# PROFESSIONAL STANDARDS MANUAL

(Version 3.1)

VERMONT
OFFICE OF THE AUDITOR
OF ACCOUNTS

**Douglas R. Hoffer**
**STATE AUDITOR**

**STATE OF VERMONT**
**OFFICE OF THE STATE AUDITOR**

August 1, 2019

Message from the Auditor:

I am pleased to introduce the updated PROFESSIONAL STANDARDS MANUAL (PSM) for the Vermont State Auditor's Office. This version of the PSM reflects the 2018 changes to generally accepted government auditing standards (GAGAS) promulgated by the U.S. Government Accountability Office. As required by the 2018 standards, this version of the PSM applies to all performance audits beginning on or after July 1, 2019.

As auditors we hold others to high performance standards and can expect no less from ourselves. To ensure that we meet these standards, we undergo a peer review process conducted by auditors from other states in which the policies and procedures laid out in this manual are checked for compliance with GAGAS. Peer review teams also check whether the audits themselves comply with GAGAS. We have received the highest peer review rating available in the past, and I am confident that we will continue to do so using the processes and procedures outlined in this revised manual.

I would like to express my thanks to the team of professionals who revised this manual to reflect today's standards and the auditing goals of this Office. It provides a solid foundation for services that will truly help the State of Vermont and its citizens.

Sincerely,

Doug Hoffer

Douglas R. Hoffer
Vermont State Auditor

**132 State Street • Montpelier, Vermont 05633-5101**
**Auditor: (802) 828-2281 • Toll-Free (in VT only): 1-877-290-1400 • Fax: (802) 828-2198**
**e-mail: auditor@vermont.gov • website: www.auditor.vermont.gov**

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## Abbreviations

| | |
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| ADS | Agency of Digital Services |
| AQA | Administrative Quality Assessment |
| COSO | Committee of Sponsoring Organizations of the Treadway Commission |
| CPA | Certified Public Accountant |
| CPE | Continuing Professional Education |
| DHR | Department of Human Resources |
| EQA | Engagement Quality Assessment |
| GAGAS | Generally Accepted Government Auditing Standards |
| GAO | Government Accountability Office |
| IT | Information Technology |
| PSM | Professional Standards Manual |
| QC | Quality Control |
| SAO | State Auditor's Office |
| SOC | Service Organization Control |
| VSA | Vermont Statutes Annotated |
| VSARA | Vermont State Archives and Records Administration |

# Chapter 1

# Statutory Authority, Mission, and Core Values

## Overview

This chapter describes the legal basis in State law for the authority and duties of the office of State Auditor (also known as "auditor of accounts") and describes the primary mission and values of the Office. Lastly, this chapter describes how this manual is to be used as part of fulfilling our statutory responsibilities, mission, and core values.

## 1.1 Statutory Authority

The Office of State Auditor (Auditor of Accounts) was established by the Vermont General Assembly before statehood in the 1770s to be a check on the duties of State Treasurer, and later, by Constitutional Amendment in the 1880s, the Auditor became one of five state officers to be elected on a statewide basis (§43).

The primary statutory duties and authorities for the SAO can be found at **32 VSA §163 and §167**.[1] The bulk of the office's work is covered by 32 VSA §163(1), which states that the office shall "annually perform or contract for the audit of the basic financial statements of the state of Vermont and, at his or her discretion, conduct governmental audits as defined by governmental auditing standards issued by the United States Government Accountability Office (GAO), of every department, institution, and agency of the state including trustees or custodians of retirement and other trust funds held by the state or any officer or officers of the state, and also including every county officer who receives or disburses funds of the state or for the benefit of the state or any county."

32 VSA §167, in turn, provides the State Auditor with broad authority to obtain and review records, stating "For the purpose of examination and audit authorized by law, all the records, accounts, books, papers, reports, and returns in all formats of all departments, institutions, and agencies of the State, including the trustees or custodians of trust funds and all municipal, school supervisory union, school district, and county officers who receive or disburse funds for the benefit of the State, shall be made available to the Auditor of Accounts."

[1] In addition to the SAO's statutory authority, the legislature periodically includes requirements in session law.

# Chapter 1

## Statutory Authority, Mission, and Core Values

Other statutes outline advisory or procedural responsibilities for the State Auditor, including:

- **16 VSA §2177(b):** Auditor or designee is a non-voting representative to audit committee established by the Vermont State Colleges Board of Trustees.
- **16 VSA §2281(a):** Auditor or designee is a non-voting representative to the audit committee established by the Board of Trustees of the University of Vermont and State Agricultural College.
- **32 VSA §1001(d)(1):** Auditor to be non-voting ex officio member of the Capital Debt Affordability Advisory Committee.

## 1.2 Mission Statement

The mission of the Auditor's Office is to hold state government accountable. This means ensuring that taxpayer funds are used effectively and efficiently, and that we foster the prevention of waste, fraud, and abuse.

## 1.3 Core Values

The Vermont State Auditor's Office is dedicated to providing government entities, the Vermont Legislature, and the public with professional audit services that are:

- useful;
- timely;
- accurate;
- objective;
- of high quality;
- done in a fair and ethical manner; and
- in accordance with generally accepted government auditing standards (GAGAS).

# Chapter 1

## Statutory Authority, Mission, and Core Values

In addition, we are committed to improving the professional skills of our staff, sharing our knowledge with others, and maintaining a work environment that is ethical, supportive, respectful, collaborative, and productive.

The SAO will play a key role in the financial and performance management of State government and will help improve the efficiency, quality, and effectiveness of services that the State provides. The basic premises underlying our mission and goals are:

- Public employees are responsible for the efficient, economical and effective use of the resources entrusted to them by their constituencies or by other levels of government.
- Public employees are accountable to those who provide the resources they use to carry out government programs. The SAO should make audit results available both to other government levels that have supplied resources and to the taxpayers and citizens of Vermont.
- Government audits provide key information to stakeholders and the public to maintain accountability; help improve program performance and operations; reduce costs; facilitate decision making; stimulate improvements; and identify current and projected cross-cutting issues and trends that affect government programs and the people those programs serve.
- The working relationship developed with the audited agency or department is important to any audit's success. The audit staff must have a professional, positive, independent, and constructive approach in conducting the audit and in presenting audit results.
- Auditors must be aware that they have an analytic, not policy making, role. With this understanding, audits and audit reports are fair, objective, and unbiased.

## 1.4 Purpose and Use of Manual

This manual is a key component in fulfilling our mission and being true to our statutory responsibilities and core values. It sets forth how our office maintains its independence and objectivity as well as how we ensure that our audits are conducted with integrity and are managed in a way that ensures that appropriate conclusions are reached.

# Chapter 1

## Statutory Authority, Mission, and Core Values

All audits conducted by the SAO are expected to meet GAGAS requirements as issued by the Comptroller General of the United States and the U.S. Government Accountability Office (GAO). These standards are hereby incorporated by reference and made part of this manual. The Director of Information Technology (IT) and Performance Audits is responsible for identifying GAGAS amendments and interpretive guidance and disseminating this information to SAO staff through updates to this manual or via other means. (**GAGAS 2.06**)

### 1.4.1 Terminology

This manual adopts the terminology protocol in GAGAS, which contains two types of requirements, (1) unconditional requirements and (2) presumptively mandatory requirements. (**GAGAS 2.02**)

- Unconditional requirements are those in which audit organizations and auditors must comply when the requirement is relevant. Unconditional requirements use the terms "must" or "is required."

- Presumptively mandatory means that auditors are required to comply with these requirements in all cases where such a requirement is relevant except in rare circumstances in which it is determined that it is necessary to depart from it. In such rare circumstances, auditors should perform alternative procedures to achieve the intent of the requirement. In addition, auditors must document their justification for the departure and how the alternative procedures performed in the circumstances were sufficient to achieve the objectives of the presumptively mandatory requirement. The need for the auditors to depart from a relevant presumptively mandatory requirement is expected to arise only when the requirement is for a specific procedure to be performed and, in the specific circumstances of the audit, that procedure would be ineffective in achieving the intent of the requirement. (**GAGAS 2.03, 2.04, 2.08**) Presumptively mandatory requirements are denoted by the use of the term "should."

The 2018 GAGAS update explicitly identifies standards that are requirements versus those that are application guidance. This manual cites all relevant requirement standards. GAGAS application guidance provides further explanation of the requirement standards, such as more precision about their meaning or intent or procedure examples. If deemed particularly important, this manual will also cite application guidance standards. Whether explicitly cited or not, SAO auditors are expected to read and understand all relevant GAGAS sections, including the application guidance. (**GAGAS 2.05**)

# Chapter 1

## Statutory Authority, Mission, and Core Values

### 1.4.2 TeamMate®

In early 2018, the SAO implemented an electronic workpaper solution, TeamMate®. SAO auditors should consult the TeamMate® user manual for how the requirements and guidance in this manual have been operationalized in this system.

# Chapter 2

# Independence

## Overview

**☑ TIP . . . Auditors maintain independence so that opinions, findings, conclusions, and recommendations will be impartial, and viewed as impartial, by reasonable and informed third parties. Auditors should avoid situations that could lead reasonable and informed third parties to conclude that the auditors are not independent. (GAGAS 3.19, 3.22)**

This chapter establishes general standards and provides guidelines for ensuring the State Auditor's Office and the individual auditor remain free from personal, external, and organizational impairments to independence and avoid the appearance of such impairments of independence. **GAGAS 3.18** states:

> "In all matters relating to the GAGAS engagement, auditors and audit organizations must be independent from an audited entity."

It is SAO policy that all audit personnel will act in the public interest and will be familiar with and adhere to the independence rules, regulations, interpretations, and rulings issued by the Comptroller General of the United States, the American Institute of Certified Public Accountants, the State of Vermont Board of Accountancy[2], the Vermont Society of CPAs,[3] and state statutes.

**☑ TIP . . . Independence comprises (1) independence of mind and (2) independence of appearance (GAGAS 3.21).**

For the office as a whole, the SAO has adopted the conceptual independence framework promulgated by GAGAS. This framework is applied at the audit organization, audit, and individual auditor levels to: (1) identify threats to independence, (2) evaluate the significance of the threat, and (3) apply safeguards[4] as necessary to eliminate the threats or reduce them to an acceptable level.[5] (**GAGAS 3.26** and **3.27**) Appendix 2.1 contains a graphic that illustrates this conceptual framework.

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2 Board of Accountancy Rules, Part 10, *Professional Conduct*.

3 The Vermont Society of CPAs Bylaws, Article XVI, Code of Professional Conduct, states that the code of professional ethics for the Vermont Society of CPAs is that of the American Institute of Certified Public Accountants.

4 Safeguards are actions or other measures, taken individually or in combination, that auditors or audit organizations take that effectively eliminate threats to independence or reduce them to an acceptable level. (**GAGAS 3.49**) If no safeguards are available to eliminate an unacceptable threat or reduce it to an acceptable level, independence would be considered impaired (**GAGAS 3.59**).

5 An acceptable level is a level in which a reasonable and informed third party would likely conclude that the audit organization or auditor is independent. Such a hypothetical person would possess the skills, knowledge, and experience to objectively evaluate the appropriateness of the auditor's judgements and conclusions after weighing all of the relevant facts and circumstances, including any safeguards applied that the auditor knows or could reasonably be expected to know. (**GAGAS 3.46**)

# Chapter 2

## Independence

Threats to independence can be created by a wide range of relationships and circumstances (**GAGAS 3.37)**. While SAO auditors should use their professional judgement when applying the GAO framework (**GAGAS 3.29)**, this judgement should be informed by **GAGAS 3.30** which lists seven broad categories of threats to independence. Circumstances that result in a threat in one of these categories may result in other threats as well. The seven categories are as follows:

1. Self-interest threat - the threat that a financial or other interest will inappropriately influence an auditor's judgment or behavior.

2. Self-review threat - the threat that an auditor or audit organization that has provided non-audit services will not appropriately evaluate the results of previous judgments made or services performed as part of the non-audit services when forming a judgment significant to an audit.

3. Bias threat - the threat that an auditor will, as a result of political, ideological, social, or other convictions, take a position that is not objective.

4. Familiarity threat - the threat that aspects of a relationship with management or personnel of an audited entity, such as a close or long relationship, or that of an immediate or close family member, will lead an auditor to take a position that is not objective.

5. Undue influence threat - the threat that external influences or pressures will impact an auditor's ability to make independent and objective judgments.

6. Management participation threat – the threat that results from an auditor's taking on the role of management or otherwise performing management functions on behalf of the entity undergoing an audit.

7. Structural threat – the threat that an audit organization's placement within a government entity, in combination with the structure of the government entity being audited, will impact the audit organization's ability to perform work and report results objectively.

GAGAS states that threats are evaluated both individually and, in the aggregate, because threats can have a cumulative effect on an auditor's independence (**GAGAS 3.45**). Accordingly, the SAO will evaluate threats to its independence within the context of the organization, audit, and auditor levels, as appropriate and as generally outlined in this chapter and will

# Chapter 2

## Independence

☑ **TIP . . . GAGAS 3.50 and 3.69 provide examples of safeguards.**

determine whether identified threats are at an acceptable level or have been eliminated or reduced to an acceptable level (**GAGAS 3.31**). If an evaluation of threats finds that they are not at an acceptable level (based on qualitative and quantitative considerations of significance), the SAO will determine whether safeguards are available and can be applied to eliminate the threats or reduce them to an acceptable level (**GAGAS 3.32**). The decisions should be documented (**GAGAS 3.33**). In addition, whenever relevant new information about a threat comes to the attention of the auditor, the auditor should evaluate the significance of the threat in accordance with the conceptual framework (**GAGAS 3.28**).

The intent of this chapter is not to reiterate all of the independence requirements and guidance contained in GAGAS as all staff members are expected to have read and understand the applicable GAGAS sections (**GAGAS 3.02** to **3.63, 3.107, 3.108**).[6] Instead, this chapter lays out how the SAO implements the framework. In addition, PSM sections 6.4.2 and 7.1.2.2c contain additional requirements for implementing the independence requirements at the audit level.

The State Auditor, Deputy State Auditor, and Chief Auditor set a tone for the SAO that stresses the importance of ethical values and they communicate related policies and procedures, such as independence, to SAO personnel. Ultimately, it is up to the individual auditor to be cognizant of the SAO's independence rules and to conduct themselves in an ethical manner in accordance with these rules. The Chief Auditor keeps the office current on changes and updates to independence professional standards and implements the SAO policy by monitoring compliance with the policy, answering questions, and resolving matters. Additionally, when the office and its audit personnel encounter situations that raise independence concerns and such situations are not specifically addressed by independence rules, the office will evaluate the situation using professional judgment to determine whether independence is affected.

[6] As part of the SAO requirements, auditors are required to certify that they have reviewed the GAGAS independence standards at least annually.

# Chapter 2

# Independence

## 2.1 External Audit Organizations

### 2.1.1 GAGAS Citation

The ability of audit organizations in government entities to perform work and report the results objectively can be affected by placement within the government and certain non-audit services that an audit organization provides to the government.

Impairments to an audit organization's independence result when the audit function is organizationally located within the reporting line of the areas under audit or when the auditor is assigned or takes on responsibilities that affect operations of the area under audit. According to **GAGAS 3.53,** safeguards against structural threats occur when an audit organization is (1) at a level of government other than the one of which the audited entity is part or (2) placed within a different branch of government from that of the audited entity. In addition, **GAGAS 3.54** indicates that another safeguard that mitigates threats is if the head of the audit organization is directly elected by voters of the jurisdiction being audited.

Providing non-audit services may create a threat to an auditor's independence (**GAGAS 3.65**). When audit organizations provide non-audit services to entities for which they also provide GAGAS audits, they should assess the impact that providing these non-audit services may have on auditor and audit organization independence and respond to any identified threats to independence in accordance with the GAGAS independence standard. Accordingly, before an auditor agrees to provide a non-audit service to an audited entity, the auditor should determine whether providing such a service would create a threat to independence, either by itself or in aggregate with other non-audit services provided, with respect to any GAGAS audit that it performs (**GAGAS 3.64**).

### 2.1.2 SAO Standard

#### 2.1.2.1 Independence for External Audit Organizations

The State Auditor's Office does not report to any of the entities that it audits, and the auditor is not directly responsible for Vermont state government operations. In addition, the Vermont State Auditor is independently elected by the voters of the State of Vermont. As a result of the organizational placement of the SAO and direct election of the head of the SAO by voters, the SAO is organizationally independent and does not have a structural threat to its independence as defined by **GAGAS 3.30g**.

# Chapter 2

# Independence

**GAGAS 3.59, 3.60** recognizes that certain conditions may lead to threats that are so significant that they cannot be eliminated or reduced to an acceptable level through the applications of safeguards. Because the Vermont State Auditor is an elected official, it is unlikely that such conditions would occur. In the unlikely event that this should happen, the SAO would either (1) decline to perform the prospective audit or terminate an existing audit or (2) modify the GAGAS compliance statement as described in PSM section 2.1.2.2 if the SAO cannot decline to perform or terminate the audit.

## 2.1.2.2 Independence When Performing Non-audit Services

**☑ TIP . . . Routine activities performed by auditors that relate directly to the performance of an audit, such as providing advice and responding to questions as part of an audit are not considered non-audit services (GAGAS 3.70). GAGAS 3.71 lists examples of such routine activities. GAGAS 3.72 lists other services that generally would not create a threat to independence.**

Non-audit services are professional services other than audits or attestation engagements. GAGAS does not cover non-audit services except to the extent that they affect the audit organization's independence. Non-audit services at the SAO stem from three primary sources, (1) requests from other organizations, (2) laws requiring action on the part of the SAO, and (3) internal decisions to pursue a non-audit inquiry (see PSM chapter 9 on other work products). In each of these circumstances, the SAO will apply **GAGAS 3.64**, which states that the audit organization should determine whether providing the non-audit service would create a threat to independence, either by itself or in aggregate with other non-audit services, to any GAGAS engagement. may have on auditor and audit organization independence and respond to any identified threats in accordance with the GAGAS independence standard.

**☑ TIP . . . Independence documentation pertaining to non-audit services is kept at S:\AUD\AUD-Shared\Non-audit services\Independence documents.**

- *Requests from other organizations for non-audit services*. Such requests should be brought to the attention of the Chief Auditor. The Chief Auditor is responsible for evaluating the facts and circumstances related to the request in the context of the GAGAS independence conceptual framework. (**GAGAS 3.86**) Specifically, pursuant to **GAGAS 3.107, 3.108**, the Chief Auditor will prepare a memo to the State Auditor and Deputy State Auditor identifying (1) any threats to independence if the non-audit service is executed, (2) whether the threat is significant, and, if so, what safeguards can be put into place to mitigate or reduce the threat to an acceptable level, if possible, and (3) the audited entities ability to effectively oversee a non-audit service (see appendix 2.2 for the non-audit service independence form). The Chief Auditor will use the criteria in **GAGAS 3.64** to **3.106** in completing this evaluation, which should include a recommendation on how to proceed. A recommendation to perform the non-audit service must be approved by the State Auditor.

If the SAO agrees to perform a non-audit service for an entity, the Chief Auditor will document the SAO's understanding with the entity. The documentation should include (1) the objectives of the non-audit service, (2) the services to be performed, (3) the audit entity's acceptance of its responsibilities, (4) the auditor's responsibilities, and (5) any limitations on the non-audit service. (**GAGAS 3.77, 3.107** and **3.108**) In addition, the Chief Auditor is responsible for monitoring the non-audit service to ensure that it is being executed in accordance with this agreement.

- *Laws that require the SAO to perform a non-audit service*. Such legal requirements shall be evaluated by the Chief Auditor who is also responsible for evaluating the facts and circumstances related to the legal requirement in the context of the GAGAS independence conceptual framework. (**GAGAS 3.86**) Additionally, pursuant to **GAGAS 3.107** s/he will prepare a memo to the State Auditor and Deputy State Auditor identifying any threats to independence if the non-audit service is executed, whether the threat is significant, and, if so, what safeguards can be put into place to mitigate or reduce the threat to an acceptable level, if possible. The Chief Auditor will use the criteria in **GAGAS 3.64** to **3.106** in completing this evaluation. A legal requirement is the most likely scenario in which the SAO may encounter a non-audit service that poses threats that are so significant that they cannot be eliminated or reduced to an acceptable level through the applications of safeguards. **GAGAS 3.84** recognizes that an audit organization may be required to provide a non-audit service that could impair the auditor's independence with respect to a required audit. If the SAO cannot implement safeguards to reduce the resulting threat to an acceptable level, the SAO will disclose in the applicable audit report the nature of the threat that could not be eliminated or reduced to an acceptable level and will modify the GAGAS compliance statement accordingly.

  After evaluating the particular situation related to a legal requirement for a non-audit service, the memo that the Chief Auditor prepares for the State Auditor will include a recommendation for how to proceed, which is subject to the approval of the State Auditor. At that time, the audit manager responsible for performing the non-audit service should obtain and document with the applicable legislative entity our understanding of (1) the objectives of the non-audit service, (2) the services to be performed, (3) the audit entity's acceptance of its responsibilities, (4) the auditor's responsibilities, and (5) any

limitations on the non-audit service (**GAGAS 3.77**) (see appendix 2.2 for the non-audit service independence form).

- *Non-audit services undertaken at the initiative of the SAO.* Such non-audit services (e.g., non-audit work products as described in PSM chapter 9) shall be evaluated by the Deputy State Auditor for independence threats prior to their being undertaken. This evaluation should entail evaluating the facts and circumstances related to the proposed non-audit service in the context of the GAGAS independence conceptual framework. (**GAGAS 3.86**) Specifically, the Deputy State Auditor shall evaluate the proposed non-audit service against the criteria in **GAGAS 3.64** to **3.106** and identify any threats to independence if the non-audit service is executed, whether the threat is significant, and, if so, what safeguards can be put into place to mitigate or reduce the threat to an acceptable level, if possible (if it is not possible to reduce the threat to an acceptable level, the SAO should not undertake the non-audit service). The Deputy State Auditor will document the results of this evaluation in accordance with **GAGAS 3.107** (see appendix 2.2 for the non-audit service independence form).

The SAO recognizes that non-audit services provided under any of these circumstances can impact future audits. According, consideration of non-audit services performed by the SAO is part of the planning process for performance audits (see section 7.1.2.2c and appendix 7.5 of the PSM).

## 2.2 Staff Independence

### 2.2.1 GAGAS Citation

Auditors should apply the independence conceptual framework at the individual auditor level (**GAGAS 3.27**). Auditors should be independent from the audited entity during (1) any period of time that falls within the period covered by the financial statements or subject matter of the audit and (2) the period of the professional engagement (**GAGAS 3.20, 3.23**).[7]

[7] The period of the professional engagement begins when the auditors either sign an initial engagement letter or other agreement to perform an audit or begin to perform an audit, whichever is earlier. The period lasts for the entire duration of the professional relationship and ends with the formal or informal notification, either by the auditors or the audited entity, of the termination of the professional relationship or by the issuance of the report, whichever is later.

# Chapter 2

# Independence

## 2.2.2 SAO Standard

**☑ TIP . . . Threats to an auditor's independence include immediate or close family members in a position to exert significant influence over the audited entity and seeking employment during the conduct of the audit with an audited entity. See GAGAS 3.38 to 3.44 for other examples of threats. Staff members are urged to seek the advice of the Chief Auditor if they are uncertain whether other close personal relationships could constitute a potential conflict of interest.**

To ensure audit staff members maintain independence with respect to audited entities, SAO requires that each auditor, including the State Auditor and Deputy State Auditor, sign an Annual Statement of Independence (Appendix 2.3) by the end of January each year and within the first month of employment for new employees. The Annual Statements of Independence are submitted and reviewed by the Chief Auditor. The Chief Auditor's annual Statement of Independence will be reviewed by the Deputy State Auditor. The annual statements should be retained by the Chief Auditor.

In addition, members of the audit team assigned to GAGAS engagements are required to sign an Engagement Statement of Independence (appendix 2.4) for each audit engagement. For purposes of this standard, the audit team is defined as the audit manager and all assigned staff members. A staff member that performs limited tasks and is not responsible for drawing conclusions in the audit is not considered to be an assigned staff member. Examples of limited tasks are tracing a summary to source documents or verifying calculations. In addition, since in the course of the audit one of the audit managers may review workpapers performed by another audit manager, all audit managers should fill out the Engagement Statement of Independence for each audit.

The Engagement Statement of Independence should be submitted to the audit manager no later than at the time of the design meeting (PSM Chapter 7 Section 7.1.2.2c) or within 10 days of a staff assignment that occurs subsequent to this date. The audit manager should bring identified threats to the attention of the Chief Auditor. The audit manager and the Chief Auditor will work together to determine whether identified threats to independence are at an acceptable level or have been eliminated or reduced to an acceptable level with the imposition of safeguards. Engagement Statements of Independence should be retained in the engagement audit files.

The following table summarizes the timing and review of independence statements.

# Chapter 2

# Independence

| Staff | Engagement Independence Statement | | Annual Independence Statement | |
|---|---|---|---|---|
| | Timing | Reviewer | Timing | Reviewer |
| Staff Auditor | By design meeting date | Engagement audit manager | January 31st | Chief Auditor |
| Senior Auditor | By design meeting date | Engagement audit manager | January 31st | Chief Auditor |
| Director, IT and Performance Audits | By design meeting date | Chief Auditor | January 31st | Chief Auditor |
| Chief Auditor | By design meeting date | Deputy State Auditor | January 31st | Deputy State Auditor |
| Deputy State Auditor | Not applicable | | January 31st | Chief Auditor |
| State Auditor | Not applicable | | January 31st | Chief Auditor |

If an identified threat pertains to previous employment at an organization subject to audit, the reviewer will consider how long ago the staff member worked at the entity as well as the position held. In general, the SAO considers a 2-year "cooling off" period to be a reasonable timeframe before an individual is staffed on an engagement pertaining to a previous employer. This will be handled on a case-by-case basis and will depend upon the focus of the engagement as well as the previous position held by the staff member. For example, a shorter "cooling off" period is warranted if the staff member was not in a managerial or policy position or if the engagement does not pertain to the part of the organization that employed the staff member.

If a staff member's independence changes during the course of an engagement, the staff member is required to notify the Chief Auditor. In particular, if a staff member is seeking employment at the entity being audited or has been approached by the entity being audited regarding potential employment, the Chief Auditor must be notified immediately. The Chief Auditor, considering the factors outlined in **GAGAS 3.63**, will determine whether the audit team or the SAO is impaired by the applicable auditor's independence impairment.

## 2.3 Independence of Other Auditors and Specialists

### 2.3.1 GAGAS Citation

Audit organizations should assess the independence of other auditors and specialists in the same manner as it would for auditors performing work on those audits. (**GAGAS 8.82, 8.86**).

# Chapter 2

## Independence

### 2.3.2 SAO Standard

Complex or subjective matters arising in the course of an audit may require the work of a specialist or other auditors. The SAO will evaluate the relationship of the specialist, contractor, or external CPA firm to the audited entity, including circumstances that might impair objectivity. Such circumstances include situations in which the audited entity has the ability–through employment, ownership, contractual right, family relationship, or otherwise–to directly or indirectly control or significantly influence the specialist or contractor.

During the planning phase of the audit engagement, SAO will provide the specialist, contractor, or external CPA firm with the SAO policies and procedures regarding independence requirements. The specialist, contractor, or external CPA firm will complete the Engagement Statement of Independence (appendix 2.4) to ensure compliance with professional independence standards. Specialists and contractors to whom this section applies, include, but are not limited to, auditors, actuaries, appraisers, attorneys, engineers, environmental consultants, medical professionals, and statisticians.

## 2.4 Monitoring Compliance with SAO Policies

### 2.4.1 GAGAS Citation

There is no specific GAGAS citation regarding how an organization is to ensure compliance with independence requirements.

### 2.4.2 SAO Standard

The following checklist, to be completed annually and maintained by the Chief Auditor, will be utilized to monitor compliance with SAO's independence policies.

# Chapter 2

## Independence

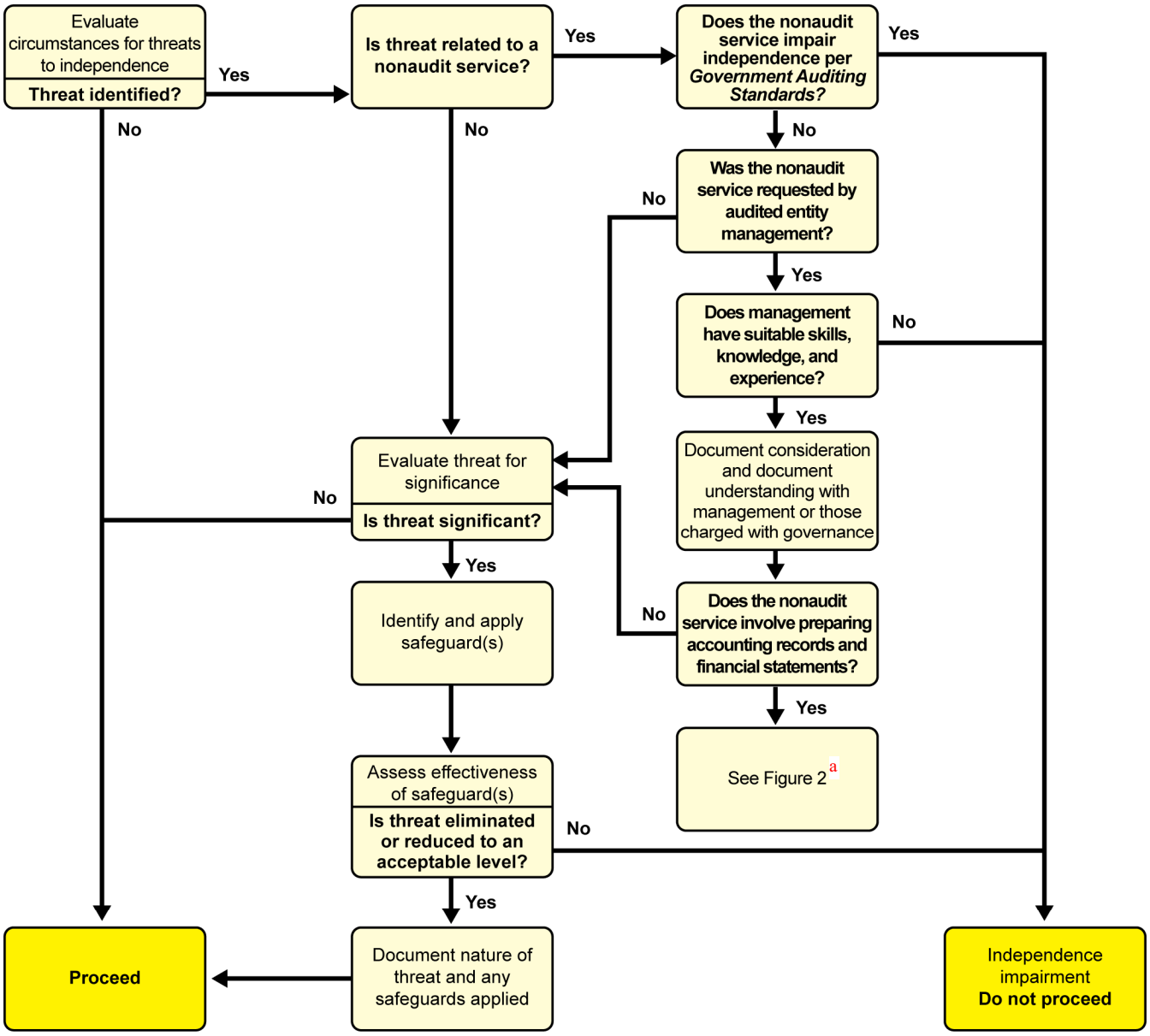
| Summary of Quality Control Procedures | Initials | Date |
|---|---|---|
| Perform quality assurance by reviewing relevant pronouncements relating to independence, answering questions, and resolving matters. Perform an annual review of the independence policies to ensure policies remain consistent with current GAGAS. | | |
| Obtain the Annual Statement of Independence from personnel, concerning whether they are familiar with and are in compliance with professional standards and the SAO's policies regarding independence. | | |
| Review the staff annual independence representations for completeness and for resolving reported exceptions. | | |
| Require all professional personnel assigned to an engagement to complete the Engagement Statement of Independence attesting to his or her independence. | | |
| Prior to performing non-audit services for an audited entity, the Chief Auditor will document in a memo the resolution of any potential conflicts caused by providing non-audit services. | | |
| Confirm the independence of other firms or specialists who are performing part of an engagement by requiring completion of the Engagement Statement of Independence by all other firms or specialists. | | |

GAGAS imposes requirements on an audit organization if a threat to independence is initially identified after a report is issued. (**GAGAS 3.34**) Should this occur, the Chief Auditor, Deputy State Auditor, and State Auditor should be immediately notified. The Chief Auditor will be responsible for determining whether the newly identified threat had an impact on the audit that would have resulted in the report being different. The results of this analysis will be documented and provided to the Deputy State Auditor and State Auditor.

If the Chief Auditor, with the concurrence of the State Auditor, concludes that the audit report would have been different, the SAO will so notify those to which the report was originally distributed so that they do not continue to rely on findings and conclusions that were impacted by the threat to independence. In addition, the report will be removed from the SAO's website and a notice posted on the site that it was removed. At that time, the SAO may choose to conduct additional audit work necessary to reissue the report or repost the original report if the additional audit work does not result in a change in findings and conclusions. (**GAGAS 3.34**)

# Appendix 2.1

## GAGAS Conceptual Framework for Independence




Source: GAO. | GAO-18-568G

[a]This manual does not contain the referenced Figure 2 because the SAO does not perform financial statement audits. Figure 2 can be found on page 62 of GAO-18-568G.

# Appendix 2.2

## Non-audit Service Independence Form

**Date:**

**Prepared by:**

**Source of non-audit service:**

Request from another organization _____

Legal requirement _____

SAO initiative _____

**Brief description/objective of the non-audit service:**

**Assessment and Evaluation of Threats to Independence:** The following two tables should be filled in after reviewing the criteria in GAGAS 3.64 to 3.106.

**Identification and Description of Non-audit Service Threat**

| Threat Area | Threat to ongoing work? | Threat to planned or potential future work? | Description of Threat |
|---|---|---|---|
| a. Self-interest threat - the threat that a financial or other interest will inappropriately influence an auditor's judgment or behavior. | | | |
| b. Self-review threat - the threat that an auditor or audit organization that has provided non-audit services will not appropriately evaluate the results of previous judgments made or services performed as part of the non-audit services when forming a judgment significant to an audit. | | | |
| c. Bias threat - the threat that an auditor will, as a result of political, ideological, social, or other convictions, take a position that is not objective. | | | |
| d. Familiarity threat - the threat that aspects of a relationship with management or personnel of an audited entity, such as a close or long relationship, or that of an immediate or close family member, will lead an auditor to take a position that is not objective. | | | |
| e. Undue influence threat - the threat that external influences or pressures will impact an auditor's ability to make independent and objective judgments. | | | |

# Appendix 2.2

## Non-audit Service Independence Form

| Threat Area | Threat to ongoing work? | Threat to planned or potential future work? | Description of Threat |
|---|---|---|---|
| f. Management participation threat – the threat that results from an auditor's taking on the role of management or otherwise performing management functions on behalf of the entity undergoing an audit. | | | |
| g. Other threat identified. | | | |

**Evaluation of Threat to Ongoing and Potential Future Work**

| Evaluation | Ongoing work? | Planned/potential future work? |
|---|---|---|
| No threat identified | | |
| Significant threat identified that cannot be eliminated or reduced to an acceptable level | | |
| Threat identified, but not considered significant based upon evaluation | | |
| Threat identified and safeguards can be put in place to eliminate it or reduce it to an acceptable level in accordance with GAGAS (explain safeguards): | | |

**Describe the audited entities ability to effectively oversee non-audit service (only applicable if non-audit service is a request from the entity):**

**Recommendation:**

Perform non-audit service (with the safeguards described in evaluation table) _____

Perform non-audit service and include modified GAGAS statement in affected audit _____

Do not perform non-audit service _____

**Decision:** Agree with Recommendation ___

Alternative decision ___ Describe:

_____
Signature and Date

# Appendix 2.3

## Annual Statement of Independence

**Date:**

**Auditor:**

GAGAS §3.18 and §3.21 require that individual auditors be independent in mind and appearance. The SAO requires auditors to consider threats to their independence annually and bring any potential threats to the attention of the Chief Auditor. Should a threat to independence be identified, management is responsible for evaluating the significance of the threat and, if necessary, applying safeguards to eliminate or reduce the threat to an acceptable level.

This purpose of this annual statement of independence is to inform SAO management of any threats to an individual's independence so that (1) the significance of any threats can be evaluated and (2) safeguards can be implemented, if applicable. A safeguard may include not assigning an individual to an audit engagement in which a significant threat related to the auditee has been identified. Potential auditees of the SAO are state government entities (e.g., departments or boards), municipal or school entities, and other entities that receive state monies. The SAO recognizes that not all potential auditees or threats may be known to the auditor at the time that this form is prepared. The Engagement Statement of Independence should be used to identify threats related to a specific audit.

| Threat Area (see GAGAS 3.38 to 3.44 for examples of threats in each area) | Threat Identified? | Auditee Affected by Threat? | Description of Threat |
|---|---|---|---|
| a. Self-interest threat - the threat that a financial or other interest will inappropriately influence an auditor's judgment or behavior. | | | |
| b. Self-review threat - the threat that an auditor or audit organization that has provided non-audit services will not appropriately evaluate the results of previous judgments made or services performed as part of the non-audit services when forming a judgment significant to an audit. | | | |
| c. Bias threat - the threat that an auditor will, as a result of political, ideological, social, or other convictions, take a position that is not objective. | | | |
| d. Familiarity threat - the threat that aspects of a relationship with management or personnel of an audited entity, such as a close or long relationship, or that of an immediate or close family member, will lead an auditor to take a position that is not objective. | | | |
| e. Undue influence threat - the threat that external influences or pressures will impact an auditor's ability to make independent and objective judgments. | | | |

# Appendix 2.3

## Annual Statement of Independence

| Threat Area (see GAGAS 3.38 to 3.44 for examples of threats in each area) | Threat Identified? | Auditee Affected by Threat? | Description of Threat |
|---|---|---|---|
| f. Management participation threat – the threat that results from an auditor's taking on the role of management or otherwise performing management functions on behalf of the entity undergoing an audit. | | | |
| g. Other threat identified by the auditor. | | | |

I acknowledge that I have reviewed and understand the independence requirements in GAGAS §3.18 to §3.47 and have identified and documented any threats to my independence in the above table. Should my personal circumstances change, I agree to reevaluate my independence considering the GAGAS requirements and bring any threats to the attention of the Chief Auditor. I also agree to make every effort to avoid situations that could lead reasonable and informed third parties to conclude that I am not independent and am not capable of exercising objective and impartial judgment.

_____

Auditor's Signature and Date

**Management's Evaluation (considering GAGAS 3.45 to 3.47):**

___ No threat identified

___ Significant threat identified that cannot be eliminated or reduced to an acceptable level

___ Threat identified, but not considered significant based upon evaluation

___ Threat identified and the following safeguards put in place to eliminate it or reduce it to an acceptable level in accordance with GAGAS 3.32, 3.33, 3.50, 3.51, 3.69 (explanation of safeguard follows):

Reviewer's name (printed):

Signature and Date of Evaluation:

_____

# Appendix 2.4

## Engagement Statement of Independence

**Audit:**

**Auditor:**

GAGAS §3.18 and §3.21 require that in matters related to the audit work, the individual auditor must be independent in mind and appearance. The SAO requires auditors assigned to an engagement to consider threats to their independence and bring any threats to the attention of the audit manager and management. Should a potential threat to independence be identified, management is responsible for evaluating the significance of the threat and, if necessary, applying safeguards to eliminate or reduce the threat to an acceptable level. This form documents the individual auditor's assessment of personal threats to his or her independence, management's evaluation of the significance of any threats, and safeguards that are to be implemented, if applicable.

**Auditor's Assessment of Threats to Independence:**

| **Threat Area (see GAGAS 3.38 to 3.44 for examples of threats in each area)** | **Threat Identified?** | **Description of Threat** |
|---|---|---|
| a. Self-interest threat - the threat that a financial or other interest will inappropriately influence an auditor's judgment or behavior. | | |
| b. Self-review threat - the threat that an auditor or audit organization that has provided non-audit services will not appropriately evaluate the results of previous judgments made or services performed as part of the non-audit services when forming a judgment significant to an audit. | | |
| c. Bias threat - the threat that an auditor will, as a result of political, ideological, social, or other convictions, take a position that is not objective. | | |
| d. Familiarity threat - the threat that aspects of a relationship with management or personnel of an audited entity, such as a close or long relationship, or that of an immediate or close family member, will lead an auditor to take a position that is not objective. | | |
| e. Undue influence threat - the threat that external influences or pressures will impact an auditor's ability to make independent and objective judgments. | | |
| f. Management participation threat – the threat that results from an auditor's taking on the role of management or otherwise performing management functions on behalf of the entity undergoing an audit. | | |
| g. Other threat identified by the auditor. | | |

I acknowledge that I have reviewed and understand the independence requirements in GAGAS §3.18 to §3.47 and have identified and documented any threats to my independence for this audit in the above table. Should my personal circumstances change, I agree to reevaluate my independence considering the GAGAS requirements and bring any threats to the attention of the audit manager and management. I also agree to make every effort to avoid situations that could lead reasonable and informed third parties to conclude that I am not independent and am not capable of exercising objective and impartial judgment on all issues associated with conducting this audit and reporting on the work.

_____

Auditor's Signature and Date

# Appendix 2.4

## Engagement Statement of Independence

**Management's Evaluation (considering GAGAS 3.45 to 3.47):**

___ No threat identified

___ Significant threat identified that cannot be eliminated or reduced to an acceptable level

___ Threat identified, but not considered significant based upon evaluation

___ Threat identified and the following safeguards put in place to eliminate it or reduce it to an acceptable level in accordance with GAGAS 3.32, 3.33, 3.50, 3.51, 3.69 (explanation of safeguard follows):

Reviewer's name (printed):

Signature and Date of Evaluation:

_____

# Chapter 3

# Professional Competence

## Overview

**GAGAS 5.15** states that audit organizations should establish policies and procedures for human resources that are designed to provide the audit organization with reasonable assurance that it has personnel with the capabilities and competence to perform its audits in accordance with professional standards and legal and regulatory requirements. Audit work requires the application of knowledge, skills, and abilities by dedicated people. The success of the SAO in carrying out its mission depends on having a competent, well-trained staff. Because SAO values its people, it makes and sustains its investment in them.

This chapter documents the general standards and processes SAO utilizes to ensure its audit teams have the essential skills that match those necessary to fulfill a particular audit mandate or scope of audits to be performed. In order to maintain a competent workforce, SAO has implemented processes including recruitment and hiring, training, assignment and evaluation of staff. Please refer to Chapter 6 for processes related to assignment of staff to engagements.

