



External Quality Control Review

of the
County of Kaua'i,
Office of the County Auditor

Conducted in accordance with guidelines of the
**Association of Local Government
Auditors**



Association of Local Government Auditors

June 6, 2013

Ernesto G. Pasion, MBA, CFE
County Auditor
Office of the County Auditor
Hale Pumehana Building
3083 Akahi Street, Room #201
Lihue, HI 96766

Dear Ernesto,

We have completed a peer review of the County of Kauai, Office of the County Auditor, for the period of January 1, 2011 through December 31, 2012. In conducting our review, we followed the standards and guidelines contained in the *Peer Review Guide* published by the Association of Local Government Auditors (ALGA).

We reviewed the internal quality control system of your audit organization and conducted tests in order to determine whether your internal quality control system operated to provide reasonable assurance of compliance with *Government Auditing Standards* issued by the Comptroller General of the United States. Our procedures included:

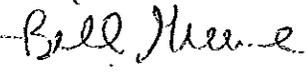
- Reviewing the audit organization's written policies and procedures.
- Reviewing internal monitoring procedures.
- Reviewing a sample of audit engagements and working papers.
- Reviewing documents related to independence, training, and development of auditing staff.
- Interviewing auditing staff to assess their understanding of, and compliance with, relevant quality control policies and procedures.
- Meeting with the Council Chair and Vice Chair to provide information about the peer review process and get their perspective on the County Auditor's Office.

Due to variances in individual performance and judgment, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

Based on the results of our review, it is our opinion that the County of Kauai, Office of the County Auditor's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for audits during the period of January 1, 2011 through December 31, 2012.

We have prepared a separate letter offering suggestions to further strengthen your internal quality control system.


F. Michael Taylor
Hanover County, VA


Bill Greene
City of Phoenix, AZ



Association of Local Government Auditors

June 6, 2013

Ernesto G. Pasion, MBA, CFE
County Auditor
Office of the County Auditor
Hale Pumehana Building
3083 Akahi Street, Room #201
Lihue, HI 96766

Dear Ernesto,

We have completed a peer review of the County of Kauai, Office of the County Auditor, for the period January 1, 2011 through December 31, 2012 and issued our report thereon dated June 7, 2013. We are issuing this companion letter to offer certain observations and suggestions stemming from our peer review.

We would like to mention some of the areas in which we believe your office excels:

- Your office has implemented significant changes to the audit process over the past year to comply with *Government Auditing Standards*.
- As a new audit organization, you have completed a peer review within three years of beginning work under *Government Auditing Standards*.
- Everyone on the audit staff are committed to professional growth, with two receiving professional audit certifications since joining the office, and a third presently pursuing certification.

We offer the following observations and suggestions to enhance your organization's demonstrated adherence to *Government Auditing Standards*:

- Standards 3.34, 3.37, 3.39, and 3.59 describe requirements when providing nonaudit services. Included in these requirements are the need to document an understanding with management concerning objectives of the nonaudit service, services to be performed, responsibilities of management, responsibilities of the auditor, and any limitations on the nonaudit service. Procedures for complying with these requirements are not included in the office's Audit Manual.

We suggest that the Audit Manual be updated to include procedures for complying with the standards when providing nonaudit services to the County.

- Standard 6.11 requires auditors to assess audit risk and significance within the context of the audit objectives of several areas, including internal controls, laws and regulations, fraud, design and effectiveness of information system controls. Although the audit planning program addressed these items at a high level, we noted some missing elements in each of the files tested.

We suggest documenting a more clear linkage between the planning and risk assessment activities and actual fieldwork steps as a part of each audit file.

- Standards 6.62, 6.65, 6.66, 6.71, and 6.72 describe requirements for assessing and evaluating the sufficiency and appropriateness of testimonial evidence, information provided by officials of the audited entity, and computer-processed information. Standard 6.72 requires additional procedures when auditors identify limitations or uncertainties in evidence that is significant to the audit findings and conclusions. These requirements are not included in the office's Audit Manual.

We suggest that the audit manual be updated to include procedures for assessing and evaluating the sufficiency and appropriateness of evidence and the steps to take if limitations or uncertainties are identified.

- Standard 6.73 requires auditors to plan and perform procedures to develop the elements of a finding (criteria, condition, cause, and effect) necessary to address the audit objectives. Elements of a finding are included in the reporting section of the Audit Manual, but not in the fieldwork section where the elements would be developed. Also, in all of the audits tested, although the elements can be found in the work papers, they were not explicitly identified.

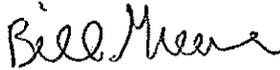
We suggest updating the Audit Manual to include procedures for identifying elements of a finding in the fieldwork section.

We extend our thanks to you, your staff and the other city officials we met for the hospitality and cooperation extended to us during our review.

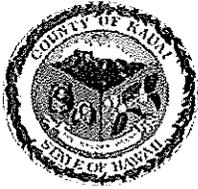
Sincerely,



F. Michael Taylor
Hanover County, VA



Bill Greene
Phoenix, AZ



Ernesto G. Pasion
County Auditor

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June 6, 2013

Mr. F. Michael Taylor
Director, Internal Audit Department
County of Hanover
P.O. Box 470
7497 County Complex Road, Room 203
Hanover, VA 23069-0470

Mr. Bill Greene
City Auditor, City Auditor Department
City of Phoenix
17 South 2nd Avenue, Suite 200
Phoenix, AZ 85003

Dear ALGA Peer Review Team:

We have received and reviewed your June 6, 2013 peer review report containing the results of your external quality review of the Office of the County Auditor, County of Kaua'i. My office is very gratified that your independent peer review team found the Office of the County Auditor conducts its work in full compliance with generally accepted government auditing standards; that our quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards*.

We have also received and reviewed your management letter. We appreciate very much your comments about the areas in which our office excels. We also appreciate the constructive verbal and written comments provided. We have already begun work to incorporate your recommendations into our Audit Manual and other office forms and procedures. We are fully committed to continuous improvement.

On behalf of my staff and myself, I thank you very much for agreeing to take time from your busy schedules to participate in our peer review process. Your report and management letter will be available as a public document, and will be posted on our website and make it available to the media. We will also send copies to the County Council and the Mayor.

Sincerely,

A handwritten signature in black ink, appearing to read "Ernesto G. Pasion".

Ernesto G. Pasion
County Auditor