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Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
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June 25, 2018

Creedle, Jones, & Alga, P.C.
828 N Mecklenburg Avenue
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We have reviewed the working papers for the audit of the City of Emporia, Virginia, for the year ended June 30, 2017. The purpose of our review was to determine whether:

- A. the audit complies with the Specifications for Audits of Counties, Cities, and Towns, issued by the Auditor of Public Accounts;
- B. the audit complies with Government Auditing Standards, issued by the Comptroller General of the United States;
- C. the audit complies with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards;
- D. the annual financial report complies with generally accepted accounting principles for governmental entities; and
- E. the auditor has performed the agreed upon procedures for the Comparative Report Transmittal Forms as set forth in the Uniform Financial Reporting Manual, issued by the Auditor of Public Accounts.

We conducted our review in accordance with the 2017 Quality Control Review Program for Audits of Local Governments, developed by the Auditor of Public Accounts. The review was limited to the audit of the City of Emporia, Virginia, and did not extend to any other engagements performed by your firm.

During our review, we noted the following deficiencies that the firm should address to further enhance the quality and effectiveness of its local government audits.

Improve Working Paper Documentation

Comment – Government Auditing Standards and the American Institute of Certified Public Accountants (AICPA) standards require that audit documentation contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from the audit documentation the nature, timing, and extent of audit procedures performed and the evidence that supports the auditor’s significant judgments and conclusions. Further, audit documentation should adequately support specific items tested and address all documentation requirements for specific procedures as outlined in the standards.

There were multiple instances in which the working papers did not sufficiently document the nature, timing, and extent of test work performed. Verbal explanations from the auditor were required in order for the reviewer to understand the nature and extent of audit procedures performed. Current auditing standards do not allow the use of oral explanations as support for work the auditor performed or conclusions reached. Additionally, the working papers were not documented in a manner to demonstrate completion of all state compliance requirements in the Specifications for Audits of Counties, Cities, and Towns.

Recommendation – We recommend the firm ensure it follows all applicable standards when planning, performing, and documenting audit test work. Specifically, we recommend the firm ensure the working papers clearly demonstrate the performance of audit planning and audit procedures required by the standards, along with the performance of procedures required by the Specifications for Audits of Counties, Cities, and Towns.

Improve Linkage Between Risk Assessment and Audit Fieldwork

Comment – AICPA standards require the auditor to obtain sufficient evidence about the operating effectiveness of relevant controls when the auditor’s assessment of risk includes an expectation that controls are operating effectively. Although the risk assessment included an assessment of low control risk at the relevant assertion level for each line item or functional area, the auditor did not perform a test of controls, other than a walkthrough, to evaluate the operating effectiveness of the applicable controls. AICPA standards require the auditor to test controls for the particular time or throughout the period for which the auditor intends to rely on the controls. While the firm did perform walkthroughs to obtain an understanding and evaluate the design and implementation of controls, walkthroughs alone do not necessarily provide evidence to support the operating effectiveness of controls.

Recommendation – We recommend the firm ensure it follows the applicable standards for designing test work to support its risk assessment at the relevant assertion level.

Improve Linkage Between Financial Statements and Test Work

Comment – AICPA standards require the auditor’s substantive procedures to include agreeing or reconciling the financial statements with the underlying accounting records and to examine material journal entries and other adjustments made during the course of preparing the financial statements. There were a few instances noted where the underlying test work did not agree to or reconcile with the financial statements, or some elements of the financial statements did not clearly reconcile with the trial balance based on the audit workpapers.

Recommendation – We recommend the firm ensures all financial statement elements are clearly linked to the trial balance, and the trial balance clearly agrees with underlying test work performed. Specifically, documentation regarding the reconciliation or flow of the financial statements, trial balance, and underlying audit test work should be maintained in the workpapers.

We found that for the audit of the City of Emporia, Virginia, for the year ended June 30, 2017, except for the deficiencies described above, the working papers appropriately supported the requirements listed in A through E above. Firms can receive a rating of pass, pass with deficiencies or fail. Creedle, Jones, & Alga, P.C. has received a review rating of pass with deficiencies.

We discussed these matters with your firm on June 21, 2018. We will perform a follow up review to ensure the firm has addressed the issues we noted during our review.

This report is intended for the information and use of management. However, it is a public record and its distribution is not limited.

Sincerely,

Martha S. Mavredes
Auditor of Public Accounts

cc: City of Emporia
Virginia Board of Accountancy
Virginia Society of Certified Public Accountants