In addition, this chapter documents the mechanisms that SAO utilizes to communicate to staff the importance of their contribution to the office mission.

## 3.1 Recruiting and Hiring

### 3.1.1 GAGAS Citation

Audit organizations should have a process for the recruitment, hiring, continuous development, assignment, and evaluation of staff to maintain a competent workforce. (**GAGAS 4.04**) Competence is derived from education and experience and enables an auditor to make sound professional judgments. (**GAGAS 4.06**)

### 3.1.2 SAO Standard

SAO endeavors to identify and select well-qualified individuals for all positions. SAO's recruiting and hiring process begins with a review of job specifications for each audit position as needed to ensure that the

# Chapter 3

## Professional Competence

specifications accurately reflect the office's audit positions and that recruitment is focused on the most relevant skill sets desired by the office.

The Chief Auditor and Director of IT and Performance Audits will periodically review job specifications for each audit position and recommend changes, if necessary, to the Deputy State Auditor or State Auditor. Current job specifications are maintained on DHR's web site and are accessible via the following link: http://humanresources.vermont.gov/staffing/classification/job-specifications. SAO utilizes the Department of Human Resources (DHR) Form A- Request for Review-Management to establish or modify job specifications for each audit staff position. This form is available on DHR's website.

To meet the competency requirements, the SAO has established minimum qualifications for hiring employees that consist of education, training, and experience. Minimum qualifications vary dependent upon the audit staff level. Position grades and compensation are determined through a collective bargaining process for all classified positions.

SAO complies with the process for recruiting and hiring staff as outlined in more detail in DHR's Personnel Policies and Procedures available at: http://humanresources.vermont.gov/labor-relations/manual. The SAO uses a DHR-managed application (Successfactors) to track and document recruitment and hiring decisions. The State Auditor, Deputy State Auditor, and Chief Auditor are responsible for keeping information in this system up-to-date.

DHR performs a screening review of all applicants and distributes the Qualified Candidates List report to SAO. The Deputy State Auditor and Chief Auditor review the report and accompanying resumes/applications and determine whether to proceed with interviews for these candidates.

A screening phone interview may be used to determine whether to bring a candidate in to the office for further interviews. The Chief Auditor or designee will conduct this initial interview and determine whether the candidate should be invited for a second-round interview with the State Auditor and Deputy State Auditor. When practicable or appropriate, SAO will utilize interview panels. Prior to extending an employment offer, the Chief Auditor or designee will conduct reference checks for all potential hires. Generally, SAO prefers to obtain at least two professional references.

# Chapter 3

# Professional Competence

## 3.2 Training

### 3.2.1 GAGAS Citation

Auditors performing work under GAGAS, including planning, directing, performing audit procedures, or reporting on an audit or attestation engagement under GAGAS, should maintain their professional competence through continuing professional education (CPE). Each auditor performing work under GAGAS should complete 80 hours of CPE every 2 years, including a minimum of 24 hours directly related to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. At least 20 of the 80 hours should be completed in any 1 year of the 2-year period. Auditors hired or initially assigned to GAGAS audits after the beginning of an audit organization's 2-year CPE period should complete a prorated number of CPE hours. (**GAGAS 4.16, 4.17, 4.42**)

Auditors who are only involved in performing field work but not involved in planning, directing or reporting on the audit, and who charge less than 20 percent of their time annually to audits conducted in accordance with GAGAS should comply with the 24-hour CPE requirement to take training in each 2-year period in subjects and topics directly related to government auditing and the government environment, but are exempt from the 80-hour CPE requirement. **(GAGAS 4.25)**

The audit organization should maintain documentation that identifies all auditors required to meet the CPE requirements, provide auditors with the opportunity to attend CPE programs, assist auditors with determining which programs qualify for CPE, document the number of CPE hours completed by each auditor and monitor auditor compliance with CPE to ensure sufficient CPE in qualifying programs and topics. **(GAGAS 4.18, 4.50, 4.51)**

### 3.2.2 SAO Standard

SAO develops employees through internal training and externally developed and presented training programs. SAO's training curriculum is designed to strengthen the competencies established in performance expectations models for each staff level (PSM Section 3.3). Furthermore, SAO encourages its employees to participate in the activities of professional associations and organizations and to pursue additional education and professional certifications relevant to the Office's audit function. SAO reimburses staff members for membership fees associated with professional organizations and provides tuition reimbursement for graduate coursework and costs associated

with obtaining professional certifications. See PSM Section 3.2.2.3 for the reimbursement policy.

### 3.2.2.1 Maintaining CPE Compliance

**☑ TIP . . . The audit team should determine that external specialists are qualified and competent in their area of specialization, but specialists do not need to meet GAGAS CPE requirements. (GAGAS 4.30)**

In general, it is SAO's policy that all audit staff members and all subcontract audit staff comply with the 80-hour requirement, with at least 20 hours earned in a year. Additionally, a minimum of 24 hours of the 80-hour requirement must be related to government auditing or the government environment. Employees are informed of these requirements at the date of hire and through review of the Professional Standards Manual. The SAO may grant exceptions to these requirements if an auditor is prevented from fulfilling the requirements for reasons outlined in **GAGAS 4.29**.

For those staff for whom CPE hours may be prorated, the SAO will use the guidance contained in **GAGAS 4.42 and 4.43** to calculate the required number of prorated CPE hours.

Auditors are encouraged to find courses that will improve their skills and to bring these courses to the attention of the Chief Auditor. Training requests will be considered by the Chief Auditor. Approval will be granted subject to consideration of the needs and budgetary resources of the office.

In certain cases, the Deputy State Auditor or Chief Auditor may determine that auditors who are only involved in performing field work and who charge less than 20 percent of their time annually to GAGAS audits may be granted an exemption from the general 80/20 CPE requirement. For those granted an exception, a minimum of 24 hours government-related CPE must be earned during the 2-year period.

Auditors who do not maintain their CPE compliance will not be eligible for assignment to GAGAS audits. In limited circumstances (**GAGAS 4.29**), at the discretion of the Chief Auditor, auditors who have not completed the required number of CPE hours for any 2-year period, may be granted a 2-month grace period to make up the deficiency.

### 3.2.2.2 Tracking and Supporting Documentation

SAO utilizes an MS Access® database to track CPE on calendar year basis. Each auditor is responsible for entering his/her CPEs into the CPE database which is maintained at S:\AUD\AUD-Shared\CPE Database. The CPE database lists all auditors and contains requisite information such as the name

of organization providing CPE, title of program including subject matter, dates of attendance and CPE hours earned.

SAO requires its staff to maintain a documentation file to support the information in the CPE database. Staff members must retain a certificate or other evidence of completion from the CPE provider. If no certificate is provided, staff members should retain the agenda and course materials. If a staff member instructs a course that is eligible for CPEs, the member should retain documentation of the course presented and draft a written statement supporting the number of CPE hours claimed. Documentation supporting CPEs should be kept for 5 years.

**GAGAS 5.16** states that audit organizations should establish policies and procedures to provide reasonable assurance that auditors meet CPE requirements. The SAO utilizes a three-pronged quality control approach to obtain this assurance. First, the Chief Auditor periodically reviews auditors' records in the CPE Database to ensure appropriate CPE classification (e.g., GAGAS or non-GAGAS, audit vs. accounting) and to determine whether the CPE credits satisfy GAGAS CPE requirements. Second, periodically, the Chief Auditor distributes a CPE report to the audit staff for auditors to verify against their records. Third, as part of the annual quality control review process (see PSM section 12.4.2.1 and appendix 12.2), the quality control reviewer examines the CPE documentation of a sample of auditors to determine that adequate CPE were obtained, and that supporting documentation of CPE was maintained.

The SAO has opted to use a fixed-year basis for meeting GAGAS CPE requirements. SAO's CPE reporting period ends in even years (i.e. 2007-2008 was a reporting period and 2009-2010 was a reporting period).

### 3.2.2.3 Reimbursement of Continuing Education, Professional Certifications & Professional Organization Dues

To ensure audit staff maintains compliance with GAGAS competency requirements, SAO funds the cost of 80 CPEs for each staff member over a 2-year period. Individual audit staff members may request additional training. SAO may pay for additional training at the discretion of the Chief Auditor, depending upon the development needs of the individual audit staff member and the needs and resources of the SAO and subject to approval of the Deputy State Auditor or State Auditor.

Audit staff is encouraged to seek graduate-level degrees and professional certifications. The State provides financial assistance for post-secondary

and/or graduate-level courses. See the Department of Human Resources website for information regarding the State's tuition reimbursement program. In addition to the State program, at the discretion of the Chief Auditor and subject to the approval of the State Auditor or Deputy State Auditor and subject to the needs and resources of the office, SAO will reimburse the cost of graduate degrees and certifications in the following ways:

### 3.2.2.3a Graduate level degrees

☑ **TIP . . . To request SAO tuition reimbursement, complete the Tuition Reimbursement Form which is available on the DHR website.**

- In order to be eligible for SAO's tuition reimbursement program,[8] audit staff must have received a rating of at least "Excellent" on their most recent performance evaluation.
- SAO will reimburse up to $1,000 per course. No more than 3 courses in a year will be eligible for reimbursement.
- The audit staff member must complete the course with a passing grade and must submit a copy of the final grade received to the Deputy State Auditor and Financial Manager in order to receive reimbursement.

### 3.2.2.3b Professional Certifications

☑ **TIP . . . According to Bulletin 3.4 Section II.4(j), the fees for maintaining professional licenses and certifications, such as the CPA and CIA, are not reimbursable.**

- SAO will provide monetary support to audit staff members seeking professional certifications that are relevant to the mission of the SAO such as CPA, Certified Information Systems Auditor, Certified Government Auditing Professional, and Certified Internal Auditor.
- Monetary support may include payment of costs of training to meet certification requirements; payment for a review course and related materials to prepare for an examination and payment of examination fees.
- In addition, SAO may provide time to take examinations during the workday.

[8] This reimbursement policy is in addition to any reimbursement provided through the Department of Human Resources' tuition reimbursement program, which is governed by Article 37 of the Non-Management Bargaining Unit Contract.

# Chapter 3

# Professional Competence

#### 3.2.2.3c Professional Organization Dues

SAO encourages staff membership in professional organizations since a benefit may be opportunities for increased professional growth. Fees for membership in professional organizations may be reimbursed, subject to the SAO's resources and needs. Generally, SAO's policy is to reimburse staff for memberships in organizations relevant to supporting the development of the staff's skill set as it relates to supporting and furthering the SAO's mission. In order to qualify for reimbursement of professional organization membership fees, the staff's involvement in the organization must be substantive (e.g., participation in the organization's board or on committees). Reimbursement of dues will be subject to approval of the Chief Auditor or Deputy State Auditor.

## 3.3 Performance Management

### 3.3.1 GAGAS Citation

Audit organizations should have a process for the recruitment, hiring, continuous development, assignment, and evaluation of staff to maintain a competent workforce. **(GAGAS 4.04)**

### 3.3.2 SAO Standard

#### 3.3.2.1 Performance Management

SAO's performance management provides staff with information to maximize their individual potential and contributions to the Office. The system provides management with the information to recognize and reward top performers, as well as the information and documentation needed to assess development needs of staff.

Section 7 (Performance Management) of the Department of Human Resources' Personnel Policies and Procedures states that the mission of Vermont State Government is to provide essential services to the citizens of the State. Meeting this commitment requires that all State employees and managers perform their jobs as capably as possible. Further, it states that a fundamental management responsibility is the planning, observation, evaluation, and development of employee job performance.

The SAO employs two staff performance management mechanisms: (1) Audit Project Expectations and Progress Report and (2) annual Performance Evaluation. The former report is used to set expectations and provide a

mechanism for feedback pertaining to specific audits while the latter is the formal evaluation of performance and encompasses all work performed during the course of the year (both audit and non-audit). The staff competency model (Appendix 3.1) contains the general expectations for all staff levels as it pertains to the audit work.

The following table summarizes the forms that are used for each type of activity for each of the staff positions in the SAO.

| Type of Work/Audit Staff Position | Expectation and Progress Report | Annual Performance Evaluation |
|---|---|---|
| Audit Work | | |
| Staff Auditor II | X | X |
| Senior Auditor | X | X |
| Director, IT and Performance Audits | | X |
| Chief Auditor | | X |
| Non-Audit Work | | |
| Staff Auditor II<br>• Assistance in risk assessments development<br>• Referencing<br>• Recommendation follow-up<br>• Ad hoc assistance on special projects | | <br>X<br>X<br>X<br>X |
| Senior Auditor<br>• Development of risk assessments<br>• Referencing<br>• Recommendation follow-up<br>• Ad hoc assistance on special projects | | <br>X<br>X<br>X<br>X |
| Director, IT and Performance Audits<br>• Referencing<br>• Maintains PSM<br>• Coordinates peer review<br>• Leads special projects | | <br>X<br>X<br>X<br>X |
| Chief Auditor<br>• Referencing<br>• Prepares annual staff evaluations<br>• Leads quality assurance process<br>• Monitors and consults with the University of Vermont audit committee<br>• Monitors staff CPEs<br>• Leads special projects | | <br>X<br>X<br>X<br><br>X<br>X<br>X |

# Chapter 3

## Professional Competence

3.3.2.2 Expectations and Progress Report

The individual designated as the audit manager on a particular audit engagement is responsible for ensuring that each staff member assigned for greater than 350 hours to an engagement receives written expectations and a progress report. Expectations should be set within the first month of the staff member's assignment to the audit. Feedback on an auditors' performance should be given throughout the course of the audit. It is likely that most feedback will be informal and task-specific. However, if the audit manager perceives that an auditor is at risk of not meeting expectations in a given skill area or behavior, the audit manager should provide this feedback as early as possible to provide the auditor with an opportunity for correction. In addition, the audit manager should maintain a written record of the date and substance of the feedback for possible future reference.

The progress report should be completed within 30 days of the issuance of the audit report. If a senior auditor is asked to provide day-to-day oversight of a staff auditor II's work, they will be expected to provide input to the expectations and progress report prepared by the audit manager.

The Staff Competency Model in Appendix 3.1 contains the skill areas and general expectations for each audit position. This model should form the basis for the expectations and the progress reviews. Appendix 3.2 contains the form (Audit Project Expectations and Performance Progress Report) that is required to be used. The State Auditor or Deputy State Auditor will review and approve all progress reports. The intent of the review process is to ensure the fair and consistent application of the staff competency model.

3.3.2.3 Performance Evaluation

In accordance with 3 VSA §322 and the state's collective bargaining agreement with the Vermont State Employees' Association, the Chief Auditor or designee will prepare an annual performance evaluation report of each audit staff member.

The State Auditor or Deputy State Auditor will complete an annual performance evaluation report for the Chief Auditor and Director, IT and Performance Audits. Annual performance appraisals will be completed within 45 days of the anniversary date of the staff member's completion of original probation, or within 45 days of the anniversary date of restoration, or reduction-in-force rehire to State service. The annual evaluation will be prepared on the Department of Human Resources Performance Evaluation Report, which is contained on its website.

# Chapter 3

## Professional Competence

The honest, accurate, and consistent application of the Staff Competency Model (Appendix 3.1) should form the basis for the annual performance evaluation report. In completing the annual performance evaluation report, the Chief Auditor or designee should consider the progress reports completed for the staff member within his or her appraisal year. If, at the time that the annual performance evaluation is due, a staff member has been on an audit for 3 months or more, the engagement's audit manager will prepare an interim progress report for that staff member (using the form in Appendix 3.2, but indicating that it is an interim progress report) and provide it to the Chief Auditor or designee within 30 days of the staff member's required annual evaluation date. The annual performance evaluation report should also capture non-audit work that may have been completed by the audit staff member.

The State Auditor or Deputy State Auditor will review and approve all annual performance evaluation reports. The intent of the review process is to ensure the fair and consistent application of the staff competency model.

The Deputy State Auditor is responsible for tracking the completion of annual performance appraisals for all SAO staff.

### 3.3.2.4 Awards and Recognition

The SAO has established an awards and recognition program in order to recognize and celebrate excellence by outstanding individuals and teams for noteworthy achievements and extra effort above and beyond what is normally expected. These achievements may be recognized through honorary recognition, cash, gifts, paid time-off, written expressions of appreciation, plaques or combinations thereof. Examples of noteworthy achievements or extra effort may include the following:

- Performance at a higher than satisfactory level either doing significantly more than what is normally expected of the position, by working on special projects of major importance in addition to assigned duties and responsibilities, or by performing their regular duties at a level that far exceeds expectations.

- Work results, products, or services that substantially contribute to SAO's mission.

- Outstanding service to SAO internal and external clients demonstrated by timely, responsive, proactive delivery of high-quality information, products, and services.

# Chapter 3

## Professional Competence

Classified, Managerial, Confidential, and Exempt employees are eligible for awards and recognition.

Awards include the following: Superior Service Award, Meritorious Service Award, and Spot Award.

- *Superior Service Award:* The Superior Service Award is granted for superior accomplishments and extra effort well above those ordinarily expected of individuals at their levels of experience in support of SAO's mission and goals. Reward amounts may be based upon such factors as exceptional contribution to completion of a major project, suggestions for improvement in SAO operations, obstacles eliminated, and positive impact on others. Compensation associated with this award is in the form of a non-recurring bonus. A non-recurring bonus is a lump sum or cash-equivalent award granted on a one-time basis that does not alter the current hourly rate of employees. In order to qualify for the award, the employee's most recent annual performance evaluation must be excellent or higher. Bonuses may be up to 8 percent of the annualized base salary of the employee. Typically, managerially or director level individuals may nominate staff for this award. A memo should be used to nominate individuals for awards. Suggested accompanying documentation includes description of the high-level of performance, noting concrete examples or results; copy of the most recent performance evaluation, letters or testimonials from others (for example unsolicited letters from the public, auditees or public officials); any other material which supports the award being recommended.

- *Meritorious Service Award:* The purpose of the Meritorious Service Award is to recognize sustained, exceptionally high level of performance over the long term (long term is defined as 12 months for a 1-step increase and 24 months for a 2-step increase). Merit step increases are permanent adjustments to salary that advance the step level of the employee by one or two steps. For the period in question, the employee's performance, as documented in annual performance evaluations, must exceed standards and be considered outstanding overall. Typically, managerially or director level individuals may nominate staff for this award. A memo should be used to nominate individuals for awards. Suggested accompanying documentation includes description of the high level of performance, noting concrete examples or results; copy of the annual performance evaluation(s), letters or testimonials from others (for example unsolicited letters

from the public, auditees or public officials); any other material which supports the award being recommended.

- *Spot Award:* The purpose of a Spot Award is to function as a token of appreciation. The Spot Award is intended to applaud moments of brilliance on the part of employees whose actions set splendid examples in such areas as service to the public, service to auditees, team spirit, effective action under pressure, creativity, or conspicuous dedication to duty. Recipients receive their choice of $200 or 8 hours of compensatory leave. The use of the compensatory leave time is subject to the operating needs of the department, as determined by the staff member's supervisor. A memo should be used to nominate a staff member for consideration of the Spot Award.

# Appendix 3.1

## Staff Competency Model

| Skill Area | Staff Auditor II | Senior Auditor | Audit Supervisor | Audit Manager[a] |
|---|---|---|---|---|
| Evidence Identification, Analysis, and Documentation<br><br>Identifies, analyzes, and documents in workpapers evidence that is consistent with the audit objective and complies with PSM and GAGAS standards. | • Demonstrates a general understanding of the types and amount of evidence needed to address audit's objectives<br>• Under the detailed direction of supervisor, uses audit techniques to perform analyses of moderate complexity; performs follow-up work as directed, and draws appropriate conclusions with some supervisory intervention<br>• Demonstrates ability to conduct in-depth research of moderate complexity when requested<br>• Workpapers are free of obvious errors, compliant with the PSM, consistent with audit task, and draw appropriate conclusions<br>• Recognizes potential problems in collecting and analyzing evidence and brings to the attention of the supervisor in a timely manner<br>• Recognizes opportunities to improve/make more efficient assigned work and brings to supervisor's attention<br>• Adapts to changes<br>• Generally understands the elements of a finding and applies concept to assigned audit work<br>• With the assistance of the supervisor, executes audit tasks in accordance with audit priorities and timeframes<br>• Accepts supervisory feedback and corrects identified deficiencies in work products | • Develops methodology appropriate for the audit's objectives, showing a strong understanding of the types and amount of evidence needed<br>• With only the general direction of supervisor, proficiently uses audit techniques to perform analyses of high complexity; independently recognizes need for follow-up, and draws appropriate conclusions<br>• Independently recognizes need for and conducts in-depth research of high complexity<br>• Workpapers are free of obvious errors, compliant with the PSM, consistent with audit task, and draw appropriate conclusions<br>• Recognizes potential problems in collecting and analyzing evidence and brings to the attention of the supervisor in a timely manner with suggested solution<br>• Identifies opportunities to improve/make more efficient the audit as a whole<br>• Adapts to changes<br>• Ensures that audit findings include applicable elements, with some supervisory assistance<br>• Recognizes audit priorities and independently executes audit tasks in accordance with these priorities and audit timeframes<br>• Accepts supervisory feedback, corrects identified deficiencies in work products, and does not incur similar feedback in later products | • Develops methodology appropriate for the audit's objectives, showing a strong understanding of the types and amount of evidence needed<br>• With minimal direction of supervisor, proficiently performs self-initiated analyses of high complexity; independently recognizes need for follow-up, and draws appropriate conclusions or supervises same<br>• Independently recognizes need for and conducts in-depth research of high complexity<br>• Workpapers are free of obvious errors, compliant with the PSM, consistent with audit task, and draw the appropriate conclusion, or reviews the work of others to ensure the same<br>• Anticipates and mitigates risks associated with use of intended methodology<br>• Identifies opportunities to improve/make more efficient the audit as a whole<br>• Adapts to changes<br>• Ensures that audit findings include applicable elements<br>• Recognizes audit priorities and independently executes audit tasks in accordance with these priorities and audit timeframes<br>• Accepts supervisory feedback, corrects identified deficiencies in work products, and does not incur similar feedback in later products | • Assimilates complex data and issues in a short timeframe, evaluates alternative methodologies for addressing audit objectives, and recommends the most cost-effective choice<br>• Proficiently performs self-initiated analyses of high complexity, recognizes when follow-up is needed, and draws appropriate conclusions or supervises same<br>• Directs staff to conduct research and places the appropriate level of confidence in their results<br>• Delivers quality audit reports free of obvious errors, complete, compliant with the PSM, and within agreed-upon timeframes<br>• Anticipates and mitigates risks associated with use of intended methodology<br>• Identifies opportunities to employ innovative techniques that improve the audit's efficiency<br>• Recognizes when change is needed and ensures that it is employed<br>• Ensures that audit findings are based on evidence that is sufficient and appropriate, is correctly interpreted, and encompasses the applicable elements of a finding<br>• Sets and communicates appropriate audit priorities to staff and ensures that they are carried out in a timely manner |

# Appendix 3.1

## Staff Competency Model

| Skill Area | Staff Auditor II | Senior Auditor | Audit Supervisor | Audit Manager[a] |
|---|---|---|---|---|
| Written Communication<br><br>Writes documents that are accurate, comprehensive, clear, and logically organized and that deliver a persuasive message. | • Workpapers drafted to support audit findings are:<br>➢ accurate,<br>➢ comprehensive,<br>➢ clear,<br>➢ logically organized, and<br>➢ completed within expected timeframes<br>• Written analyses of moderately complex issues draw appropriate conclusions and are persuasive<br>• Written audit workpapers require a moderate level of supervisory changes<br>• Assists in drafting sections of the report with supervisory assistance<br>• Supervisory comments on workpapers or report drafts are addressed in a timely manner and do not recur in the following version<br>• Makes effort to understand the basis for comments on writing and incorporates changes in subsequent documents that reflect this understanding (continuous learning) | • Workpapers drafted to support audit findings are:<br>➢ accurate,<br>➢ comprehensive,<br>➢ clear,<br>➢ logically organized, and<br>➢ completed within expected timeframes<br>• Written analyses of highly complex issues draw appropriate conclusions and are persuasive<br>• Written audit workpapers require a low level of supervisory changes<br>• Independently drafts assigned sections of audit report in conformance with PSM standards<br>• Supervisory comments on workpapers or report drafts are addressed in a timely manner and do not recur in the following version<br>• Makes effort to understand the basis for comments on writing and incorporates changes in subsequent documents that reflect this understanding (continuous learning) | • Workpapers drafted to support audit findings are:<br>➢ accurate,<br>➢ comprehensive,<br>➢ clear,<br>➢ logically organized, and<br>➢ completed within expected timeframes<br>• Written analyses of highly complex issues draw appropriate conclusions and are persuasive<br>• Written audit workpapers require almost no supervisory changes<br>• Develops audit message with moderate supervisory assistance<br>• Independently drafts entire audit report or significant segments in conformance with PSM standards<br>• Supervisory comments on workpapers or report drafts are addressed in a timely manner and do not recur in the following version<br>• Makes effort to understand the basis for comments on writing and incorporates changes in subsequent documents that reflect this understanding (continuous learning) | • Workpapers drafted to support audit findings are:<br>➢ accurate,<br>➢ comprehensive,<br>➢ clear,<br>➢ logically organized, and<br>➢ completed within expected timeframes<br>• Written analyses of highly complex issues draw appropriate conclusions and are persuasive<br>• Written audit workpapers do not require reviewer changes<br>• Works with the audit team to draft a message document that addresses the audit's objective(s) and accurately and fairly reflects the audit team's findings<br>• Drafts audit reports or supervises the drafting of reports that are persuasive, in conformance with the PSM standards, and require few reviewer changes<br>• Incorporates report review changes in a timely fashion and avoids recurring comments in both current and future products (continuous learning) |

# Appendix 3.1

## Staff Competency Model

| Skill Area | Staff Auditor II | Senior Auditor | Audit Supervisor | Audit Manager[a] |
|---|---|---|---|---|
| Oral Communication<br><br>Conducts interviews and presentations in a manner that is articulate and well thought out and that demonstrates respect for the audience. | • Utilizes professional and courteous ways of communicating<br>• Delivers clear requests for information<br>• Prepares for interviews with assistance of supervisor, formulating thoughtful questions<br>• With minimal supervision, conducts interviews in an organized manner and elicits pertinent information and documentation with some follow-up<br>• Actively participates in external and internal meetings, expressing facts, ideas, and concepts clearly and concisely<br>• Actively listens and correctly interprets messages and supervisory direction; responds appropriately | • Utilizes professional and courteous ways of communicating<br>• Delivers clear requests for information<br>• Independently prepares for interviews with limited oversight of supervisor, ensuring that interview questions are clear and logical<br>• Conducts interviews in an organized manner, appropriately prioritizes inquiries when dealing with time constraints, and elicits pertinent information and documentation in the meeting with little follow-up<br>• Reviews and provides constructive comments on staff planned communications<br>• Actively and confidently participates in external and internal meetings, expressing facts, ideas, and concepts clearly and concisely<br>• Conducts portions of high-level external meetings such as entrance/exit conferences and is able to articulate the SAO's plans/positions, make persuasive arguments, and respond to questions<br>• Actively listens and correctly interprets messages and supervisory direction; responds appropriately | • Utilizes professional and courteous ways of communicating<br>• Delivers clear requests for information<br>• Independently prepares for interviews, ensuring that interview questions are clear and logical<br>• Conducts interviews in an organized manner, appropriately prioritizes inquiries when dealing with time constraints, and elicits pertinent information and documentation in the meeting with little follow-up<br>• Reviews and provides constructive comments on staff planned communications<br>• Confidently leads external and internal meetings, expressing facts, ideas, and concepts clearly and concisely<br>• Leads high-level external meetings such as entrance/exit conferences and is able to articulate the SAO's plans/ positions, make persuasive arguments, and respond to questions<br>• Actively listens and correctly interprets messages and supervisory direction; responds appropriately | • Utilizes professional and courteous ways of communicating<br>• Delivers clear requests for information<br>• Confidently runs efficient internal and external meetings at all levels of an organization that are respectful of time commitments and that elicit applicable information, documentation, responses, and decisions<br>• Conveys the position of the audit office in a manner that is clear, persuasive, accurate, and forthright<br>• Reviews and provides constructive comments on staff planned communications<br>• Speaks to groups, including legislative committees, with ease, conveys a confident presence, and enhances the external reputation of the SAO<br>• Actively listens and handles unexpected inquiries with aplomb |

# Appendix 3.1

## Staff Competency Model

| Skill Area | Staff Auditor II | Senior Auditor | Audit Supervisor | Audit Manager[a] |
|---|---|---|---|---|
| Auditee Relations<br><br>Treats auditees professionally, fairly, and respectfully and makes specific efforts to improve the relationship when conflicts arise. | • Identifies and begins to build a network of contacts within state government<br>• Gains confidence and respect of auditee by demonstrating an understanding of its organization and programs<br>• Treats auditee staff respectfully and uses their time wisely<br>• Acts in a professional manner<br>• Exhibits integrity and objectivity in all encounters with auditee<br>• Performs timely follow-up work on exceptions and anomalies or obtains corroboration from auditees with some supervisory direction<br>• Demonstrates open-mindedness and willingness to consider auditee's position<br>• Develops effective day-to-day working relationships with auditee personnel<br>• When faced with conflict, works with supervisor to resolve | • Continues to build a network of contacts within state government<br>• Gains confidence and respect of auditee by demonstrating an understanding of its organization and programs<br>• Treats auditee staff respectfully and uses their time wisely<br>• Acts in a professional manner<br>• Exhibits integrity and objectivity in all encounters with auditee<br>• Recognizes when follow-up or corroboration is needed without supervisory direction and performs this work in a timely manner<br>• Demonstrates open-mindedness and willingness to consider auditee's position<br>• Develops effective day-to-day working relationships with auditee personnel<br>• Proactively keeps auditee informed of progress of work<br>• Independently resolves issues when faced with minor or moderate levels of conflict and works with supervisor to address major conflicts with auditee | • Maintains extensive network of contacts with state government<br>• Gains confidence and respect of auditee by demonstrating an understanding of its organization and programs<br>• Treats auditee staff respectfully and uses their time wisely<br>• Acts in a professional manner<br>• Exhibits integrity and objectivity in all encounters with auditee<br>• Recognizes when follow-up or corroboration is needed without supervisory direction and performs this work in a timely manner<br>• Demonstrates open-mindedness and willingness to consider auditee's position<br>• Develops effective day-to-day working relationships with auditee personnel<br>• Proactively keeps auditee informed of progress of work<br>• Independently resolves issues when faced with minor or moderate levels of conflict and works with supervisor to address major conflicts with auditee<br>• Responds to auditee requests for technical guidance in a quick and thorough fashion, requesting the advice of supervisor as needed | • Maintains and leverages extensive network of contacts within state government to the benefit of the SAO<br>• Gains confidence and respect of auditee by demonstrating a contextually sophisticated understanding of its organization and programs and how it fits into the rest of State government<br>• Treats auditee staff respectfully and uses their time wisely<br>• Promotes the strategic goals of the SAO while acting in a professional manner<br>• Exhibits integrity and objectivity in all encounters with auditee<br>• Anticipates or actively seeks auditee's position and appropriately considers this position while drawing conclusions<br>• Actively cultivates working relationships at all levels of the auditee's organization and ensures that they are kept informed of the audit's progress<br>• Proactively keeps auditee informed of progress and potential audit issues<br>• Addresses conflicts between the audit team and the auditee before they become crises and develops solutions that are consistent with auditing standards<br>• Provides timely and relevant responses to external parties who seek technical advice, appropriately addressing the constraints imposed by the PSM |

# Appendix 3.1

## Staff Competency Model

| Skill Area | Staff Auditor II | Senior Auditor | Audit Supervisor | Audit Manager[a] |
|---|---|---|---|---|
| Teamwork<br><br>Fosters relationships with team members that promote effective teamwork. | • Contributes to establishing a positive working environment<br>• Forthrightly and courteously deals with inter and intra team conflicts<br>• Acts respectfully towards others—listening to their viewpoints and recognizing their contributions<br>• Proactively keeps supervisor aware of progress in tasks and communicates obstacles in a timely manner<br>• Understands team roles and willingly shares information with others<br>• Willingly helps others when requested by supervisor<br>• Recognizes when it is appropriate to work extra hours or adjust work schedule to ensure that critical audit tasks are completed in a timely manner | • Contributes to establishing a positive working environment<br>• Forthrightly and courteously deals with inter and intra team conflicts<br>• Acts respectfully towards others—listening to their viewpoints and recognizing their contributions<br>• Proactively keeps supervisor aware of progress in tasks and communicates obstacles and possible solutions in a timely manner<br>• Understands team roles and recognizes when assigned tasks overlap or information provided by the auditee affects the work of others and actively seeks to collaborate and share<br>• Demonstrates awareness of workload of others and volunteers to provide assistance to team members when own workload permits<br>• Recognizes when it is appropriate to work extra hours or adjust work schedule to ensure that critical audit tasks are completed in a timely manner<br>• Willingly works on internal SAO projects when asked | • Contributes to establishing a positive working environment<br>• Forthrightly and courteously deals with inter and intra team conflicts<br>• Acts respectfully towards others—listening to their viewpoints and recognizing their contributions<br>• Proactively keeps supervisor aware of progress in tasks and communicates obstacles and possible solutions in a timely manner<br>• Understands team roles and recognizes when assigned tasks overlap or information provided by the auditee affects the work of others and actively seeks to collaborate and share<br>• Demonstrates awareness of workload of others and volunteers to provide assistance to team members when own workload permits<br>• Recognizes when it is appropriate to work extra hours or adjust work schedule to ensure that critical audit tasks are completed in a timely manner<br>• Takes the initiative to communicate to management identified deficiencies in SAO internal processes and volunteers for internal projects to advance related changes<br>• Delivers formal internal training to audit staff | • Works assiduously on building a positive working environment in which staff members view themselves as valued and integral to the success of the SAO<br>• Resolves inter and intra team conflicts quickly and fairly<br>• Fosters an environment in which feedback on pending decisions is encouraged and different viewpoints are respectfully considered<br>• Keeps senior leadership apprised of the status of the audit and obstacles to completion and ensures that they are involved in substantive decisions<br>• Facilitates internal communication, promoting collaboration and sharing of information<br>• Tracks the progress of individual team members and the audit team as a whole and balances workloads to ensure that all team members are fully engaged and none are overwhelmed<br>• Work extra hours or adjusts work schedule to ensure that audits are completed in a timely manner<br>• Seeks ways to improve SAO processes and leads internal projects<br>• Delivers formal internal training to audit staff<br>• Publically recognizes the contributions of the audit team and its individual members<br>• Provides thoughtful staffing recommendations |

# Appendix 3.1

## Staff Competency Model

| Skill Area | Staff Auditor II | Senior Auditor | Audit Supervisor | Audit Manager[a] |
|---|---|---|---|---|
| Leadership and Supervision<br><br>Manages audit work and audit team in a manner that ensures that engagements address audit objectives within agreed-upon timeframes and resources, contributes to building the professional reputation of the office, supports assigned staff members' professional development, and fairly evaluates them. | • Follows through on commitments<br>• Takes ownership for missteps or errors<br>• Identifies own knowledge gaps and learns through training, development and consultation with audit team members, technical experts, and colleagues and seeks opportunities to close any gaps<br>• Takes initiative and seeks additional assignments, training, and responsibilities as opportunities emerge | • Follows through on commitments<br>• Takes ownership for missteps or errors<br>• Identifies own knowledge gaps and learns through training, development and consultation with audit team members, technical experts, and colleagues and seeks opportunities to close any gaps<br>• Takes initiative and seeks additional assignments, training, and responsibilities as opportunities emerge<br>• If responsible for providing day-to-day direction to others, gives clear explanation of the work to be performed and provides timely feedback<br>• Oversees the work of staff auditors, including workpaper review<br>• If asked for input, provides meaningful and timely feedback on a staff auditor's performance | • Follows through on commitments<br>• Takes ownership for missteps or errors<br>• Identifies own knowledge gaps and learns through training, development and consultation with audit team members, technical experts, and colleagues and seeks opportunities to close any gaps<br>• Takes initiative and seeks additional assignments, training, and responsibilities as opportunities emerge<br>• Provides appropriate direction and oversight to staff to ensure that they have the information, access, and tools necessary to perform audit tasks and remain productively engaged<br>• Sets timely and appropriate expectations for audit staff<br>• Oversees the work of audit staff, including workpaper review, and recognizes when it is appropriate to request team members to work extra or adjust their schedules<br>• Provides fair, meaningful, and timely feedback on staff performance<br>• Acts as a coach to staff auditors or senior auditors to help them improve their completion of specific tasks, job practices, and procedures, whether or not in supervisory role | • Acts as role model for following through on commitments and taking responsibility for personal or team missteps or errors<br>• Creates an environment that encourages improvement and innovation and is supportive of audit staff initiative<br>• Generates and clearly communicates audit goals and motivates team members to contribute to their realization<br>• Provides appropriate direction and oversight to staff to ensure that they have the information, access, and tools necessary to perform audit tasks and remain productively engaged<br>• Sets timely and appropriate expectations for audit staff<br>• Takes overall responsibility for timely completion of the audit within agreed-upon timeframes and hours<br>• Recognizes when it is appropriate to request team members to work extra or adjust their schedules<br>• Provides fair, meaningful, and timely feedback on staff performance<br>• Acts as a coach to staff to help them improve their completion of specific tasks and job practices<br>• For all audits and other projects, determines what needs to be done within available resources and timeframes and pursues appropriate means of their accomplishment |

# Appendix 3.2
## Audit Project Expectations and Performance Progress Report

**AUDITOR INFORMATION**

| | |
|---|---|
| **Staff Member** | |
| **Position Title** | |
| **Supervisor** | |

**AUDIT INFORMATION**

| | |
|---|---|
| **Title of Audit** | |
| **Date Started** | |
| **Audit Objectives** | |
| **Staff Role Summary** | |

# Appendix 3.2
# Audit Project Expectations and Performance Progress Report

**EXPECTATIONS**

**Date Discussed:**

**Summary of Expectations** (The general expectations for each position by skill area are contained in the Staff Competency Model—this section should describe how those general expectations are to be applied to this specific audit. If there is a significant change in the auditor's role or expectations, this should be updated.)

Acknowledgement of Receipt:

_____
Staff Signature and Date

# Appendix 3.2
# Audit Project Expectations and Performance Progress Report

**PROGRESS REPORT**

**Date Audit Completed:**
**Auditor's Hours:**
**Date Progress Discussed:**

**Skill Progress**

This section of the progress report describes the degree to which the staff member demonstrated achievement of the skill areas described in the Staff Competency Model on this audit. The intent of this area of the progress report is to communicate areas in which the staff member's skills are highly developed and those in which additional development is needed.

| Skill Area | Progress[a] | Narrative |
|---|---|---|
| **Evidence Identification, Analysis, and Documentation**<br><br>Identifies, analyzes, and documents in workpapers evidence that is consistent with the audit objective and complies with PSM and GAGAS standards. | | |
| **Written Communication**<br><br>Writes documents that are accurate, comprehensive, clear, and logically organized and that deliver a persuasive message. | | |
| **Oral Communication**<br><br>Conducts interviews and presentations in a manner that is articulate and well thought out and that demonstrates respect for the audience. | | |
| **Auditee Relations**<br><br>Treats auditees professionally, fairly, and respectfully and makes specific efforts to improve the relationship when conflicts arise. | | |
| **Teamwork**<br><br>Fosters relationships with team members that promote effective teamwork. | | |

# Appendix 3.2
## Audit Project Expectations and Performance Progress Report

| Skill Area | Progress[a] | Narrative |
|---|---|---|
| **Leadership and Supervision**<br><br>Manages audit work and audit team in a manner that ensures that engagements address audit objectives within agreed-upon timeframes and resources, contributes to building the professional reputation of the office, supports assigned staff members' professional development, and fairly evaluates them. | | |

[a] The progress assessment should be 1 of 5 categories: (1) needs significant improvement, (2) needs some improvement, (3) meets expectations, (4) above expectations, and (5) significantly above expectations

**Behaviors**

Auditors at all levels are expected to demonstrate certain behaviors. This section of the progress report indicates whether the staff member demonstrated each of these attributes on this audit.

| Behavior | Achieved (Yes or Needs Improvement) | Narrative Explanation If Needs Improvement |
|---|---|---|
| Maintains independence | | |
| Maintains objectivity | | |
| Demonstrates integrity | | |
| Exhibits professional work habits | | |
| Maintains professional demeanor | | |
| Shows commitment to continuous skill development | | |

Acknowledgement of Receipt:

Staff Signature: _____ Date:

Supervisor Signature: _____ Date:

Reviewer Signature (State Auditor or Deputy State Auditor):

_____ Date:

# Chapter 4

# Work Environment

## Overview

As a professional organization, the SAO provides its employees with the tools needed to perform their duties, such as access to computers and the Internet. The SAO, in turn, expects its employees to utilize these tools wisely and in conformance with State requirements and standards.

During the course of fulfilling their duties, SAO staff members develop, collect, and maintain records. It is important that these records be kept in accordance with the State's public records statute as well as be maintained in a manner consistent with good security practices, where applicable.

## 4.1 Use and Protection of SAO Resources

### 4.1.1 GAGAS Citation

Not applicable.

### 4.1.2 SAO Standard

SAO staff members are expected to be aware of, and comply with, State laws, rules, and policies related to the use and protection of State property, such as buildings, equipment, vehicles, computers, and furniture. The SAO's Financial Manager has the principal responsibility for ensuring that the Office complies with the State's financial and administrative requirements related to State property (e.g., recording purchases in VISION and maintaining required inventories).

#### 4.1.2.1 Allowable Use

**☑ TIP . . . These rules apply whether the user is using State equipment on State property or accessing it from home.**

DHR Policy 5.6, *Employee Conduct* personnel policy states that employees shall not use, or attempt to use, State personnel, property, or equipment for their private use or for any use not required for the proper discharge of their official duties. This policy has been interpreted to allow a limited degree of personal use of State telephones under certain guidelines (e.g., brief and does not interfere with work).

Similarly, SAO staff members have specific personal responsibilities related to the use of IT resources[9] that have been provided for the fulfillment of their work assignments. DHR Policy 11.7, *Electronic Communication and Internet Use* prescribes the rules of conduct and procedures when using or accessing State owned, leased, or otherwise provided computers and electronic communication devices/systems (i.e., e-mail, the Internet). This policy also allows for limited personal use under the following circumstances, (1) the user must be authorized to use the equipment by management, (2) the use must not interfere with an employee's performance of job duties, and (3) the use must not impose a burden on State resources as a result of frequency or volume of use. In addition, the policy prohibits specific activities, such as visiting sites that include potentially offensive or disruptive material, sending junk e-mail, and using peer-to-peer networks.

