



National State Auditors Association

**Auditors of Public Accounts
State of Connecticut
External Peer Review**

July 1, 2012 through June 30, 2013



National State Auditors Association

PEER REVIEW REPORT

August 9, 2013

The Honorable John C. Geragosian, State Auditor
The Honorable Robert M. Ward, State Auditor
Connecticut Auditors of Public Accounts
Connecticut State Capitol
Hartford, CT 06106

Dear Mr. Geragosian and Mr. Ward:

We have reviewed the system of quality control of the Connecticut Auditors of Public Accounts (the office) in effect for the period July 1, 2012 through June 30, 2013. A system of quality control encompasses the office's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The design of the system and compliance with it are the responsibility of the office. Our responsibility is to express an opinion on the design of the system and the office's compliance with the system based on our review.

We conducted our review in accordance with the policies and procedures for external peer reviews established by the National State Auditors Association (NSAA). In performing our review, we obtained an understanding of the office's system of quality control for engagements conducted in accordance with professional standards. In addition, we tested compliance with the office's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the office's policies and procedures on selected engagements. The engagements selected represented a reasonable cross-section of the office's engagements conducted in accordance with professional standards. We believe that the procedures we performed provide a reasonable basis for our opinion.

Our review was based on selective tests; therefore it would not necessarily disclose all design matters in the system of quality control or all compliance matters with the system. Also, there are inherent limitations in the effectiveness of any system of quality control; therefore, noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

We noted the following deficiency during our review:

Deficiency

Generally Accepted Government Auditing Standards (GAGAS) is composed of several general standards that apply to all audits, as well as certain specific standards that apply based on the type of audit performed. The office is responsible for identifying the standards that are appropriate for the type of audits it performs. For the period subject to our review, the office determined that certain audits in which an "Independent Auditors' Certification" is provided should comply with the sections of GAGAS applicable to financial audits. These standards incorporate by reference Generally Accepted Auditing Standards (GAAS) established by the American Institute of Certified Public Accountants (AICPA) and generally apply to audits that result in an independent auditors' opinion on the fairness of presentation of a set of financial statements for the audited entity.

More specifically, the office's audit reports for individual state agencies/departments include an "Independent Auditors' Certification" which is a report on internal control and compliance related matters; however, the office does not provide an opinion or disclaimer on state agency/department financial statements. These audits follow reporting formats in accordance with specific GAGAS standards (GAO 5.07 through 5.09, Reporting on Internal Control and Compliance with Laws, Regulations, and Provisions of Contracts or Grant Agreements) and specific AICPA standards (AU Section 325 on Communicating Internal Control Related Matters Identified in an Audit) applicable to financial statement audits. We disagree with the office's use of this reporting format. These standards are only applicable if an auditor expresses or disclaims an opinion on the financial statements.

Four of the eight audit reports we reviewed used this reporting format. Additionally, the office issued approximately 30 reports using this format during the review period which comprised approximately 50 percent of the office's audit hours. In our opinion, the nature of the work performed in these audits is more appropriately classified under the sections of GAGAS governing performance audits or attestation engagements, both of which have different requirements.

Recommendation

The Connecticut Auditors of Public Accounts should examine the provisions of GAGAS to identify the sections that most appropriately align with the types of audits it performs. Once these standards are identified, the office should revise its system of quality control to address all appropriate requirements of GAGAS. This should include parameters that ensure adequacy of the system design and documentation, as well as provisions to ensure adequate communication of requirements to all staff. Further, management should establish effective monitoring of such requirements within their quality control system.

In our opinion, except for the deficiency described above, the system of quality control of the Connecticut Auditors of Public Accounts in effect for the period July 1, 2012 through June 30, 2013 has been suitably designed and was complied with during the period to provide the audit organization with reasonable assurance of performing and reporting in conformity with *Government Auditing Standards* in all material respects. Audit organizations can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. The Connecticut Auditors of Public Accounts has received a peer review rating of *pass with a deficiency*.

In the attached correspondence dated August 30, 2013, the Connecticut Auditors of Public Accounts provided its response to the report recommendation.



Mark Ruether
Team Leader
National State Auditors Association
External Peer Review Team



Don Dunlap
Concurring Reviewer
National State Auditors Association
External Peer Review Team

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

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JOHN C. GERAGOSIAN

ROBERT M. WARD

August 30, 2013

Mark Ruether, Team Leader
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Gentlemen:

In response to your review of the quality control of the Connecticut Auditors of Public Accounts for the period of July 1, 2012 through June 30, 2013, we provide the following response to the deficiency noted in your report:

Recommendation

The Connecticut Auditors of Public Accounts should examine the provisions of GAGAS to identify the sections that most appropriately align with the types of audits it performs. Once these standards are identified, the office should revise its system of quality control to address all appropriate requirements of GAGAS. This should include parameters that ensure adequacy of the system design and documentation, as well as provisions to ensure adequate communication of requirements to all staff. Further, management should establish effective monitoring of such requirements within their quality control system.

Auditors of Public Accounts Response:

We agree with the deficiency noted in the report and the corresponding recommendation above.

We have examined the provisions of GAGAS and determined that the performance audit standards are more appropriate based on the nature of our departmental audits. As a result, all of our departmental audits will be migrated to those standards.

It should be noted that this condition only impacts the departmental audits. There is no correlation to any reporting that is typically relied upon by external parties, including but not

limited to our audit of the state's Comprehensive Annual Financial Report (CAFR), the Single Audit Report issued in accordance with *OMB Circular A-133*, and our financial statement audits of the State Treasurer's investment funds, the University of Connecticut and the University of Connecticut Health Center.

Our current overall system of quality control is sufficient to ensure that the design of any new system will be adequately documented, communicated to staff, and monitored to ensure compliance with the newly-adopted standards.

Sincerely,



John C. Geragosian
Auditor of Public Accounts



Robert M. Ward
Auditor of Public Accounts