



# National State Auditors Association

December 7, 2011

Stacy L. Sneed, CPA, CICA  
Director  
Legislative Post Audit Division  
Building 1, Room W-329  
1900 Kanawha Boulevard East  
Charleston, WV 25305

Dear Ms. Sneed:

We have reviewed the system of quality control of the West Virginia Office of the Legislative Auditor's Legislative Post Audit 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 Legislative Post Audit Division in effect for the period September 1, 2010 through 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**

Generally Accepted Government Auditing Standards (GAGAS) is composed of several general standards that apply to all audits, as well as certain specific standards that apply based on the type of audit performed. The Division is responsible to identify the standards that are appropriate for the type of audits it performs. For the period subject to our review, the Division determined that its audits should comply with the sections of GAGAS applicable to financial audits. These standards incorporate by reference Generally Accepted Auditing Standards (GAAS) established by the American Institute of Certified Public Accountants (AICPA) and generally apply to audits that result in an independent auditor's opinion on the fairness of presentation of a set of financial statements for the audited entity.

More specifically, the Division has asserted that the nature of the audits it performs falls within a specific and narrow section of the AICPA standards (AU Section 801 on Compliance Audits). We disagree with the Division's determination. AU 801 is only applicable if an auditor is engaged, or required by law or regulation, to perform a compliance audit in accordance with all of the following: GAAS, GAGAS for financial audits, and a governmental audit requirement that requires the auditor to express an opinion on compliance. It is generally applicable to mandated audits of compliance with specific provisions of government programs that are performed in conjunction with a broader financial statement audit.

The Division's audits are not conducted in conjunction with a financial statement audit, nor is there a governmental audit requirement to express an opinion on compliance. While the Division is authorized to conduct audits, the nature, scope and issues covered by these audits are determined at the discretion of the Division and the Legislative Auditor. In our opinion, the nature of the work performed in these audits is more appropriately classified under the sections of GAGAS governing performance audits or attestation engagements, both of which have different requirements.

As a result of its incorrect identification of applicable standards, the Division has neither adopted policies and procedures, nor designed its quality control system to ensure compliance with all requirements applicable to its audits. These include, but are not limited to, documenting the steps taken by the Division to:

- consider audit risk and materiality,
- manage overall audit risk to an acceptably low level,
- apply audit procedures specifically directed to ascertaining whether illegal acts have occurred,
- obtain an understanding of how information technology affects the design and implementation of control activities, and
- apply audit procedures to evaluate the reliability of computer generated information used as audit evidence.

In addition, the Division's efforts to fit its work into the strict reporting formats prescribed by AU 801 have resulted in too broad of an opinion letter for at least two of the five GAGAS audits

issued during the period. In both cases, the Division issued an independent auditors' opinion indicating that the audited entity had complied with all laws, rules and regulations applicable to it, even though the Division's examination was limited to certain specific areas. As a result, the audit evidence gathered is neither sufficient nor appropriate to support the broad opinion expressed in these audits.

**Recommendation:** The West Virginia Office of the Legislative Auditor's Legislative Post Audit Division should examine the provisions of GAGAS to identify the section(s) that most appropriately align with the type(s) of audits it performs. Once these standards are identified, the Division should revise its system of quality control to addresses all appropriate 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.

In the attached correspondence dated January 12, 2012, the West Virginia Office of the Legislative Auditor's Legislative Post Audit Division provided its response to the report recommendation.



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



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**WEST VIRGINIA LEGISLATURE**  
**Joint Committee on Government and Finance**

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January 12, 2012

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Nashville, TN 37243-1402

Dear Mr. Schussler:

This letter represents our response to the issue that resulted in a modified report issued in connection with the recent peer review of the West Virginia Legislative Post Audit Division's system of quality control for the period September 1, 2010 through August 31, 2011. Since switching to Generally Accepted Government Auditing Standards (GAGAS) in January, 2009, this was our first peer review. This review was to help determine the adequacy of the quality control policies and procedures used by the Post Audit Division to comply with GAGAS.

The draft report that you sent to me disclosed a recommendation to follow a different section of GAGAS than we were previously following. We will immediately take steps to implement this recommendation as we now recognize adherence to the performance sections of GAGAS is more applicable to the audit work we perform at Post Audit. We believe implementing the recommendation will be a valuable step in bringing our office more in compliance with GAGAS. The measures we are taking in response to your recommendations will ensure the work of the Post Audit Division continues to make significant contributions to improving the efficiency and effectiveness of state programs.