As a simple guideline, a SAO employee may choose to take a few minutes at lunch time, or before or after work to research a personal item on the Internet, make a travel or dinner reservation, or e-mail family and friends. However, the employee should only access Internet video or audio or any type of streaming for office purposes, such as a CPE course or a training "webinar" because of the strain it can put on the State's resources. Similarly, listening to the radio via the Internet is not permitted without permission of a supervisor.

Be advised that all activity on State owned or -leased computers, even if performed through a home Internet provider such as Yahoo or Gmail, is subject to review by management, must conform to State rules, and may be subject to a public records request.

#### 4.1.2.2 Protection of IT Resources[10]

All devices containing State data should be protected from unauthorized access, modification, or loss. SAO and the State's IT resources are protected from both a physical and logical perspective.

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[9] IT resources include desktop and laptop computers and their peripheral equipment (e.g., displays), printers, handheld devices like Blackberries, and removable storage devices, such as USB drives (also known as flash or thumb drives), external hard drives, CDs, and DVDs.

[10] The PSM generally does not address IT controls that are in place that are not under the control of the user. For example, the Agency of Digital Services (ADS), as our IT service provider has implemented other IT controls, such as malware protection. The SAO also relies on ADS to provide advice and assistance on IT security in general. If a SAO staff member is not sure whether s/he needs to employ a security technique not otherwise described in this document, s/he is urged to seek ADS's assistance.

# Chapter 4

## Work Environment

### Physical Protection

SAO staff members are required to physically secure their laptops in the SAO building by utilizing the cables that have been provided for that purpose. Laptops must also be kept physically secure outside of the SAO building. During transport, laptops should be kept in the custody of the auditor at all times. In particular, it is not acceptable for laptops to be stored in unattended vehicles, even if the vehicle is locked.

Leaving a laptop computer at an audit site is not encouraged. However, it is not expressly prohibited as long as the laptop can be physically secured under lock and key. Under lock and key is defined as being housed in a locked room, kept in a locked cabinet, or cabled to an immovable object. In addition, the key must be in the custody of the auditor and not readily available to others.

External storage devices are more difficult to secure because they are generally much smaller and can be more readily portable without being detected. SAO staff should make every reasonable effort to keep continuous physical custody of storage devices when outside of the SAO building.

### Logical Protection

Since physical protection can fail, the State and the SAO have taken steps to add logical protection mechanisms. First, all SAO laptops utilize full-disk encryption. Second, all auditors have been provided with encrypted USB drives with which to transport data. Encryption is an important control because it makes it far less likely that data can be accessed if a laptop or USB drive is stolen or lost.

The required use of strong passwords is another logical protection utilized by the SAO. It is extremely important that SAO staff utilize strong password controls. For example, encryption is no longer an effective control if the password has been compromised. If passwords are poorly chosen or inappropriately stored, they are subject to disclosure and misuse by unauthorized persons and the asset or data that is being protected could be misused.

SAO staff generally must use passwords when accessing the State's network or another agency's application (e.g., VISION). When using these assets SAO staff shall follow the password protocols established by their owners. However, in general SAO staff should use the following password characteristics to the extent that it is allowed by the specific password protocol of the network or application:

- Be at least 8 characters in length (longer is preferable),
- Consist of a mix of alpha (upper and lower case), numeric, and special characters (e.g., @, $, =),
- Have no relationship to the user ID, e-mail address, or passwords used in personal transactions,
- Not be dictionary words in any language or proper names,
- Not be simple keyboard patterns (e.g., QWERTY) or character strings (e.g., abc, 123), and
- Not contain obvious personal information that could be guessed or easily obtained (e.g., social security number, date of birth, astrological sign).

Using these guidelines can help combat password-cracker utilities that can run through millions of possible word combinations in seconds or social engineering (techniques designed to trick an unsuspecting user into divulging sensitive information).

In addition to the use of strong passwords, SAO staff members should not share or disclose passwords. If a staff member knows or suspects that his or her password has been compromised, s/he should immediately change the password and inform the Deputy State Auditor, or designee, of the possible breach. At that time an assessment will be made of the exposure risk that has occurred due to the compromised password. What, if any, additional action to be taken will be based on this assessment.

In the unusual case in which the SAO has developed or acquired a system for its internal use, the State Auditor, Deputy State Auditor, or designee will decide whether the function and data in the system warrant being secured by passwords. This decision will be risk-based and guided by whether the system contains sensitive data or supports a function that requires the actions of individual users be separately tracked. When neither of these criteria apply and there is no other compelling reason to secure the system by individual passwords, the access controls established for the SOV network will be considered sufficient security for the system.

For those systems that have been designated as requiring password protection, the system administrator is charged with developing a process or system control to perform the following functions (while it is preferable that

technical controls be used to implement this policy, to the extent that such controls are not feasible, manual processes can be substituted):

- *Individualized passwords*—Passwords should be unique to the system being accessed and to the user (i.e., no generic or group passwords are allowed). The system should require that the password be at least 8 characters in length and a mixture of alpha, numeric, and special characters.

- *Temporary access*—Temporary passwords that are established for new employees or for temporary access to a system should be changed and deactivated, respectively, immediately (e.g., during initial log-in).

- *Changes*—At a minimum, passwords shall be changed every 90 days. It is preferable that passwords should not be reused for at least 3 generations.

- *Deactivation*—Staff members who leave the SAO or who no longer need access to a system shall have their password deactivated immediately (within 1 business day) by the system administrator. If a staff member has not accessed a system for more than 6 months, consideration will be given to deactivating that staff member's account.

- *Lock-out*—To the extent feasible, a lock-out feature shall be used to suspend access after 3 invalid attempts have been made to log on. Manual action by the systems administrator would be required to reactivate the account.

Regarding access to password-protected systems, the SAO will follow the principal of "least privilege" in which individuals will be granted access only to those systems that are necessary for the performance of their official duties. The type of access permission to be granted (e.g., read only or read/write access) will also be based on job need. Decisions to grant access to internal SAO systems, as well as the access type, will be made on a case-by-case basis by the State Auditor, Deputy State Auditor or their designee.

# Chapter 4

# Work Environment

### 4.1.2.3 Disposal of IT Equipment

When SAO purchases new computers, communications, or data storage equipment, the old equipment must be disposed of in accordance with the State's policy, *Digital Media and Hardware Disposal Policy* (https://digitalservices.vermont.gov/sites/digitalservices/files/documents/policy/ADS-Digital-Media-and-Hardware-Disposal-Policy.pdf).[11] This policy has been put in place because residual data can be recovered from discarded computer and communications equipment. Just deleting files is insufficient to ensure that they cannot be retrieved. ADS is our IT service provider, so they generally dispose of our laptops and other IT equipment. Most storage devices (e.g., CDs, DVDs) are disposed of via our contract with SecurShred.

**☑ TIP . . . The disposal policy pertains to workstations; notebook computers; servers, routers, and switches; mobile devices like smart phones; and removal storage media, such as USB drives, external hard drives, CDs, and DVDs.**

SAO's Financial Manager has overall responsibility for arranging for the proper disposal of computer and communications equipment, including data storage devices (e.g., USB drives, CDs).

## 4.2 Records Management

### 4.2.1 GAGAS Citation

**GAGAS 5.46** states that audit organizations should have policies and procedures that require, at a minimum, retention of engagement documentation for a period of time sufficient to permit those performing monitoring procedures and peer review to evaluate its compliance with its system of quality control. Moreover, **GAGAS 5.04** states that documentation of quality control procedures should be maintained for a period of time sufficient to enable those performing monitoring procedures and peer reviews to evaluate the extent of the audit organization's compliance with its quality control policies and procedures.

GAGAS notes that another value in retaining audit reports and relevant documentation is to allow other auditors to use or review our financial or performance audit work to avoid duplication. (**GAGAS 8.140, 8.141**) GAGAS states that, subject to applicable laws and regulations, auditors should make appropriate individuals, as well as audit documentation, available upon request in a timely manner to other auditors or reviewers.

[11] This policy pertains to all equipment that may contain protected data, personal information, or intellectual property. Since the SAO may have access to any of this type of information, the Office has made a determination that all IT equipment will be subject to this policy.

# Chapter 4

## Work Environment

### 4.2.2 SAO Standard

SAO as a department of State government, complies with 3 VSA §218, which requires the head of each state agency or department to "establish, maintain, and implement an active and continuing program approved by the Vermont state archives and records administration [VSARA] for the effective management, preservation, and disposition of records, regardless of their physical form or characteristics, for which that head is responsible."

#### 4.2.2.1 General Requirements

The Auditor must designate a member of his or her staff as the Records Officer for his or her Office and shall notify VSARA in writing of the name and the title of the person designated. Until further notice, the Auditor has designated SAO's Financial Manager as the Records Officer for the SAO.

The SAO is also required to have a records management policy. The Financial Manager is responsible for maintaining this policy. Questions related to this policy or about records management in general should be directed to the Financial Manager.

1 VSA §317a requires that a custodian of public records not destroy, give away, sell, discard, or damage any record or records in his or her charge unless specifically authorized by law or under a record schedule approved by the state archivist. The SAO records management policy adopts the following general schedules approved by the archivist (these schedules can be found at https://www.sec.state.vt.us/archives-records/records-management/records-retention/general-record-schedules.aspx):

**☑ TIP . . . Auditors should familiarize themselves with the general records retention schedules and those of specific state entities because they may provide important reference material if an entity reports that a request cannot be fulfilled because records were destroyed.**

- GRS-1000.1000: Transitory Records
- GRS-1000.1002: Accounting Records
- GRS-1000.1007: Audit Records
- GRS-1000.1012: Budget Records
- GRS-1000.1102: Administrating Records
- GRS-1000.1103: Operational/Managerial Records
- GRS-1000.1110: Grants Management Records
- GRS-1000.1126: Contract Files

- GRS-1009.1103: Payroll Management Records
- GRS-1304.1103: Personnel Records

These schedules define certain types of records and their retention requirements.

### 4.2.2.2 Guidance Pertaining to Documents Obtained and Developed During Audits

Three record schedules are particularly pertinent to documents obtained and developed during an audit, (1) GRS-1000.1007 (audit records),[12] (2) 1000.1103 (operational/managerial files),[13] and (3) 1000.1000 (transitory records).[14]

Table 4.1 defines selected records in these schedules and the related requirements.

**Table 4.1: Selected Record Requirements**

| Schedule # | Record Type | Applicability/Use | Retention Period | Final Disposition |
|---|---|---|---|---|
| GRS-1000.1007 | Reports | Use for final reports at the conclusion of a financial or performance audit or independent examination. | Date audit is complete + 3 years (electronic copies of reports are kept indefinitely) | Destroy |
| GRS-1000.1007 | Schedules | Use for schedules established for audits or independent examinations. (This does not apply to schedules that are considered audit evidence, which are covered by the supporting materials record type.) | Until superseded[a] | Destroy |
| GRS-1000.1007 | Supporting materials | Use for audit working papers. | Date audit is complete + 3 years | Destroy |

[12] The audit record schedule is reserved for recorded evidence of activities and transactions that relate to, or affect, in a specific manner, audits conducted by a public agency to examine and verify accounts and records and/or to certify that a practice or set of practices are being conducted in accordance with established principles.

[13] The operational/managerial schedule is reserved for recorded evidence of activities and transactions that relate to or affect, in a specific manner, the day-to-day operations of a public agency and internal workflows and processes.

[14] The transitory record schedule is reserved for records that are (1) created and received in the course of agency business, but transitory in nature; (2) not subject to any legal recordkeeping requirements, explicit or implied; and (3) administratively obsolete after a specific action or process is complete.

# Chapter 4

## Work Environment

| Schedule # | Record Type | Applicability/Use | Retention Period | Final Disposition |
|---|---|---|---|---|
| GRS-1000.1103<br>GRS-1000.1000 | Routine Correspondence | Use for any correspondence transmitted or received that relates to day-to-day office operations and is not subject to any specific legal requirements. Includes internal and interagency correspondence and correspondence with the public on routine matters. (This does not apply to correspondence with an auditee about an audit's initiation and report, which is covered by the supporting materials record type.) | Until obsolete[b] | Destroy |
| GRS-1000.1103<br>GRS-1000.1000 | Drafts | Use for all preliminary or tentative versions of documents that were never put into practice or applied by the agency or program. Drafts that are acted upon or put into practice must be retained according to their intended record type (i.e., policies) as listed in another general record schedule or agency-specified schedule. | Until obsolete[b] | Destroy |
| GRS-1000.1103 | Plans | Use for planning documents related to day-to-day operations, internal workflows and processes. Includes significant materials, including meeting minutes and substantive correspondence. | Until completed/ closed + 3 years | Destroy |
| GRS-1000.1103 | Procedures | Use for sets of instructions and directives that govern general management and/or internal workflows and processes. Includes significant materials, including meeting minutes and substantive correspondence. | Until superseded[a] + 3 years | Destroy |
| GRS-1000.1000 | Notes | Use for brief statements of a fact or experience, written down for review, or as an aid to memory, or to inform someone else. Includes short, informal notes, such as phone messages. | Until obsolete[b] | Destroy |
| GRS-1000.1000 | Publications | Use for reproduced or published material received from other offices which require no action and are not required for documentary purposes. | Until obsolete[b] | Destroy |
| GRS-1000.1000 | Reference sources | Use for sources of information that were intended primarily for consultation and, if used to prepare or update a formal or ongoing record, are cited as needed. Includes duplicate, informational, extra, unofficial, or informal copies of records that were kept only for convenience or quick reference. | Until obsolete[b] | Destroy |
| GRS-1000.1000 | Requests | Use for requests and responses for forms, publications, records, or other agency information that do not require administration review before, or further action after, the form, publication, record, or other agency information is provided. | Until obsolete[b] | Destroy |
| GRS-1000.1000 | Worksheets | Use for forms, checklists, and other worksheets used to prepare or update a formal or ongoing record or informally track workflow. (This does not apply to worksheets that are considered audit evidence, which are covered by the supporting materials record type.) | Until obsolete[b] | Destroy |

[a] This means that records are to be retained until they are superseded, updated, or revised.

[b] This means that records are to be retained until they are no longer needed and are valueless. According to the records retention schedule, the obsolete disposition is assigned to records that have limited administrative value and may be purged when they no longer have any administrative value. The following paragraph includes guidance related to records that are retained until obsolete.

# Chapter 4

## Work Environment

The following are specific practices that the SAO follows to comply with record retention requirements and guidance issued by VSARA.

- The SAO considers an audit complete once the report is issued. Audit working papers (also called audit documentation or supporting materials) should be retained for the three years subsequent to the issue date as required in the audit general records (GRS-1000.1007) plus one additional year after the completion of recommendation follow-up (see chapter 11 for the timing associated with recommendation follow-up). For example, if the final recommendation follow-up work for a report issued in 2014 is performed in 2017, the working papers for this audit should be retained until 2018. The working papers associated with the follow-up work itself should be retained for three years subsequent to the follow-up date. Using the same example as above, the working papers associated with recommendation follow-up completed in 2017 should be retained until 2020.[15]

- The only draft audit reports that are considered to be "acted upon or put into practice" as defined in the transitory records schedule are the agency comment draft and the draft(s) used for referencing. These should be included as part of the audit documentation (called supporting material in the audit records general records schedule). Other drafts that are developed during an audit have no administrative value after recommended changes have been made and are considered obsolete at that time.

- Recordkeeping of internal emails that are not part of the audit documentation are the responsibility of the original sender (this includes all response threads).

- Emails or documents from auditees that are not utilized in the audit (i.e., not in the audit documentation) are considered transitory unless they fall into another record retention category. If the emails or documents are transitory, they have no administrative value after the issuance of the audit report and are considered obsolete at that time.

[15] These retention requirements for audit documentation are also enough to ensure that they are available for internal quality control review and peer review as described in chapter 12. (**GAGAS 5.46**)

- Internal and external emails that contain inconsequential remarks (e.g., "thank you" or discussions about meeting times and places) are considered transitory records unless there is a specific reason that they would fall into another record retention category. If such emails are transitory records, they have no administrative value and are considered obsolete upon receipt.

- Work products produced by audit professionals under contract,[16] must either be turned over to SAO for retention or the audit professionals must have a records retention program that is at least equivalent to the SAO's minimum retention period of 3 years.

- General research obtained during an audit (e.g., publications, reference sources) that are not utilized in the audit (i.e., not in the audit documentation) are considered transitory unless they fall into another record retention category. If the research materials are transitory, they have no administrative value after the issuance of the audit report and are considered obsolete at that time.

- Notes that are taken during the audit of discussions with auditees are generally summarized and included in the audit documentation (called supporting material in the audit records general records schedule). Handwritten copies of these notes are transitory records that have no administrative value once they are summarized and included in the audit documentation and are considered obsolete at that time. If the notes are not summarized and included in the audit documentation, they have no administrative value after the issuance of the audit report and are considered obsolete at that time.

- Worksheets that are prepared during an audit that are used internally to informally track progress or the completion of audit steps are considered transitory unless they fall into another record retention category. If the worksheets are transitory, they have no administrative value after the issuance of the audit report and are considered obsolete at that time.

- Non-audit reports and supporting materials for work performed under Chapter 9 of this manual should be retained for 3 years after the date of product issuance.

[16] SAO sub-contracts the State's annual Single Audit to CLA (which includes the annual financial statement audit) and CLA retains the audit work files associated with this audit.

# Chapter 4

# Work Environment

### 4.2.2.3 Audit Documentation Recordkeeping

Recordkeeping systems are defined as any information system used to capture, maintain, and provide access to records over time. Systems may be manual or electronic.[17] In general, the SAO's recordkeeping system for our audit work is the audit documentation defined by section 7.3.2.3 of the PSM.

Until recently the SAO's audit documentation was in paper form. These documents will be disposed as described in 4.2.2.2. Accordingly, for audits completed prior to 2019, audit documentation that is due to be destroyed should be logged in the records disposal log (S:\AUD\AUD-Shared\Records Management Policy\Records Log). Once the Financial Manager has approved disposal, the audit documentation will be shredded.

For audit reports issued in 2019 or later, the audit documentation is contained in TeamMate®.

## 4.3 Securing Sensitive Data and Documentation

### 4.3.1 GAGAS Citation

Not applicable.

### 4.3.2 SAO Standard

The breadth of the SAO's responsibilities means that auditors may have to deal with a wide variety of sensitive information. Sensitive information includes personally identifiable information, such as social security numbers and drivers' license numbers and department-designated sensitive information, such as health care information, security controls, tax returns, and investigatory documents.

Each SAO auditor must be familiar with the public records exemptions in 1 VSA §317(c). At a minimum, all data or documentation that falls under these exemptions should be considered sensitive data.

In addition, 9 VSA §2430 defines personally identifiable information as:

> "An individual's first name or first initial and last name in combination with any one or more of the following data

[17] *Records Management Best Practice for All Public Agencies* (VSARA and the Department of Information and Innovation, October 1, 2008).

> elements, when either the name or the data elements are not encrypted or redacted or protected by another method that renders them unreadable or unusable by unauthorized persons: (i) Social Security number; (ii) motor vehicle operator's license number or non-driver identification card number; (iii) financial account number or credit or debit card number, if circumstances exist in which the number could be used without additional identifying information, access codes, or passwords; [and] (iv) account passwords or personal identification numbers or other access codes for a financial account."

Auditors should also be aware of and comply with 9 VSA §2440(d), which provides specific protections related to social security numbers.

Before obtaining audit documentation containing sensitive data, the auditor should consider whether such information is needed to meet the objectives of the audit. If the sensitive data is not needed to meet the objectives of the audit, the auditor should explore with the entity whether the documentation can be provided without the sensitive data. Alternatively, if a copy of the document is provided with sensitive information unneeded for the audit, the auditor should redact this information unless it is impracticable to do so.

Regarding sensitive information that is needed to meet audit objectives, it is the SAO's policy to secure sensitive audit documentation—in both paper and electronic form—while it remains in the office's custody. In general, the SAO will follow the policies and procedures of the originating entity regarding the security of sensitive data, to the extent that such policies and procedures exist.

It is each auditor's responsibility to inquire about and understand the sensitivity of the data that s/he is working with and to take precautions commensurate with its sensitivity level.[18] At a minimum, staff members must abide by the following procedures:

- *Sensitive information in paper form.* Audit documentation in paper form that contains sensitive information is to be secured in a key-locked desk, cabinet, or other key-locked location when it is not in

[18] If there are questions about whether information is sensitive or not, check with the Chief Auditor or Director of IT and Performance Audits for a determination.

use. Under no circumstances should sensitive information be kept in an open area or be visible to passers-by.

- *Sensitive information in electronic form.* Under no circumstances should sensitive information be retained in a shared electronic environment where it would be accessible by individuals who are not authorized to view it. In addition, auditors should inquire as to whether the sensitive data needs to be encrypted. If required, the data must be stored in this manner.

- *Sharing sensitive information.* Sensitive information should be shared only with those in the office directly involved with the audit engagement and have a legitimate need to know. Under no circumstances is sensitive information to be disclosed or shared otherwise.

- *E-mailing sensitive information.* Auditors should avoid e-mailing sensitive information (including within the SAO). However, if this is not practicable, the sensitive information must be encrypted first. Check with the auditee as to the preferred method of electronic transport.

- *Transporting sensitive information.* When transporting sensitive information, every effort should be made to convey the information to a secure place (e.g., the SAO office) in a timely manner. At all times the information should be kept under the direct personal control of the custodial auditor. Under no circumstances is sensitive data to be kept in a vehicle without the custodial auditor present. If the information is in electronic form, the data must be encrypted or contained on an encrypted flash drive.

- *Security breaches.* In the event that sensitive information is lost, stolen, misplaced or accessed by unauthorized persons, the Deputy State Auditor or State Auditor should be promptly notified. Additional actions regarding communication of the breach will be determined by these officials based on the nature of the information involved and the extent of the breach. In addition, the SAO will follow the security breach notification requirements of 9 VSA §2435.

- *Retention and disposal.* The SAO records management policy (section 4.2 of the PSM) pertains to sensitive information. Once sensitive information is no longer needed or the retention period has

**☑ TIP . . . The State has established a mechanism for sending and receiving encrypted emails. See https://vermontgov.sharepoint.com/sites/ADS-IT/HowTo/Forms/AllItems.aspx?viewid=0866c361-fc54-4f09-b317-213ea1eec2b3&id=/sites/ADS-IT/HowTo/Encryption%20--%20Microsoft%20Office%20365%20Instructions.pdf&parent=/sites/ADS-IT/HowTo**

**☑ TIP . . . The SAO has provided each auditor with an encrypted flash drive for the transport of sensitive data. After the transport is completed, the sensitive data on the drive should be deleted.**

passed, the information shall be promptly disposed of by shredding. If the information is in electronic form, see PSM section 4.1.2.3.

Auditors should be cognizant that if they obtain access to a department's computer system that it may contain sensitive data that needs to be safeguarded. In these cases, the PSM policy pertaining to the protection of IT resources (section 4.1.2.2) is also applicable.

## 4.4 Breaks

### 4.4.1 GAGAS Citation

Not applicable.

### 4.4.2 SAO Standard

DHR's Policy 11.1 addresses breaks by employees, which are considered compensable work time under the Fair Labor Standards Act. According to this document, the state has no formal policy regarding rest breaks, and it is up to individual state organizations to decide whether to implement such a policy. The SAO chooses not to implement a break policy, so a break taken by a staff member is not compensable time.

## 4.5 Alternative Work/Flex-Time Schedules

### 4.5.1 GAGAS Citation

Not applicable

### 4.5.2 SAO Standard

In accordance with personnel policy 11.0, the SAO may approve employee requests for alternative work or flex-time schedules, subject to the operating needs of the SAO and after consultation with the VSEA. The SAO attempts to provide schedule flexibility to the staff in accordance with the requirements in this policy.

The following are general guidelines for operationalizing personnel policy 11.0 within the SAO:

- Requests will generally be entertained after a staff member completed his or her probation period or has been employed by the SAO for six months, whichever is longer.

- Audit staff should first make the request to the Chief Auditor while other SAO staff should make the request to the Deputy State Auditor.

- Approval of all alternative work/flex-time schedules is at the discretion of the State Auditor.

Alternative work/flex-time schedules are approved for the convenience of the employee, but there may be occasions when the operating needs of the SAO require the staff member to work on a day the employee would normally be flexing. If this occurs, it is expected that (1) the employee will be informed as early as possible and (2) the employee will make every reasonable effort to temporarily change his or her schedule to meet the needs of the office.

The State Auditor may withdraw approval of any or all approved alternative work/flex-time schedules if s/he determines that it is in the best operational interest of the SAO to do so.

## 4.6 Telework

### 4.6.1 GAGAS Citation

Not applicable.

### 4.6.2 SAO Standard

The SAO has elected not to approve telework on a regularly scheduled basis as allowed in personnel policy 11.9, primarily due to operational considerations, including our work with confidential information. However, audit managers may approve ad hoc telework when it makes operational sense, as in the following examples:

- Meetings are being held at locations closer to the employee's address than the SAO office.

- The work being performed requires considerable concentration (e.g., report drafting) that may be best suited to be completed outside of the office.

# Chapter 4

## Work Environment

Non-audit staff may request approval for ad hoc telework from the State Auditor or Deputy State Auditor.

# Chapter 5

# Client Relations

## Overview

**Reserved.**

## 5.1 Communication

### 5.1.1 GAGAS Citation

### 5.1.2 SAO Standard

## 5.2 Working with Internal Auditors

### 5.2.1 GAGAS Citation

### 5.2.2 SAO Standard

# Chapter 6

# Engagement Portfolio Management

## Overview

This chapter describes the types of engagements undertaken by the State Auditor's Office, how potential engagements are proposed, reviewed, approved for audit work, and initially staffed. This section also describes how allegations of fraud or other criminal activity are considered and processed by the State Auditor's Office.

## 6.1 Sources of Work

### 6.1.1 GAGAS Citation

**GAGAS 5.12** states that audit organizations should establish policies and procedures for the initiation, acceptance, and continuation of audits that are designed to provide reasonable assurance that the organization will undertake audit engagements only if it can comply with professional standards, legal requirements, and ethical principles and is acting with the legal mandate or authority of the audit organization.

### 6.1.2 SAO Standard

There are statutorily required audits or reviews which the SAO must perform on a timely basis. The SAO cannot always anticipate when the legislature will pass a law with additional work requirements for the office. However, when a staff member becomes aware of a new requirement being considered by the legislature, the staff member should immediately bring this to the attention of the State Auditor or Deputy State Auditor.

If the legislature is considering imposing non-audit service requirements on the SAO, the Chief Auditor or designee should expeditiously assess how such a requirement would affect the office's independence under GAGAS and communicate this affect to the State Auditor. To the degree possible, the SAO, as directed by the State Auditor, shall work with legislative committees seeking to review or revise existing responsibilities or to create new ones.

Under 32 VSA §163(5) the auditor is authorized to "make special audits of any department, institution and agency as the governor may from time to time require." SAO will attempt to respond to special audit requests from the Governor within its current staffing level and budget appropriation; however, the State Auditor or his or her designee may be required to discuss additional

staff and funding support depending on the scope of the required engagement.

Requests for audits or other examinations and evaluations may also be received from State agencies or employees, legislators, other public officials, and citizens at large. Moreover, SAO staff members are encouraged to suggest audit topics to their supervisors, the State Auditor, or the Deputy State Auditor.

## 6.2 Description of Type of Work Performed

### 6.2.1 GAGAS Citation

**GAGAS 1.13 to 1.26** describe the types of audits and attestation engagements that SAO may perform under GAGAS. GAGAS does not cover professional services other than audits or attestation engagements.

### 6.2.2 SAO Standard

The State Auditor's Office (SAO) may conduct a range of examinations, audits, or reviews depending on various factors. These engagements include:

**1. GAGAS Audits**

These are formal engagements conducted in accordance with GAGAS with a goal of providing an independent assessment or opinion on (1) fairness of financial statement presentations; (2) adequacy of internal controls; (3) compliance with laws and regulations; (4) compliance with contract provisions, and/or (5) performance of agencies, departments or other entities regarding their programs, activities or functions.

Engagements may be financial audits (PSM chapter 8), attestation engagements, or performance audits (PSM chapter 7).[19] These engagements are defined in GAGAS and periodically revised. Engagements to develop information or answers requested by a member of the General Assembly (Legislature), a state employee, state agency, or through a citizen request should be approached as preliminary planning for a possible GAGAS audit engagement to the extent possible.

[19] Currently, the SAO does not perform financial audits or attestation engagements.

**2. Non-GAGAS Reviews**

A non-GAGAS review is generally conducted to develop information to provide the Administration, the Legislature, an oversight entity, or the public with answers to specific questions in a brief time frame. These are performed, as staff resources permit at the direction of the State Auditor or his or her designee and are limited to specific areas and procedures agreed upon between the Auditor's Office and the requester. As with GAGAS engagements, to the extent possible these reviews should be conducted and supervised by qualified personnel and should undergo a quality control process before a written or oral report is provided or published.

A review does not provide an independent opinion, e.g. concerning the fair presentation of financial statements or an auditor's opinion on the design and effectiveness of internal controls, of the entity's performance. However, a review may result in analysis and observations. The general objective is to provide comments to assist management to improve specific functions or issues related to State operations in a timely, cost-efficient manner. See PSM chapter 9 for further information on non-GAGAS review requirements.

## 6.3 Risk Assessments of Potential Engagements

### 6.3.1 GAGAS Citation

**GAGAS 8.15** suggests that the concept of "significance" will assist auditors when deciding the type and extent of the work to perform. Significance is defined in as "the relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors. Such factors include the magnitude of the matter in relation to the subject matter of the audit, the nature and effect of the matter, the relevance of the matter, the needs and interests of an objective third party with knowledge of the relevant information, and the impact of the matter to the audited program or activity."

### 6.3.2 SAO Standard

Before initiating discretionary audits (i.e. not required by law), the State Auditor or Deputy State Auditor should direct an audit manager and staff member to complete a risk assessment. The risk assessment process is intended to be a quick assessment of the program/process/operation of interest in order to determine whether an audit is worthwhile. Typically, the work for a risk assessment is limited to: (1) 1-2 meetings/conversations with potential auditees, (2) the preliminary identification of laws, regulations,

# Chapter 6

## Engagement Portfolio Management

☑ **TIP . . . Federal audit reports are required to be submitted to the SAO. These reports are stored at S:\AUD\AUD-Shared\Federal Audits.**

policies, and other criteria, (3) a review of prior audit reports or evaluations of the topic (including findings from the Single Audit), and (4) a review of the last two years of the auditee's internal control self-assessment.

Once the audit manager/staff member has gathered sufficient preliminary information to make a recommendation to perform or not perform an audit, they should complete the Risk Assessment Tool (maintained on the SAO shared drive) to help evaluate the possible engagement and determine its potential significance. The risk assessment tool is based on application of the following categories, criteria, weighting, and measure:

**Office of the State Auditor**
**Vermont Risk Assessment Tool Framework**

| CATEGORY | DESCRIPTION/CRITERIA | WEIGHT | MEASURE |
|---|---|---|---|
| **FRAUD, WASTE OR ABUSE POTENTIAL** | • Degree to which issue suggests potential for criminality<br>• Degree that fraud, waste or abuse is suggested due to nature of the issue or operation (e.g., liquidity of assets)<br>• Extent to which other jurisdictions have reported fraud, waste, or abuse<br>• Specificity of allegation | **15%** | **1 - 5** (Fraud, Waste or Abuse Potential Unlikely to Highly Likely) |
| **IMPACT** | • Recovery potential<br>• Breadth of impact across state government<br>• Long-term versus one-time impact<br>• Deterrent value if issue is validated | **20%** | **1 - 5** (Low to High Impact) |
| **MATERIALITY** | • Potential financial impact of process/system failure on the State.<br>• General rule of thumb:<br>➢ less than $1 million = 1;<br>➢ $1 million-$15 million = 2,<br>➢ $16 million - $30 million = 3;<br>➢ $31 million -$45 million = 4;<br>➢ anything over $45 million = 5. | **20%** | **1 - 5** (Immaterial to Highly Material) |
| **REPUTATION** | • Likely level of attention by Administration and General Assembly<br>• Likely level of attention by Federal oversight agencies<br>• Likely level of attention by public and media | **10%** | **1 - 5** (No Impact to High impact) |
| **STATE OF INTERNAL CONTROL** | • Result of prior audit history of control breakdowns<br>• Degree of manual intervention in automated processes<br>• Management's focus and responsiveness to control issues<br>• Degree to which control is integral to the audit objectives | **15%** | **1 - 5** (Well Controlled to No Controls) |
| **AUDIT FEASIBILITY** | • Auditor's ability to achieve credible result/resolution due to level of methodological or record access certainty/uncertainty<br>• Identification of independence threats and the likelihood of having to apply safeguards<br>• Result of preliminary exploration of data sources<br>• Presence of documentary or testimonial corroboration<br>• Availability of sufficient audit resources<br>• Likelihood of positive cost/benefit ratio of audit | **20%** | **1 - 5** (Not Feasible to Highly Feasible) |

# Chapter 6

# Engagement Portfolio Management

Using the tool provides a "score" for each suggested audit topic and allows the State Auditor and Deputy State Auditor to perform an objective analysis of the value of a proposed project. This tool should help provide a sense of the "cost/benefit" of specific projects. It is suggested that the audit manager and the staff member rate the proposed project together to reduce the risk of bias that would affect the final "score" of the proposed topic.

Usually a memo will accompany the risk assessment tool. Do not use the memo to repeat the information contained in the tool. Instead, use it to describe the proposed function/program being considered for audit and include information that might affect the decision as to whether to conduct the audit. For example, describe any new or upcoming internal initiatives or audits that could duplicate, complement, or negate our efforts.

## 6.4 Engagement Decision-making

### 6.4.1 GAGAS Citation

There is no GAGAS guidance on who makes the decision to commence an audit engagement or how these decisions are made.

### 6.4.2 SAO Standard

All engagements must be approved by the State Auditor or his or her designee through a job initiation memo which is expected to include a description of the project, assignment of staff that possess the competence needed for their assigned roles (**GAGAS 4.03**), preliminary assessment of the impact of the audit on the SAO's independence, expected impact of an audit report, a proposed schedule, among other items. The job initiation memo is the formal communication of approval to spend SAO resources on a given audit project. The memo also serves as documentation that the auditor has considered previously performed non-audit services, including determining (1) if the non-audit service was expressly prohibited by GAGAS and, if not (2) whether a threat to independence exists. (**GAGAS 3.83**) See Appendix 6.1 for an example of a job initiation memo.

# Chapter 6

# Engagement Portfolio Management

## 6.5 Referrals to Others

### 6.5.1 GAGAS Citation

There is no GAGAS guidance regarding the referral of audit requests to other individuals and/or organizations.

### 6.5.2 SAO Standard

SAO believes that auditing is essential to government accountability to the public. However, given the limited staff and resources of the Auditor's Office, we recognize that not all worthwhile requests to SAO can be addressed in a timely manner.

SAO management should evaluate all requests for services by considering first whether other individuals or agencies are more qualified, competent, or better able to provide requesters with an acceptable response. For example, audit requests may in reality be legal questions – is a particular agency complying with the law? – and these matters may often be best resolved through a referral to the Attorney General's Office. Audit requests that are in reality fact-finding requests may be best answered by another agency such as the Department of Finance and Management.

Allegations of fraud or other criminal activity within SAO's jurisdictions should be considered carefully. SAO is an auditing, not investigative body.

It is SAO's policy to refer fraud allegations to the Attorney General's Office or other appropriate law enforcement agency. These referrals must be approved by the State Auditor or his or her designee. The State Auditor or his or her designee may elect to develop some background information to help substantiate the possibility of criminal activity but should do so in consultation with the Attorney General's Office or other appropriate law enforcement agency.

Note: Section 7.2.2.4 of this manual provides guidance on potentially fraudulent or criminal activities that are detected *during* the course of an audit.

# Chapter 6

# Engagement Portfolio Management

## 6.6 Maintenance of Engagement Portfolio

### 6.6.1 GAGAS Citation

There is no GAGAS guidance specific to the maintenance of an engagement portfolio.

### 6.6.2 SAO Standard

Management and maintenance of the engagement portfolio ultimately rests with the State Auditor, his or her designee, or assigned staff. It refers to the judgments, decisions, and actions of the Auditor, his or her designee, or supervisory staff regarding the management of audits and other examinations undertaken. These decisions may relate to such areas as:

- Balancing the portfolio of activity to reflect the range and materiality of government services and funds and a broad range of requesters as judgment dictates;
- Developing and approving the staffing, schedule, consultants and other resources required for a review or audit;
- Reviewing the applicable legal and regulatory framework of potential and approved projects;
- Reviewing audit risks and possible auditor impairments, including risks related to issues such as the political climate, public interest, and program sensitivity or potential non-compliance with legislation or proper authority which may be relevant;
- Describing the project's deliverables, supervisory and review process;
- Describing the reporting and publication process to be used in the project;
- Issuing status reports to the Auditor or his or her designee and appropriate managers or auditees; and
- Coordinating kick-off meetings and exit conferences as necessary.

# Chapter 6

# Engagement Portfolio Management

## 6.7 Staffing Engagements

### 6.7.1 GAGAS Citation

**GAGAS 4.02, 4.04,** and **4.07** note that the staff assigned to perform an audit or attestation engagement must collectively possess adequate professional and technical competence to address the audit objectives, and that management should assess skill needs to consider whether its workforce has the essential skills that match those necessary to fulfill a particular audit mandate or scope of audits to be performed. Staff must also meet independence standards as described in Chapter 2.

Further, audit organizations should have a process for recruitment, hiring, continuous development, assignment, and evaluation of staff to maintain a competent workforce. GAGAS notes that competency in auditing is not necessarily measured by years of experience. Competence is derived from a blending of education and experience and a commitment to learning and development throughout an auditor's career.

**☑ TIP . . . Per GAGAS 4.13, specialists do not include individuals with a special skill or knowledge within the field of accounting or auditing. These individuals are considered auditors.**

Regarding specialists, **GAGAS 4.12** notes that they should be qualified and maintain professional competence in their areas of specialization.

### 6.7.2 SAO Standard

See Chapter 2 for a discussion of independence standards that help to assure objectivity and fairness. See Chapter 3 for a discussion of recruitment, hiring and staff development procedures for the SAO.

Each audit is led by an audit manager, who is assigned by the State Auditor. The audit manager is responsible for the activities assigned to an engagement partner or director as described in **GAGAS 5.37**. These responsibilities are described in more detail in appendix 3.1.

For each audit, the audit manager will prepare a staffing recommendation for the Auditor or his or her designee to consider. The proposed staffing for the engagement can be noted in the Auditor's job initiation memo or later in the process.

# Appendix 6.1

# Job Initiation Memorandum Example

**JOB INITIATION MEMO**

TO: [State Auditor]

FROM: [Audit Manager]

SUBJECT:

DATE:

I am requesting your approval for the commencement of the performance audit related to …. Please see the attached risk matrix that has been prepared for this proposed audit. In addition, as part of our analysis we considered whether a non-audit service related to the objectives of the proposed audit had been performed within the period likely to be covered by the audit. We concluded {pick one} the SAO had not performed a relevant non-audit service OR the SAO had performed a relevant non-audit service. **{ADD ONE of the following sentences ONLY if a non-audit service was found}** The relevant non-audit service was not expressly prohibited by GAGAS and did not pose a threat to independence. The relevant non-audit service was not expressly prohibited by GAGAS, but posed a threat to independence. However, the following safeguards will be put in place:

I propose that our preliminary objectives for this audit be to ….

My preliminary assessment is that this proposed audit:

Will not pose a threat to the independence of the SAO [or poses the following significant threat for which we can apply the following safeguards to eliminate the threat or reduce it to an acceptable level].

Could [statement on expected impact]

I expect that the design meeting for this audit will be held in [month, year].

The following audit staff are to be assigned and collectively possess the knowledge, skills, and experience necessary to perform this audit:

# Chapter 7

# Performance Audits

## Overview

☑ **TIP . . . SAO auditors should understand and apply the key concepts of reasonable assurance, significance, and audit risk during each performance audit.**

GAGAS defines performance audits as engagements that provide objective analysis, findings, and conclusions to assist management and those charged with governance and oversight to, among other things, improve program performance and operations, reduce costs, facilitate decision making, and contribute to public accountability (**GAGAS glossary**). Performance audits entail an objective and systematic examination of evidence to provide an independent assessment by the SAO of the performance and management of a public program. The independent assessments we perform also provide a tool to provide comparative insight on best practices for various types of government programs.

Performance audits may entail a broad or narrow scope of work. Such audits apply a myriad of methodologies; involve various levels of analysis, research, or evaluation; provide findings, conclusions, and recommendations; and result in the issuance of a report. The process that the SAO will use to reach and document decisions in these areas is illustrated in the flowchart in appendix 7.1.

A theme throughout this chapter is the use and documentation of professional judgment. **GAGAS 3.109** requires auditors to use professional judgment in planning, performing, and reporting the results of performance audits. Professional judgment includes exercising reasonable care and professional skepticism[20] and represents the application of the collective knowledge, skills, and experiences of all the personnel directly involved in the engagement as well as that of individual auditors (**GAGAS 3.110 and 3.3.112**). **GAGAS 5.22** requires audit organizations to establish policies and procedures for engagement performance, documentation, and reporting that are designed to provide the audit organization with reasonable assurance that audits are conducted, and reports issued in accordance with professional standards and applicable legal and regulatory requirements. For performance audits, this requirement is met via this chapter.

[20] **GAGAS 3.110** defines reasonable care as acting diligently in accordance with applicable professional standards and ethical principles. Professional skepticism includes a questioning mind, awareness of conditions that may indicate possible misstatement owing to error or fraud, and a critical assessment of evidence. Applying professional skepticism means that the auditor assumes that management is neither dishonest nor of unquestioned honesty.

# Chapter 7

# Performance Audits

## 7.1 Planning the Engagement

### 7.1.1 GAGAS Citation

The following are general GAGAS requirements pertaining to this section. More detailed GAGAS requirements are cited throughout the section to the extent that they pertain to the area being addressed.

- Auditors must adequately plan and document the planning of the work necessary to address the audit objectives and document the audit plan. **(GAGAS 8.03)**

- In planning the audit, auditors should assess significance[21] and audit risk[22] and apply these assessments to establish the scope and methodology for addressing the audit objectives as planning is a continuous process (**GAGAS 8.05**).

- Auditors should design the methodology to obtain sufficient, appropriate evidence that provides a reasonable basis for findings and conclusions based on audit objectives and to reduce audit risk to an acceptably low level (**GAGAS 8.06).**

- Auditors must prepare audit documentation related to planning for each audit (**GAGAS 8.132**).

