



# National State Auditors Association

Office of the Vermont State Auditor  
Peer Review Letter of Comment  
For the Period January 1, 2011  
Through April 30, 2012



# National State Auditors Association

June 8, 2012

Mr. Thomas Salmon, CPA  
State Auditor  
Office of the Vermont State Auditor  
132 State Street  
Montpelier, VT 05602

Dear Mr. Salmon:

We have reviewed the system of quality control applicable to performance audits of Office of the Vermont State Auditor (SAO) in effect for the period January 1, 2011 through April 30, 2012 and have issued our report thereon dated June 8, 2012. That report should be read in conjunction with the comments in this letter, which were considered in determining our opinion. The matters described below were not considered to be of sufficient significance to affect the opinion expressed in that report.

## 1. Field Work Standard – Planning

Comment – *Government Auditing Standards (GAGAS)* planning standards for performance audits requires auditors to assess audit risk and significance within the context of the audit objectives by gaining an understanding of the following:<sup>1</sup>

- a) the nature and profile of the programs and the needs of potential users of the audit report;<sup>2</sup>
- b) internal control as it relates to the specific objectives and scope of the audit;<sup>3</sup>
- c) information systems controls for purposes of assessing audit risk and planning the audit within the context of the audit objectives;<sup>4</sup>
- d) legal and regulatory requirements, contract provisions or grant agreements, potential fraud, or abuse that are significant within the context of the audit objectives;<sup>5</sup> and
- e) the results of previous audits and attestation engagements that directly relate to the current audit objectives.<sup>6</sup>

In addition, planning standards for performance audits require auditors to determine which laws, regulations, and provisions of contracts or grant agreements are significant within the context of the audit objectives and assess the risk that violations of those laws, regulations, and provisions of contracts or grant agreements could occur.<sup>7</sup>

Further, planning standards for performance audits requires that, in planning the audit, auditors assess risks of fraud occurring that is significant within the context of the audit objectives.<sup>8</sup>

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<sup>1</sup> GAGAS 7.11

<sup>2</sup> GAGAS 7.13-7.15

<sup>3</sup> GAGAS 7.16-7.22

<sup>4</sup> GAGAS 7.23-7.27

<sup>5</sup> GAGAS 7.28-7.35

<sup>6</sup> GAGAS 7.36

<sup>7</sup> GAGAS 7.28

<sup>8</sup> GAGAS 7.30

The audit organization's quality control policies and procedures are not specifically designed to require audit documentation that demonstrates compliance with the aforementioned assessment requirements. However, through discussion with engagement personnel and review of the engagement working papers, we satisfied ourselves that audit risk and significance was sufficiently considered.

*Recommendation* – We recommend that the state audit organization enhance its policies and procedures to require audit documentation to demonstrate consideration of audit risk and significance including its consideration of laws, regulations, provisions of contracts or grant agreements and the risk of fraud.

## 2. Quality Control and Assurance

*Comment* – *Government Auditing Standards* (GAGAS) quality control and assurance standards require audit organizations performing audits and attestation engagements in accordance with GAGAS to have an external peer review performed by reviewers independent of the audit organization being reviewed at least once every three years.<sup>9</sup>

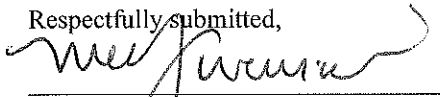
The external peer review requirement is effective within three years from the date an audit organization begins field work on its first assignment performed under GAGAS. Extensions of the deadlines or submitting the peer review report exceeding three months beyond the due date must be granted by the entity that administers the peer review program and GAO.<sup>10</sup>

The audit organization failed to obtain an external peer review or a formal extension applicable to its system of quality control for performance audits as required by the standards. The audit organization did include the adequate required disclosures informing the users of report.

*Recommendation* – We recommend that the state audit organization take necessary steps to ensure continued compliance with the peer review requirements.

In the attached correspondence dated June 8, 2012, the SAO's provided its response to the Letter of Comments recommendations.

Respectfully submitted,



Team Leader  
National State Auditors Association  
External Peer Review Team



Concurring Reviewer  
National State Auditors Association  
External Peer Review Team

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<sup>9</sup> GAGAS 3.55

<sup>10</sup> GAGAS footnote 40



STATE OF VERMONT  
OFFICE OF THE STATE AUDITOR

June 8, 2012

Melissa Wenrich, CPA, CFE, CGAP  
Team Leader  
Kathleen O'Donnell, CPA, CISA, CGFM, CGAP  
Concurring Reviewer  
External Peer Review Team  
National State Auditors Association  
449 Lewis Hargett Circle, Suite 290  
Lexington, KY 40503-3590

Dear Ms. Wenrich and Ms. O'Donnell:

Thank you for the opportunity to comment on the Opinion Report and Letter of Comment dated June 8, 2012 that provide the results of the peer review team's assessment of our system of quality control for performance audits conducted between January 1, 2011 and April 30, 2012. We are pleased that you have concluded that our system of quality control was suitably designed and was complied with to provide reasonable assurance of conformance with government auditing standards. Our audit office has worked hard to put these quality control processes in place as we believe that they are crucial to delivering objective, independent, thoughtful, and useful audit reports.

The Letter of Comment includes recommendations on how we can improve our processes and I offer the following responses to each comment.

**Comment 1**

The peer review team found that our policies and procedures were not specifically designed to require audit documentation that demonstrates compliance with government auditing standards' audit risk assessment requirements. The team noted that it was able to satisfy itself that audit risk and significance was sufficiently considered in our audits, but recommended that we enhance our policies and procedures to require audit documentation to demonstrate consideration of audit risks and significance including our consideration of laws, regulations, provisions of contracts or grant agreements, and the risk of fraud.

We agree with this recommendation and concur that it is important that we ensure that our policies and procedures better match the audit documentation and work that we are completing as part of our performance audits. We plan to incorporate the suggested changes in the next version of our Professional Standards Manual, which we expect to issue later this year.

## Comment 2

The peer review team noted that we did not obtain an external peer review or formal extension within the required timeframes, but acknowledged that we included adequate required disclosures in our audit reports. The team recommended that we take necessary steps to ensure continued compliance with the peer review requirements.

We agree with this recommendation and plan to obtain our next external peer review in the timeframes required by government auditing standards.

We appreciate the professionalism and constructive approach demonstrated by you and your review colleague, Susan Beeler, during this peer review. This has been a beneficial process for us and we have taken away several useful ideas from discussions about approaches to performance auditing implemented by the three states represented by the team.

Sincerely,



Thomas M. Salmon, CPA, CFE  
State Auditor