
NSAA

National State Auditors Association

State of Alaska
Division of Legislative Audit
External Peer Review
for the period
July 1, 2003, through June 30, 2004
OPINION REPORT



National State Auditors Association

September 17, 2004

Ms. Pat Davidson, Legislative Auditor
P.O. Box 113300
Juneau, Alaska 99811

Dear Ms. Davidson:

We have reviewed the system of quality control of the Alaska Division of Legislative Audit (the Division) in effect for the period July 1, 2003, through June 30, 2004. 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. Because our review was based on selective tests, it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it.

Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, 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, the system of quality control of the Alaska Division of Legislative Audit in effect for the period July 1, 2003, through June 30, 2004, has been suitably designed and was complied with during the period to provide reasonable assurance of conforming with government auditing standards.

Team Leader
National State Auditors Association
External Peer Review Team

Concurring Reviewer
National State Auditors Association
External Peer Review Team

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State of Alaska
Division of Legislative Audit
External Peer Review
for the period
July 1, 2003, through June 30, 2004
LETTER OF COMMENTS



National State Auditors Association

September 17, 2004

Ms. Pat Davidson, Legislative Auditor
P.O. Box 113300
Juneau, Alaska 99811

Dear Ms. Davidson:

We have reviewed the system of quality control of the Alaska Division of Legislative Audit (the Division) in effect for the period July 1, 2003, through June 30, 2004, and have issued our report thereon dated September 17, 2004. That report should be read in conjunction with the comments in this letter, which were considered in determining our opinion.

Finding – General Standard of Quality Control

Government Auditing Standards (GAO 3.32) requires the audit organization to have an internal quality control system that provides reasonable assurance that it (1) has adopted, and is following, applicable auditing standards and (2) has established, and is following, adequate audit policies and procedures.

The Division's primary system of internal quality control is the review of working papers. There is not an effective mechanism in this system design to determine whether the review was performed or whether it was sufficient.

In two of the four performance audits reviewed, the working papers did not contain evidence that significant working papers were reviewed by the audit manager. In addition, in selected performance audits we noted a lack of documentation of specific criteria being used as the basis of conclusions, a lack of documentation that the supervisor provided appropriate guidance to the staff, and a lack of testing for reliability and validity of the data supporting a finding. An effective internal quality control system would have detected these weaknesses in audit documentation.

Recommendation – We recommend that the Division strengthen its internal quality control system.

Response – We concur with the recommendation. First, we will modify the Division of Legislative Audit's audit manual to formally acknowledge and document the manager's on-going involvement in the audit by including a summary of the hours spent by the manager on each project. Secondly, we will re-emphasize the need for timely manager review of workpapers, management letters and draft reports. Finally we will expand our use of the peer review checklists at the completion of audits to facilitate cross-manager reviews of audits. We believe the combination of these actions will successfully implement the recommendation.

Finding – Single Audit

Office of Management and Budget (OMB) Circular A-133 requires the use of a risk based approach to determine which Federal programs are to be tested as major programs. (OMB Circular A-133, §_520)

Our review of the draft single audit report for 2003 found:

- Two Type A programs meeting the criteria of a major program were not identified as being tested as major programs. These programs had a reportable condition in the prior year. (OMB Circular A-133, §_520)

- The auditor's documentation of the selection of major programs was not sufficient to enable an experienced auditor to ascertain the evidence that supported the auditor's judgment.

Recommendation – We recommend policies and procedures be strengthened to ensure compliance with § .520 of OMB Circular A-133.

Response – Proper identification of major federal programs is critical to complying with OMB Circular A-133. We concur for the need to improve documentation so all elements considered in determining each year's major federal program are clearly indicated to ensure compliance with OMB Circular A-133 Section .520.

Documentation will be improved, particularly when a misclassification of prior year findings has a continuing impact on the subsequent year's audit; such as in FY 02 when items of noncompliance were inappropriately classified as reportable conditions. We believe this additional documentation will successfully implement this recommendation.

Respectfully submitted,



Team Leader
National State Auditors Association
External Peer Review Team



Concurring Reviewer
National State Auditors Association
External Peer Review Team