### 7.1.2 SAO Standard

Performance audit work is to be adequately planned. This includes defining the audit objectives and planning how they can be attained while establishing a balance between audit scope, time frames, and the SAO staff hours required to be spent to ensure optimum use of SAO audit resources.

Often the most efficient way to plan an audit is to split the planning process into two phases, a survey phase and a detailed planning phase. This is particularly true in those instances in which the SAO is auditing a program or entity with which it does not have a lot of historical knowledge. In these cases, the survey phase can be used to quickly gather basic background

[21] GAGAS defines significance as the relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors.

[22] GAGAS defines audit risk as the possibility that the auditors' findings, conclusions, recommendations, or assurance may be improper or incomplete.

information on the entity, program, or issue to allow the audit team to better define the audit's objectives and the most efficient approach to achieving these objectives. On the other hand, if the entity or program under review is well known by the SAO audit team, the objectives firm, and the audit approach well-established and uncontroversial then a separate survey phase may not be needed and the audit team can combine the survey and detailed planning phase. The need for a survey phase is up to the professional judgment of the audit team.

Regardless of whether or not planning is split into survey and detailed planning phases, the audit team must take into account all of the required elements of this standard as well as PSM section 7.2 (Special Planning Considerations)

### 7.1.2.1 Survey Phase

The survey phase of an audit is intended to quickly gather and analyze enough background information on the entity, program, or issue being considered so that knowledgeable decisions can be made regarding the audit's objectives, scope, and methodology. It is not expected that the audit team will verify information at this phase of the audit.

**☑ TIPS . . . Examples of entities charged with governance are a parent agency or an oversight board (e.g., Board of Education).**

Another key component of the survey phase is communicating the intent of the audit to various parties. **GAGAS 8.20** states that auditors should communicate an overview of the objectives, scope, and methodology, and timing of the audit to (1) management of the audited entity, (2) those charged with governance, (3) individuals contracting for or requesting audit services, and (4) applicable legislative committees (if the audit is being performed pursuant to a law, regulation, or at the request of a committee).

The survey phase includes the following elements:

#### 7.1.2.1a Job announcement

**☑ TIP . . . All official correspondence transmitted electronically should be sent in .pdf form for security reasons.**

The audit team must send a letter to the entity to be audited announcing the engagement. This letter should identify in at least broad terms what is being audited and who the principal SAO contact will be. It is preferable that the job announcement also include the preliminary objective(s) for the engagement, if known. If the audited entity is a component of a parent entity (e.g., the Department of Corrections is a component of the Agency of Human Services) then the job announcement letter should also be sent to the parent entity. See appendix 7.2 for an example of a Job Announcement Letter.

### 7.1.2.1b Entrance conference

☑ **TIP . . . An entrance conference can be an efficient mechanism to gather information on how a program or entity works. Consider asking the entity to provide a briefing during the meeting or provide a document request list in advance.**

An entrance conference is a meeting that the audit team is required to hold with entity officials at the start of an engagement (unless it is waived by the entity). The State Auditor and Deputy State Auditor should be invited to the entrance conference, but attendance is at their discretion. How an entrance conference is conducted is up to the professional judgment of the audit manager. It is suggested that the following points be discussed during the entrance conference and documented in the writeup of the meeting.

- the source or reason for the audit;
- the roles and responsibilities of individual SAO staff members and/or contractors;
- objectives, scope, and methodology;
- whether there were previous audit reports or other internal or external studies conducted that are pertinent to our objectives (see standard 7.2.2.5);
- whether the entity relies on external service organizations to perform functions relevant to the audit objective and, if so, whether the auditee has copies of recent service organization control (SOC) reports;
- management's view of the most significant fraud risks pertinent to our objectives and whether there were any known frauds perpetrated;
- whether there are investigations or legal proceedings relevant to the audit objectives (**GAGAS 8.27**);
- immediate information needs (e.g., data and identification of knowledgeable officials);
- whether there is a need to protect certain data and documents;
- estimated job length;
- logistical considerations, such as temporary office space.

During the entrance conference, the SAO may also ask officials to designate a key contact to assist in resolving issues, facilitate meetings, arrange the exit conference, and facilitate the distribution of the draft report and management's response.

☑ TIP . . . Specific documents are not required to be reviewed to understand the nature of the program or entity under audit because relevance is determined by the audit objective. Appendix 7.3 suggests materials for audit teams to consider reviewing.

#### 7.1.2.1c Gathering and reviewing relevant background information

According to **GAGAS 8.36** auditors should obtain an understanding of the nature of the program or program component and the potential use that will be made of the audit results or report. Accordingly, audit teams should gather relevant historical, organizational, and financial information that will help them become familiar with the audit subject. This will help to provide the background data for the audit report and as well as provide the context for the audit.

TeamMate® includes procedures to document how SAO audits meet the specific elements of **GAGAS 8.36** and other requirements.

☑ TIP . . . A common method of identifying audit risks is brainstorming within the audit team.

#### 7.1.2.1d Consideration of audit risks

Audit risk is a key component of planning. Audit risk is the possibility that the auditors' findings, conclusions, recommendations, or assurance may be improper or incomplete, as a result of factors such as evidence that is not sufficient and/or appropriate, an inadequate audit process, or intentional omissions or misleading information due to misrepresentation or fraud. **GAGAS 8.04, 8.05, and 8.06** directs auditors to plan the audit to reduce audit risk to an appropriate level to obtain reasonable assurance that the evidence is sufficient and appropriate to support the auditors' findings and conclusions.

While there is no single way to think about audit risk, it may be helpful to consider common categories of risks, as follows:

- Sufficiency risk, which is the risk that not enough evidence will be gathered to reach the right conclusion. Decisions pertaining to sampling and scope would typically fall into this risk category.

- Reliability risk or the risk that good (competent) evidence will not be available or used. This is particularly pertinent when considering the use of computer-based material from state and non-state sources. For example, an auditor can usually develop tests to assess the reliability of data from auditees, but it may not be possible or practicable to perform reliability tests of outside data (e.g., the Social Security Administration's Death Master File). Another consideration is whether too much reliance could be placed on testimonial evidence for significant elements of the audit that cannot be validated from other sources.

- Relevancy risk is the risk that the right evidence will not be obtained. For example, it is important to identify critical data or individuals and whether there are alternative evidentiary choices in the event that they are not available.

- Interpretation risk, which is the risk that the evidence will not be understood or properly interpreted. An important consideration in this risk category is the evaluation of the applicability (e.g., guidance vs. requirement) and universality (best practice vs. auditee-specific) of identified criteria. The use of staff with the right competencies and skills and supervisory review of conclusions are typical ways to reduce this risk.

At the end of the survey phase, the audit team decides on, or reevaluates, the engagement's objectives. Once the objectives are decided upon, the audit team develops the audit approach in the detailed planning phase (see standard 7.1.2.2).

### 7.1.2.2 Detailed Planning Phase

The survey phase should have provided the audit team with a sufficient basis to perform detailed planning because of its greater knowledge of the program or entity. Moreover, this knowledge may lead to proposed changes to the engagement's objectives, which, in turn, largely dictates the proposed audit approach. The audit approach should be based on a consideration of identified criteria (7.1.2.2a) and the sources, amount, and type of evidence needed to address the objective (7.1.2.2b). An equally important aspect of the detailed planning phase is documenting the decisions made during planning and obtaining agreement and approval by SAO management regarding these decisions (7.1.2.2c).

#### 7.1.2.2a Criteria

GAGAS states that auditors should identify criteria suitable to the audit objective(s) (**GAGAS 8.07**). Criteria represent the laws, regulations, contracts, grant agreements, standards, measures, expected performance, defined business practices, and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation. Criteria provide a context for evaluating evidence and understanding the findings, conclusions, and recommendations included in the report. Auditors should use criteria that are relevant to the audit objectives and permit consistent assessment of the subject matter.

### 7.1.2.2b Sources, Amount, and Type of Evidence

☑ **TIP . . . GAGAS 8.103 contains examples of procedures that may be used to obtain appropriate evidence for different types of objectives.**

GAGAS also states that auditors should identify the sources, amount, and type of evidence needed to obtain sufficient and appropriate evidence to address the audit objectives and adequately plan audit work (**GAGAS 8.77**).[23] Sufficiency is a measure of the *quantity* of evidence used to support the findings and conclusions related to the audit objectives (**GAGAS 8.92, 8.99**). Appropriateness is the measure of the *quality* of evidence that encompasses its relevance, validity, and reliability in providing support for findings and conclusions related to the audit objectives. (**GAGAS 8.91, 8.102**) Evaluating whether the evidence obtained during the execution phase of the audit is sufficient and appropriate is addressed in standard 7.3.2.1.

Thoughtful planning regarding the sources, amount, and type of available evidence to ensure that evidence gathered will be sufficient and appropriate is more likely to lead to a better product and a more efficient audit. In contrast, if the audit team has not sufficiently thought out the implications of its evidence choices, it may find that it has to collect additional data, which could impact the timeliness of the product. Another negative outcome could be the inability to draw the types of conclusions that had been originally intended. The following are examples of how evidence choices made during the planning phase can impact the audit.

- *Sampling*. The use of statistical sampling approaches generally results in stronger evidence than that obtained from non-statistical techniques. However, a targeted selection may be more cost effective if the auditors have isolated certain risk factors or other criteria to target the selection. Decisions on whether to use sampling or non-representative selection techniques as well as the type of sampling chosen have a direct impact on the amount of work that is performed as well as the level of conclusions that can be drawn from the evidence obtained (e.g., narrowly and pertaining only to the items selected or more broadly to the applicable universe).

- *Surveys or questionnaires*. Surveys can be used to gather self-reported information in a structured format from a great many sources. However, the questions asked must be carefully chosen to

[23] If auditors believe that it is likely that sufficient, appropriate evidence will not be available, they may revise the audit objectives or modify the scope and methodology and determine alternative procedures to obtain additional evidence or other forms of evidence to address the current audit objectives. According to **GAGAS 8.78**, auditors should also evaluate whether the lack of sufficient, appropriate evidence is due to internal control deficiencies or other program weaknesses, and whether the lack of sufficient, appropriate evidence could be the basis for audit findings.

reduce the risk of bias and low response rates can significantly limit the conclusions that can be drawn. On the other hand, combining a survey or questionnaire with a request for supporting documentation can greatly enhance the evidentiary value of the survey, but also increases staff time in order to evaluate the documentation.

- *Testimonial evidence from outside experts.* Care must be taken to identify credible experts that do not provide biased viewpoints. This may be difficult to achieve on topics that are controversial. In this type of situation, a concerted effort to identify and interview a wide spectrum of experts with credible views rather than just one or two experts can reduce the risk of ill-informed conclusions that could leave the SAO open to charges of bias.

#### 7.1.2.2c Documentation and Agreement on Planning Decisions

The remainder of the detailed planning phase of an audit is largely the process of documenting and obtaining agreement on the final objective, scope, and methodology. The audit team's audit approach decisions should be documented in a design matrix (see appendix 7.5). The design matrix serves as the engagement's audit plan, as required by **GAGAS 8.33**. The design matrix captures the engagement's objectives, scope, and methodology as described by **GAGAS 8.06, 8.08, 8.10, and 8.11**, as follows:

**☑ TIP . . . A key factor in developing objectives is how they can be answered in a report. Avoid objectives related to making recommendations, which should flow from the findings or using subjective terms like "adequate" because they are hard to define and subject to different interpretations.**

- *Objectives.* Objectives are what the audit is intended to accomplish. Defining the objectives of the engagement is the most important decision that the audit team makes because it establishes the basis for planning the audit and provides the focus for subsequent findings and the final report itself. Audit objectives can be thought of as questions about the program or entity that the auditors seek to answer based on evidence obtained and assessed against criteria. Audit teams should strive to develop objectives that are (1) clear and specific, (2) fair and objective, (3) policy neutral, (4) measurable, and (5) feasible within time and resource constraints. In addition, consider whether you want the focus of your audit report to be on the accomplishment (or non-accomplishment) of results, processes and controls, or compliance and craft your objective to achieve this focus. It is also essential that the audit team define objectives that are doable given the engagement's staffing, time frames, and skill level. Do not over promise in the objective.

  Audit teams may also choose to include sub-objectives in the design matrix in order to more explicitly define the information to be

collected or analyzed. Defining sub-objectives can be particularly useful if the objective, and information to be gathered and analyzed in support of the objective, are broad or multi-layered.

- *Scope.* The scope is the boundary of the audit and is directly tied to the audit objectives. The scope defines the subject matter that the auditors will assess and report on, such as a particular program or aspect of a program, the necessary documents or records, the period of time reviewed, and the locations that will be included.

- *Methodology.* The choices made related to the sources, amount, and type of evidence to be gathered directly tie to the methodology. The methodology describes the nature and extent of audit procedures for gathering and analyzing evidence to address the audit objectives. Audit procedures are the specific steps and tests auditors will carry out to address the audit objectives. Auditors should design the methodology to obtain sufficient, appropriate evidence to address the audit objectives, reduce audit risk to an acceptable level, and provide reasonable assurance that the evidence is sufficient and appropriate to support the auditors' findings and conclusions (**GAGAS 8.06**). In selecting the audit's data collection and analysis approaches, the audit team should consider how the evidence will be used in the report, together with the strengths and weaknesses of each type of evidence. For example, evidence about conditions from survey respondents is testimonial evidence, and the audit team should consider factors such as how the results of the survey will be used and how likely the respondents are to provide truthful information. As appropriate, audit teams could request supporting documents to test the accuracy of the factual information requested for at least some cases. If the team decides to rely on unverified information as evidence of a condition, the decision should be included in the audit documentation and discussed in the report.

**☑ TIP . . . In developing its methodology and data collection and analysis techniques, the audit team should evaluate whether its plan will capture all applicable elements of a finding (criteria, condition, cause, and effect). Ensuring that the audit plan covers these elements can reduce rework during the reporting phase.**

The audit team must hold a design meeting with SAO management to ensure that all parties agree to what the audit team plans to do in the execution phase of the engagement. The principal input to this meeting is the design documentation, which consists of a design matrix and attachment as well as other documents, as applicable (such as a test plan). The design matrix is a high-level summary, by objective, of the information sources, methodology, limitations, and the types of information expected to be in the report. If the audit team proposes a change to the preliminary audit objective (see 7.1.2.1a) in the design matrix, the design documentation should include an explanation

**☑ TIP . . . It is preferred that audit teams distribute the design matrix and other relevant documents to the attendees several days in advance of the design meeting.**

of the change unless the change is merely editorial (**GAGAS 5.23**). The attachment to the design matrix explain how the audit team took into account special planning consideration areas, such as (1) audit risk and strategies to address high-risk areas, (2) fraud and abuse factors and risks, (3) provisions for laws, regulations, contracts, and grant agreements, (4) internal controls, (5) information system controls, and (6) independence.

Completion of other design documentation is at the discretion of the audit manager or at the request of the State Auditor or Deputy State Auditor. Common types of discretionary design documentation include:

- Test plans that lay out expected procedures in detail.
- Preliminary data reliability assessment or test plan.
- A data collection instrument (e.g., survey, structured interview).
- Sampling plan.

The review of the design matrix (and attachment) and other documentation during the design meeting demonstrates management's supervision of the audit's planning process. Design meeting attendees should be the audit team, State Auditor, Deputy State Auditor, and internal stakeholders (e.g., an individual with specific insight or expertise related to the audit objective).[24]

During the meeting, the attendees should consider whether the audit plan outlined in the design documents support that:

- The proposed audit objectives are likely to result in a useful report (**GAGAS 8.35**),
- The audit plan (i.e., design matrix) adequately addresses relevant audit risks (**GAGAS 8.35**),
- The proposed audit scope and methodology are adequate to address the audit objectives (**GAGAS 8.35**),
- Available evidence is likely to be sufficient and appropriate for purposes of the audit (**GAGAS 8.35**), and

[24] Each of these individuals should be invited to the meeting and provided with the meeting materials. Although it is preferable that the meeting be held with all participants, if it is not possible, comments on the material and audit team's plans may be provided separate from the meeting.

- Sufficient staff, supervisors, and specialists with adequate collective professional competence and other resources are available to perform the audit and to meet expected time frames for completing the work. (**GAGAS 8.35 and 8.31**)

The design meeting attendees should also determine whether the audit engagement poses a threat to the independence of the SAO or that safeguards have been applied to eliminate threats or reduce them to an acceptable level (see chapter 2 of PSM). For example, the audit team should consider whether (1) there were any non-audit services conducted by the SAO in the past 3 years related to the auditee and (2) if yes, whether such services pose a significant threat to independence for which safeguards should be put in place to mitigate or reduce the threat to an acceptable level.

As applicable, the audit team should adjust its audit approach to reflect the results of the design meeting. The results of the design meeting must be documented. The form that should be used to document the results of the design meeting, including agreed-upon changes, is contained in Appendix 7.6. The design documentation should also be changed if the agreed-upon changes affect procedures to be performed. It is important to change the design documentation for purposes of adding cross-references or links to supporting workpapers that demonstrate that the procedure was completed.

**☑ TIP . . . If the audit engagement is being performed at the behest of the legislature, the audit team should also communicate significant changes with the relevant House and Senate Committees or other requesters (GAGAS 8.20d)**

If the design meeting results in objectives that are different than those previously conveyed to the audited entity in the announcement letter or entrance conference (see standard 7.1.2.1), the audit team should consider whether it should communicate the revised objectives to the entity, either verbally or in writing. The decision whether to relay the revised objectives to the audited entity is left to the discretion of the audit team. Considerations include the extent of the change and whether misunderstandings are likely to occur if the change is not conveyed. In addition, the audit team should keep in mind **GAGAS 8.20** and **8.22**, which state that auditors should communicate (and document) an overview of the objectives, scope, methodology, and timing of the audit and planned reporting to management of the audited entity, those charged with governance, and legislative committees (if applicable).[25]

Planning is a continuous process throughout the audit. If, during the course of executing the audit, the team believes that a significant change to the audit

[25] In situations in which those charged with governance are not clearly evident, auditors should document the process followed and conclusions reached for identifying those charged with governance and who should receive communications regarding the audit (**GAGAS 8.21**).

approach is necessary, the team should update the plan (**GAGAS 8.33**) and obtain the approval of the State Auditor and Deputy State Auditor.[26] At that time, the State Auditor or Deputy State Auditor may choose to reconvene the attendees of the design meeting or may approve or disapprove the change at her or his own discretion. A significant change is a change to the objective, scope, or methodology that is more than editorial and could affect the conclusion that can be drawn from the evidence. Examples of a significant change are: (1) a different objective focus, (2) additional or fewer entities in the scope, or (3) a major difference in approach, such as to decide not to implement a planned questionnaire. Documentation of the approved change should be included in the workpapers. The design matrix is not required to be revised, but a cross-reference to the change should be added.

To document that the methodology was implemented as expected or to document non-significant changes made during audit execution, the design matrix and test plans (if applicable) should be cross-referenced to applicable workpapers before the report is issued.

## 7.2 Special Planning Considerations

### 7.2.1 GAGAS Citation

Detailed GAGAS requirements are cited throughout this section to the extent that they pertain to the area being addressed.

### 7.2.2 SAO Standard

#### 7.2.2.1 Internal Controls

Auditors should determine and document whether internal controls are significant to the audit objective(s). (**GAGAS 8.39**) If it is determined that internal controls are significant to the audit objective(s), auditors should gain an understanding of such internal control (**GAGAS 8.40**).

Although performance and financial statement audits may have internal control criteria in common,[27] the extent to which controls must be reviewed can be significantly different. Generally, internal controls are less of a focus

[26] This same process should be followed if there is a disagreement within the audit team. (**GAGAS 5.24**)

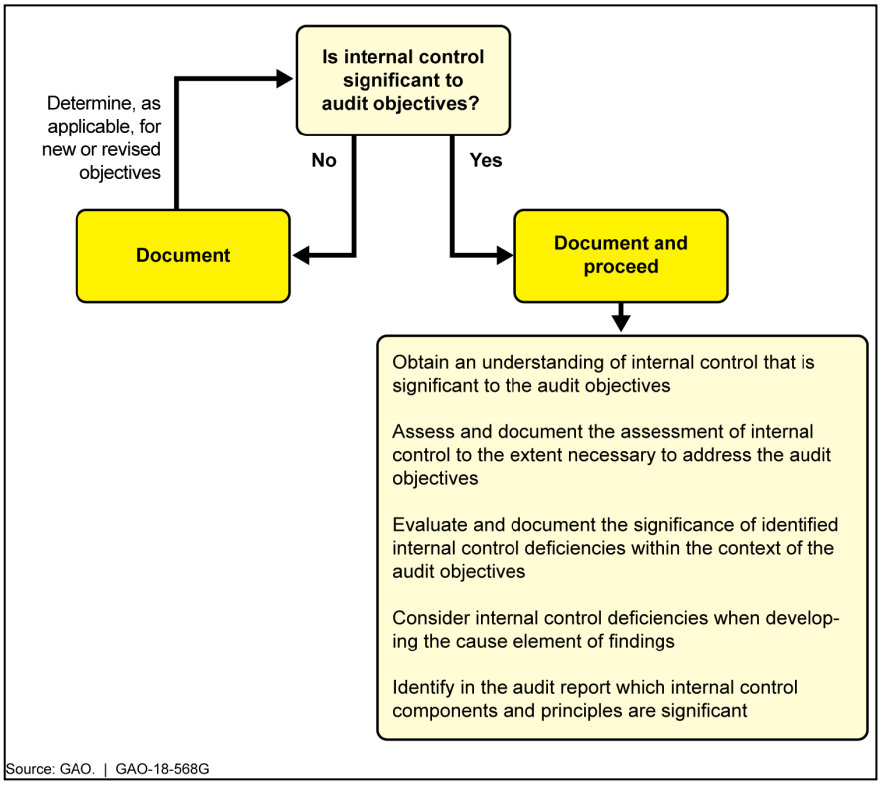
[27] For example, *Internal Control Standards: A Guide for Managers* or the Committee of Sponsoring Organizations of the Treadway Commission (COSO), *Internal Control—Integrated Framework.*

☑ **TIP . . . The effect of this standard on the audit depends on the objective. Take the following three objectives, (1) "compare the eligibility requirements of programs x and y" may require little, if any, internal control work, (2) "determine how many firms are eligible for …," may call for additional audit procedures like a walkthrough of the eligibility process, and (3) "does entity x ensure that only eligible firms receive funding" would require extensive internal control work, but likely no more than would already be planned to answer the objective.**

in a performance audit unless the objective itself relates to controls, compliance, or processes. Nevertheless, while internal controls may not be a focus, audit teams often have to gain an understanding of controls to be able to rely on data that is significant to the message, to address risks that have been identified by the audit team, or to identify the cause element of a finding. For internal controls that are significant within the context of the audit objectives, auditors should assess and document their design, implementation, and/or operating effectiveness (**GAGAS 8.49**).

The following is a figure contained in GAGAS that illustrates the process to be used as part of considering internal controls in a performance audit.

**GAGAS Consideration of Internal Control in a Performance Audit**




☑ **TIP . . . When considering whether an internal control component/principle is significant to an audit objective, think about whether writing about a control deficiency related to the component/principle in the objective's finding section would flow naturally or be an awkward fit (e.g., have to be included in an "Other Matters" section). If the former, the component/ principle is probably significant. If the latter, the component/ principle is probably not significant.**

**GAGAS 8.43** recognizes that an audit team's assessment of the significance of internal control can evolve during an audit (e.g., due to the need to identify the cause of a deficiency). Accordingly, audit teams are expected to document their assessment of significance at the end of design (preliminary assessment) and by the end of audit execution (final assessment). See Appendix 7.7 for the form to be used in performing these assessments. This form operationalizes **GAGAS 8.39 - 8.58** and the audit team should review

and consider these standards in applying its professional judgement in making the internal control decisions that are documented in this form.

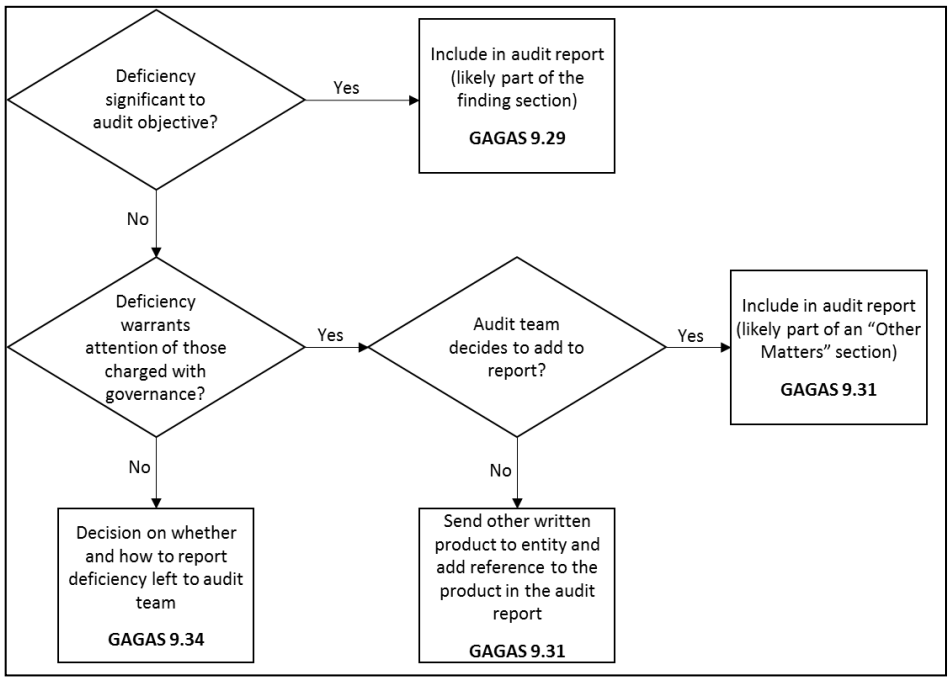
Information systems controls are often an integral part of an entity's internal control. Thus, when obtaining an understanding of internal control significant to the audit objectives, auditors should also determine whether it is necessary to evaluate information systems controls. (**GAGAS 8.59**). See standard 7.2.2.2 for further information on information system controls.

In deciding on the scale of the internal control work to be completed, consider the controls that may already have been audited as part of the Single Audit or CAFR audit. For example, the financial statement audit may have already reviewed an entity's control environment, risk assessment, control activities, information and communication, and monitoring. Consider contacting the audit firm that performs these audits to discuss the controls that may already have been reviewed and document the extent and results of relevant control work that has already been completed and focus the performance audit on follow-up work (if warranted) and those controls that have not already been audited. If control work completed by the Single Audit or CAFR audit is being relied on, be sure to consider standard 7.2.2.5.

Upon completion of applicable internal control audit procedures, the audit team should evaluate and document the significance of any deficiencies as it pertains to the audit objectives (**GAGAS 8.54**). Factors that can be considered in evaluating the significance of deficiencies include: (1) the likely effect that the deficiency could have on the entity achieving its objectives (magnitude of impact), (2) the likelihood of occurrence that the deficiency will impact an entity's achieving its objectives, and (3) whether the deficiency arises from fraud or misconduct.

The following flowchart demonstrates the GAGAS requirements for reporting on internal control deficiencies. The form in Appendix 7.7 should be used to document these decisions.

**Report Consideration of Internal Control Deficiencies**




Auditor's should also consider whether internal control deficiencies are the *cause* of a broader finding or are the finding itself. If internal control deficiencies are the finding itself, document the elements of a finding, including the root cause of the deficiency (**GAGAS 8.57, 8.117, 8.129**).

#### 7.2.2.2 Information System Controls

Understanding information systems controls[28] is important when information systems are used extensively throughout the program under audit and the fundamental business processes related to the audit objectives rely on information systems (**GAGAS 8.63**). Auditors are primarily interested in those information systems controls that are significant to the audit objectives. Information systems controls are significant to the audit objectives if auditors

[28] Information systems controls consist of those internal controls that are dependent on information systems processing and include general controls and application controls. Information systems general controls are the policies and procedures that apply to all or a large segment of an entity's information systems. Application controls, sometimes referred to as business process application controls, are those controls that are incorporated directly into computer applications to help ensure the validity, completeness, accuracy, and confidentiality of transactions and data during application processing.

determine that it is necessary to evaluate the effectiveness of information systems controls in order to obtain sufficient, appropriate evidence (**GAGAS 8.64**).

**☑ TIP . . . If information systems are important to the objective, request copies of security audits or reviews that have been performed of the applicable system. Another source of analysis of information system controls is the single audit. This can include (1) reviewing the single audit report or (2) requesting the information system control audit plan and summary document(s), which would include both deficiencies and the scope of the work and could be used to avoid duplicate work.**

When information systems controls are determined to be significant to the audit objectives or when the effectiveness of significant internal controls depends upon the effectiveness of information system controls, auditors should then evaluate the design, implementation, and/or operating effectiveness of such controls. This evaluation would include other information systems controls that impact the effectiveness of the significant controls or the reliability of information used in performing the significant controls. Auditors should obtain a sufficient understanding of information systems controls necessary to assess audit risk and plan the audit within the context of the audit objectives (**GAGAS 8.60, 8.62**).

Audit procedures to evaluate the effectiveness of significant information systems controls include (1) gaining an understanding of the system as it relates to the information and (2) identifying and evaluating the general controls, application, and user controls that are critical to providing assurance over the reliability of the information required for the audit (**GAGAS 8.65**).

**GAGAS 8.61** states that auditors should determine which audit procedures related to information system controls are needed to obtain sufficient, appropriate evidence (see standards 7.3.2.1a and 7.3.2.1b) to support the audit findings and conclusions. Factors in determining which audit procedures are needed to obtain sufficient and appropriate evidence to support audit findings and conclusions can include:

- The extent to which internal controls that are significant to the audit depend on the reliability of information processed or generated by information systems.

- The availability of evidence outside the information system to support the findings and conclusions: It may not be possible for auditors to obtain sufficient, appropriate evidence without evaluating the effectiveness of relevant information systems controls. For example, if information supporting the findings and conclusions is generated by information systems or its reliability is dependent on information systems controls; there may not be sufficient supporting or corroborating information or documentary evidence that is available other than that produced by the information systems.

- The relationship of information systems controls to data reliability: To obtain evidence about the reliability of computer-generated information, auditors may decide to evaluate the effectiveness of information systems controls as part of obtaining evidence about the reliability of the data. If the auditor concludes that information systems controls are effective, the auditor may reduce the extent of direct testing of data.

- Evaluating the effectiveness of information systems controls as an audit objective: When evaluating the effectiveness of information systems controls is directly part of an audit objective, auditors should test information systems controls necessary to address the audit objectives.

GAO's *Assessing the Reliability of Computer-Processed Data* (http://www.gao.gov/products/GAO-09-680G) is a resource that can aid in decision-making regarding the extent to which information system controls should be assessed as part of the audit objectives and how to perform such an assessment. In addition, the audit team should consult with the Director, IT and Performance Audits.

In the event that evaluating information system controls is an audit objective, **GAGAS 8.61** states that auditors should test the controls to the extent necessary to support the audit findings and conclusions.

The Information System Control Planning form (see Appendix 7.8) should be used by audit teams to document their evaluation of the significance of information system controls to audit objectives. If information system controls are deemed to be significant to an audit objective, this form also provides a framework for documenting the procedures that will be performed. The audit team should summarize these decisions in the design matrix (see Appendix 7.5).

### 7.2.2.3 Laws, Regulations, Contracts and Grants

**☑ TIP . . . Seeking assistance from the Office of the Attorney General early in the audit for those engagements that will clearly require legal interpretation can be more efficient.**

Auditors should determine which provisions of laws, regulations, contracts or grant agreements are significant within the context of the audit objectives and assess the risk that noncompliance with those laws, regulations, contracts or grant agreements could occur. Based on that risk assessment, the auditors should design and perform procedures to provide reasonable assurance of detecting instances of violations of legal and regulatory requirements or violations of provisions of contracts or grant agreements that are significant within the context of the audit objectives. (**GAGAS 8.68**)

The auditors' assessment of audit risk may be affected by such factors as the complexity or newness of the laws, regulations, and provisions of contracts or grant agreements. The auditors' assessment of audit risk also may be affected by whether the entity has controls that are effective in preventing or detecting violations of laws, regulations, and provisions of contracts or grant agreements. If auditors obtain sufficient, appropriate evidence of the effectiveness of these controls, they can reduce the extent of their tests of compliance. (**GAGAS 8.70**)

The audit team should document its planning approach to laws, regulations, contracts, and grants in the design matrix (see appendix 7.5).

#### 7.2.2.4 Fraud, Waste, and Abuse

Fraud is a type of illegal act involving the obtaining of something of value through willful misrepresentation. The determination of whether an act is, in fact, fraud is made through the judicial or other adjudicative system and is beyond auditors' professional responsibility.[29]

Auditors should gather and assess information to identify risks of fraud that are significant within the scope of the audit objectives or that could affect the findings and conclusions. (**GAGAS 8.71**) Sources of such information include auditee leadership (e.g., during the entrance conference), fraud alerts issued by federal inspector generals, or audit or investigation reports issued by other audit organizations. Brainstorming meetings with all members of the audit team can also be an effective approach to identifying fraud risks within the context of the audit. In such meetings, team members discuss the fraud risks associated with the audit, including factors such as individuals' incentives or pressures to commit fraud, the opportunity for fraud to occur, and rationalizations or attitudes that could allow individuals to commit fraud.

If the audit team suspects that fraud may have occurred, they should immediately bring the situation to the attention to the State Auditor or Deputy State Auditor for a decision on how to proceed. However, keep in mind that if fraud is suspected then GAGAS imposes additional responsibility on the SAO. Specifically, when information comes to the auditors' attention indicating that if a fraud that is significant within the context of the audit

[29] If the audit team becomes aware that there are relevant planned or ongoing investigations or legal proceedings, the team should evaluate the impact on the current audit (**GAGAS 8.29**). Considerations may include whether it is appropriate for the audit team to work with investigators or other legal authorities or to withdraw or defer further work to avoid interfering with an ongoing investigation or legal proceeding.

objectives may have occurred, auditors should extend the audit steps and procedures, as necessary, to (1) determine whether fraud has likely occurred and (2) if so, determine its effect on the audit findings. (**GAGAS 8.72**) If the fraud that may have occurred is not significant within the context of the audit objectives, the auditors may conduct additional audit work as a separate engagement or refer the matter to other parties with oversight responsibility or jurisdiction. (**GAGAS 8.76**)

**☑ TIP . . . Assessing the risk of fraud is an ongoing process and relates not only to planning the audit but also to evaluating evidence obtained during the audit. (GAGAS 8.72)**

The audit team should document its evaluation of fraud risk factors in the design matrix (see appendix 7.5).

Because the determination of waste and abuse is subjective, GAGAS does not impose the same level of planning responsibility on the SAO for waste or abuse as it does for fraud (**GAGAS 8.119**). Waste is the act of using or expending resources carelessly, extravagantly, or to no purpose. Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate.

#### 7.2.2.5 Previous Audits and Attestation Engagements

Auditors should determine whether other auditors have conducted, or are conducting, audits of the program that could be relevant to the current audit objectives (**GAGAS 8.80**). The results of other auditors' work may be useful sources of information for planning and performing the audit. Accordingly, when planning the audit, auditors should ask management of the audited entity to identify ongoing or previous audits, attestation engagements, performance audits, or other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented. In addition, auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that are significant within the context of the audit objectives. Auditors should use this information in assessing risk and determining the nature, timing, and extent of current audit work, including determining the extent to which testing the implementation of the corrective actions is applicable to the current audit objectives. (**GAGAS 8.30**).

If other auditors have completed audit work related to the objectives of the current audit, the current auditors may be able to use the work of the other auditors to support findings or conclusions for the current audit and, thereby,

avoid duplication of efforts. If auditors use the work of other auditors, they should perform procedures that provide a sufficient basis for using that work. Auditors should obtain evidence concerning the other auditors' qualifications and independence and should determine whether the scope, quality, and timing of the audit work performed by the other auditors is adequate for reliance in the context of the current audit objectives. Procedures that auditors may perform in making this determination include reviewing the other auditors' report, audit plan, or audit documentation, and/or performing tests of the other auditors' work. The nature and extent of evidence needed will depend on the significance of the other auditors' work to the current audit objectives and the extent to which the auditors will use that work. (**GAGAS 8.81, 8.85**)

**☑ TIP . . . If the other auditor is the firm performing the Single Audit or State financial statement audit, documentation to meet the independence, qualifications, and peer review requirements are satisfied through the SAO's procurement and oversight of this firm.**

In addition, **GAGAS 5.80** states that auditors using another audit organizations' work should request a copy of the audit organization's latest peer review report.

If the audit team determines that they can rely on the work of other auditors, it should document the basis for this decision. See also the independence requirements outlined in PSM section 2.3.2.

#### 7.2.2.6 Use of Specialists

Some audits may necessitate the use of specialized techniques or methods that require the skills of a specialist.[30] If auditors intend to use the work of specialists, they should assess and document the professional qualifications and independence of the specialists. Sources that may inform the auditor's assessment of competence and professional judgement include (**GAGAS 4.15**):

- The professional certification, license, or other recognition of the competence of the specialist in his or her field, as appropriate.
- The reputation and standing of the specialist in the views of peers and others familiar with the specialist's capability or performance.
- The specialist's experience and previous work in the subject matter.

[30] Specialists to whom this section applies include, but are not limited to, actuaries, appraisers, attorneys, engineers, environmental consultants, medical professionals, statisticians, geologists, and IT experts. They may be external or internal specialists. If an internal specialist is used and this individual is performing work in accordance with GAGAS as part of the audit team, the specialist is required to meet the CPE requirements outlined in PSM 3.2.

- The auditors' prior experience in using the specialist's work.
- The specialist's knowledge of technical performance standards or other professional or industry requirements.
- The knowledge of the specialist with respect to relevant auditing standards.
- The assessment of unexpected events, changes in condition, or the evidence obtained from the results of engagement procedures that indicate that it may be necessary to reconsider the initial evaluation of the competence and qualifications of the specialist.

If planning to use the work of a specialist, auditors should document the nature and scope of the work to be performed by the specialist (**GAGAS 8.32)**, including,

- The objectives and scope of the specialist's work.
- The intended use of the specialist's work to support the audit objectives.
- The specialist's procedures and findings so they can be evaluated and related to other planned audit procedures.
- The assumptions and methods used by the specialist.

If applicable, the audit team should document its planning approach to using the work of specialists in the design matrix (see appendix 7.5). In addition, the design matrix should indicate how the audit team plans to fulfill the GAGAS requirements in using specialists. See also the independence requirements outlined in standard 2.3.2.

Because of the small size of the SAO, the use of specialists is likely to require contracting for these services. In these cases, the audit team should review Vermont Agency of Administration's Bulletin 3.5, *Contracting Procedures* and consult with the Deputy State Auditor and the Financial Manager to facilitate compliance with this bulletin.

# Chapter 7

# Performance Audits

## 7.3 Execution of the Audit

### 7.3.1 GAGAS Citation

The following are general GAGAS requirements pertaining to this section. More detailed GAGAS requirements are cited throughout the section to the extent that they pertain to the area being addressed.

- Auditors must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions. (**GAGAS 8.90**)
- Auditors should plan and perform procedures to develop the elements of a finding necessary to address the audit objectives. (**GAGAS 8.116**)
- Auditors must prepare audit documentation related to conducting each audit. Auditors should prepare audit documentation in sufficient detail to enable an experienced auditor, having no previous connection to the audit, to understand from the audit documentation the nature, timing, extent, and results of audit procedures performed, the audit evidence obtained and its source and the conclusions reached, including evidence that supports the auditors' significant judgments and conclusions. (**GAGAS 8.132**)
- Auditors must properly supervise audit staff. (**GAGAS 8.87**)

### 7.3.2 SAO Standard

#### 7.3.2.1 Evidence

SAO staff may use physical, documentary, testimonial, and analytical evidence to support their findings, conclusions, and recommendations.

- Physical evidence involves direct inspection or observation of people, property, or events. Some examples include observing inventory-taking activities; counting cash and bonds; or examining assets, such as motor vehicles or computer equipment. When relying on physical evidence, auditors minimize the likelihood that the evidence could be challenged by satisfying themselves that observations reasonably represent the condition observed. For example, if observations are intended to represent normal conditions, the audit team needs to exercise care to make observations across the full range of possible conditions, not only at peak or slow periods. Physical evidence can be documented in memorandums, photographs, drawings, charts, maps,

videos, or physical samples. The circumstances under which the observation was made should be clear. For example, document the time and place a photograph was taken, the camera angle that was used, and any special circumstances involved.

- Documentary evidence is already existing information, such as letters, contracts, invoices, accounting records, spreadsheets, database extracts, electronically stored information, and management information on performance. Key considerations in evaluating documentary evidence are its authenticity and the integrity of the system producing it (if applicable). In addition, as described in standard 7.2.2.2, when evidence is obtained directly or indirectly from an organization's accounting, administrative, or management system and is significant to the audit objectives, teams should take steps to assess whether the evidence is sufficiently reliable for the intended purposes of the engagement. The team should assess reliability regardless of the format of the data (i.e., electronic files or hardcopy reports) or the source.

- Testimonial evidence is obtained through inquiries, interviews, focus groups, public forums, or questionnaires. Testimony may be received orally (through face-to-face or telephone interviews) or in writing (responses to data collection instruments, e-mail, or questionnaires). To the extent feasible, the audit team should take steps to prevent possible repudiation of testimonial evidence that is critical to a finding. Generally, these steps include having two people present during an interview, having the person who was interviewed initial the interview write-up to approve its accuracy, obtaining an e-mail confirmation of critical points, or obtaining permission to record the interview.

- Analytical evidence is generally generated by the auditor. This type of evidence usually occurs when the auditor combines data in a meaningful way that allows a conclusion to be drawn. It can take many forms, including (1) a summary of facts and figures cross-referenced to original sources, (2) a comparison of compliance criteria to conditions, or (3) data computations.

As discussed in standard 7.1.2.2, audit engagements must be planned to obtain sufficient and appropriate evidence. This requirement carries forward to the execution phase of the audit in which the auditors must ensure that they obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions (**GAGAS 8.12, 8.90**). In assessing evidence,

**☑ TIP . . . GAGAS 3.110 states that auditors may accept records and documents as genuine unless they have reason to believe the contrary. The SAO sometimes receives electronic documents with the signature line blank. The auditor can the accept the document as the final if this is so asserted by the auditee. However, if the document is significant to a finding, the auditor should request a signed version.**

**☑ TIP . . . Interviewees should feel that they can speak freely. This may require the team request that management not attend an interview. If management balks at this, the Deputy State Auditor should be notified.**

auditors should evaluate and document whether the evidence taken as a whole is sufficient and appropriate for addressing the audit objectives and supporting findings and conclusions, including the results of any specific assessments conducted to conclude on the validity and reliability of specific evidence. (**GAGAS 8.108**).