The following is your recommendation along with the corrective measures which we have already taken or will implement in the immediate future, not only to address the comments in the peer review, but also to strengthen the office:

Recommendation – "The West Virginia Office of the Legislative Auditor's Legislative Post Audit Division should examine the provisions of GAGAS to identify the section(s) that most appropriately align with the type(s) of audits it performs. Once these standards are



identified, the Division should revise its system of quality control to address all appropriate 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 Post Audit Division will begin following the performance audit sections of GAGAS. We will be updating our current policies and procedures manual, and system of quality control, to reflect this change and address all appropriate components and requirements of the sections of GAGAS related to performance audits.

The Peer review team made additional comments in their review opinion regarding Post Audit's compliance with GAGAS in regard to assessing audit risk, assessing illegal acts, understanding information systems controls, and evaluating the reliability of computer-generated information. We have responded individually to each of these comments in the order listed in the four paragraphs that immediately follow:

The Post Audit Division does assess audit risk and did so for the audits selected for review by the peer review team; however, we will clarify the wording in our policies and procedures and ensure this assessment is adequately documented in our work papers. Our division continuously assesses audit risk throughout each audit assignment and we plan our audits accordingly.

Our office also does assess the risk of illegal acts when testing compliance requirements, however, we will ensure this assessment is documented in our work papers. When our auditors conclude, based on sufficient, appropriate evidence, that illegal acts either have occurred or are likely to have occurred, they are to report the matter as a finding.

The Post Audit Division does evaluate the design and obtains an understanding of information systems controls that are determined to be significant to the audit objectives. This evaluation is evident in the documented procedural interviews conducted for each agency audit and in the internal control questionnaires which are completed for every audit conducted under GAGAS. Still, we will clarify and add further detail to the steps we take in evaluating and understanding information system controls in our policies and procedures. Understanding and documenting spending unit procedures facilitate identifying the scope of the audit and may identify specific issues to examine. It also helps determine if an auditee's information system is used extensively throughout the program under audit and if the fundamental business processes related to the audit objectives rely on the information system. During this process, the audit team develops an overview as well as some detailed knowledge of the types of information systems they use, if any, and an understanding of the information system controls. Our position is we are in compliance with GAGAS requirements pertaining to evaluating and understanding information systems controls, however, as stated earlier, we will clarify the required steps we take to ensure compliance with GAGAS in our policies and procedures. In addition, once these steps are



performed for any GAGAS audit, we will ensure their completion is thoroughly documented in our audit working papers.

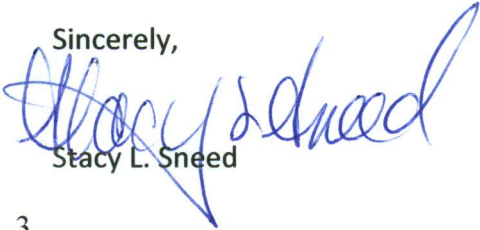
We also apply audit procedures to evaluate the reliability of computer generated information used as audit evidence during our procedural interviews and testing phase. We ensure we do not use as audit evidence, information we cannot rely on.

It is important to note the peer review did not disclose any problems with the audit documentation retained in support of the facts and conclusions presented in the Division's audit reports. Our audit evidence gathered was sufficient to support the findings included in the report. Historically, a typical opinion in our reports would state we have audited for compliance with applicable laws, rules and regulations. The peer review team mentioned in their comments that our audit report opinion was too broad in regard to the criteria cited as governing instruments over the subject matter of our audits. However, the team recommended we follow the performance sections or attestation engagements sections of GAGAS and, as stated above, we intend to immediately comply with this recommendation by following the sections of GAGAS governing performance audits. The performance sections do not require, and we will no longer be issuing, an independent auditor's report. Thus, the peer review team's comment indicating our lack of adequate citation of governing instruments in the report opinion is fundamentally moot.

In conclusion, the findings in the WV Legislative Post Audit Division's reports are factual and sound. They have served to improve the efficiency and effectiveness of state agency operations. We have assisted the WV Legislature in the effective discharge of their responsibilities by furnishing accurate audits, analysis, recommendations and pertinent, relevant information concerning the revenues and expenditures of the state government spending units of West Virginia.

In accordance with your recommendation, we will begin following the sections of GAGAS governing performance audits. It is our opinion that adherence to the performance sections will address most of the issues raised in your draft report and strengthen our overall audit function. Many of the provisions in the financial sections of GAGAS are comparable to certain performance sections. Therefore, our office is readily prepared for the change in standards and already comply with most aspects of the performance audits sections. Thank you for your thorough and frank assessment of the Post Audit Division. Your recommendation has helped us ensure that, going forward, our audit operations are not only more fully compliant with Government Auditing Standards, but also reflect the high level of professionalism and accountability that I have set as a standard for the Division.

Sincerely,



Stacy L. Sneed