the Reference Report as documentation of our assessment of evidence. Consequently, the Reference Report will be modified to clearly indicate that the referencer and the audit team have made a determination of the sufficiency and appropriateness of the evidence. In addition, while our manual requires auditors to assess evidence, it needs to be amended to clearly require auditors to document their assessments. Moreover, we will develop another document that will allow the audit team to show the method and result of how it assessed individual key evidence during field work, and why it was not necessary to assess certain data by GAGAS standards.

We are examining the elements of our quality control and assurance in response to your opinion. You acknowledged the value of our referencing process as a quality control measure; however, you indicated that it alone is not sufficient to provide us with reasonable assurance that our staff is complying with all standards. We have other elements of quality control in place as required by GAGAS. We emphasize quality work, we have an extensive policy and procedures manual, and we communicate proper auditing procedures to staff. However, I recognize the need to implement a system that specifically evaluates and monitors our staff's compliance with GAGAS, and results in a report of findings of our level of compliance.

Again I would like to thank the peer review team for its insights with regards to the internal operations of PERD. I understand and embrace the purpose of the external peer review as a means to objectively review our operation and identify areas in which we can improve. We have begun implementing your recommendations. This process has been a valuable tool in facilitating the continued success of this division. The Performance Evaluation and Research Division is committed to conducting performance evaluations with a serious regard for following GAGAS and that commitment will continue.

Sincerely,

A handwritten signature in black ink that reads "John Sylvia". The signature is written in a cursive style with a large, looping "J" and "S".

John Sylvia