When assessing the sufficiency and appropriateness of evidence, auditors should evaluate the expected significance of evidence to the audit objectives, findings, and conclusions, available corroborating evidence, and the level of audit risk (**GAGAS 8.109**). Evidence is not sufficient or not appropriate when (1) using the evidence carries an unacceptably high risk that it could lead to an incorrect or improper conclusion, (2) the evidence has significant limitations, given the audit objectives and intended use of the evidence, or (3) the evidence does not provide an adequate basis for addressing the audit objectives or supporting the findings and conclusions. (**GAGAS 8.113b)** Auditors should not use such evidence as support for findings and conclusions. (**GAGAS 8.109**)

Evidence has limitations or uncertainties when the validity or reliability of the evidence has not been assessed or cannot be assessed, given the audit objectives and the intended use of the evidence. Limitations also include errors identified by the auditors in their testing. When the auditors identify limitations or uncertainties in evidence that is significant to the audit findings and conclusions, they should apply additional procedures, as appropriate. (**GAGAS 8.110, 8.114**) Examples of additional procedures include (**GAGAS 8.115**):

- Seeking independent, corroborating evidence from other sources.
- Redefining the audit objectives or limiting the audit scope to eliminate the need to use the evidence.
- Presenting the findings and conclusions so that the supporting evidence is sufficient and appropriate and describing in the report the limitations or uncertainties with the validity or reliability of the evidence, if such disclosure is necessary to avoid misleading the report users about the findings or conclusions.
- Determining whether to report the limitations or uncertainties as a finding, including any related, significant internal control deficiencies.

Professional judgment assists auditors in determining the sufficiency and appropriateness of evidence taken as a whole (**GAGAS 8.95**). The following are considerations audit teams should take into account when evaluating the sufficiency and appropriateness of evidence collected during an audit.

#### 7.3.2.1a Sufficient Evidence

Sufficiency establishes that findings and positions taken on the basis of the audit scope were not inappropriately generalized or overstated. Accordingly, in determining the sufficiency of evidence, auditors should determine whether enough appropriate evidence exists to address the audit objectives and support the findings and conclusions. Namely, auditors should determine whether enough evidence has been obtained to persuade a knowledgeable person that the findings are reasonable (**GAGAS 8.92**).

Although determining whether evidence is sufficient is a matter of professional judgment, **GAGAS 8.101** provides the following guidance:

- The greater the audit risk, the greater the quantity and quality of evidence required.
- Stronger evidence may allow less evidence to be used.

#### 7.3.2.1b Appropriate Evidence

Appropriateness measures the quality of the evidence. In assessing the overall appropriateness of evidence, auditors should assess whether the evidence is relevant, valid, and reliable (**GAGAS 8.91**). Relevance refers to the extent to which evidence has a logical relationship with, and importance to, the issue being addressed, and the time period of the issue being addressed. Validity refers to the extent to which evidence is based on sound reasoning or accurate information. Reliability refers to the consistency of results when information is measured or tested and includes the concepts of being verifiable or supported.

Like sufficiency, determining whether evidence is appropriate is a matter of professional judgment. **GAGAS 8.104** provides the following guidance:

- Evidence obtained when internal control is effective is generally more reliable than evidence obtained when internal control is weak or nonexistent.

- Evidence obtained through the auditors' direct physical examination, observation, computation, and inspection is generally more reliable than evidence obtained indirectly.

- Examination of original documents is generally more reliable than examination of copies.

- Testimonial evidence obtained under conditions in which persons may speak freely is generally more reliable than evidence obtained under circumstances in which the persons may be intimidated.

- Testimonial evidence obtained from an individual who is not biased and has direct knowledge about the area is generally more reliable than testimonial evidence obtained from an individual who is biased or has indirect or partial knowledge about the area.

**☑ TIP . . . The news media—newspapers, magazines, radio, television, and Internet-based outlets—are useful sources of background information on activities under audit. However, these sources should not be used to support findings.**

- Evidence obtained from a knowledgeable, credible, and unbiased third party is generally more reliable than evidence from management of the audited entity or others who have a direct interest in the audited entity.

- Testimonial evidence may be useful in interpreting or corroborating documentary or physical information. Auditors should evaluate the objectivity, credibility, and reliability of the testimonial evidence (**GAGAS 8.94**). Documentary evidence may be used to help verify, support, or challenge testimonial evidence.

- Surveys generally provide self-reported information about existing conditions or programs.

- When sampling is used, the method of selection that is appropriate will depend on the audit objectives.

- When auditors use information gathered by officials of the audited entity as part of their evidence, they should determine what the officials of the audited entity or other auditors did to obtain assurance over the reliability of the information (**GAGAS 8.93**). The auditor may find it necessary to perform testing of management's procedures to obtain assurance or perform direct testing of the information.

The nature, timing, and extent of audit procedures to assess sufficiency and appropriateness is affected by the effectiveness of the entity's internal controls over the information, including information systems controls, and

the significance of the information and the level of detail presented in the auditors' findings and conclusions in light of the audit objectives.

The assessment of the sufficiency and appropriateness of computer-processed information includes considerations regarding the completeness and accuracy of the data for the intended purpose. The applicability of such an assessment is not contingent on whether this information is provided to auditors or auditors independently extract it. See standard 7.2.2.2 for further information. (**GAGAS 8.98**)

### 7.3.2.2 Elements of a Finding

Auditors should plan and perform procedures to develop the elements of a finding necessary to address the audit objectives. In addition, if auditors are able to sufficiently develop the elements of a finding, they should develop recommendations for corrective action if they are significant within the context of the audit objectives (see standard 7.4.2.4h). (**GAGAS 8.116** and **9.18**)

The elements of a finding are commonly understood to be criteria, condition, cause, and effect. However, not all audits require that each element be developed. The elements that will be needed for a finding depend on the objectives of the audit. For example, if an audit objective is descriptive (e.g., to determine how many people have applied for, and been deemed eligible for, a particular program) the elements of cause and effect would not have to be developed.

**☑ TIP . . . Keep auditees informed of potential findings throughout the course of the audit to manage expectations and limit the potential for surprises at the end of the audit.**

In most SAO audit engagements, the development of audit findings is best measured by comparing what is (condition) with some standard of what should be (criteria). If there is a difference between what is and what should be then the auditor should answer why (cause) this has occurred and measure the significance or impact (effect) of the discrepancy. If the developed finding meets all acceptable standards it will be logical and reasonable, and it will provide a means to motivate corrective action. If something is missing, the finding may be disputed, or it may result in grudging action or no action at all. Findings that properly include these elements will represent a strong argument for corrective action.

#### 7.3.2.2a Criteria: what should be

Criteria identify the required or desired state or expectation with respect to the program or operation. Auditors should use suitable criteria[31] that are relevant to the audit objectives and permit consistent assessment of the subject matter. (**GAGAS 8.17** and **8.07**)

Criteria can come from a variety of places. The following are examples of criteria that may be relevant to an audit depending upon its objective.

- Authoritative sources, such as laws or regulations.
- Policies, procedures, instructions, manuals, or directives established by the audited entity.
- Technically developed standards or norms.
- Expert opinions.
- Customer requirements.
- Prior periods' performance (trends).
- Defined business practices (e.g., bills to be paid within 30 days).
- Contract or grant terms.
- Performance of other entities or sectors used as defined benchmarks.

If the audit team believes that the audited entity may not agree with the criteria chosen or if it may be controversial, the team is urged to discuss the criteria with the entity as early as possible. Such discussions have the benefit of possibly heading off future disputes or obtaining insight into opposing arguments.

#### 7.3.2.2b Condition: what is

**GAGAS 8.125** defines condition as a situation that exists. The gathered information should be sufficient, competent, and relevant, and able to withstand challenge. The auditee may disagree with a SAO auditor's interpretation, but if the condition is properly identified and documented, the

[31] Criteria is suitable if it is relevant, reliable, objective, and understandable and do not result in the omission of significant information (within the context of the audit objective).

auditee will have no reasonable basis to disagree with the facts that the auditor has gathered.

#### 7.3.2.2c Cause: why

The cause identifies the reason or explanation for the condition or the factor or factors responsible for the difference between the situation that exists (condition) and the required or desired state (criteria). (**GAGAS 8.126**) For example, cause would explain why standards were not followed, goals were not met, or objectives were not attained. Possible causes are (1) poorly designed policies, procedures, or criteria; (2) inconsistent, incomplete, or incorrect implementation; (3) lack of training or communications; (4) deficiencies in program design or structure, (5) deficiencies in internal control, or (6) factors beyond the control of program management. Keep in mind that the causes of deficient program performance can be complex and involve multiple factors. The auditor may not be able to easily or always identify the cause on their own and might consult auditee management for their opinion as to what has caused the observed condition.

#### 7.3.2.2d Effect: what happened or could happen

The effect is a clear, logical link to establish the impact or potential impact of the difference between the situation that exists (condition) and the required or desired state (criteria). The effect or potential effect identifies the outcomes or consequences of the condition. (**GAGAS 8.127**) Namely, assuming that all of the relevant facts are as represented, what is the result and significance of the finding? Who or what organization is being harmed, and how badly? Which agency goals and objectives are not being met, or are costing more money or effort than they should? Effect is the element needed to convince auditees and higher government management that the undesirable condition, if permitted to continue, will cause harm and would cost more than the action needed to correct the problem. The effect is often called the "so what" factor.

A type of effect is questioned costs. A finding may include questioned costs in those cases in which the auditee has not complied with the provisions of laws, regulations, contracts, or other agreements. Such non-compliance can result in the disallowance of costs claimed or the imposition of other sanctions by the grantor agency. The four types of questioned costs are as follows:

- Undocumented costs are those costs charged to a contract or grant for which adequate detailed documentation does not exists.

- Unallowable costs are those specifically unallowable under general or special contract or award conditions or instructions.

- Unapproved costs are those costs not provided for in the approved contract or grant budget, or costs for which the grant or contract provisions or applicable cost principles require the awarding agency's approval, but for which the auditor finds no evidence of approval.

- Unreasonable costs are those incurred that may not reflect the actions that a prudent person would take in the circumstances.

#### 7.3.2.3 Audit Documentation

Audit documentation[32] is an essential element of audit quality. Such documentation consists of individual documents that document the work performed and the evidence that supports the product, including the findings, conclusions, and recommendations. Audit documentation serves to (1) provide the principal support for the auditors' report, (2) aid auditors in planning, conducting, and supervising the audit, and (3) allow for the review of audit quality.

Auditors must prepare audit documentation related to planning, conducting, and reporting for each audit. Audit documentation should be prepared in sufficient detail to enable an experienced auditor,[33] having no previous connection to the audit, to understand from the audit documentation the nature, timing, extent, and results of audit procedures performed, the audit evidence obtained and its source and the conclusions reached, including evidence that supports the auditors' significant judgments and conclusions. Auditors should prepare audit documentation that contains support for findings, conclusions, and recommendations before they issue their report. (**GAGAS 8.132, 8.133**)

Auditors should design the form and content of audit documentation to meet the circumstances of the particular audit (**GAGAS 8.134**). The goal is to

[32] The terms audit documentation, workpapers, and audit working papers are used interchangeably throughout the PSM.

[33] An experienced auditor means an individual (whether internal or external to the audit organization) who possesses the competencies and skills that would have enabled him or her to perform the performance audit. These competencies and skills include an understanding of (1) the performance audit processes, (2) GAGAS and applicable legal and regulatory requirements, (3) the subject matter associated with achieving the audit objectives, and (4) issues related to the audited entity's environment.

prepare workpapers that stand alone and do not require verbal explanation so to (1) ease supervisory review and result in fewer review points and (2) make referencing much easier and more efficient. Moreover, if the SAO receives a public records request for workpaper copies, poorly executed audit documentation would not reflect well on the office and could cause an external party to question the basis for our findings.[34]

In early 2018, the SAO implemented an electronic workpaper solution, TeamMate®. While the basic expectations of workpaper preparation and supervisory review have not changed with this implementation, the look and processes of electronic workpapers may differ from paper workpapers. SAO auditors should consult the TeamMate® user manual for further information.

#### 7.3.2.3a Evidentiary Workpapers

Every performance audit report must have evidentiary workpapers as part of its audit documentation. These files should contain evidence that supports the report's findings, conclusions, and recommendations and be completed before the report is issued (**GAGAS 8.133**). The evidentiary files contain the individual documents that collectively constitute the documentation of the audit work performed. The quantity, type, and content of evidentiary audit documentation are a matter of the auditors' professional judgment (**GAGAS 8.134**). However, at a minimum, **GAGAS 8.135** requires that auditors document:

- the objectives, scope, and methodology of the audit;
- the work performed to support significant judgments and conclusions, including descriptions of transactions and records examined;
- evidence of supervisory review, before the audit report is issued, of the work performed that supports findings, conclusions, and recommendations contained in the audit report.

These GAGAS requirements are fulfilled in TeamMate® in the following manner:

[34] In addition, other auditors may ask to review the SAO's audit documentation. **GAGAS 8.140** states that, subject to applicable laws and regulations, auditors should make appropriate individuals, as well as audit documentation, available upon request and in a timely manner to other auditors or reviewers.

- The "Admin" folder contains the workpapers that support the objectives, scope, and methodology of the audit.

- The "Fieldwork" folder contains the evidentiary files associated with each audit objective. It is strongly suggested that subfolders under "Fieldwork" be organized by objective and that procedures under each subfolder directly link to the procedures in the approved design documentation.

- Supervisory review of individual workpapers is indicated by the Review Status field showing "Approved by …" and the State field showing "Reviewed – Accepted." Supervisory review of procedures is indicated by the State field showing "Reviewed – Accepted." The Review Status field is the official indicator of supervisory review. The State Field is a TeamMate® construct that the SAO considers an administrative rather than substantive indicator of supervisory review.[35] Accordingly, before the final report is issued, the Review Status field for all workpapers should indicate "Approved by …" but the State field can be marked as "Reviewed – Accepted" after the report is issued (should be done within 10 working days of issuance).

**☑ TIP . . . The "Fieldwork" folder may also include subfolders that do not apply to a specific objective. For example, if data reliability, internal controls, or information system controls are tested the audit team may opt to use separate subfolders for this work to make it easier to find.**

The following are additional guidelines related to the preparation of evidentiary audit documentation:

- Use a logical scheme to organize the workpapers. It is recommended, but not required, that the decision on how to organize the evidentiary workpapers in TeamMate® (i.e., those in the "Fieldwork" folder) be made after the design meeting and reflect the procedures agreed to during this meeting.

- Do not include extraneous notes or comments in audit documentation.

- Reconcile or explain conflicting information in the workpapers so that there is no doubt why the auditor is relying on one piece of evidence and not another.

- Include links (e.g., cross references) to other audit documentation as applicable. This is especially important when the audit documentation

[35] This is because TeamMate® locks down the workpaper from further change after the State field is listed as "Reviewed – Accepted." This lockdown prevents indexing of the draft report (which requires non-substantive changes, such as highlighting and linking).

is an analysis or summary prepared by a SAO auditor based on other documents within the workpapers.

- Foot and crossfoot (or validate spreadsheet formulas) all quantitative data that is being relied upon.
- If tick marks are used on the workpaper, include a legend on the document.
- Limit documentation to those that are required to support the audit report. There is no need to keep in TeamMate® all documentation received during the course of an audit.

**☑ TIP . . . GAGAS does not require auditors to include copies of documents they examined as part of the audit documentation, nor are they required to list detailed information from those documents. Instead, the audit team may list file numbers, case numbers, or other means of identifying the specific documents examined. However, it is recommended that copies of exceptions be kept as part of the evidentiary file in case there are later disputes with the auditee.**

See standard 7.4.2.5 for information on indexing audit documentation.

**GAGAS 8.136** states that when auditors do not comply with applicable GAGAS requirements due to law, regulation, scope limitations, restrictions on access to records, or other issues impacting the audit, the auditors should document the departure from the GAGAS requirements and the impact on the audit and on the auditors' conclusions. This applies to departures from both unconditional requirements and presumptively mandatory requirements ("must" and "should," respectively) when alternative procedures performed in the circumstances were not sufficient to achieve the objectives of the standard.

### 7.3.2.3b Administrative File

Every performance audit report has administrative workpapers as part of its audit documentation. These workpapers provide the principal means of support that the audit was performed in accordance with GAGAS.

TeamMate® has been configured to include procedures to address each of the major sets of administrative workpapers, such as:

**☑ TIP . . . Before completing the execution phase, remember to complete a final internal control assessment (Appendix 7.7).**

- Audit initiation
- Staff independence
- Audit announcement
- Entrance conference
- Design documentation

- Design meetings and decisions
- Message documents
- Message meetings and decisions
- Referencing
- Exit conference
- Draft report sent for management comment
- Managements' comments
- Final report
- Report quality checklist
- Report distribution

7.3.2.4 Supervision and Review

The audit manager is responsible for supervising the engagement as a whole as well as supervising individual audit staff (senior auditors and staff auditors II).[36] (**GAGAS 5.36 and 8.87**) Audit supervision involves providing sufficient guidance and direction to staff assigned to the audit to address the audit objectives and follow applicable standards, while staying informed about significant problems encountered, reviewing the work performed, and providing effective on-the-job training (**GAGAS 8.88**). See Chapter 3 for the elements of supervision that address staff performance, like the development of performance reviews. This section is concerned with ensuring that there is adequate supervision of the engagement and that reviews are documented by the audit manager and management.

**Audit Manager**

The audit manager is a key part of ensuring a quality audit. As such, s/he is responsible for ensuring that the audit is planned and executed in conformance with GAGAS and that the evidence supporting findings is

[36] The audit manager may delegate day-to-day oversight of the audit or review of workpapers to a senior auditor but maintains overall responsibility.

sufficient and appropriate. Additionally, the audit manager is responsible for the day-to-day supervision of the audit.

☑ **TIP . . . It is strongly urged that supervisory review of individual audit workpapers occur prior to a draft report being sent for comment.**

Before the audit report is issued, the audit manager (or designee) must review individual audit documents to determine whether they are complete, accurate, clear, and understandable. Workpapers prepared by the audit manager will be reviewed by the Chief Auditor. If the Chief Auditor is the preparer of the workpaper, supervisory review will be conducted by another SAO manager, as designated by the State Auditor or Deputy State Auditor.

☑ **TIP . . . Supervisory points (TeamMate® coaching notes) can be deleted once agreement has been reached on their disposition. Supervisor approval of the workpaper indicates that this agreement has been reached.**

Supervisory review of individual audit documents enables supervisors to identify any need for collecting additional evidence and to provide feedback to staff on their performance. The manager or designee may use his or her professional judgment to determine the nature and extent of the supervisory review needed for individual audit documents, considering the experience and subject-matter knowledge of the staff who prepared the documents.

As required by PSM 7.1.2.2c, the audit manager should also ensure that the design (planning) documents are cross-referenced to completed workpapers or that changes to the plan are explained in the documentation, if applicable.

**Management**

SAO management (e.g., State Auditor and Deputy State Auditor) are responsible for overseeing and monitoring the audit and is a key component to the Office's quality assurance process. SAO management demonstrates its oversight of the engagement through participation in key meetings throughout the audit, such as the design meeting.

In addition, on an as needed basis throughout the course of the engagement, management meets with the audit team to obtain information on the status of the engagement and ensure that it is on-track.

### 7.3.2.5 Exit Conference

☑ **TIP . . . An effective exit conference strategy is to provide a "discussion paper" to the attendees ahead of the meeting that can be used to guide the discussion.**

The audit team should hold an exit conference with the audited entity after it has developed its findings and prior to issuing the report (unless the auditee waives this meeting). The purpose of the exit conference is to communicate the SAO's findings as well as to confirm that the critical facts and key information used to formulate analyses and findings are current, correct, and complete.

The timing and form of the exit conference is left to the professional judgment of the audit team. The State Auditor and Deputy State Auditor

should be invited to the exit conference, but attendance is at their prerogative. The results of the exit conference should be documented.

#### 7.3.2.6 Terminating Audits Prior to Completion

In unusual circumstances the SAO may terminate an audit engagement prior to its completion (e.g., higher priority work, data reliability problems, potential or ongoing litigation). The decision to terminate an audit prior to completion rests with the State Auditor.

The SAO may choose to issue a report that communicates the results of its audit to date if evidence has been collected to complete the relevant elements of a finding. Since the audit has been terminated prior to completion, normally the audit objective in the report would reflect the more limited approach and the audit team would limit the conclusions drawn accordingly. Termination of an audit prior to its completion does not negate the need to ensure that sufficient, appropriate evidence is gathered to support the findings, conclusions, and recommendations in any report that is issued.

GAGAS requires that if an audit is terminated before it is completed and an audit report is not issued that auditors document the results of the work to the date of termination and why the audit was terminated. Determining whether and how to communicate the reason for terminating the audit to those charged with governance, appropriate officials of the audited entity, the entity contracting or requesting the audit, and other appropriate official will depend on the facts and circumstances and, therefore, is a matter of professional judgment. (**GAGAS 5.25** and **5.35**)

## 7.4 Reporting

### 7.4.1 GAGAS Citation

The following are general GAGAS requirements pertaining to this section. More detailed GAGAS requirements are cited throughout the section to the extent that they pertain to the area being addressed.

- Auditors must issue audit reports communicating the results of each completed performance audit. **(GAGAS 9.06)** Auditors should use a form of the audit report that is appropriate for its intended use and is in writing or in some other retrievable form. The users' needs will influence the form of the audit report. Different forms of audit reports

include written reports, letters, briefing slides, or other presentation materials. **(GAGAS 9.07, 9.09)**

- The purposes of audit reports are to (1) communicate the results of audits to those charged with governance, the appropriate officials of the audited entity, and the appropriate oversight officials; (2) make the results less susceptible to misunderstanding; (3) make the results available to the public, unless specifically limited; and (4) facilitate follow-up to determine whether appropriate corrective actions have been taken. **(GAGAS 9.08)**

- Auditors should prepare audit reports that contain (1) the objectives, scope, and methodology of the audit; (2) the audit results, including findings, conclusions, and recommendations, as appropriate; (3) a statement about the auditors' compliance with GAGAS; (4) a summary of the views of responsible officials; and (5) if applicable, the nature of any confidential or sensitive information omitted. **(GAGAS 9.10, 9.03, 9.05, and 2.16)**

- Auditors must prepare audit documentation related to reporting for each audit (**GAGAS 8.132**).

- Audit organizations should distribute audit reports to those charged with governance, to the appropriate officials of the audited entity, and to the appropriate oversight bodies or organizations requiring or arranging for the audits. As appropriate, auditors should also distribute copies of the reports to other officials who have legal oversight authority or who may be responsible for acting on audit findings and recommendations, and to others authorized to receive such reports.[37] Auditors should document any limitation on report distribution (e.g., if confidential information is contained in the report). **(GAGAS 9.56, 9.58, 9.61)**

[37] If after the report is issued, the auditors discover that they did not have sufficient, appropriate evidence to support the reported findings or conclusions, they should communicate with those charged with governance, the appropriate officials of the audited entity, and the appropriate officials of the organizations requiring or arranging for the audits, so that they do not continue to rely on the findings or conclusions that were not supported. If the report was previously posted to the auditors' publicly accessible website, the auditors should remove the report and post a public notification that the report was removed. The auditors should then determine whether to conduct additional audit work necessary to reissue the report with revised findings or conclusions or repost the original report if the additional audit work does not result in a change in findings or conclusions. (**GAGAS 9.68**) Any additional audit work or changes to the report should undergo our normal quality assurance process (e.g., supervisory review, referencing).

# Chapter 7

# Performance Audits

## 7.4.2 SAO Standard

### 7.4.2.1 Product Types

The SAO adheres to the principals of transparency and accountability. Accordingly, the office's general rule is that the results of performance audits will be made available to the public in written reports that are available in hard copy and on our web site.[38] Written reports shall be produced using the SAO template described in section 7.4.2.4.

In certain circumstances the SAO may elect to communicate its findings through a briefing or in a letter to a requester (e.g., Governor or General Assembly) or the audited entity's official.[39] These circumstances will be generally limited to those occasions (1) when it is critical that findings be conveyed quickly in order for the audit to meet the timing needs of the requester or that corrective actions be initiated immediately or (2) the audit objectives are so narrow and the findings so insignificant and non-controversial that a formal report would not add to the public discourse. State Auditor approval in writing (e-mail is acceptable) is required for all decisions not to issue a written report. This approval should be kept as part of the audit documentation file.

In addition, see standard 7.4.2.10 for how the SAO will deal with reporting of confidential or sensitive information.

### 7.4.2.2 Report Quality

SAO audit reports are required to explicitly address each of the engagement's objectives. Reports must provide the reader with sufficient appropriate evidence to (1) demonstrate that the audit has drawn the appropriate conclusions related to each objective, (2) explain the scope and methodology

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[38] **GAGAS 9.45 - 9.47** state that auditors should report known or likely fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse directly to parties outside the audited entity when management fails to (1) satisfy legal or regulatory requirements to report such information to external parties specified by law or regulation or (2) take timely and appropriate steps to respond to known or likely fraud, illegal acts, violations of provisions of contracts or grant agreements and, in some circumstances, abuse. This requirement is applicable even if the SAO has resigned or been dismissed from the audit. Auditors should obtain sufficient, appropriate evidence, such as confirmation from outside parties, to corroborate assertions by management of the audited entity that it has reported such findings in accordance with laws, regulations, and funding agreements. When auditors are unable to do so, they should report such information directly.

[39] This section does not apply to audits that are terminated before completion. In these cases, PSM section 7.3.2.6 applies.

used to accomplish the work as well as any significant limitations or uncertainties related to the audit evidence, and (3) provide sufficient background and finding information to be responsive to users' needs.

**GAGAS 9.17** lays out seven elements of a quality product, which the SAO has adopted. The audit team should review and consider these elements carefully when developing the audit report.

1. *Accurate:* An accurate report is supported by sufficient, appropriate evidence with key facts, figures, and findings being traceable to the audit evidence. Reports that are fact-based, with a clear statement of sources, methods, and assumptions so that report users can judge how much weight to give the evidence reported, assist in achieving accuracy. Disclosing data limitations and other disclosures also contribute to producing more accurate audit reports. Reports also are more accurate when the findings are presented in the broader context of the issue.

2. *Objective:* Objective means that the presentation of the report is balanced in content and tone. A report's credibility is significantly enhanced when it presents evidence in an unbiased manner and in the proper context. This means presenting the audit results impartially and fairly. The tone of reports may encourage decision makers to act on the auditors' findings and recommendations. This balanced tone can be achieved when reports present sufficient, appropriate evidence to support conclusions while refraining from using adjectives or adverbs that characterize evidence in a way that implies criticism or unsupported conclusions. The objectivity of audit reports is enhanced when the report explicitly states the source of the evidence and the assumptions used in the analysis.

**☑ TIP . . . Throughout the audit, audit teams should consider the type of information needed for the report (e.g., if a negative condition is found the report should address cause). This influences decisions on objectives, scope, methodology as these directly relate to what can be reported.**

3. *Complete:* Being complete means that the report contains sufficient, appropriate evidence needed to satisfy the audit objectives and promote an understanding of the matters reported. It also means the report states evidence and findings without omission of significant relevant information related to the audit objectives. Providing report users with an understanding means providing perspective on the extent and significance of reported findings, such as the frequency of occurrence relative to the number of cases or transactions tested and the relationship of the findings to the entity's operations. Being complete also means clearly stating what was and was not done and explicitly describing data limitations, constraints imposed by restrictions on access to records, or other issues.

4. *Convincing:* Being convincing means that the audit results are responsive to the audit objectives, that the findings are presented persuasively, and that the conclusions and recommendations flow logically from the facts

presented. The validity of the findings, the reasonableness of the conclusions, and the benefit of implementing the recommendations are more convincing when supported by sufficient, appropriate evidence. Reports designed this way can help focus the attention of responsible officials on the matters that warrant attention and can provide an incentive for taking corrective action.

5. *Clear:* Clarity means the report is easy for the intended user to read and understand. Preparing the report in language as clear and simple as the subject permits, assists auditors in achieving this goal. Use of straightforward, non-technical language is helpful to simplify presentation. Defining technical terms, abbreviations, and acronyms that are used in the report is also helpful. Logical organization of material, and accuracy and precision in stating facts and in drawing conclusions assist in the report's clarity and understanding. Effective use of titles and captions and topic sentences makes the report easier to read and understand. Visual aids (such as pictures, charts, graphs, and maps) may clarify and summarize complex material.

**☑ TIP . . . Being concise can be difficult to reconcile with other quality elements. Judiciously using appendices for technical details can help achieve balance between the quality elements and make for a more reader-friendly product.**

6. *Concise:* Being concise means that the report is not longer than necessary to convey and support the message. Extraneous detail detracts from a report, may even conceal the real message, and may confuse or distract the users.

7. *Timely:* To be of maximum use, providing relevant evidence in time to respond to officials of the audited entity, legislative officials, and other users' legitimate needs is the auditors' goal. Likewise, the evidence provided in the report is more helpful if it is current.

#### 7.4.2.3 Message Meetings

Before the report is drafted, a message meeting shall be held in order to ensure that management is aware of upcoming reports and to limit future rework by addressing issues or concerns before a significant writing commitment has occurred. In addition, the message meeting serves as the mechanism to assess whether the overall evidence obtained and developed in the audit is sufficient and appropriate and supports the findings, conclusions, and recommendations. Although the audit team does not need to have completed all audit documentation or supervisory review prior to holding the message meeting, the team should have completed the most significant portion of this work so that they can assert that the evidence gathered is sufficient and appropriate and that they are confident in the stability of the overall message being presented at the meeting.

The meeting participants should include the audit team, the State Auditor, Deputy State Auditor,[40] and applicable internal stakeholders.

A few days prior to the meeting, the audit team should provide the participants with the message document. The message document should include (1) the highlights section, (2) major heading titles with bullets indicating the evidence that will be included in each major section, and (3) recommendations.

**☑ TIP . . . There are likely to be changes in the message between the message meeting date and the draft report. Generally, these changes are not significant enough to reconvene a message meeting. However, the audit team should consider reconvening a message meeting if (1) an objective significantly changes or (2) the basic message of the report changes (e.g., a finding changes from compliant to noncompliant or vice versa). Alternatively, an email can be sent in lieu of holding a meeting.**

During the message meeting, the participants should reach a consensus as to:

- Product type and expected report structure.
- Timing of report.
- Who will be responsible for the completing the Report Quality Checklist (expected to be the State Auditor or Deputy State Auditor unless the responsibility is delegated to an audit manager that is not a member of the audit team).
- Whether the audit objectives were met and, if not, whether the objectives need to be revised or additional audit work performed.
- Whether the applicable elements of a finding were developed and included as part of the message.
- Whether the evidence, taken as a whole, meets GAGAS standards for being sufficient and appropriate and supports the proposed findings, conclusions, and recommendations.

Decisions made at the message meeting should be documented and included in the audit documentation file. Appendix 7.10 provides an example of how to document the results of the message meeting.

#### 7.4.2.4 Report Structure and Required Elements

Our intent is to write a concise report that answers each audit objective and is easily understood without significant prior knowledge about the audit subject. One of the ways that this is achieved is by using the structure and language of

[40] Although it is preferable that the meeting be held with all participants, if it is not possible, comments on the material and audit team's plans may be provided separate from the meeting.

the report to establish linkages or guidelines that help the reader. For example:

- After establishing an order (e.g., objectives or numbered lists), use this same order for the remainder of the report.
- Use the terminology of the objective in the body of the report.
- Use terms and phrases consistently throughout the report (e.g., use either "nursing home" or "skilled nursing facility," not both since the reader may not realize that they are synonymous).
- Use headings and subheadings to guide the reader (using the consistent terminology).
- Try to avoid jargon but if it must be used for accuracy or precision then make sure to define the terms used.

Appendix 7.11 can be used by the audit manager and reviewers to evaluate draft reports.

The SAO has adopted a Word template that has required elements designed to help meet this objective (S:\AUD\AUD-Shared\Report Tracking and Template). In addition, the template helps the SAO to achieve a consistent "look and feel" for the office's audit reports. The template and instructions for its use can be found at s:\report tracking template folder. The most important elements of the SAO report structure are described below.

**☑ TIP . . . If the report contains a reference to a vendor product by name, use the appropriate trademark symbol (i.e., ®, ™, or ©). Vendor websites generally contain guidance on the appropriate convention.**

**According to the COSO website, their internal control framework should be cited as follows: "2013 Internal Control – Integrated Framework© Committee of Sponsoring Organizations of the Treadway Commission (COSO). All rights reserved. Used with permission."**

### 7.4.2.4a Title Page

The title of the report should reflect the message being communicated. It is preferable that the title proactively describes the overall finding rather than be a neutral statement of the program or entity that was audited. Nevertheless, the tone should be measured and not overstate the findings. Avoid hyperbole.

At the bottom of the Title page, the audit team should add a report number (the scheme is a two-digit calendar year followed by a dash and the consecutive number, such as "08-12"). The audit team should consult the report tracking spreadsheet in S:\AUD\AUD-Shared\Report Tracking and Template folder to derive the report number to use. (The audit team must record the number that it is using in the spreadsheet so that it is not reused.) If the audit team is uncertain in which calendar year the report will be issued, it should wait until the report is about to be issued before obtaining the report number.

#### 7.4.2.4b Table of Contents

The table of contents is a general outline of the audit report with page number references. It should list the introduction, highlights, background, major captions and sub-captions of findings sections, conclusion, recommendations, management comments, and appendices with page numbers.

#### 7.4.2.4c Highlights

The Highlights section conveys the "bottom line" message of the report. It is intended for the reader that will not take the time to read the whole report, so it is important that it include only the most important points in the proper context. The Highlights section should be both concise and specific enough to convince the reader of the soundness of the message. Because it is intended for the busy reader, the Highlights section should be short. A rule of thumb is that each objective should be no more than 1 page and the Highlights section itself no more than three pages. Graphics or tables can be an effective tool in the highlights section to quickly convey a message to the busy reader.

**☑ TIP . . . Per GAGAS 9.11, when audit objectives are limited but a user could infer broader objectives, the report should indicate what is outside the scope of the audit.**

The Highlights section includes three elements.

- *Introduction.* Paragraphs 1-3 should briefly describe the importance of the issue (e.g., a "hook"), explanatory information as needed (e.g., responsible organization), and clear, specific, neutral, and unbiased objective(s) that include relevant assumptions. Add a footnote to the end of the objectives sentence that states "Appendix I details the scope and methodology of the audit. Appendix II contains a list of abbreviations used in this report."

**☑ TIP . . . Often there are too many recommendations to list. Use recommendation(s) that flow from the findings part of the Highlights section as example(s) so the reader can follow the link between objective, finding, and recommendation.**

- *Findings.* Each objective is addressed separately and in the same order as the introduction section. The goal of the first sentence in each of the findings sections is to "answer" the objective.

- *Recommendations (if applicable).* A brief summary of the recommendations or characterization of the types of recommendations. This section is generally one paragraph.

The findings and recommendations parts of the Highlights section should not include information that is not in the body of the report. This constraint does not apply to the introduction part of the Highlights section

### 7.4.2.4d Background

The purpose of the Background section is to add necessary context to the report. Deciding how much context is needed is largely a matter of professional judgment. It is a balancing act between providing readers with information that will help them understand the findings and cluttering the report with extraneous details.

In general, try to keep the Background section short—1 or 2 pages so that findings sections are closer to the beginning of the report. Use appendices to keep the Background section a reasonable length. Also, if background information is an element of a finding (e.g., criteria) or is important to understanding a finding (an explanation of a process or part of a process), it should probably be in the findings section of the report so that it is closer to the issue to which it is related.

### 7.4.2.4e Findings

Findings are facts established by sufficient, appropriate evidence developed to meet the engagement's objectives. They can be either positive or negative in nature (or some combination of both). What is essential is that they directly respond to each audit objective (and be presented in the same order) and represent an accurate, complete, and balanced[41] picture of what was found in the audit. In almost all cases, the number of findings will correspond to the number of objectives. Each finding should have a major heading that describes what was found.

**☑ TIP . . . In reports with multiple objectives, start all major headings with "Objective 1: [descriptive title]" to make the relationship to the findings clearer.**

**If there are multiple elements to a finding, use the subheading styles in the template to help distinguish the parts. Make sure that headings and subheadings are written in a parallel manner.**

The first paragraph of a finding or "charge paragraph" should directly respond to or "answer" the objective. It should also highlight the major areas of the finding (i.e., the sub-captions) and present them in the same order as the rest of the section. Such ordering and linkages aid the reader, particularly if s/he is interested in only part of a report.

Although findings are linked to the report's objectives, an important consideration in deciding what to report are the GAGAS requirements that auditor's report the following if they are significant within the context of the objectives of the audit and based on the audit work performed (1) deficiencies in internal control, (2) instances of fraud, noncompliance with provisions of laws and regulations, and (3) violations of provisions of

[41] Being balanced does not mean that there are an equal number of positive and negative comments. Instead, a balanced message presents sound and logical evidence to support conclusions; does not use adjectives or adverbs to characterize evidence in a way that implies criticism or conclusions by innuendo; and, where appropriate, recognizes positive aspects of the issues or programs audited.

contracts or grant agreements. **(GAGAS 9.29, 9.40,** and **9.35)** When findings do not warrant the attention of those charged with governance, the auditor's determination of whether and how to communicate such instances to the audited entity officials is a matter of professional judgment.[42]

If there are findings or observations that relate to the above requirements that are not easily incorporated into a finding related to an objective, add a sentence directly after the objectives that states that the SAO is also reporting on other matters or observations that came to its attention during the course of the audit for which it is required to report. These other matters or observations would then generally be included at the end of the findings section.

**☑ TIP . . . Use**
**> deductive writing;**
**> topic sentences to summarize the paragraph's main thought and limit the paragraph to this main thought;**
**> past tense (in general);**
**> active voice unless passive voice is necessary or desirable (e.g., if the doer of the action is unknown or not important);**
**> titles, not names, of officials; and**
**> graphics/tables whenever feasible.**

Reports should present sufficient, appropriate evidence to support the findings. **(GAGAS 9.18)** The type and extent of evidence that is presented in the report is subject to professional judgment. However, the following guidelines should be adhered to in making these judgments.

- Findings should be in perspective by describing the nature and extent of the issues being reported and the extent of the work performed that resulted in the finding (**GAGAS 9.21**).

- Reports should disclose significant facts relevant to the objectives of their work and known to them which, if not disclosed, could mislead knowledgeable users, misrepresent the results, or conceal significant improper or illegal practices. **(GAGAS 9.22)**

- To give the reader a basis for judging the prevalence and consequences of these findings, the report should relate the instances identified to the population or the number of cases examined and quantify the results in terms of dollar value, or other measures, as appropriate. If the results cannot be projected, auditors should so state this in the report and limit their conclusions appropriately. **(GAGAS 9.21)**

- Limitations or uncertainties associated with the evidence should be disclosed if (1) the evidence is significant to the findings and

[42] If the deficiencies are not significant to the audit objective, but warrant the attention of those charged with governance, they should be included in the report or communicated in writing to officials of the audited entity (which should be referred to in the audit report). (**GAGAS 9.31, 9.36, 9.41**) If the deficiencies do not warrant the attention of those charged with governance, the determination of whether and how to communicate such deficiencies to the audited entity officials is a matter of professional judgment. (**GAGAS 9.34, 9.38, 9.43)**

conclusions within the context of the audit objectives and (2) such disclosure is necessary to avoid misleading the report users about the findings and conclusions. **(GAGAS 9.20)**

- If the evidence is testimonial the report should generally indicate the title or position type of the person(s) providing the information. For example, the report could state "according to the Director of IT Management" or "Interviews with staff accountants indicated that." Indicating the source of evidence can be an effective way to inform the reader about the strength of the evidence underlying the report.

- To the extent relevant to the audit objective, the elements of a finding (criteria, condition, cause, and effect) should be addressed in the findings **(GAGAS 9.24).** Standard 7.3.2.2 defines these elements while the following provides some guidance as to how to apply the elements in the report phase.

*Criteria*

**☑ TIP . . . Make sure that the report accurately reflects whether the criteria is required or desirable. If the criteria are guidance or best practices, do not use words like "required," "mandatory," or "must."**

The report should specify the source of the criteria, such as the statute, grant terms, policies and procedures, expert opinion, or business practice that is being used in the evaluation. Although it is not always possible, it is preferable that the criteria cited in the report be linked to an independent and/or authoritative source (e.g., the entity's written policy, federal requirements, internal control guidelines, or best practices developed by organizations such as GAO, the Institute of Internal Auditors, other states, or a well-respected private entity). Avoid using less compelling general terminology such as "good business practices" unless it is an obvious and well-known practice, such as reconciling bank statements. Be cognizant that audit reports have a variety of readers, some of whom may not be familiar with the business practice or program under review and for which the citation of specific and authoritative criteria is more likely to make the finding more persuasive.

*Condition*

**☑ TIP . . . Use tables and graphics to concisely demonstrate deviations between the criteria and condition.**

The report should link the condition as directly and clearly as possible to the cited criteria. If the condition is negative but we are not making a recommendation, make sure the reader will understand why, such as a fix has already been made.

*Cause*

Identifying the cause of a problem in the report provides a bridge to an effective recommendation. For example, if the cause of a problem is that staff did not understand how to implement a policy then the cause should link directly to a recommendation related to providing training. In some cases, it is not clear that there is a single reason that a problem exists. In such cases, the report should state that a variety of reasons were found and provide examples or state that a definitive explanation for a deficiency was not identified.

*Effect*

The effect is the actual or potential consequence of a situation. To the extent feasible, SAO reports will include quantitative as well as qualitative effect statements.

### 7.4.2.4f Observations and Other Matters

Sometimes there are issues that the audit team believes should be in the audit report but they are (1) tangential to the finding (e.g., provide important context, but are not significant to an audit objective) or (2) significant to an audit objective, but awkward to write in the findings section and lead to a recommendation (e.g., internal control deficiencies). When this occurs, include a section of the report either labeled Observations or Other Matters, respectively.

### 7.4.2.4g Conclusions

**☑ TIP . . . The Conclusion section should not introduce new facts (include only those facts that are in the body of the report).**

GAGAS states that audit reports should contain conclusions based on the audit objectives and audit findings and that they be supported by sufficient, appropriate evidence. **(GAGAS 9.19, 9.18)** Report conclusions are logical inferences about the program based on the auditors' findings, not merely a summary of the findings. The strength of the conclusions depends on the sufficiency and appropriateness of the evidence supporting the findings and the soundness of the logic used to formulate the conclusions. Conclusions are stronger if they focus on effect, convince the knowledgeable user of the report that action is necessary, and lead to recommendations.

### 7.4.2.4h Recommendations

If auditors are able to sufficiently develop the elements of a finding, they should provide recommendations for corrective action if they are significant

within the context of the audit objectives (**GAGAS 9.18**). In particular, auditors should recommend actions to correct deficiencies and other findings identified during the audit and to improve programs and operations when the potential for improvement in programs, operations, and performance is substantiated by the reported findings and conclusions (**GAGAS 9.23**).

Recommendations are the SAO's determination of what responsible officials should do to correct identified deficiencies or to enhance a program's effectiveness. The report should include only those recommendations that flow logically from the findings and conclusions, are directed at resolving the cause of identified problems, and clearly state the actions recommended. **(GAGAS 9.23)** Recommendations should be feasible and a key consideration is whether the benefits would outweigh the costs. If the latter is questionable, consider whether there are alternative methods or mitigating controls that can be recommended instead.

If a specific course of action is apparent, that action is recommended. However, when more than one action is possible, the SAO should present the alternatives with their advantages and disadvantages.

**☑ TIP . . . Recommendations to the Legislature are titled "Matters for Legislative Consideration."**

Recommendations should be targeted to specific officials (by title) or bodies that are authorized to act on the information provided, such as agency officials or the General Assembly. Recommendations should also be numbered to make it easier for auditees to respond to specific recommendations and for recommendation follow-up (see chapter 11).

#### 7.4.2.4i Management's Comments

**☑ TIP . . . If management's comments are limited to technical corrections, the report can just indicate that the entity provided technical comments that were incorporated into the report, as applicable.**

Except in rare circumstances, SAO obtains comments on draft reports from relevant organizations (e.g., the audited entity or any organization for which a recommendation is being made)—see PSM section 7.4.2.7 for more information. The body of the report should indicate (1) the title of the person who provided the comments, (2) the date of the comments, (3) whether the comments were written or oral, and (4) that management's comments are reprinted in a designated appendix, if applicable (**GAGAS 9.51**).[43]

Under certain circumstances, GAGAS states that auditors should include in the report an evaluation of management's comments (**GAGAS 9.52)**. For example, when the audited entity's comments are inconsistent or in conflict

[43] Management's comments should also be evaluated to determine whether changes to the other parts of the report are appropriate. Examples of such changes are the correction of errors, further clarification of a point, or information on actions planned or taken.

with the findings, conclusions, or recommendations in the draft report, or when planned corrective actions do not adequately address the auditors' recommendations, the auditors should evaluate the validity of the audited entity's comments. The audit team should modify the report as necessary if they find the comments valid and supported with sufficient, appropriate evidence. However, if the audit team disagrees with management's comments, the audit team should explain the reason for the disagreement. This should be done in an appendix immediately following the appendix with the reprint of management's comments.[44]

In cases in which the audited entity states that it has completed the actions recommended in the draft report the recommendation should only be removed from the report if the audit team is able to validate that the action has been taken. In such cases the Management Comment section should clearly indicate that a recommendation was made in the draft and was removed only upon the entity's completion of the action. If the audit team does not have the time or resources to validate the action, it should keep the recommendation in the final report, note that the audited entity stated that it has completed the recommendation, and state that this assertion was not audited and that the SAO is not expressing an opinion on whether the entity has implemented the recommendation.

If the audited entity refuses to provide comments or does not provide them in a timely manner, the report should indicate that the entity was provided the opportunity to respond and did not provide comments. (**GAGAS 9.53**) See standard 7.4.2.7 for the SAO's requirements pertaining to obtaining management's comments.

### 7.4.2.4j Appendices

Appendices provide information additional to that contained in the audit report. Information that is essential to the report should not be in an appendix. Examples of information appropriate for an appendix include a glossary of terms, a description of research methodology, lengthy tables, and survey instruments.

All appendices should be referenced in the body of the report, which should be clear as to why the appendix is being included. Appendices should be in the same order in which they are ordered in the report. In almost all reports,

[44] At the discretion of the State Auditor, the SAO may choose to summarize management's comments and our evaluation in the body of the report instead of, or in addition to, a separate appendix.

the first appendix will be the scope and methodology and the second appendix a list of abbreviations used in the report because they are referenced in the Highlights section of the report. Because the Management Comment section is the last section in the body of the report, the reprint of the comments is generally the last appendix. If the SAO provides comments in response to the written management comments (see PSM §7.4.2.4i), our evaluation is the last appendix.

Regarding the Scope and Methodology appendix, it is used to explain what work was or was not done to accomplish the engagement's objectives. Accordingly, this appendix should be ordered in the same manner as the report's objectives so to make the link clear to the reader. A general rule of thumb is that there should be at least one paragraph for each objective. (Also, although scope and methodology are described in separate paragraphs below, they are generally included together in the scope and methodology section, by objective.)

The scope should contain enough details to provide a sound basis for readers to understand the audit's coverage in relation to the objectives and the findings developed. The report should describe the scope of the work performed and any limitations, including issues that would be relevant to likely users, so that they could reasonably interpret the findings, conclusions, and recommendations in the report without being misled. Auditors should also report any significant constraints imposed on the audit approach by information limitations or scope impairments, including denials of access to certain records or individuals. **(GAGAS 9.12)**

Regarding internal controls that are significant to the audit objective, the Scope and Methodology appendix should include the scope of internal control work performed. If some, but not all, internal control components are significant to the audit objective, the appendix should identify those components and underlying principles that are significant to the audit objectives (i.e., those that are identified in the final assessment of internal controls in the Appendix 7.7 form).[45] (**GAGAS 9.29, 9.30**)

In reporting on the audit methodology, the product should specify the kinds and sources of evidence obtained. The report should explain how the completed work supports the audit objectives in sufficient detail to enable

[45] Guidance in **GAGAS 9.32** states that control components and underlying principles that are not considered significant to the audit objective may be identified in the scope if doing so is necessary to preclude a misunderstanding of the breadth of the conclusions of the audit report and to clarify that control effectiveness has not been evaluated as a whole.

knowledgeable users of their reports to understand how the auditors addressed the audit objectives. **(GAGAS 9.14)** Other considerations for reporting on the audit's methodology are:

- Identify significant assumptions made in conducting the audit; describe comparative techniques applied; describe the criteria used; and, when sampling significantly supports the auditors' findings, conclusions, or recommendations, describe the sample design and state why the design was chosen, including whether the results can be projected to the intended population. **(GAGAS 9.14)**

- As applicable, explain the relationship between the population and the items tested; identify organizations, geographic locations, and the period covered; report the kinds and sources of evidence. **(GAGAS 9.13)**

- Describe the limitations or uncertainties associated with the reliability or validity of evidence if (1) the evidence is significant to the report's findings and conclusions, and (2) such disclosure is necessary to avoid misleading the report's users about the findings and conclusions. (**GAGAS 9.13, 9.20)**

The other critical element of the scope and methodology section is reporting on conformance with GAGAS, whether an unmodified or modified compliance paragraph (**GAGAS 2.17**). When all applicable elements of GAGAS are adhered to, the following statement should be included in the report.[46]

> "We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives." **(GAGAS 9.03)**

**☑ TIP . . . GAGAS 2.22 provides factors that an auditor may consider when determining whether a modified or unmodified GAGAS statement is appropriate. If the issue pertains to independence, the auditor should consult GAGAS 2.23, 3.60, 3.25, and 3.84.**

When auditors do not comply with applicable requirement(s), they should: (1) assess the significance of the noncompliance to the audit objectives, (2)

[46] An audit organization may also cite other standards, such as those promulgated by the American Institute of Certified Public Accountants or ISACA, if the requirements of the other standard(s) are fulfilled. (**GAGAS 2.11, 2.15**).

document the assessment, along with their reasons for not following the requirement(s), and (3) determine the type of GAGAS compliance statement (**GAGAS 2.19**). Regarding the latter point, the report should include a modified GAGAS compliance statement to indicate which standard(s) were not followed and how not following the standard(s) affected or could have affected the audit or language that the audit did not follow GAGAS **(GAGAS 2.18** and **9.05).**

### 7.4.2.5 Indexing and Referencing

**☑ TIP . . . Consider holding the exit meeting after the report is largely indexed or is being referenced when you are in a better position to know what information in the report needs additional support or confirmation, which can then be gathered during the meeting.**

To a great extent, the credibility of SAO products—the credibility of the SAO itself—depends on the quality of these documents, which in turn, depends on our internal quality controls. The indexing and referencing processes are a key part of this quality control process. Indexing is the process of annotating a draft product and the audit documentation to identify specific sources of information used to support the content. Referencing is the process of checking the information in the report against the cited indexes to confirm that the report accurately reflects the facts and opinions in the cited sources. Ultimately the audit team is responsible for ensuring that the evidence is sufficient and appropriate and accurately reflected in the audit report, but the referencer plays an important quality control role that reduces the likelihood of error or unsupportable conclusions.

Indexing and referencing are intended to ensure that all SAO products (1) meet the highest standards for accuracy and (2) are consistent with the evidence gathered. Accordingly, the purpose of indexing and referencing is to check whether the draft product contains any errors in fact or obvious weaknesses in logic or reasoning. Our work often comes under the close scrutiny of others, and we may be challenged by the audited entity or by others. Indexing and referencing enables the SAO to find and correct errors in its draft products so that they hold up to such scrutiny. In addition, we should always keep in mind that our products are public documents and that we are accountable to the public as well as to the audited entity to ensure that we do not publish inaccurate information.

Indexing and referencing is typically conducted twice. First, before the product is sent to the audited entity for comment and then after management's comments are received and incorporated into the draft document. Regarding the latter, only changes have to be indexed and referenced. Factual changes to the post-management comment draft can be highlighted and a note put on the cover of the document that only the highlighted sections were indexed and referenced.

**Indexing**

Before a draft is approved and sent to an entity for comment, the audit team should have support for everything in the product. This support is contained in the audit documentation. Enough sources should be provided so that the referencer can read the sources provided and readily see the support.

Key considerations when indexing are:

- Make it easy for the referencer to find support. To indicate the exact location of support highlight or otherwise indicate the relevant portion of the page and link the draft report to this section of the document.

- Index Highlights, Conclusions, and Recommendations to the relevant sections of the report rather than to the original support. This helps ensure that the report contains consistent information and that conclusions and recommendations have been adequately supported by the body of the report. Similarly, summary statements at the beginning of finding sections or paragraphs (also called "charge paragraphs") can be supported by the use of "see below" or "see p. x") to indicate that the support can be found later in the report.

**☑ TIP . . . The introduction part of the Highlights section may contain unique indexes.**

- The news media—newspapers, magazines, radio, and television—are useful sources of background information on activities under review. However, these sources generally are not used as the main or sole support for factual statements as they may not be reliable. Such sources should only be used as part of indexing if the statement being supported is that a topic has been in the news.

- Factual statements (for example, dates or amounts) made during interviews should be backed up by documentation, which then should be used as the support instead of the interview or in conjunction with the interview write-up.

- E-mails without supporting documentation should be treated as testimonial evidence, which then needs to be corroborated, as appropriate.

- If interviews serve as sole support, the draft should attribute the information to the relevant official and identify that official's role (for example, the chief information officer or the official responsible for monitoring…). Use of the term "officials" must be supported by statements from more than one individual.

- Be cognizant that information on the Internet is not always kept up-to-date. If evidence from the Internet is a piece of critical support, consider corroborating that it is the current version and indicating on the document how such corroboration was accomplished.

- It is preferable that calculations generated by the SAO or an outside entity be verified before being submitted to the referencer. The verifier needs to indicate that the information is correct by (1) placing a checkmark or tick mark next to each calculation verified and (2) noting on the document his or her initials.

- If the information in the report is a summary from many sources, a summary-level workpaper is oftentimes the most effective and efficient indexing mechanism. Summary workpapers should (1) indicate who did the analysis and the date it was completed, (2) be cross-indexed to the original sources of the information, (3) have column and row labels, headings, conclusion statements, or all of these, which link directly to draft language being supported, (4) include an explanation of the methodology used, if not obvious (e.g., formulas, calculations, and ranges used in calculations), (5) include checkmarks or tick marks from tracer/verifier (with a legend), and (6) indicate who performed tracing/verifying and the date completed.

- Indexing a negative statement can be challenging. If the statement in the report is that a document or process does not exist, it can be indexed to an interview or exit conference confirmation. If the statement is that a document does not contain certain information, an auditor's note can be written on the front page of the document, with the name of the auditor who reviewed it and the date, indicating that upon review, the document did not contain the applicable information. Alternatively, a record of analysis can be used that cross-indexes the documents that were reviewed and what was or was not found.

- Limit the use of "SAO Opinion" as the index source. Opinion should be limited to criteria or standards of what should be, based on expert knowledge or the consequence of not complying with a standard, such as the consequence of failing to establish internal controls. "SAO Opinion" should never be used to assert a statement of fact.

- If a statement in the report is simply a declaration of what the SAO did not do as part of an audit, "SAO Assertion" can be used as an index.

See appendix 7.12 for a checklist of items to consider when indexing a report.

**Referencing**

☑ **TIP . . . The entire draft does not need to be indexed to start referencing. It can be more efficient to provide the referencer with report sections with which to start while completing indexing on other sections. The timing on when to start referencing is left to the professional judgment of the audit manager, in consultation with the referencer.**

Once a draft is indexed, referencing can begin. It is SAO's preferred practice that the documentation, referencing, and other quality assurance processes be completed before a draft of the product is provided to the entity and/or other affected parties for comment. Completing the quality assurance processes before sending a draft product out for comment is desirable so that external parties receive as accurate a product as possible. In addition, it helps focus the external parties on the main points rather than on small inaccuracies or inconsistencies that have not yet been corrected. In any event, referencing should take place before the SAO product is issued.

Referencing should be completed by an auditor independent of the audit. The independent auditor chosen to reference an audit report is required to have completed indexing and undergone referencing on at least two products. The Chief Auditor will assign referencers.

☑ **TIP . . . It is recommended that the referencer read the entire report before starting the referencing process to gain perspective on the issue being reported.**

In its broadest sense, the referencer reviews the indexed draft and compares it to the source documents in the audit documentation for accuracy. In particular, the referencer should:

- Determine whether sufficient and appropriate evidence is present to support the product's findings, conclusions, and recommendations.
- Confirm the presence of evidence of supervisory review.
- Raise any concerns they may have about whether the product's conclusions and recommendations flow logically from the evidence supporting them.

☑ **TIP . . . One way to indicate that statements have been checked is to add tick marks (~) over key items, titles, numbers, and dates to signify that it was adequately supported.**

- Check that every statement of fact, figure, and date is supported by documentation and is correctly reported in the draft product. Generally, the referencer does not recheck the accuracy of summarized spreadsheet data in the audit documentation if there is evidence that the data have been traced and verified by someone other than the preparer. However, the referencer should understand the rationale and the methodology for preparing the spreadsheets and be satisfied that they are appropriate.
- Foot and cross-foot all numbers that appear in the report.

- Check that the evidence in the audit documentation adequately supports the findings. The referencer should be alert to and comment on pertinent evidence in the audit documentation that either contradicts or calls into question facts, statements, or conclusions in the product.

- Check that draft product(s) used as support have been referenced and all comments cleared.

- Check that text and accompanying graphics or tables are consistent.

- Check section headers and confirm that they are consistent with the message in the section.

Referencers need not look to find a word-for-word match between the product and the supporting documentation. However, the referencer must ensure that the changes made by the team do not alter the meaning of the cited evidence. Referencers also should not raise editing issues as points unless they are significant enough to affect the report's message. (However, referencers are encouraged to communicate editing or formatting issues informally.)

The referencer should write a "point" if there is inadequate support for a statement in the cross-referenced workpaper or some other problem with the product has been found. Points should be numbered consecutively, and placed in the report, next to the line with the problem. The same point number should be written on a Referencing Review Sheet (see appendix 7.13), along with a brief description of the problem.

Referencer points should be resolved prior to the final product being issued. The audit team should respond to each point by documenting how the referencer's comments were resolved. The team annotates the referencer's comments on the Referencing Review Sheet to provide additional documentation indexes, clarify references, explain the issue, or indicate that report changes were made. The draft is also annotated to indicate any insertions or deletions that may be needed to resolve referencing comments. The referencer reviews the responses of the audit team to the initial referencing comments and indicates his or her agreement or disagreement on the Referencing Review Sheet.

It is expected that the vast majority of points will be resolved between the referencer and the audit team. However, occasionally an issue cannot be resolved between the parties.[47] In this case, the Chief Auditor has the authority to pass on unresolved or open comments.[48] Passing on a referencing comment means that the audit team has rejected the referencer's comment based on their subject knowledge and expertise. The audit team documents the basis for their decision to pass on the comment(s) on the page of the Referencing Review Sheet where the referencer's comment was made. The Chief Auditor indicates his or her concurrence by initialing the audit team's decision.

When referencing is complete and before the draft is issued (either for management's comments or in final form), somebody on the audit team should be designated to make sure that all agreed upon changes were made.

Appendix 7.14 contains a checklist that the referencer should review before finalizing referencing to ensure that all elements are completed.

#### 7.4.2.6 Report Review Process

The SAO's report review process is a key quality assurance process to ensure that the report message is timely, complete, accurate, objective, convincing, clear, and concisely conveyed. Once the audit team has completed the initial draft, they should provide a copy to the State Auditor and Deputy State Auditor for concurrent review. One of these individuals will be designated as responsible for completing the Report Quality Checklist (appendix 7.11). The designated individual should perform a detailed quality review of the report to check the:

- Product's consistency with GAGAS and SAO reporting policies.
- Organization, tone, and grammar.
- Completeness and clarity of the product's objectives, scope, and methodology statements.

[47] Although referencing is generally handled in a professional manner, at times disagreements occur that may cause the referencer to perceive a challenge to his or her independence. In such cases, the referencer should notify the Deputy State Auditor for help in resolving the issue.

[48] If the Chief Auditor is the engagement's Audit Manager, another audit manager will have the authority to pass on referencing points.

- Linkages between the audit objectives, scope and methodology, findings, conclusions and recommendations.
- Soundness of the evidence and logic leading to, and the balance of, the product's findings, conclusions, and recommendations.
- Appropriateness and constructiveness of the recommendations.
- Adequacy of the treatment of the audited entity's and/or affected party's comments.
- Product's responsiveness to the engagement's objectives.

The completed Report Quality Checklist should be returned to the audit team for inclusion in the administrative file.

Both the State Auditor and Deputy State Auditor should approve the draft report to be sent to the applicable organization(s) for comment.

### 7.4.2.7 Obtaining the Views of Responsible Officials

The SAO values the views of officials as a way not only to provide additional means of assurance concerning the accuracy of the facts presented but also to generate cooperation in taking action to achieve needed improvements. Moreover, **GAGAS 9.50** states that auditors should obtain and report the views of responsible officials of the audited entity concerning the findings, conclusions, and recommendations included in the audit report, as well as any planned corrective actions. Accordingly, the SAO provides responsible entity officials and other directly affected parties with an opportunity to review and provide comments on a draft of a product before it is issued. Responsible parties include agency/department officials and other directly affected parties that have responsibilities for the program under audit.

SAO transmits most draft reports for comment to the agencies via e-mail in pdf format, which protects the files from alteration. Reports containing sensitive information may be transmitted through other means that are agreed upon with the audited entity. SAO will provide the draft report to the entity-designated liaison or point of contact. If an entity has not designated a central liaison, SAO will provide the notification to the responsible management official.

A signed transmittal letter accompanies each draft report (also in pdf form) to inform recipients of (1) SAO's request for written comments and (2) the time frame within which the comments are due. The transmittal letter also states

that the draft product is not final, is therefore subject to change, and must be safeguarded to prevent its transmittal to unauthorized personnel, alteration, or premature release. The State Auditor or Deputy State Auditor usually signs the transmittal letter that accompanies the product. Appendix 7.15 provides an example of a transmittal letter.

A key element in the transmittal letter is the date that the comments are due. The amount of time available for the entity to comment is determined on a facts-and-circumstances basis. In keeping with our values of fair and balanced reporting, the SAO will generally give an entity 10 working days from the date of the transmittal letter to comment on a product. However, the time provided for management's response may be shorter or longer depending on (1) timing sensitivities that could affect the usefulness of the report to the public or interested parties and (2) the extent to which substantive discussions have already been held between SAO and the agency. Consideration of a management comment period that differs from this standard should be discussed with the State Auditor and Deputy State Auditor.

If the audited entity requests a time extension or does not respond to the request for comments within the designated time period, the audit team should discuss the next step with the State Auditor and Deputy State Auditor. As a general rule, the SAO will consider granting a time extension request as long as it is within 7 days of the original request and if there is not a compelling reason for issuing the report earlier. Being accommodating to the time extension request must be balanced by the need to issue a report with timely, not stale, data.

In all cases, the SAO reserves the right to issue the product if comments are not received within the time allotted. In such cases, the reasons for not including management's comments are stated in the product.

SAO prefers to receive management's comments in writing on the entity's letterhead with the responsible official's signature as written comments are typically reproduced as an appendix in the issued product. When an entity's designated official provides oral comments, the audit team should summarize these comments for the report and gives the designated official an opportunity to respond to the accuracy of the characterization of the entity's position. **(GAGAS 9.51)** The summary of the oral comments should identify (1) the names and positions of the persons providing comments and whether their comments represent the commenting organization's official position; (2) areas of agreement and proposed actions; (3) areas of disagreement and an explanation of the commenting party's rationale; and (4) any additional

information provided by commenting parties to support or refute SAO positions.

An e-mail describing the agency's position is not printed in the product; it shall be characterized in the report in a similar manner as oral comments.

### 7.4.2.8 Final Review and Signoff

Once the audit team receives management's comments, it should evaluate the response and make appropriate changes to the report. The review process outlined in section 7.4.2.6 should be followed after the draft is changed.

The audit team must not date the report nor add the signer's electronic signature until after the final written sign off has been received from the State Auditor. Prematurely adding the date and signature makes it difficult to distinguish between the draft and final product. In addition, should the draft product be inadvertently leaked to the public, it will give the appearance of being the final document if it has a date and signature.

Once the audit report has been signed and dated, it should be made into a *.pdf file for security purposes. The Word version of the draft report should not be sent outside of the SAO.

### 7.4.2.9 Distribution

**☑ TIP . . . Check with the State Auditor or Deputy State Auditor as to whether there are Committees in the General Assembly with jurisdiction over the program or entity being audited that might be interested in receiving a copy of the report.**

According to 32 VSA 163(4), the State Auditor's Office shall "From time to time, as examinations are completed, report his or her audit findings first to the speaker of the house of representatives and the president pro tempore of the senate, then to the governor, the secretary of administration, the commissioner of finance and management and the head of the department, institution, or agency covered by the report. The audit reports shall be public records and ten copies of each report shall be furnished to and kept in the state library for public use." (PSM section 7.4.2.10 describes how to handle products with confidential or sensitive information.) Final audit reports are generally provided in hard or electronic copy according to the wishes of each entity. All audit reports without confidential or sensitive information are also posted on the SAO's website.

SAO's Executive Assistant handles printing, distribution, and posting of audit reports so the *.pdf version of the report should be electronically transmitted to this individual. The Executive Assistant will provide copies of the transmittals of the report (generally emails) to the audit team for inclusion in the audit workpapers in TeamMate®.

# Chapter 7

# Performance Audits

7.4.2.10 Reporting Confidential or Sensitive Information

Access to SAO reports and other products is in the public interest and promotes transparency in government operations. However, certain information may be confidential, or sensitive, or otherwise prohibited from general disclosure by federal, state, or local laws or regulations. Audit teams should make inquiries of the audited entities about the sensitivity of information it has received and whether there are any public disclosure restrictions. For example, there are strict privacy requirements related to medical information (per the federal Health Insurance Portability and Accountability Act—HIPAA).

Audit teams should also review Vermont's public records statutes, 1 VSA §316 and §317, if there is any question as to whether certain information should, or should not, be made publicly available (as described in **GAGAS 9.63, 9.67**). For example, the following public records are exempt from public inspection and copying and, therefore, should also not be included in SAO public audit products.

- Records dealing with the detection and investigation of crime.
- Tax returns and related documents.
- Personal documents relating to an individual, including information in files maintained to hire, evaluate, promote or discipline any employee of a public agency, information in files relating to personal finances, or medical or psychological facts.
- Information pertaining to the location of real or personal property for public agency purposes prior to public announcement of the project and information pertaining to appraisals or purchase price of real or personal property for public purposes prior to the formal award of contracts thereof.
- Passwords, access codes, user identifications, security procedures and similar information the disclosure of which would threaten the safety of persons or the security of public property.
- The account numbers for bank, debit, charge, and credit cards held by an agency or its employees on behalf of the agency.

The audit team is urged to consult with the Office of the Attorney General if there are any questions regarding any requirements or other circumstances that may necessitate the omission of certain information from public audit reports.

When circumstances call for omission of certain information in publicly available reports, the audit team should evaluate whether this omission could distort the audit results or conceal improper or illegal practices (if so, report language should be revised to avoid the user from drawing inappropriate conclusions). In addition, if certain pertinent information is prohibited from public disclosure or is excluded from the report due to the confidential or sensitive nature of the information, auditors should disclose in the report that certain information has been omitted and the reason or other circumstances that makes the omission necessary.[49] **(GAGAS 9.62, 9.61)**

There are several ways in which to handle the reporting of confidential or sensitive information, as follows:

- If the confidential or sensitive information is tangential to the audit objective and finding, then it should be excluded from the report.
- If confidential or sensitive information is necessary to satisfy the engagement's objectives, the team should issue a public product for general distribution and a separate restricted product containing the confidential or sensitive information for distribution only to those with appropriate clearances and authority. For example, if the audit objective is to assess an entity's computer security, a public report with summary-level information should be issued along with a confidential report to the audited entity that contains any detailed findings and recommendations that, if disclosed, could cause potential damage if misused.
- If the confidential or sensitive information is a critical element of an objective or finding, but there are other elements of the report that do not contain such data, then the audit team should indicate in the report that it is providing the restricted information only to the applicable entity through a confidential appendix.

### 7.4.2.11 Workpapers Associated with Reporting Phase

The audit documentation associated with a particular engagement is required to include certain documentation from the reporting phase, as follows:

- Final report.

[49] **GAGAS 9.64** states that if the omitted information is not necessary to meet the audit objectives then the report need not refer to its omission.

- Draft sent for management's comments.
- Referenced versions (including Referencing Review Sheets).

See PSM section 4.2 for more information on records management requirements.

## 7.5 Post-Issuance

### 7.5.1 GAGAS Citation

Not applicable.

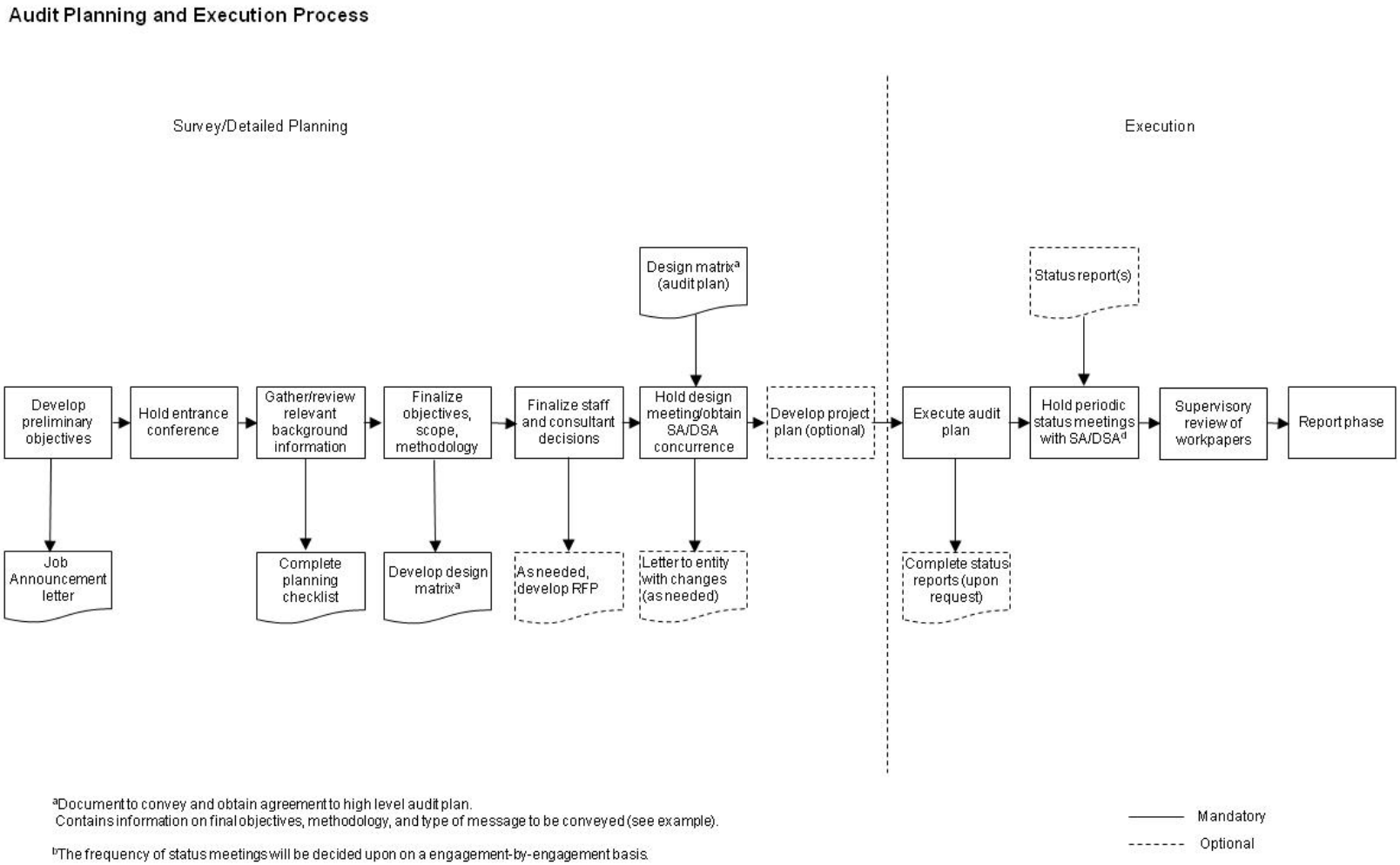
SAO Standard

Once the audit is complete and the report published, there are a few administrative tasks to be completed. These tasks should be completed within 10 working days of report issuance.

- Make sure that the State field for all workpapers in TeamMate® show as "Reviewed – Accepted."
- Add the report's recommendations and brief summary of the applicable agency comment to TeamMate®.
- Close the audit in TeamMate®.
- Go through the electronic folders for the audit that are outside of TeamMate® and delete files that are obsolete, transitory, or superseded in accordance with PSM 4.2.2.

# Appendix 7.1

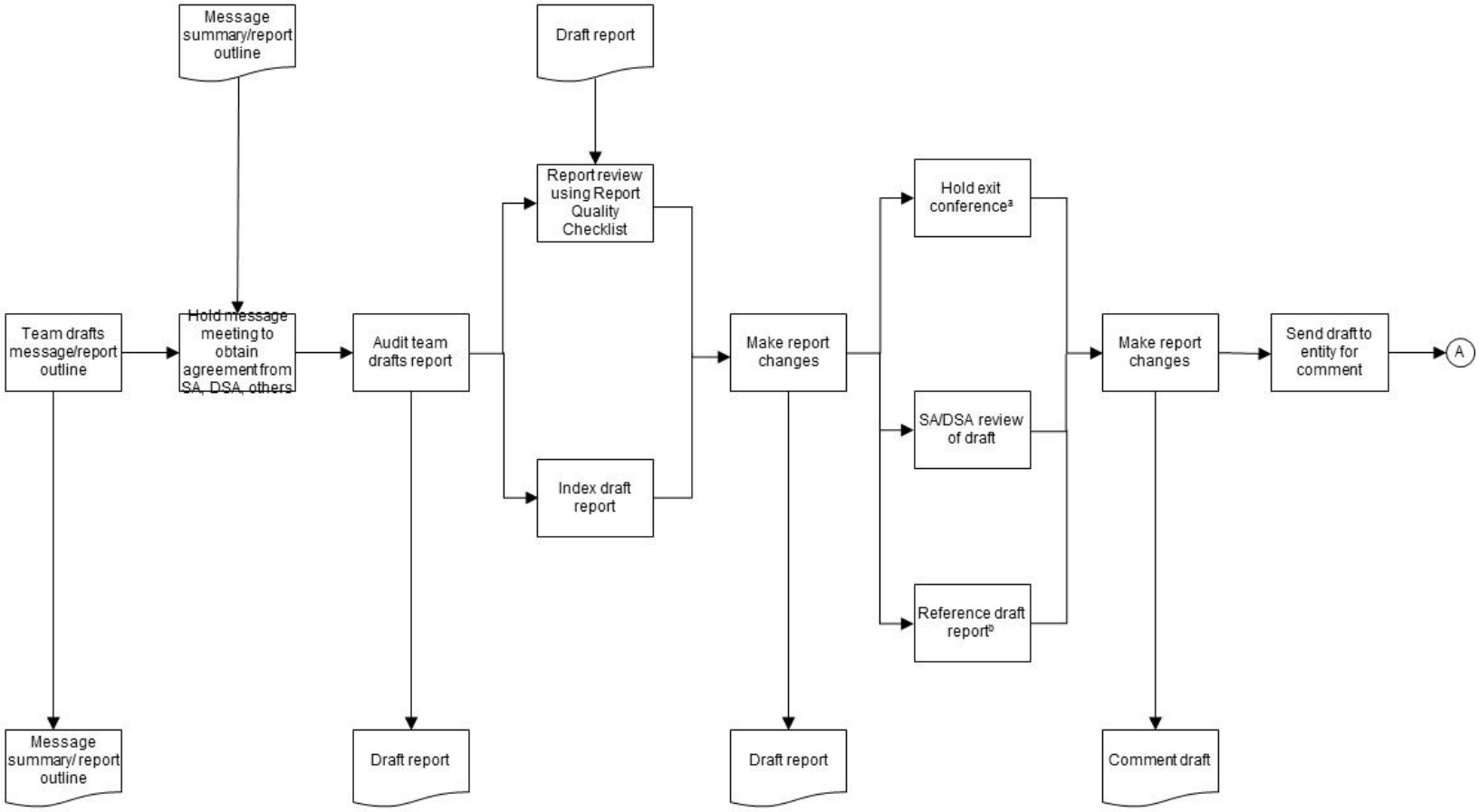
## Flowchart of Audit Process



# Appendix 7.1

## Flowchart of Audit Process

**Report Phase**



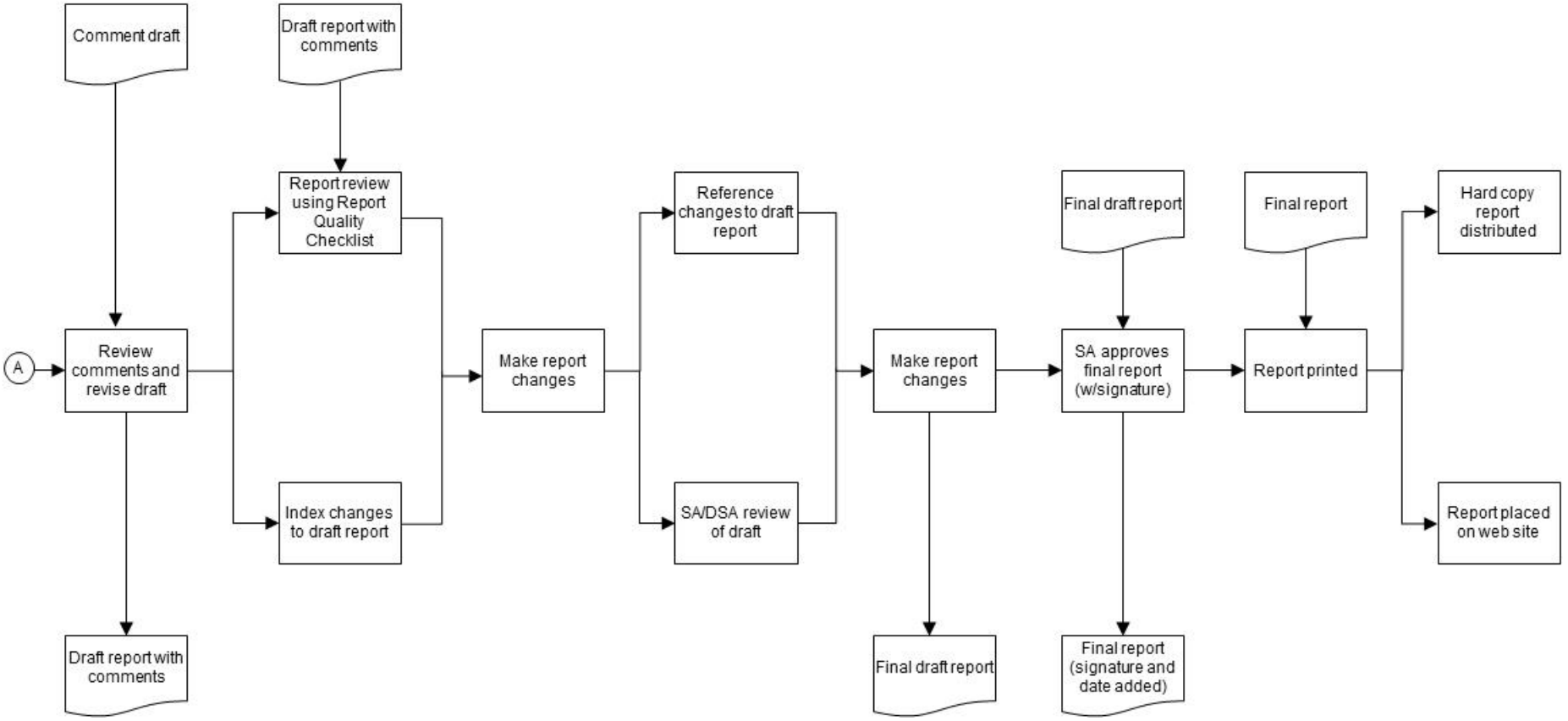

[a]Timing of exit conference at the discretion of audit team and can be held at the end of audit execution..

[b]Timing of referencing at the discretion of audit team. However, it is preferable that at least preliminary referencing (not all points may be cleared) be completed before the draft is sent for comment.

# Appendix 7.1

## Flowchart of Audit Process

**Report Phase (continued)**



# Appendix 7.2

## Sample Job Announcement Letter

**{date}**

Name
Audited Entity

Dear …

This letter is to inform you that my office will be conducting an audit of …. The audit will be conducted in accordance with our responsibilities and authority contained in 32 VSA §163 and §167 [or other relevant citation].

The preliminary objectives of this engagement are … During the course of the audit these objectives may change based on the information gathered during the planning phase of the audit. We will inform you if the objectives change in such a way as to significantly change the scope of the audit.

This audit will be conducted by … [name, title] and … [name, title] who can be reached at 828-xxxx and 828-xxxx, respectively. Unless informed otherwise, we will contact XXX to schedule an entrance conference to formally begin this audit.] OR [We request that you designate a primary contact person with whom we can coordinate this audit by [date]. We will then work with the contact to schedule an entrance conference to formally begin the audit.]

At the conclusion of field work, we will meet with you to discuss the findings and recommendations resulting from our work. After this meeting we will provide you with a draft report for comment. After considering your response to the draft report, and revising the report as necessary, we will issue a final report to the Governor, legislative leaders, other statutorily mandated addressees, and the public.

We look forward to working with you or your staff on this engagement.

Sincerely,

{name}
Vermont State Auditor

# Appendix 7.3

## Suggested Background Material

The audit team should review pertinent historical, organizational, and financial information to become familiar with the subject or entity and provide appropriate context with which to evaluate findings. The following are the types of information that the audit team may want to review to obtain this context. The type and amount of information reviewed is a matter of professional judgment on the part of the audit team.

## Historical Information

- Legal authority for the audited organization, program, activity, or function.
- Intended benefits.
- Recent changes in organization or objectives.
- Accomplishments.
- Current objectives.
- Workload, peak periods and backlog.
- Known problems or issues affecting the performance of the program.

## Organizational Information

- Key program staff members and their responsibilities for administering or monitoring the program or activity being audited.
- Key divisions and their roles, staffing, and principal responsibilities.
- Physical location of the program divisions (particularly if program delivery is distributed or de-centralized).
- Major organization processes/activities (obtain or develop flowcharts if complicated or complex).
- How the organization uses and relies on IT and data systems for program management or delivery.
- Records retention policy and organization of records.

# Appendix 7.3

## Suggested Background Material

- Samples of key forms.

## Financial Information

- Sources and amount of major program revenues and expenditures.
- Budget documents (these documents have a wealth of programmatic, performance, and budgetary data).
- Business or strategic plans, including goals, objectives, and performance measures.
- Statistical information on actual program performance.

## Other Information

- Identification of industry associations or government organizations relevant to the program or activity being audited, including whether relevant studies have been published.

# Appendix 7.4

Reserved

# Appendix 7.5

## Design Matrix

**Design Matrix for Audit of ?**

**Issue/Problem Statement:**
*Guidance (Delete this guidance before finalizing)*
*Put the issue into context. Provide sufficient background information for the reader to understand the nature of the issue, the significance of the program, potential problem or concern and its magnitude, political environment, and key players. Do not paraphrase or repeat the objectives to be addressed. The problem statement provides the context for the audit and should be limited to 1-2 pages.*

**Audit Team (name, title, and estimated hours):**

**Internal Stakeholder(s):**

**Milestones:**

| Activity | Estimated Completion Date (can be a range) |
|---|---|
| Completion of audit plan (i.e., design matrix approval) | |
| Execution of audit plan | |
| Message summary meeting | |
| Report draft to reviewers | |
| Index/reference report | |
| Exit conference | |
| Report to management for comment | |
| Comments back from management | |
| Final report issuance | |

**Total Estimated Staff Hours:**

**Total Estimated Contract Costs (if applicable):**

# Appendix 7.5

# Design Matrix

**Design Strategy**

*Guidance (delete when final.)*

*1. Each objective should be a separate row so that the information in each column can be associated with a specific objective.*

*2. Include audit steps to collect the criteria to be used to evaluate the condition of the issue. Within the Information Required and Sources column, the team should identify plans to collect information that documents criteria. For example, information on the program's goals, the agencies' policies and procedures, best practices, etc.*

*3. Identify plans to follow up on known significant findings and open recommendations, if applicable. Within the Information Required and Sources column, include steps to follow up on significant findings and open recommendations that were discovered in obtaining background information.*

*4. If the team will be using sampling or computer-based data, identify how this methodology will be addressed (strategies) within the Scope and Methodology column. For example, use the terms random sampling, selected case studies, reliable computer-based data, etc. If data significant to an objective is computer-generated, include in the Scope and Methodology column and, if applicable, the limitations column, how the reliability of this data will be assessed.*

| Objectives | Information Required and Source(s) | Scope and Methodology | Limitations | What This Analysis Will Likely Allow SAO to Say |
|---|---|---|---|---|
| **What are the objectives that the team is trying to address?**<br><br>Identify each major evaluation question that the team must ask to address the objective<br><br>Ensure each major evaluation question is specific, objective, neutral, measurable, and do-able. Ensure key terms are defined. | **What information does the team need to address the objective? Where will they get it?**<br><br>Identify plans to collect documents that establish the "criteria" to be used to evaluate the condition of the issue.<br><br>Identify documents or types of information that the team must have.<br><br>Identify plans to address internal controls and compliance.<br><br>Identify plans to follow up on known significant findings and open recommendations that team found in obtaining background information.<br><br>Identify sources of the required information, such as databases, studies, subject area experts, program officials, models, etc. | **How will the team address each objective?**<br><br>Describe strategies for collecting the required information or data, such as random sampling, case studies, surveys, focus groups, questionnaires, benchmarking to best practices, use of existing data bases, etc.<br><br>Describe the planned scope of each strategy, including the time frame, locations to visit, and sample sizes.<br><br>Describe the analytical techniques to be used, such as inquiry, cost benefit analysis, modeling, descriptive analysis, content analysis, case study summaries, etc. | **What are the engagement's designs limitations and how will it affect the product?**<br><br>Cite any limitations as a result of the information required or the scope and methodology, such as:<br><br>--Questionable data quality and/or reliability.<br><br>--Inability to access certain types of data or obtain data covering a certain time frame.<br><br>--Security/confidentiality restrictions.<br><br>--Inability to generalize or extrapolate findings to the universe.<br><br>Be sure to address how these limitations will affect the product. | **What are the expected results of the work?**<br><br>Describe what the SAO can likely say in objective terms. Do not describe a specific finding, but instead a type of finding. For example, "The SAO will be able to state whether the program is or is not in compliance with 32 VSA xxxx" or "The SAO will be able to report on how much program xxx costs the State" or "The SAO will be able to report the extent to which Department XXX has implemented expected fiscal controls."<br><br>Ensure that the proposed answer addresses the objective in column one. |

# Appendix 7.5

# Design Matrix

**Attachment** (*Delete all guidance in italics when completed)*

**Special Planning Considerations:**

*General Guidance (guidance specific to an area may be included below). Briefly explain the approach to these required planning consideration elements. Each of these elements are required to be considered only within the context of the audit objectives and, in some cases, may not be applicable (document why in the applicable section). In addition, if the audit approach for a particular objective outlined in the matrix largely addresses a particular special planning element, just refer to the design matrix. For example, an audit objective that seeks to assess whether an IT system is reliable would likely address information controls as part of the methodology column in the matrix and, therefore, there is no need to duplicate the planned approach in this section.*

Audit Risk (see section 7.1.2.1d of PSM)

*Each audit risk identified in the table below should have an associated risk level (high or low). The risk level should be based on an assessment of significance (i.e., impact or magnitude of potential harm to achieving the audit objective) and likelihood of occurrence. This assessment is based on the professional judgment of the audit team. Any risk level designated as high should have a strategy for addressing. A strategy for addressing a low audit risk is not required.*

| Objective No. | Audit Risk Factor (threat) | Risk Level | Strategy (if high) |
|---|---|---|---|
| | | | |
| | | | |
| | | | |

Fraud Risk (GAGAS 8.71-8.75)

*Explain the process used to assess the risk of fraud occurring that is significant to the audit objectives (e.g., internal brainstorming sessions, including attendees; discussions with auditees; fraud alerts by federal organizations or others; or reviews of reports of fraud in the topic under audit that are reported by other auditors or the media). During the brainstorming within the team, discuss: (1) inherent fraud risks, (2) incentives to commit fraud, (3) opportunities to commit fraud (e.g., internal control weaknesses), and (4) rationalization to commit fraud.*

*Document the results of the process in the following table. If no potential fraud schemes significant to an audit objective are identified, see note in the table.*

# Appendix 7.5

## Design Matrix

| Objective | Potential Fraud Scheme | Likelihood (remote, possible, probable) | Severity (low, medium, high) | Procedures (if likelihood = probable AND severity ≠ low) |
|---|---|---|---|---|
| | | | | |
| | | | | |
| | | | | |

Provisions of Laws, Regulations, Contracts, and Grant Agreements (GAGAS 8.68 – 8.70)

*(1) Explain the process used to identify any provisions of laws, regulations, contracts, or grant agreements that are directly related to the audit objective.*

*(2) Identify any laws, regulations, contracts, or grant agreements that, if instances of non-compliance are found, could significantly affect the audit objectives or conclusions.*

*(3) For each law, regulation, contract, or grant agreement so designated, explain the procedures that will be used to obtain reasonable assurance of detecting instances of noncompliance.*

Internal Control (GAGAS 8.39 – 8.53)

*Summarize results of the preliminary assessment of significance of internal control (Appendix 7.7) and link to the form. Include the assessment form in the design documentation provided as part of the design meeting.*

Information Systems Controls (GAGAS 8.59 – 8.67)

*Summarize results of the assessment of significance of information system controls (Appendix 7.8) and link to the form. Include the assessment form in the design documentation provided as part of the design meeting.*

Are there any elements of a finding (condition, criteria, cause, or effect) that this engagement will not develop? If so, please explain.

# Appendix 7.6

## Documenting the Results of the Design Meeting

**SUMMARY OF DESIGN MEETING RESULTS**

Audit Title:

Date Meeting Held:

Attendees:

Agreed-upon Final Audit Objectives:

Summary of changes made to the design matrix or audit approach:

The State Auditor and Deputy State Auditor agreed that, based on a review of the design matrix and discussions with the audit team:

- The proposed audit objectives are likely to result in a useful report.
- The audit plan adequately addresses relevant audit risks.
- The proposed audit scope and methodology are adequate to address the audit objectives.
- Available evidence is likely to be sufficient and appropriate for purposes of the audit.
- Sufficient staff, supervisors, and specialists with adequate collective professional competence and other resources are available to perform the audit and to meet expected time frames for completing the work.
- The audit does not pose a threat to the independence of the SAO or safeguards have been applied to eliminate threats or reduce them to an acceptable level.

# Appendix 7.7

## Internal Control Assessment

**Purpose:** To document the [preliminary analysis] [final analysis] of internal controls for objective X
**Source:** SAO

**Instructions**

1. The SAO considers and concludes on the significance of internal control to an audit objective at the end of the planning phase (preliminary analysis) and, taking into consideration information gathered during the execution phase, prior to the message meeting (final analysis).
2. During the planning phase of the audit, the audit team obtains a general understanding of how internal controls are pertinent to the audit objective and collects relevant criteria.
3. The preliminary analysis reaches a tentative assessment of which, if any, control component and principle are significant to the audit objective. GAGAS defines significance as the relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors. The preliminary assessment is grounded in the professional judgment of the audit team based on the wording of the objective and information collected during the planning phase of the audit). FILL IN SECTION A OF FORM.
4. As part of the preliminary assessment, and only for each control component and principle considered significant to the audit objective, the audit team determines the key control areas that will be evaluated during the execution phase. This form contains the cross-reference to the COSO guidance for the auditor to consider in making this decision. For those control areas identified as key, the auditor should (1) consider and add other relevant criteria to the criteria column (e.g., the State's practices at https://finance.vermont.gov/policies-and-procedures/internal-controls, the organization written policies or procedures, COSO, etc.) and (2) describe the audit procedures to be performed or link to another document with these procedures. FILL IN SECTION B OF FORM. This constitutes the preliminary analysis workpaper and should be included as part of the documentation provided during the design meeting and added to TeamMate*.
5. During the execution phase, the audit team should reconsider the preliminary assessment of the significance of internal control based on the findings of the audit. For example, if a difference between criteria and condition is found, the audit team is expected to consider whether this may be a result of a deficiency in internal control. This may necessitate the audit team changing the preliminary assessment of the significance of a control component and/or principle and identifying new key control areas to evaluate. Should this occur, REVISE SECTIONS A AND B OF FORM.
6. Before the end of the audit (preferably before message agreement), the audit team should complete the key control audit work as well as a final analysis of internal control for the audit objective, including whether deficiencies were found, whether they were significant to the audit objective, and how a significant deficiency will be reported. FILL IN SECTIONS C AND D OF FORM (mark as not applicable if internal control determined not to be significant to the audit objective). This constitutes the Final Analysis workpaper and should be added to TeamMate*.

**Application Guidance**

GAGAS 8.41 Factors that may be considered in determining the significance of internal control to the audit objective: (1) the subject matter under audit, including the auditee's objectives and inherent risks, (2) the nature of findings and conclusions expected to be reported, (3) the categories of entity objectives--operations, reporting, and compliance, and (4) the components of internal control and their integration.

GAGAS 8.48 Characteristics of key controls are (1) their failure may significantly affect the achievement of an auditee's objectives, yet not reasonably be detected in a timely manner by other controls and (2) their operation may prevent or detect other internal control failures before they have an opportunity to become significant to the achievement of the auditee's objectives.

| SECTION A: Applicability of Component and Principles of Internal Control to Audit Objective (GAGAS 8.39) | | | | SECTION B: Control Areas to Audit (GAGAS 8.40) | | | | SECTION C: Link to Key Control Audit Work (GAGAS 8.49) | SECTION D: Assessment of Results of Audit Work (GAGAS 8.54, 9.29, 9.31) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| COSO Control Component | Sig? (S/NS) | COSO Control Principle | Sig? (S/NS) | Brief Description of Control Area | Criteria for Control (COSO + State's managers guide or best practices, organization's policies or procedures) | Key Control Area? (Y/N/NA) | If Yes, describe audit procedure(s) OR link to procedures | | Deficiency? (Y/N) | Brief Description | Sig? (S/NS) | Audit Report? (Y/N) | Other Product? (Y/N) |
| 1.0 Control Environment | | 1.1 The organization demonstrates a commitment to integrity and ethical values. | | 1.1.1 Tone at the Top | COSO, p. 33 - 35 | | | | | | | | |
| | | | | 1.1.2 Standards of Conduct | COSO, p. 35 - 36 | | | | | | | | |
| | | | | 1.1.3 Evaluated adherance to standards of conduct and addressed deviations | COSO, p. 36, 37 | | | | | | | | |
| | | 1.2 The oversight body demonstrates independence from management and exercises oversight of the development and performance of internal control. | | 1.2.1 Oversight body authorities and responsibilities | COSO, p. 40 | | | | | | | | |
| | | | | 1.2.2 Oversight body independence and expertise | COSO, p. 41, 42 | | | | | | | | |
| | | | | 1.2.3 Oversight body exercised oversight of development and performance of internal control | COSO, p. 42, 43 | | | | | | | | |
| | | 1.3 Management establishes structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives. | | 1.3.1 Organizational structure and reporting lines established | COSO, p. 45, 46 | | | | | | | | |
| | | | | 1.3.2 Authorities and responsibilities defined and assigned | COSO, p. 46, 47 | | | | | | | | |
| | | | | 1.3.3 Limitations of authority defined | COSO, p. 48 | | | | | | | | |
| | | 1.4 The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives. | | 1.4.1 Policies and practices reflect expectations of competence | COSO, p. 49, 50 | | | | | | | | |
| | | | | 1.4.2 Evaluated competence | COSO, p. 50 | | | | | | | | |
| | | | | 1.4.3 Processes for attracting, developing and retaining individuals | COSO, p. 51 | | | | | | | | |
| | | | | 1.4.4 Planned and prepared for succession | COSO, p. 51 | | | | | | | | |
| | | 1.5 The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives. | | 1.5.1 Enforced accountability for performance of internal control | COSO, p. 54, 55 | | | | | | | | |
| | | | | 1.5.2 Established performance measures, incentives, and rewards | COSO, p. 55, 56 | | | | | | | | |
| | | | | 1.5.3 Considered whether there are excessive pressures to "cut corners" and reduces such risk | COSO, p. 56, 57 | | | | | | | | |
| | | | | 1.5.4 Evaluated performance and rewards or disciplines individuals | COSO, p. 58 | | | | | | | | |
| 2.0 Risk Assessment | | 2.1 The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks related to objectives. | | 2.1.1 Operations objectives established | COSO, p. 64 | | | | | | | | |
| | | | | 2.1.2 External non-financial reporting objectives established | COSO, p. 67 | | | | | | | | |
| | | | | 2.1.3 Internal reporting objectives established | COSO, p. 68 | | | | | | | | |
| | | | | 2.1.4 Compliance with laws and regulations objectives established | COSO, p. 69, 69 | | | | | | | | |
| | | 2.2 The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed. | | 2.2.1 Identified and analyzed risks | COSO, p. 70, 73 | | | | | | | | |
| | | | | 2.2.2 Performed risk analysis | COSO, p. 73 - 75 | | | | | | | | |
| | | | | 2.2.3 Consideration of how risks should be managed | COSO, p. 75, 76 | | | | | | | | |
| | | 2.3 The organization considers the potential for fraud in assessing risks to the achievement of objectives. | | 2.3.1 Considered various types of fraud | COSO, p. 78 - 80 | | | | | | | | |
| | | | | 2.3.2 Assessed the risk of management override of internal control | COSO, p. 81 | | | | | | | | |
| | | | | 2.3.3 Considered how incentives and pressures, opportunity, and attitude and rationalization affect fraud risk | COSO, p. 81 - 83 | | | | | | | | |
| | | | | 2.3.4 Mitigated risk of fraud | COSO, p. 82 | | | | | | | | |
| | | 2.4 The organization identifies and assesses | | 2.4.1 Assessed changes in external environment | COSO, p. 83 - 85 | | | | | | | | |

# Appendix 7.7

## Internal Control Assessment

| SECTION A: Applicability of Component and Principles of Internal Control to Audit Objective (GAGAS 8.39) | | | | SECTION B: Control Areas to Audit (GAGAS 8.40) | | | | SECTION C: Link to Key Control Audit Work (GAGAS 8.49) | SECTION D: Assessment of Results of Audit Work (GAGAS 8.54, 9.29, 9.31) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| COSO Control Component | Sig? (S/NS) | COSO Control Principle | Sig? (S/NS) | Brief Description of Control Area | Criteria for Control (COSO + State's managers guide or best practices, organization's policies or procedures) | Key Control Area? (Y/N/NA) | If Yes, describe audit procedure(s) OR link to procedures | | Deficiency? (Y/N) | Brief Description | Sig? (S/NS) | Audit Report? (Y/N) | Other Product? (Y/N) |
| | | changes that could signficantly impact the system of internal control. | | 2.4.2 Assessed changes in business model | COSO, p. 83 - 85 | | | | | | | | |
| | | | | 2.4.3 Assessed changes in leadership | COSO, p. 83 - 85 | | | | | | | | |
| 3.0 Control Activities | | 3.1 The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels. | | 3.1.1 Control activities aligned with risk | COSO, p. 89 | | | | | | | | |
| | | | | 3.1.2 Selection and development of control activities reflect entity-specific factors | COSO, p. 89, 90 | | | | | | | | |
| | | | | 3.1.3 Authorization and approval controls in place | COSO, p. 92 | | | | | | | | |
| | | | | 3.1.4 Verification controls in place | COSO, p. 92 | | | | | | | | |
| | | | | 3.1.5 Physical controls in place | COSO, p. 92 | | | | | | | | |
| | | | | 3.1.6 Controls over standing data in place | COSO, p. 92 | | | | | | | | |
| | | | | 3.1.7 Reconciliations performed | COSO, p. 93 | | | | | | | | |
| | | | | 3.1.8 Supervisory controls in place | COSO, p. 93 | | | | y | No supervisory review | Y | Y | |
| | | | | 3.1.9 Segregation of duties in place | COSO, p. 95, 96 | | | | | | | | |
| | | 3.2 The organization selects and develops general control activities over technology to support the achievement of objectives. | | If this component/principle is significant to the audit objective, see the link to the information system control form. | | | | | | | | | |
| | | 3.3 The organization deploys control activities through policies that establish what is expected and procedures that put policies in action. | | 3.3.1 Policies and procedures in place and refreshed periodically | COSO, p. 101, 102 | | | | | | | | |
| | | | | 3.3.2 Established responsibility and accountability for executing policies and procedures | COSO, p. 101, 102 | | | | | | | | |
| | | | | 3.3.3 Control activities performed timely | COSO, p. 101, 102 | | | | | | | | |
| | | | | 3.3.4 Corrective action taken, when appropriate | COSO, p. 101, 102 | | | | | | | | |
| | | | | 3.3.5 Control activities performed by competent staff | COSO, p. 101, 102 | | | | | | | | |
| 4.0 Information and Communication | | 4.1 The organization obtains or generates and uses relevant, quality information to support the functioning of internal control. | | 4.1.1 Process in place to identify information requirements | COSO, p. 107 - 109 | | | | | | | | |
| | | | | 4.1.2 Information systems capture and process relevant internal and external sources of data | COSO, p. 109 - 110 | | | | | | | | |
| | | | | 4.1.3 Quality of data maintained | COSO, p. 111, 112 | | | | | | | | |
| | | 4.2 The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control. | | 4.2.1 Information on internal controls communicated so that individuals carried out their responsibilities | COSO, p. 113 | | | | | | | | |
| | | | | 4.2.2 Information on internal controls communicated to oversight entity | COSO, p. 114 | | | | | | | | |
| | | | | 4.2.3 Processes, such as whistle-blower hotlines, in place for internal staff | COSO, p. 115 | | | | | | | | |
| | | | | 4.2.4. Method of internal communication considers timing, audience, and nature of information | COSO, p. 116, 117 | | | | | | | | |
| | | 4.3 The organization communicates with external parties regarding matters affecting the functioning of internal controls. | | 4.3.1 Controls facilitated external communication | COSO, p. 119 | | | | | | | | |
| | | | | 4.3.2 Processes to facilitate inbound communication from external sources | COSO, p. 119 | | | | | | | | |
| | | | | 4.3.3 Processes, such as whistle-blower hotlines, in place for external sources | COSO, p. 120 | | | | | | | | |
| | | | | 4.2.4. Method of external communication considers timing, audience, and nature of information as well as legal and regulatory requirements | COSO, p. 120, 121 | | | | | | | | |
| 5.0 Monitoring | | 5.1 The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning. | | 5.1.1 Processes in place for ongoing or separate (periodic) evaluation of internal control | COSO, p. 126 - 131 | | | | | | | | |
| | | | | 5.1.2 Processes in place to understand outsourced providers' system of internal control | COSO, p. 132 | | | | | | | | |
| | | 5.2 The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the oversight body. | | 5.2.1 Results of ongoing or separate evaluations assessed | COSO, p. 133, 134 | | | | | | | | |
| | | | | 5.2.2 Deficiencies in internal control communicated to parties responsible for taking corrective action, senior management, and oversight entity | COSO, p. 134 | | | | | | | | |
| | | | | 5.2.3 Management tracks whether remediation efforts (corrective actions) are conducted timely | COSO, p. 135 | | | | | | | | |

# Appendix 7.8

# Information System Control Planning

**INFORMATION SYSTEM CONTROL PLANNING**

Purpose: To document the SAO's execution of GAGAS 8.59 - 8.61.50

Audit Title:

Audit Objectives:

GAGAS 8.60 requires that auditors evaluate the design, implementation, and operating effectiveness of information system controls under two circumstances:

1. Information system controls are determined to be significant to the audit objectives (also covered in GAGAS 8.59)[51] or
2. The effectiveness of significant internal controls depends on the effectiveness of information system controls.

GAGAS 8.61 states that auditors should determine which audit procedures related to information system controls are needed to obtain sufficient, appropriate evidence to support audit findings and conclusions.

GAGAS 8.67 provides the following factors to assist auditors in determining the significance of information system controls to the audit objectives:

1. The extent to which internal controls depends on the reliability of information processed or generated by information systems.
2. The availability of evidence outside the information system to support the audit's findings and conclusions. This factor assesses whether there are sufficient supporting or corroborating information or documentary evidence available other than that produced by the information systems.
3. The relationship of information systems controls to data reliability (e.g., auditors may reduce direct testing of data if information controls are deemed to be reliable).
   In most cases the first two factors are the most relevant to SAO audits because we do not often perform multiple audits that rely on the same system(s) so it is generally not cost effective for us to try to substitute additional information system control procedures to try to reduce direct testing.

This planning document has two sections. The first section applies to all audits and should be used to determine whether information system controls should be evaluated as part of the audit. The second section should be used if the section 1 evaluation indicates that information system controls should be evaluated.

50 This planning document is not intended to be used in performance audits that have an information system control objective. It is expected that such audits will require much more detailed planning documentation.

51 GAGAS 8.64 states that information system controls are significant to an audit objective if auditors determine that it is necessary to obtain sufficient, appropriate evidence.

# Appendix 7.8

## Information System Control Planning

**SECTION 1: EVALUATION OF SIGNIFICANCE OF INFORMATION SYSTEM CONTROLS**

The following table should be filled in for each objective.

| Objective 1: | | | | |
|---|---|---|---|---|
| **Step** | **Question** | **Yes** | **No** | **N/A** |
| 1.1 | Does this objective require evidence from an information system? | | | |
| **If yes, name the system(s).** | | | | |
| 1.2 | If this objective requires evidence from an information system, is it critical to answering the audit objective (i.e., used to draw a conclusion and not background)? | | | |
| **Briefly describe how information from the system will be used.** | | | | |
| 1.3 | If the evidence is critical to answering the audit objective, are there supporting or corroborating information from outside the system that can be used determine whether it constitutes sufficient, appropriate evidence? *Consult GAO's data reliability guide considering the appropriateness of evidence.* | | | |
| **If 1.3 is yes, explain how data reliability will be established.** | | | | |
| **If no, INFORMATION SYSTEM CONTROLS ARE SIGNIFICANT TO THE AUDIT OBJECTIVE, continue to section 2** | | | | |
| 1.4 | Are internal controls significant to this objective? | | | |
| 1.5 | If internal controls have been determined to be significant to the audit objective, are there key controls that have been identified that rely on information systems? | | | |
| **If 1.5 is yes, INFORMATION SYSTEM CONTROLS ARE SIGNIFICANT TO THE AUDIT OBJECTIVE, continue to section 2** | | | | |

If neither 1.3 nor 1.5 is "yes" then information system controls are not significant to the audit objective.

REMINDER: If information system controls are significant to the audit objective and the audit team decides not to develop procedures to evaluate such controls, a modified GAGAS statement should be used in the audit report. This decision should be explicitly disclosed in the design matrix and attachment documentation and agreed to by the State Auditor.

# Appendix 7.8

# Information System Control Planning

**SECTION 2: INFORMATION SYSTEM CONTROL PLAN**

The following table should be filled in for each information system determined to be significant to an audit objective. The questions in the table were primarily derived for the State's policies (https://digitalservices.vermont.gov/sites/digitalservices/files/documents/policy/ADS-InformationSecurityPolicies_FINAL.pdf). This policy document includes requirements as well as best practices that can be used to develop procedures. Agencies are required to document exceptions to these policies (signed by the Secretary, appointing authority or designee, and the Secretary of Administration or designee) and indicate the compensating controls that have been applied.

*Wording in italics are definitions or criteria that can be used to develop procedures and should be removed prior to submitting this plan for review.*

| Information System: | | | | |
|---|---|---|---|---|
| **Step** | **Question** | **Yes** | **No** | **If YES, Procedures to be Performed** |
| 2.1 | Is this system operated or managed by a service organization (e.g., uses a software-as-a-service cloud computing service provider)?<br><br>*Explanations of various types of cloud computing can be found in https://www.gao.gov/assets/590/585638.pdf. More technical information can be found at https://ws680.nist.gov/publication/get_pdf.cfm?pub_id=919233.* | | | *https://finance.vermont.gov/sites/finance/files/documents/Pol_Proc/IC/BestPractices%2312.0_ServiceOrganizations.pdf contains best practices on SOC reporting*<br><br>*https://digitalservices.vermont.gov/sites/digitalservices/files/documents/policy/ADS-InformationSecurityPolicies_FINAL.pdf p. 18--contains requirement that ADS be the central source for contracts*<br><br>*https://bgs.vermont.gov/purchasing-contracting/forms contains the current versions of attachment D, which is used for IT contracts. Note that this attachment includes requirements for the contractor to provide various documents to the State.* |
| 2.2 | Is this system or the data on the system processed or stored by a service organization (e.g., infrastructure-as-a-service or on platform-as-a-service) | | | *https://finance.vermont.gov/sites/finance/files/documents/Pol_Proc/IC/BestPractices%2312.0_ServiceOrganizations.pdf contains best practices on SOC reporting*<br><br>*https://bgs.vermont.gov/purchasing-contracting/forms contains the current versions of attachment D, which is used for IT contracts. Note that this attachment includes requirements for the contractor to provide various documents to the State.* |

# Appendix 7.8

## Information System Control Planning

| Information System: | | | | |
|---|---|---|---|---|
| **Step** | **Question** | **Yes** | **No** | **If YES, Procedures to be Performed** |
| **Access Control: To ensure critical data can only be accessed by authorized personnel, information systems controls and processes must be in place to limit access based on need to know and according to job responsibilities. "Need to know" is when access rights are granted to only the least amount of data and privileges needed to perform a job.** | | | | |
| 2.3 | Are authentication controls significant to the audit objective? | | | *https://digitalservices.vermont.gov/sites/digitalservices/files/documents/policy/ADS-InformationSecurityPolicies_FINAL.pdf p. 6-8* |
| 2.4 | Are authorization controls significant to the audit objective? | | | *https://digitalservices.vermont.gov/sites/digitalservices/files/documents/policy/ADS-InformationSecurityPolicies_FINAL.pdf p. 8* |
| 2.5 | Are audits of access controls significant to the audit objective? | | | *https://digitalservices.vermont.gov/sites/digitalservices/files/documents/policy/ADS-InformationSecurityPolicies_FINAL.pdf p. 8* |
| **Information Asset Management: Under the Vermont Public Records Act (PRA), all agencies are responsible for managing records and information produced or acquired during agency business as public assets (1 V.S.A. § 315-320). Classification levels for information security purposes are driven by these public access requirements.** | | | | |
| 2.6 | Are records and information classification levels significant to the audit objective? | | | *https://digitalservices.vermont.gov/sites/digitalservices/files/documents/policy/ADS-InformationSecurityPolicies_FINAL.pdf p. 10* |
| **Communications and Operations Management: The goal of communications and operations management is to ensure the correct and secure operations of information processing.** | | | | |
| 2.7 | Are anti-virus or anti-malware controls significant to the audit objective? | | | *https://digitalservices.vermont.gov/sites/digitalservices/files/documents/policy/ADS-InformationSecurityPolicies_FINAL.pdf p. 10* |
| 2.8 | Are workstation management and desktop security controls significant to the audit objective? | | | *https://digitalservices.vermont.gov/sites/digitalservices/files/documents/policy/ADS-InformationSecurityPolicies_FINAL.pdf p. 11* |
| 2.9 | Are mobile device management controls significant to the audit objective? | | | *https://digitalservices.vermont.gov/sites/digitalservices/files/documents/policy/ADS-InformationSecurityPolicies_FINAL.pdf p. 11, 12* |
| 2.10 | Are server management controls significant to the audit objective? | | | *https://digitalservices.vermont.gov/sites/digitalservices/files/documents/policy/ADS-InformationSecurityPolicies_FINAL.pdf p. 12, 13* |
| 2.11 | Are log management controls significant to the audit objective? | | | *https://digitalservices.vermont.gov/sites/digitalservices/files/documents/policy/ADS-InformationSecurityPolicies_FINAL.pdf p. 13, 14* |
| 2.12 | Are information backup controls significant to the audit objective? | | | *https://digitalservices.vermont.gov/sites/digitalservices/files/documents/policy/ADS-InformationSecurityPolicies_FINAL.pdf p. 14* |
| 2.13 | Are security zones and network security management controls significant to the audit objective? | | | *https://digitalservices.vermont.gov/sites/digitalservices/files/documents/policy/ADS-InformationSecurityPolicies_FINAL.pdf p. 14, 15* |

# Appendix 7.8

## Information System Control Planning

| Information System: | | | | |
|---|---|---|---|---|
| **Step** | **Question** | **Yes** | **No** | **If YES, Procedures to be Performed** |
| 2.14 | Are intrusion detection controls significant to the audit objective? | | | *https://digitalservices.vermont.gov/sites/digitalservices/files/documents/policy/ADS-InformationSecurityPolicies_FINAL.pdf p. 15* |
| 2.15 | Are e-mail controls significant to the audit objective? | | | *https://digitalservices.vermont.gov/sites/digitalservices/files/documents/policy/ADS-InformationSecurityPolicies_FINAL.pdf p. 16* |
| 2.16 | Are remote access controls significant to the audit objective? | | | *https://digitalservices.vermont.gov/sites/digitalservices/files/documents/policy/ADS-InformationSecurityPolicies_FINAL.pdf p. 16, 17* |
| 2.17 | Are wireless access controls significant to the audit objective? | | | *https://digitalservices.vermont.gov/sites/digitalservices/files/documents/policy/ADS-InformationSecurityPolicies_FINAL.pdf p. 17, 18* |
| **Information System Acquisition, Development, and Management: The goal of information systems acquisition, development and management is to ensure that security is an integral part of information systems.** | | | | |
| 2.18 | Are business case controls significant to the audit objective? | | | *https://digitalservices.vermont.gov/sites/digitalservices/files/documents/policy/ADS-InformationSecurityPolicies_FINAL.pdf p. 18*<br><br>*https://aoa.vermont.gov/sites/aoa/files/Bulletins/3point5/Technology%20Handbook%20-%20Net%20Neutraility%20Revision%20-%203-29-18.pdf contains guidance for IT procurement activities.* |
| 2.19 | Are encryption controls significant to the audit objective? | | | *https://digitalservices.vermont.gov/sites/digitalservices/files/documents/policy/ADS-InformationSecurityPolicies_FINAL.pdf p. 19* |
| 2.20 | Are patch management controls significant to the audit objective? | | | *https://digitalservices.vermont.gov/sites/digitalservices/files/documents/policy/ADS-InformationSecurityPolicies_FINAL.pdf p. 20* |
| 2.21 | Are information system development lifecycle controls significant to the audit objective? | | | *https://digitalservices.vermont.gov/sites/digitalservices/files/documents/policy/ADS-InformationSecurityPolicies_FINAL.pdf p. 20, 21* |
| **General Controls, Other: General controls are the policies and procedures that apply to all or a large segment of an entity's information systems and help ensure their proper operation.** | | | | |
| 2.22 | Are there other general controls that have been identified that are significant to the audit objectives?<br><br>*Review https://www.gao.gov/assets/80/77142.pdf Chapter 3 in making this assessment.* | | | *If yes, specify the general control area and detail the audit procedures to be performed.* |

# Appendix 7.8

## Information System Control Planning

| Information System: | | | | |
|---|---|---|---|---|
| **Step** | **Question** | **Yes** | **No** | **If YES, Procedures to be Performed** |
| **Application Controls, Other: Application controls are those controls over the completeness, accuracy, validity, confidentiality, and availability of transactions and data during application processing.** | | | | |
| 2.23 | Are there other application controls that have been identified that are significant to the audit objectives?<br><br>*Review https://www.gao.gov/assets/80/77142.pdf Chapter 4 in making this assessment.* | | | *If yes, specify the application control area and detail the audit procedures to be performed.* |

# Appendix 7.9

*Reserved*

# Appendix 7.10

## Documenting the Results of the Message Meeting

During the message meeting the topics outlined in PSM 7.4.2.3 should be discussed and agreed upon. The following is the suggested format for documenting this discussion.

**RECORD OF MESSAGE MEETING**

**Date:**

**Purpose:** To record the results of the message agreement meeting of the [name of audit] performance audit.

**Participants:**

**Reviewers:**

**Audit Team:**

**Summary of Discussion:**

Prior to the meeting the participants were provided with the attached document. At the meeting the participants agreed to the following:

- The type of report and expected report structure outlined in the message document was appropriate.
- The report will be issued in the _____ timeframe.
- _____ will be responsible for the Report Quality Checklist.
- The audit objective was met. {record any changes to the audit objective here}
- The applicable elements of a finding were developed and included as part of the message.
- The evidence, taken as a whole, meets GAGAS standards for being sufficient and appropriate and supports the proposed findings, conclusions, and recommendations.

Other comments made during the meeting were:

# Appendix 7.11

## Report Quality Checklist

**REPORT QUALITY CHECKLIST**

Report Title:

Audit Manager:

Reviewer:

| Standard | Yes | No | N/A | Reason for Deviation |
|---|---|---|---|---|
| **Title:**<br>• Reflects message of report.<br>• Avoids unnecessary use of jargon or abbreviations. | | | | |
| **Organization:** Report is structured so that there is a clear linkage between objectives, highlights, methodology and scope, finding sections, conclusions, and recommendations. | | | | |
| **Presentation:**<br>• Product is concise and written in straightforward, easy-to-understand language.<br>• Technical jargon is minimized and, when used, is defined or explained. | | | | |
| **Objectives:**<br>• Includes what aspects of the program, activity, or function the SAO assessed.<br>• Stated in neutral terms.<br>• Consistent throughout the product. | | | | |
| **Highlights:**<br>• Conveys the "bottom line" message of each objective.<br>• Does not contain facts not in body of report. | | | | |
| **Background:** Includes only that material needed to help understand the findings (e.g., purpose, authority, or structure of the program under review). | | | | |
| **Scope and Methodology:**<br>• Explains what work was or was not done to accomplish each objective.<br>• Includes explanation of internal control work<br>• Includes a statement related to conformance with GAGAS, including relevant exceptions to this standard. | | | | |

# Appendix 7.11

## Report Quality Checklist

| Standard | Yes | No | N/A | Reason for Deviation |
|---|---|---|---|---|
| **Findings:**<br>• Includes all applicable elements of a finding, namely criteria, condition, cause, and effect.<br>• Evidence cited in the report is fact-based, clear, significant, balanced, and appropriate for the objective.<br>• Presents findings accurately with no notable errors in logic.<br>• Provides appropriate context for reader.<br>• As applicable, relates the instances identified to the population or the number of cases examined and quantifies the results in terms of dollar value, or other measures. | | | | |
| **Conclusion:**<br>• Emphasizes the impact of the facts presented and sets up recommendations.<br>• Does not contain new facts. | | | | |
| **Recommendations**:<br>• Directs the recommendation to the title of a responsible individual (e.g., Commissioner, Secretary).<br>• Is linked to specific evidence (with emphasis on the causal element of a finding).<br>• Is reasonable and do-able. | | | | |
| **Management's Comments:**<br>• Identifies the title of the person who provided the comments.<br>• Indicates whether the comments were written or oral.<br>• If applicable, directs the reader to the appendix containing the reprinted comments.<br>• Addresses disagreements with management's comments. | | | | |

# Appendix 7.12

## Indexing Checklist

- ☐ Supervisory review has been completed.
- ☐ The referencer was provided with a Referencing Review Sheet.
- ☐ Time constraints or special circumstances have been discussed with the referencer.
- ☐ It is clearly indicated on the source document what is being referenced.
- ☐ Highlights (findings and recommendations parts), Conclusion, and Recommendations are cross-indexed to specific pages within the draft.
- ☐ Calculations in the draft report and the supporting documentation have been checked.
- ☐ The accuracy and sources of numbers, dates, proper nouns, and abbreviations in the draft were double-checked.
- ☐ If possible, testimonial evidence was corroborated in support of key finding(s) or conclusion(s). This supporting documentation was the support used in indexing.
- ☐ If the product has summary-level information from several sources, a summary document/lead schedule was developed and cross-referenced to the appropriate support.
- ☐ All summary documents/lead schedules were verified by somebody other than the author.

# Appendix 7.13

## Referencing Review Point Sheet

**REFERENCING REVIEW POINT SHEET**

Report Title:

Indexed by:

Referenced by:

| Point # | Page # | Point Explanation | Indexer Comment | Referencer Adds Initials If Cleared |
|---|---|---|---|---|
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# Appendix 7.14

## Referencer's Considerations

- Are all facts and figures in the draft adequately supported by evidence and consistently reported?
- Are any pertinent facts and figures in the draft contradicted or called into question by evidence contained in the audit document(s)?
- Have totals and/or percentages in the draft been verified as accurate?
- Have the formulas used in the computation of findings been verified as correct?
- Have the formulas been verified as logical?
- Do the conclusions and recommendations flow logically from the support?
- Has new information been introduced in the conclusions?
- Is the recommendation addressed to the appropriate official?
- Have all referencing comments been recorded on the Referencing Review Sheet?
- Has the team annotated responses to all comments raised on the Referencing Review Sheet?
- Has the Referencing Review Sheet been annotated to indicate the referencer's agreement or disagreement with the resolution of all comments?
- Have all "passed" comments been explained, and has the explanation been documented on the Referencing Review Sheet?
- Has the Chief Auditor indicated concurrence with the passed comment(s) on the Referencing Review Sheet?

# Appendix 7.15

## Sample Letter for Transmitting a Report For Comment

Date

Name
Audited Entity

Dear …

This letter conveys the results of our review of …,. Attached is a copy of our draft report entitled ….

I ask that you review this draft and provide me with official management comments related to its findings and recommendations by [day], [date]. In particular, I would like you to address whether you agree or disagree with our findings, conclusions, and recommendations and what, if any, actions that XXX plans to take in response to our recommendations, including time frames for completion. Your comments will be reflected in the final report.

I look forward to receiving your comments on this draft. Please e-mail your comments to ….

This draft report is not final and, therefore, is subject to change and must be safeguarded to prevent its transmittal to unauthorized personnel, alteration, or premature release [32 VSA §163(4)]. Please call me at 828-2281 or email me at Doug.Hoffer@vermont.gov if you have any questions.

Sincerely,

{name}
Vermont State Auditor

Attachment

# Chapter 8

## Financial Audits

## Overview

***Reserved***

## 8.1

# Chapter 9

# Other Work Products

## Overview

Although the majority of the SAO's resources are applied to conducting audits under GAGAS, there are circumstances in which other products are more appropriate. The SAO intends for these projects to be conducted and reported in a manner that reflects the high standards of the office. Accordingly, this chapter outlines the policies and procedures used by the SAO to ensure that this expectation is met.

## 9.1 Non-Audit Work Products

Citizens, town officials, legislators, and members of the executive branch sometimes inquire of the SAO about situations that they are concerned about in state, local, and school governmental entities. Responding to such inquiries is important because it helps to inform citizens of the work of their government and can also bring to light situations in which change may be needed to achieve more effective government. In addition, there are issues that come to the attention of the State Auditor or the SAO staff during the course of their research that merit further inquiry. These inquiries do not always warrant the initiation of an audit because, for example, the financial risk to the state is not significant or the inquiry can be addressed by conducting research into the matter and publishing an evaluation of that research. In such cases, the SAO may issue a report,[52] which is a tool used to inform citizens, management, and policy makers of issues that have come to its attention.

### 9.1.1 GAGAS Citation

Not applicable. A non-audit report is not conducted in accordance with GAGAS.

### 9.1.2 SAO Standard

The decision to use SAO resources to research and evaluate a particular issue is made at the discretion of the State Auditor. Specifically, the State Auditor decides whether the area of interest (1) warrants an audit because of its significance from a financial or operational risk perspective (see section 6.3

[52] This standard applies to any non-GAGAS engagement that results in the issuance of a written report regardless of the name used to describe the non-audit work (e.g., evaluation, review, etc.).

for the risk assessment process for potential audits) or (2) does not warrant an audit but should be pursued in a more limited manner. In deciding to pursue a non-audit evaluation, the State Auditor will first assess whether the independence of the SAO with respect to future audits is, or is not, likely to be impaired by undertaking the non-audit evaluation.

Once a decision has been made to pursue a non-audit evaluation, the State Auditor will assign a member of the office to complete this task. That individual is responsible for (1) informing the applicable entity that the SAO is planning to investigate an issue, including notification that this work is not being performed as an audit, and (2) conducting research and making inquiries of the applicable entities to the extent necessary to address the issue at hand. If the work results in a written a report, it will include an evaluation of possible risk mitigation strategies.

Non-audit work products do not necessarily result in a written report but instead may be transmitted to the applicable entity orally or via written memorandum. Such reports are not conducted under GAGAS auditing standards, and it is not expected that the policies and procedures outlined in other chapters of the PSM pertaining to compliance with GAGAS will be applied to this work (except for the independence standard). However, the SAO has a responsibility to ensure that it conducts sufficient work to ensure that it does not report inaccurate information to the public. Accordingly, the following steps should be taken to provide such assurance.

- Evaluate (and document) whether performing the work could constitute a threat to independence with regard to potential future audits. PSM section 2.1.2.2 provides the criteria for this assessment and the associated documentation requirements. If a future threat to independence is identified, it should be brought to the attention of the State Auditor.

- Correspondence, other documentation, and notes of discussions related to the report should be kept together in binders or electronic files for easy access in the future.

- Although non-audit reports are not required to contain data validated via the audit process, the responsible staff member should review the data obtained to consider whether there are errors or misleading information. For example, if the applicable governmental entity submits correspondence or another document to be included in the report that contains errors or misleading statements, the SAO should include a statement in the report pointing out the discrepancy.

# Chapter 9

## Other Work Products

- Prior to issuance, the responsible staff member should submit his or her draft report to another staff member or manager for review. This review includes the evidence used to support statements of fact in the draft report. Documentation that the review was performed and by whom should be kept with other documents collected for the report.

- Drafts of all non-audit reports should be reviewed and approved by the State Auditor prior to issuance. Documentation of this approval should be kept with other collected documents.

Non-audit reports should be clear about the scope of the work performed and that it was not conducted in accordance with GAGAS. The report can include statements of risk related to the activities that were under review and point out options that an entity can take to mitigate these risks. In addition, the non-audit report should contain the following statement:

> "A non-audit report is an effective tool used to inform citizens and management of issues that may need attention. It is not an audit and is not conducted under generally accepted government auditing standards. It is an evaluation that contains information aimed at improving government performance and may include possible risk mitigation strategies relevant to the entity."

Once a non-audit report is finalized, the report is numbered and posted to the SAO's website. The supporting documentation should be provided to the records officer for retention and disposal in accordance with the SAO's records management policy (see PSM section 4.2).

Appendix 9.1 contains an administrative checklist for non-audit products.

# Appendix 9.1

## Administrative Checklist for Non-Audit Products

The following checklist should be used on every non-audit work product to ensure that the required administrative tasks are completed. The comment column should be used to explain any "No" or "NA" responses.

| Task | Yes | No | NA | Comment |
|---|---|---|---|---|
| Independence form completed (PSM appendix 2.2) | | | | |
| Affected organization notified | | | | |
| If written product issued, the standard statement explaining the nature and limitation of the product included | | | | |
| Prior to issuance, the responsible staff member performed a walkthrough of the draft report with another staff member | | | | |
| State Auditor approved written product before issuance | | | | |
| Supporting materials maintained in accordance with public records requirements (PSM 4.2.2.2) | | | | |

# Chapter 10

# Public Affairs

## Overview

This chapter elucidates SAO policy and procedures to comply with GAGAS, Vermont State laws, and historical practices in our State government when dealing with (1) public media and (2) public records requests. Overall, our intention is that our responses to these requests be performed in a manner that honors the values of transparency, accountability, and access to information that are embedded in the operations of our State's public offices.

## 10.1 Dealing with the Media

The State Auditor's Office has a number of interactions with the Vermont media, including the issuing of audit reports, press advisories and press releases to the media; the scheduling and conducting of in-person audit report briefings or other news conferences; responding to media requests for financial data or other State records; and informal discussions with representatives of the media on various historical or current matters related to State government.

### 10.1.1 GAGAS Citation

Auditors should issue audit reports communicating the results of each completed performance audit. The report should be in a form that is appropriate for its intended use, either in writing or some other retrievable form (**GAGAS 9.06, 9.07**)

Per **GAGAS 9.08**, the purposes of audit reports are to:

- Communicate the results of audits to those charged with governance, the appropriate officials of the audited entity, and the appropriate oversight officials.
- Facilitate follow-up to determine whether appropriate corrective actions have been taken.

Distribution of reports completed under GAGAS depends on the relationship of the auditors to the entity and the nature of the information contained in the report. If the subject matter or the assertion involves material that is classified for security purposes or contains confidential or sensitive information, auditors may limit the report distribution. Auditors should document any limitation on report distribution. **(GAGAS 9.56)**

# Chapter 10

# Public Affairs

Audit organizations in government entities should distribute reports to those charged with governance, to the appropriate entity officials, and to the appropriate oversight bodies or organizations requiring or arranging for the engagements. As appropriate, auditors should also distribute copies of the reports to other officials who have legal oversight authority or who may be responsible for acting on engagement findings and recommendations, and to others authorized to receive such reports. **(GAGAS 9.58)**

GAGAS standards acknowledge that audit reports will be sent to the media. Therefore, media relations are an important function in the SAO goal of promoting efficiency and effectiveness in State government.

## 10.1.2 SAO Standard

### 10.1.2.1 Report Distribution

SAO is required by statute to distribute audit reports and to classify audit reports as public documents.

32 VSA §163(4) notes: "From time to time, as audits are completed, [the auditor of accounts shall] report his or her audit findings first to the speaker of the house of representatives and the president pro tempore of the senate, then to the governor, the secretary of administration, the commissioner of finance and management, and the head of the department, institution, or agency covered by the report. The audit reports shall be public records and 10 copies of each report shall be furnished to and kept in the state library for public use."

In addition, it is the SAO's policy to post audit reports on our website.

See PSM section 7.4.2.10 for how to deal with audit reports that contain sensitive information.

### 10.1.2.2 Guidelines for Media Relations

The State Auditor or his or her designee shall approve and be responsible for all official communications with the media regarding audit reports, special investigations, opinions, findings, recommendations and other SAO matters.

The State Auditor may issue a press release when audit reports are published. The Auditor or his or her designee will direct the manner in which media announcements are made, how media contact information is retained and revised, and the process for developing, verifying, and preparing content for media releases, whether in traditional venues or on the SAO website, through

alternative media, etc. The Auditor or his or her designee will take appropriate steps to ensure that all press statements have been fact-checked, proofread, and reviewed by appropriate individuals. In some cases, it may be advisable for draft media announcements to be reviewed by other departments or agencies mentioned before release to the media and the public.

Inquiries from the media should be directed to the Auditor or his or her designee for possible assignment to staff for follow-up research or comment.

SAO employees as Vermont citizens enjoy the right to speak independently with the media but should bear in mind that it is the policy of the State Auditor's Office that all questions or requests for comments or information about agency business shall be initially directed to the Auditor or his or her designee for response.

Minor requests such as a request for a copy of a report or the time of a particular meeting, etc., can be handled by appropriate staff without waiting for Auditor approval.

## 10.2 Public Record Requests

1 VSA §315 allows any person to inspect or copy any unrestricted public record or document of any public agency. This statute further indicates that this policy should be liberally construed giving consideration to an individual's right to privacy and that the burden of proof is on the public agency to sustain its action. From time to time, the SAO does receive requests for a public record, generally defined as any records or documents "that are produced or acquired in the course of agency business." The procedures below outline the responsibilities and procedures of the State Auditor's Office in responding to public records requests.

### 10.2.1 GAGAS Citation

When audit organizations are subject to public records laws, auditors should determine whether public records laws could impact the availability of classified or limited use reports and determine whether other means of communicating with management and those charged with governance would be more appropriate. For example, the auditors may communicate general information in a written report and communicate detailed information verbally. The auditor may consult with legal counsel regarding applicable public records laws. **(GAGAS 9.63)**

# Chapter 10

# Public Affairs

## 10.2.2 SAO Standard

### 10.2.2.1 Public Records Statute

The SAO as a State entity is required to follow the policies and procedures relating to public record requests that are described in 1 VSA §315-320. A public record is defined in 1 VSA §317 as any written or recorded information, regardless of physical form or characteristics, which is produced or acquired in the course of public agency business. Section (c) of this statute lists those records that are exempt from public inspection and copying. The VSARA website contains a list of these exemptions as well as a history/explanation of each exemption (http://vermont-archives.org/govhistory/governance/PublicRecords/Exemptions/introduction.htm).

In addition, 32 VSA §163(4) states "Draft audit reports, working papers, correspondence, and other materials relied on by the Auditor of Accounts to produce the draft audit report shall be confidential and exempt from public inspection and copying under the Public Records Act until the audit is completed, but shall be provided to the audited entity upon request unless the record is exempt from public inspection and copying under another provision of law.

### 10.2.2.2 Workpapers

It is SAO policy that its audit workpapers are public documents, except if exempt from public disclosure by statute, after the audit is completed and the final report is issued.

Audit workpapers produced by audit professionals contracted ("contracted auditors") by the SAO are not considered public documents when the contracted auditors maintain custody of the audit workpapers because SAO has not produced or acquired the workpapers in the course of agency business.[53] If the SAO obtained copies of the workpapers produced by contracted auditors, those workpapers would be subject to public records requests. Any workpapers that are produced by SAO auditors working with contracted auditors are considered public documents, regardless of who maintains custody of the overall audit workpaper files.

[53] SAO's most significant contract with external auditors is with CLA for the state's annual single audit. CLA maintains custody of the audit work papers for these audits.

# Chapter 10

# Public Affairs

## 10.2.2.3 SAO Procedures for Responding to a Public Records Request

The State Auditor or Deputy State Auditor shall be responsible for responding to all requests for public records received by the SAO and shall respond according to the standards of 1 VSA §315-320. The State Auditor and the SAO Executive Assistant are responsible for the SAO's system of documenting each public records request (whether delivered in writing or verbally) and the steps taken to respond to the request in a timely manner and in accordance with the statute.

With one exception, draft reports and audit workpapers are not subject to the Public Records Act until the audit is complete (32 VSA §163(4)). The exception in the statute is that audit workpapers are to be provided to the auditee upon request except for records that are exempt from public inspection under another statutory provision.

If a public records request is made for audit workpapers after the report is issued an important consideration is that many, if not most, of the documents are not produced by the SAO—they are records received from auditees. The auditee is the subject matter expert regarding their own records. In addition, the SAO may have signed a confidentiality agreement with the auditee regarding the treatment of sensitive or confidential information (e.g., information about computer security, taxpayer data, health data).

**☑ TIP . . . When possible, the designated staff member should redact the exempted data from the workpaper and provide a copy of the redacted document to the requester.**

The following steps provide a guide for addressing public records requests related to audit workpapers or draft reports after the final report is issued.

- The applicable audit manager will contact the auditee to make them aware of the request and may designate a staff member to review the applicable workpapers to determine whether any contain information potentially exempted from public disclosure.
- If the applicable workpapers contain information that is clearly public (e.g., available on a state website or is SAO-developed material that does not contain agency-provided data) they will be provided to the requester promptly in accordance with procedures developed by the State Auditor or Executive Assistant.
- If the audit manager or designated staff member cannot determine whether the applicable workpapers contain information that is exempted from disclosure, s/he should expeditiously consult with the auditee on the release of their records. Discussions with the auditee should be documented.

- If the requestor asks for the final audit report along with prior drafts (the only drafts kept in our audit documentation records and not destroyed are the draft sent for comment and the referencing version—see PSM 4.2.2.2), a note should accompany the SAO response indicating that the final report contains SAO's conclusions related to the audit objectives and that any drafts should be considered a preliminary analysis.

- The Office of the Attorney General should be consulted on any public records request in which it is unclear whether the document is exempted from public disclosure.

The above guidance should not be used to shield records from public review. Instead, these steps are intended to ensure the proper application of the public records statute.

The State Auditor should be consulted prior to a decision to deny a public records request. Ultimately, the State Auditor is responsible for the final decision regarding the public records request. In the event that the request is denied, a citizen may appeal the decision to the Vermont State Auditor, who shall respond to the appeal according to 1 VSA §315-320.

# Chapter 11

# Tracking Audit Recommendations

## Overview

Performance audit reports promulgated by the SAO include recommendations designed to improve the operations of State government. A desired outcome of the audit is that the recommendations provided by SAO to the audited organization are implemented and result in value to the audited department.

Tracking audit recommendations and following up on their implementation at periodic intervals is a key step in maximizing the value of audit expenditures and in increasing the effectiveness of the audited agency.

Chapter 11 describes SAO policy and procedures for tracking performance audit recommendations and for following up with the audited entity to assess the degree to which recommendations have been implemented.

## 11.1 Tracking Audit Recommendations

### 11.1.1 GAGAS Citation

There is no GAGAS standard for tracking audit recommendations.

### 11.1.2 SAO Standard

SAO uses TeamMate® for tracking audit recommendations in performance audit reports. Audit recommendations and the auditee's comments pertaining to the recommendations should be entered into the TeamMate® recommendation folder/procedure at the completion of the audit by the audit manager or his or her designee. The individual so designated is responsible for the integrity of the data entered.

Annually, the Chief Auditor will staff the follow-up work when it is scheduled to be performed. The auditor(s) completing the follow-up work is responsible for updating the status of audit recommendations in the database at the completion of the follow-up process.

# Chapter 11

# Tracking Audit Recommendations

## 11.2 Followup on Audit Recommendations

### 11.2.1 GAGAS Standard

Following up on the status of audit recommendations is not a requirement of GAGAS.

### 11.2.2 SAO Standard

32 VSA §163 requires the SAO to follow-up on audit recommendations made in GAGAS performance audits[54] issued by the office. The follow-up will be performed consistent with 32 VSA §163.

The follow-up records, including any data provided by the audited agency, shall be maintained and will contribute to the annual performance measurement system of SAO.

#### 11.2.2.1 Followup Process

The Chief Auditor or his or her designee will review the audit reports subject to recommendation follow-up and assign staff to perform follow-up on audit recommendations annually. The State Auditor may elect to perform recommendation follow-up under GAGAS performance audit standards, in which case staff should follow the concepts of Chapter 7 for the requirements related to performance audits.

The audits selected for recommendation follow-up will be GAGAS performance audits issued during the timeframes required by 32 VSA §163. However, recommendation follow-up may be performed outside of the period that the office has set aside for follow-up (e.g., during the course of a later audit or during other times as directed by the State Auditor). When this occurs, the auditor performing that work is expected to update the recommendation database. (See 11.1.2.2)

Staff assigned to perform the follow-up activity will prepare a communication to management of the entities to whom recommendations were made. This communication should alert the audited agency to SAO policies on following up audit recommendations and request that the agency collect information and

[54] For a definition of a GAGAS audit, please see section 6.2.2 of this manual.

prepare reports related to the audit recommendations. (See Appendix 11.1 for a sample letter)

The assigned staff will work with the audited agency to collect information and documentation sufficient to provide a satisfactory report on the status of recommendations issued in the original audit. If the entity to whom the recommendation was directed asserts that it has completed parts or all of a recommendation, the follow-up auditor must obtain evidence to validate this assertion. Supporting documentation is to be added to Teammate®'s Issue Tracking module as described in the Teammate® user manual.

Recommendations made in audits may or may not have been accepted by the audited organization or may be in various stages of execution. Moreover, due to changes at a department, program or statute, an audit recommendation may no longer be applicable. To assess the status of a recommendation, audit staff will need to determine the degree to which the recommendation has been implemented or whether it is no longer applicable. The guidelines in Table 11.1 should be used to draw conclusions on the status of implementation of recommendations.

**Table 11.1 - Status Guidelines for Recommendations**

| STATUS | GUIDANCE |
|---|---|
| Implemented | If an audit recommendation has been adopted by the audited organization substantially or in its entirety, it will be considered fully implemented. |
| Partially Implemented | If part of a recommendation has been implemented but the auditor determines that the intent of the recommendation has not been fully satisfied, it will be considered partially implemented. |
| Not Implemented | If no part of a recommendation is implemented, it will be considered not implemented. |
| No Longer Applicable | For a recommendation to be no longer applicable it must have been rendered irrelevant due to changes in the department, program or statute since the audit report was issued. |

If applicable, when a recommendation has resulted in cost savings, the auditor is encouraged to obtain the amount of savings and perform additional procedures to verify the data.

Ultimately, the result of the assessment will determine whether the recommendation will remain open or be closed (called the disposition). Open recommendations are those not implemented and yet are still applicable. Closing a recommendation is a matter of judgment on the part of the auditor. Logically, implemented or inapplicable recommendations may be marked

closed. Recommendations may also be closed as not implemented or partially implemented if no further follow-up work is planned.

#### 11.2.2.2 Supervisory Review and Reporting of Results

Once the auditor determines the status of the recommendation, the auditor should prepare a conclusion document for supervisory review. The format of the document is at the discretion of the follow-up team but must clearly show the recommendation, agency follow-up, and auditor's conclusion of the recommendation status.

As in performance auditing (see 7.4.2.5), the credibility of SAO assessments – and the SAO itself – depends upon the quality of our internal quality controls. Therefore, the conclusions drawn by the auditor, supported by evidence, will be reviewed by the supervisor assigned to the job (in most cases this will be the audit manager of the original audit). The supervisor should perform a detailed quality review of the evidentiary files and resulting conclusions.

32 VSA §163 requires the SAO to post summaries of recommendations and the dates on which corrective action are taken related to these recommendations. With respect to performance audits, the recommendation follow-up database will be used to fulfill this requirement. At least once a year (expected to occur at the end of the calendar year) a report showing the status of all performance audit recommendations will be generated from this database and posted to the SAO website. Since the SAO's evaluation will be posted to our public website, the auditor and supervisor should make sure that the evaluation demonstrates (1) appropriate organization, tone, and grammar, and (2) soundness of the evidence and logic leading to the recommendation follow-up status.

With respect to recommendations generated as part of the CAFR and Single Audit, the SAO's contract with the independent auditor requires them to complete a SAO-provided template related to follow-up on recommendations in the prior year audit. The completed template will be posted to the SAO website.

# Appendix 11.1

## Recommendation Followup Letter to State Organizations

**{date}**

Name
Audited Entity

Dear …

This letter is to inform you that my office will be conducting a follow-up review on the implementation of recommendations contained in the report entitled … Audit recommendation follow-up is an important internal control function of management and provides important feedback to our office. In addition, 32 VSA §163 requires that we post to our website whether the auditee has taken corrective actions associated with our recommendations.

I have attached a spreadsheet containing all of the outstanding recommendations related to this audit report. Please complete the empty cells and return the spreadsheet to … who can be reached at 828-xxxx and …@vermont.gov. If you report that any of the recommendations have been fully or partially implemented documentary evidence of this should accompany your response.

I request that the completed spreadsheet and supporting documentation be provided to _____ by _____. I also request that you designate a contact person with whom we can coordinate this effort. Please have your designated official contact _____ within the next week in order to begin this coordination.

We look forward to working with you or your staff on this effort.

Sincerely,

{Name}
Vermont State Auditor

# Chapter 12

# Quality Control and Assurance

## Overview

The quality of the audit work conducted by the State Auditor's Office is of great importance to the public, taxpayers, leaders of state and local government, and the State Legislature. To ensure that our office produces high quality audit work that may be relied upon by government stakeholders, we maintain a system of quality control that provides assurance that we achieve a high standard of performance and that we comply with GAGAS. In addition, to provide assurance that our system of quality control is operating effectively, it is the policy of the State Auditor's Office to undergo an external peer review once every three years.

## 12.1 System of Quality Control

### 12.1.1 GAGAS Citation

**GAGAS 5.02** requires audit organizations to establish a system of quality control to provide reasonable assurance that the organization and personnel comply with professional standards and applicable legal and regulatory requirements.

### 12.1.2 SAO Standard

SAO's system of quality control may be broken down into three essential elements:

1. Documented policies and procedures that are communicated to personnel.

2. Mechanisms for documenting compliance with the office's quality control policies and procedures.

3. A periodic assessment of work completed on engagements.

As the top professional audit staff member in the SAO, the Chief Auditor has overall operational responsibility for maintaining the office's system of quality control. The Chief Auditor may delegate this responsibility, or elements of this responsibility, to other staff members upon concluding that the member has sufficient and appropriate experience and ability to conduct this role. (**GAGAS 5.06, 5.43**)

# Chapter 12

# Quality Control and Assurance

## 12.2 Quality Control Policies and Procedures

### 12.2.1 GAGAS Citation

**GAGAS 5.04** requires that each audit organization document its quality control policies and procedures and communicate those policies and procedures to its personnel.

In addition, **GAGAS 5.08, 5.12, 5.15, 5.22** delineate the subject matter areas that the policies and procedures in a system of quality control should address.

### 12.2.2 SAO Standard

SAO has implemented policies and procedures to ensure that audits are conducted in compliance with professional standards and applicable regulatory and legal requirements. These policies and procedures are documented within this manual. See the following table for a crosswalk between the subject matter areas that should be addressed and the relevant section(s) of the PSM.

| Subject matter | GAGAS | Cross-reference to PSM Chapter |
|---|---|---|
| Leadership responsibilities for quality within the audit organization. | 5.05<br>5.06 | Chapter 1 Statutory Authority, Mission and Core Values (§1.3)<br>Chapter 7 Performance Audits (§7.3.2.4 and §7.4.2.6)<br>Chapter 12 Quality Control and Assurance (§12.2.2) |
| Independence, legal, and ethical requirements. | 5.08<br>5.09 | Chapter 1 Statutory Authority, Mission and Core Values<br>Chapter 2 Independence |
| Initiation, acceptance, and continuance of audits. | 5.12 | Chapter 1 Statutory Authority, Mission and Core Values (§1.3)<br>Chapter 2 Independence<br>Chapter 6 Engagement Portfolio Management (§6.4.2)<br>Chapter 7 Performance Audits (§7.1 and §7.3.2.6) |
| Human resources. | 5.15<br>5.16 | Chapter 3 Professional Competence<br>Chapter 6 Engagement Portfolio Management (§6.6.2 and §6.7) |
| Audit performance, documentation, and reporting. | 5.22 – 5.25,<br>5.36 –<br>5.37 | Chapter 4 Work Environment (§4.2 and §4.3)<br>Chapter 6 Engagement Portfolio Management (§6.7)<br>Chapter 7 Performance Audits<br>Chapter 10 Public Affairs (§10.2) |
| Monitoring of quality | 5.42 – 5.46 | Chapter 12 Quality Control and Assurance (§12.4) |

SAO management is responsible for communicating quality control policies and procedures to audit staff. Communication is achieved via a combination of classroom training conducted by SAO audit managers and on-the-job training.

# Chapter 12

# Quality Control and Assurance

Classroom training will be conducted as substantive changes to policies and procedures are implemented or if a training need is identified as a result of SAO's annual quality control monitoring or peer review.

It is the responsibility of managers conducting audit engagements to ensure that staff members understand and comply with the policies and procedures delineated in the PSM. Managers will meet this responsibility by providing guidance throughout engagement performance, including discussions with audit staff during planning, general supervision of the engagement and as a result of workpaper review.

## 12.3 Documenting Compliance with Quality Control Policies and Procedures

### 12.3.1 GAGAS Citation

**GAGAS 5.04** states that an audit organization should document compliance with its quality control procedures and maintain such documentation for a period of time sufficient to enable those performing monitoring procedures and peer reviews to evaluate the audit organization's compliance with its quality control policies and procedures.

### 12.3.2 SAO Standard

SAO has developed numerous required and suggested templates for use by engagement teams, such as the design matrix, to ensure compliance with the policies and procedures documented in the PSM. In addition, senior management approvals in TeamMate®, documented supervisory review (§7.3.2.4), the report review process (§7.4.2.6), and indexing and referencing (§7.4.2.5) play a significant role in documenting an engagement team's compliance with the office's policies and procedures.

SAO retains audit documentation for a minimum of 3 years. See section 4.2 for greater detail on the office's records retention policy.

## 12.4 Monitoring of the System of Quality Control

### 12.4.1 GAGAS Citation

**GAGAS 5.42** and **5.47** state that the system of quality control of an audit organization should include policies and procedures that address monitoring

of quality, the purpose of which is to provide management with reasonable assurance that (1) the policies and procedures related to quality control are suitably designed and operating effectively and (2) auditors have followed professional standards and applicable legal and regulatory requirements.

**GAGAS 5.44 and 5.45** state that audit organizations should analyze and summarize the results of their monitoring procedures at least annually, with identification of any systemic issues needing improvement, along with recommendations for corrective action. The organization should communicate deficiencies noted during the monitoring process to appropriate personnel and make recommendations for appropriate remedial action.

### 12.4.2 SAO Standard

SAO performs periodic monitoring of its quality control policies and procedures to provide an evaluation of (1) adherence to professional standards and legal and regulatory requirements, (2) whether the quality control system has been appropriately designed, and (3) whether quality control policies and procedures are operating effectively and complied with in practice.

#### 12.4.2.1 Annual Quality Control Review

Annually, during the early spring timeframe, files for performance audits completed during the previous calendar year will be selected by the SAO Financial Manager for inspection by a Quality Control (QC) Reviewer, who will be an audit manager[55] independent of the audit engagement team. The Chief Auditor will provide the Financial Manager with a list of all audits completed in the prior calendar year, including report title, audit manager, number of audit hours and staff assigned. The Quality Control Review form, Part A, will be used to document the listing of audits (Appendix 12.1).

The number of audits selected for review may vary from year to year depending upon the number of audits conducted. SAO's policy is to review at a minimum of 20 percent of all performance audit reports issued each year and to ensure that each engagement audit manager is subject to review at least once every three years. The Financial Manager will utilize the Quality Control Review form, Part A (Appendix 12.1) to document the audit engagement(s) selected for review and the QC Reviewer designated to

[55] Although certain audit engagements may have a senior auditor designated as the audit manager, for purposes of the annual monitoring of quality control, audit manager means an individual in the office that has a job grade 28 or higher, the State Auditor, or the Deputy State Auditor.

perform the review. The Deputy State Auditor will sign the form, indicating agreement that appropriate engagements have been selected, representing a good cross-section of the audits performed by SAO and ensuring that each audit manager is subject to review at least once every three years.

The scope of the quality control review should focus on whether (1) SAO has complied with its administrative and personnel policies and (2) engagements selected comply with the office's stated policies and procedures.

To perform the review of the administrative and personnel policies, the QC Reviewer should complete the Administrative Quality Assessment Checklist (AQA Checklist) in Appendix 12.2. The AQA Checklist addresses the GAGAS standards enumerated in the PSM related to the administrative and personnel policies such as CPE requirements and performance evaluations. The QC Reviewer should select several audit staff personnel files to review for compliance with performance management policies and should also review CPE records and independence certifications for those individuals. QC Reviewers should gather and review other documentation, as necessary, prepared by SAO in order to conclude whether the office complied with the relevant PSM policies and procedures. When multiple QC Reviewers are involved in the annual review process, only one reviewer should complete the AQA Checklist since these are the quality controls that reside predominantly at the organization level and are not specific to an engagement.

The engagement level review should include a review of the engagement workpapers and inquiries of the engagement team, if necessary. This review will be aided by the Engagement Quality Assessment Checklist (EQA Checklist) in Appendix 12.3. The QC Reviewer and the audit manager, or designee, for each audit engagement selected for review will work together to prepare the EQA Checklist. The EQA Checklist is a compilation of all of the GAGAS standards enumerated in the PSM related to the performance of an audit engagement. It is intended to provide the QC Reviewer with a road map of the documentation prepared by the engagement team to demonstrate compliance with the office's policies and procedures.[56] The QC Reviewer will develop an independent judgment regarding an audit engagement's compliance with policies and procedures. The QC Reviewer will use the checklist, but will form an independent assessment of whether SAO's quality control system is appropriately designed and operating effectively:

[56] The EQA is not required to be completed for all audit engagements since other mechanisms are used by engagement teams to ensure compliance with the office's policies and procedures.

The QC Reviewer must document a conclusion as to whether the audit team (1) complied with administrative and personnel policies and (2) properly completed engagement checklists, forms, or other documentation required by the office's policies and procedures.

The Quality Control Review form at Appendix 12.1, Part B, should be used to document the conclusion of the QC Reviewer. For any deficiencies noted, the QC reviewer may suggest appropriate corrective action, such as training for the audit staff.

#### 12.4.2.2 Treatment of Quality Control Comments

At the conclusion of the review, the QC Reviewer is responsible for documenting results and discussing the results of the review with the engagement manager. Subsequent to this discussion, the QC Reviewer submits the results to the Deputy State Auditor.

If warranted by the results of the review, the Deputy State Auditor, in consultation with the Chief Auditor, will assess whether policies and procedures should be amended or if training on current policies and procedures is warranted. Part of this consideration should include whether any deficiencies noted indicate that the SAO's system of quality control is insufficient to provide reasonable assurance that it complies with GAGAS or other legal or regulatory requirements (**GAGAS 5.45**). This assessment and planned corrective actions/improvements should be documented by the Deputy State Auditor in the Quality Control Review form, Part C, and formally approved by the State Auditor.

Subsequent annual quality control reviews will assess whether corrective actions were effective.

## 12.5 Peer Review

### 12.5.1 GAGAS Citation

Audit organizations performing audits in accordance with GAGAS must have an external peer review performed by reviewers independent of the audit organization. (**GAGAS 5.60**)

### 12.5.2 SAO Standard

It is the policy of SAO to undergo an external quality control review once every three years (**GAGAS 5.84**). The SAO is a member of the National

# Chapter 12

## Quality Control and Assurance

State Auditors Association and follows its peer review requirements, as allowed by **GAGAS 5.61**.

To foster transparency, the SAO posts the peer review report on the Auditor's website. (**GAGAS 5.77 - 5.79**)

The SAO will follow the requirements of **GAGAS 5.93 and 5.94** if the peer review rating is not "pass."

# Appendix 12.1

## Quality Control Review Form

Part A of the following form is completed by the Chief Auditor and Businesss Manager to document selection of engagements for review. This section requires approval of the Deputy State Auditor.

Part B of the form is completed by the QC Reviewer and summarizes the results of the administrative and engagement review procedures.

Part C of the form is completed by the Deputy State Auditor and serves to document SAO's planned corrective actions. The State Auditor must approve Part C.

### Part A – Selection of Engagements

Quality Control Review period:
Prepared by:
Date:

List of Audits Completed during the quality control review period:

| Report Title | Audit Manager | Assigned Audit Staff | Audit Hours |
|---|---|---|---|
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |

Engagement(s) selected for review:

| Report Title | Audit Manager | QC Reviewer |
|---|---|---|
| | | |
| | | |
| | | |
| | | |
| | | |

Approved by:

Date:

# Appendix 12.1

## Quality Control Review Form

### Part B  Results of Review Procedures

Prepared by

Date:

Summary

Administrative review results
*This section should include a conclusion addressing whether the SAO complied with administrative and personnel policies.*

Engagement review results
*This section should include a conclusion addressing whether (1) engagement checklists, forms or other documentation required by the office's policies and procedures have been properly completed and (2) the engagement work papers provide adequate evidence to support conclusions, opinions and presentations resulting from the engagement.*

Recommendations
*If applicable, recommendations should be documented in this section.*

### Part C  Response to Review and Planned Corrective Actions

Prepared by
Date:

Approved by State Auditor:
Date:

Finding:

Does this finding indicate that the SAO's system of quality control is insufficient to assert compliance with GAGAS and other requirements?

Corrective Action:
*This section should address the planned action, timeline for implementation and individual responsible.*

# Appendix 12.2

## Administrative Quality Assessment Checklist (AQA Checklist)

The following checklist must be used by the QC Reviewer to document the review of SAO's compliance with administrative and personnel policies and procedures. The intent of this checklist is to assist the QC Reviewer with determining whether the State Auditor's Office followed the policies and procedures related to administration and personnel such as CPE requirements and performance evaluations documented in the Professional Standards Manual.

QC Reviewer:

Date:

| General Standards | Review Steps | Cross-reference to PSM | Documentation inspected by QC Reviewer | Description of exception (leave blank if QC Reviewer determines standard is met) |
|---|---|---|---|---|
| Independence | Review annual independence statements and determine whether any threats to independence were brought to attention of Chief Auditor. If so, determine whether Chief Auditor followed policies for timely resolution of threats. | 2.2.2 | | |
| | Review annual checklist prepared by Chief Auditor to monitor compliance with independence standards. | 2.4.2 | | |
| Compliance with legal and ethical requirements | Review SAO's statutory requirements and determine whether these requirements were met. | 1.1 | | |
| Competence of staff<br>- CPE<br>- Recruitment<br>- Evaluations | Select several audit staff personnel files to review for compliance with performance appraisal policies. | 3.3.2.2 | | |
| | For the same individuals, review CPE records to determine that adequate CPE were obtained and that supporting documentation of CPE was maintained. | 3.2.2.1, 3.2.2.2 | | |
| | Select hiring files for audit staff hired during the period under inspection and determine whether policies delineated in Chapter 3 of the Professional Standards Manual were followed. | 3.1.2 | | |

# Appendix 12.3

## Engagement Quality Assessment Checklist (EQA Checklist)

The following checklist must be used for each audit engagement selected for quality review. The Audit Manager for each engagement selected for review will complete the column in the checklist that requires cross-references to the audit file workpapers. The intent of this checklist is to assist the QC Reviewer with determining whether the engagement team followed the policies and procedures documented in the Professional Standards Manual. The QC Reviewer will review the key checklists and forms required to be used by the engagement team to determine whether the engagement team completed the documentation in conformance with SAO policies and procedures, including whether the dates of completion were timely. The completion of the required checklists and forms serves as evidence that the engagement team adhered to the SAO's policies and procedures for ensuring that performance audits are conducted in accordance with GAGAS.

Report Title:

Audit Manager:

Date:

QC Reviewer:

Date:

| Criteria | Cross-reference to PSM | Cross-reference to work papers[57] | Description of exception (leave blank if QC Reviewer determines standard is met) |
|---|---|---|---|
| For discretionary audits, the Risk Assessment Tool was used to help evaluate the possible engagement and determine its potential significance. | 6.3.2 | | |

[57] If a standard was not followed, the reference should be to (1) a work paper explaining or showing approval for the deviation or (2) the modified GAGAS statement in the report disclosing the deviation.

# Appendix 12.3

## Engagement Quality Assessment Checklist (EQA Checklist)

| Criteria | Cross-reference to PSM | Cross-reference to work papers[57] | Description of exception (leave blank if QC Reviewer determines standard is met) |
|---|---|---|---|
| A job initiation memo, evidencing the State Auditor's approval for commencing the engagement, was obtained. | 6.4.2 | | |
| Staff independence forms are included in the audit file and approved by the audit manager. | 2.2 Appendix 2.3 | | |
| A job announcement letter was provided to the entity(s) subject to audit. | 7.1.2.1, Appendix 7.2 | | |
| The background research checklist was completed and signed by the audit manager. | 7.1.2.1 | | |
| Audit file contains documented evidence, such as an agenda and/or a summary of the meeting, demonstrating an entrance conference was held with the auditee. | 7.1.2.1 | | |
| Audit team documented its audit plan in a design matrix. | 7.1.2.2c, Appendix 7.5 | | |
| A design meeting was held to review the audit plan documented in the design matrix and agreement on planning decisions was documented in the required form (design summary form). | 7.1.2.2c, Appendix 7.6 | | |
| Audit files contain evidence of review by supervisors. | 7.3.2.4 | | |
| Design matrix and other planning documents (e.g., test plans) are cross-referenced to completed work | 7.1.2.2c | | |
| Senior management's approval of significant audit choices is documented in TeamMate®. | 7.3.2.4, | | |

# Appendix 12.3

## Engagement Quality Assessment Checklist (EQA Checklist)

| Criteria | Cross-reference to PSM | Cross-reference to work papers[57] | Description of exception (leave blank if QC Reviewer determines standard is met) |
|---|---|---|---|
| An exit conference was held with the audited entity after findings are developed and prior to issuance of the report. Results of exit conference are documented in audit files. | 7.3.2.5 | | |
| A message meeting was held and the results are documented in the audit file. | 7.4.2.3 | | |
| Audit report complies with required structure and elements of the report. | 7.4.2.4 | | |
| Audit report includes a statement regarding compliance with GAGAS. | 7.4.1, 7.4.2.4 | | |
| A copy of the draft report, fully indexed, is in the audit file and there is evidence that indexing and referencing occurred prior to issuance of the report. | 7.4.2.5 | | |
| A referencing review sheet is included in the audit file and all reference points were resolved prior to report issuance. | 7.4.2.5, Appendix 7.12 | | |
| A reviewer (State Auditor, Deputy State Auditor, or designated audit manager) completed the applicable sections of the Report Quality Checklist prior to the report's distribution to management for comment. The reviewer completed applicable sections of the Report Quality Checklist subsequent to the receipt and evaluation of management's comments. | 7.4.2.6, 7.4.2.8, Appendix 7.10 | | |
| The report reviewers approve the distribution of the draft report to management for comment in TeamMate®. | 7.4.2.6 | | |
| A transmittal letter signed by the State Auditor or designee accompanied the distribution of the draft report to management for comment. | 7.4.2.7 | | |

# Appendix 12.3

## Engagement Quality Assessment Checklist (EQA Checklist)

| Criteria | Cross-reference to PSM | Cross-reference to work papers[57] | Description of exception (leave blank if QC Reviewer determines standard is met) |
|---|---|---|---|
| TeamMate® shows that final management approval was obtained prior to issuance of the report. | 7.4.2.8 | | |
| The report is available to the public via the State Auditor's Office website. | 7.4.2.9 | | |

# Chapter 13

# Strategic Planning and Performance Reporting

## Overview

32 VSA §307(c) requires State organizations, including the SAO, to submit a strategic plan to the General Assembly with our annual budget request. This plan is required to include, at a minimum, information about our:

- Mission.
- Goals.
- Measures, particularly those pertaining to output and outcome.
- Clients.
- Use of resources to meet needs, including future needs;
- Expected changes in the services to be provided because of changes in state or federal law.
- Means and strategies needed to meet the goals.[58]

The SAO uses this required submission as the vehicle to report to the General Assembly on our (1) planned performance for upcoming years and (2) actual performance against planned targets.

## 13.1 Strategic Plan

### 13.1.1 GAGAS Citation

Not applicable.

### 13.1.2 SAO Standard

SAO's strategic plan will provide a solid foundation for how we will serve Vermonters in the coming years. It is expected that the plan will cover a 3-year period to make sure that our efforts remain a vital and accurate reflection

[58] The statute also requires that the SAO describes and prioritizes capital improvement requests. Capital improvement requests are expected to be highly unusual but will be addressed when applicable.

of the major issues facing the State. The timing of the plan will, in part, hinge on the 2-year election cycle of the State Auditor.

The process for the development of the strategic plan starts with the State Auditor and his or her management team. This group is responsible for (1) developing the overarching strategy for the office, (2) ensuring that the SAO keeps up with new auditing standards and approaches, (3) conducting outreach with outside stakeholders, such as the legislature and the Governor's Office, and (4) designating a member of the management team to draft the plan.

The designated management team member will be responsible for developing the form and drafting the content of the strategic plan based on guidance from the State Auditor and management team. The contents of the plan will, at a minimum, cover the elements required by 32 VSA §307(c). Other aspects of the plan may include (1) core values, (2) an assessment of external factors (such as statutory mandates) that will affect our goals and targets, (3) an assessment of internal factors (such as the skills of the SAO's workforce) that would affect our ability to achieve our goals and targets, and (4) future targets.[59]

The management team member responsible for the strategic plan will also be responsible for drafting a separate measure description document concurrent with the plan. The measure description document will (1) define the measure, (2) describe the source of actual results, (3) describe the methodology to be used to compile the actual results, and (4) document any anticipated limitations related to the data or methodology.

The draft strategic plan and the measure description document will be reviewed and approved by the State Auditor prior to its submission to the General Assembly.

Although the strategic plan will cover a 3-year period, it will be reviewed for continued relevance by the State Auditor and his or her management team annually. If an event or other change has occurred, or is anticipated, that would significantly affect the goals, measures, or strategies outlined in the plan, modifications to the plan will be made to reflect the new circumstances prior to its submission to the General Assembly.

[59] It is not expected that budgetary resources will be explicitly addressed in the plan. Budgetary resources will be addressed in the annual budget request submitted to the General Assembly concurrently with the strategic plan.

# Chapter 13

# Strategic Planning and Performance Reporting

Once approved, the strategic plan will be provided to all SAO staff members in order to communicate the direction of the office. The plan will also be made available to the public as a whole by posting it on the Office's website.

## 13.2 Performance Reporting

### 13.2.1 GAGAS Standard

Not applicable.

### 13.2.2 SAO Standard

The SAO will prepare an annual performance report to inform the General Assembly and the public of what was achieved in the prior fiscal year. It is expected that the performance report will be submitted to the General Assembly at the same time as the annual budget request and the strategic plan. The performance report will include the actual results pertaining to each goal and measure contained in the strategic plan and whether desired targets for the prior fiscal year were met. In addition, at a minimum, narrative explanations will be provided if (1) desired targets were not met or (2) there were limitations related to the data being reported.

**☑ TIP . . . To the extent practicable, graphics should be used to illustrate results in the performance report.**

As with the strategic plan, the State Auditor will designate a member of the management team to be responsible for developing the form and content of the performance report. The designated member will also compile the actual results related to the prior fiscal year in accordance with the measure description document.

The State Auditor or Deputy State Auditor will designate a staff member to validate the actual results in the draft performance report. This validation will occur prior to the submission of the performance report to the General Assembly. The process used to validate the actual results will depend upon the measure. In most cases it is expected that the validation will consist of a recalculation of results. If a more complicated validation process is needed the Deputy State Auditor will provide direction to the responsible staff member.

The draft performance report will be reviewed and approved by the State Auditor prior to its submission to the General Assembly.

# Chapter 14

# Maintenance of Professional Standards Manual

## Overview

This manual is an integral part of how SAO is managed. Senior management should use it as *the* reference source on policy. Staff members will be held accountable for complying with the contents of the manual. New content should not be issued by memo, bulletin, letter, or verbally without following up immediately with a revision or addition to the manual. All content revisions should be communicated to staff when they occur.

## 14.1 GAGAS Citation

Although there is no specific GAGAS requirement to keep the professional standards manual updated, **GAGAS 2.07** tells us that auditors have a responsibility to consider the entire text of GAGAS in carrying out their work and in understanding and applying the professional requirements in GAGAS. This manual is intended to be a tool to aid in that understanding as well as to document the requirements and policies of the State Auditor's Office.

## 14.2 SAO Standard

### 14.2.1 Location of Manual

The PSM is available as an Adobe Acrobat® document located online on the shared drive (S:\AUD\AUD-Shared\Current PSM). It is the policy of this office to maintain and access an online manual rather than a printed version for each employee as online manuals eliminate the effort, expense, and time required to reproduce copies and integrate new sections.

A working copy of the manual is available as a MS Word document in a different location on the shared drive. The MS Word document is the one to which changes are made.

The PSM needs to be revised regularly to be reliable and useful because the information in it may become outdated very quickly. The manual needs to reflect new legislation, accommodate program changes, or correct content errors. The State Auditor will periodically designate a SAO manager to perform a review of the PSM to ensure that it remains a reliable source of information and to keep the revision process manageable. At a minimum, the manual will be updated every time there is a new version of GAGAS.

# Chapter 14

## Maintenance of Professional Standards Manual

### 14.2.2 Responsibility for Revisions

To ensure that the manual is kept current and continues to be a reliable source of information, the Director of IT and Performance Audits is responsible for initiating changes. This person will receive and address all comments and suggestions for changes to the manual.

A revision requires the cooperative effort of everyone involved in the development of the manual, or of representative individuals in the office. Therefore, the Director of IT and Performance Audits will ensure that the State Auditor, Deputy State Auditor, and Chief Auditors (and others as necessary) are kept up-to-date on planned changes.

### 14.2.3 Revision Process

Office policy updates occur in various ways. They may be official policy changes made by senior management, suggested grammatical or error changes, statutory changes that need to be incorporated, changes to GAGAS, or changes in Vermont State government policies and procedures.

When office policy is changed by senior management, it is the responsibility of the Director of IT and Performance Audits to ensure that the PSM is changed in accordance with the new/revised policy. Other changes may be conveyed to or initiated by anyone (see the Change Management Form location at S:\AUD\AUD-Shared\Current PSM\Chap 14 forms\App 14-1 Change form.doc). Upon receiving a change request, the Director will:

- Obtain clarification change with initiator if necessary.
- Ensure that any approved change is incorporated into the next revision of the manual.
- Discuss the results with initiator.

An advantage of online manuals is how quickly they can be revised. Changes should be made to the working document as they occur.

Minor changes to the working file need not precipitate the creation of a new Adobe Acrobat® (*.pdf) file. These changes may be accumulated until such time as an updated file is created. Use the track changes feature in MS Word when editing the document through the course of the year. When a significant change to the manual occurs or at least as frequently as the annual review process is completed, a new version of the Adobe Acrobat® file should be

created. Accept all changes in the MS Word file and create a new version of the *.pdf file using the version control numbering scheme outlined below.

One potential problem with simply updating the files of the online manual is that this process is invisible to users of the manual unless specific notification is sent that a change has been made. To notify users of the manual of important changes, send a letter or e-mail informing them of the changes, including a summarization of the changes and which areas of the manual are affected.

Also change the table of contents to show added or deleted sections, title changes, or new issue dates.

### 14.2.4 Version Control

Each time a new Adobe Acrobat® file is created, a version number should be assigned to it. The first digit in version number reflects major revisions, typically changed when GAO updates GAGAS. The second digit in the version number reflects minor revisions that are typically the result of internal process changes.

# Appendix 14.1

## Change Management Form

| Professional Standards Manual<br>Change Management Form | |
|---|---|
| **Name** | |
| **Date** | |
| **Suggested Change:** | |
| Chapter and Section affected | |

| |
|---|
| **Date changes made to manual_____** |
| **By whom _____** |
| **Date discussion held with initiator_____** |
| **By whom _____** |