



Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
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May 15, 2013

Davis and Associates
6161 Fuller Court
Alexandria, VA 22310

We have reviewed the working papers for the audit of the County of Middlesex, Virginia, for the year ended June 30, 2012. 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 Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations;
- D. the annual financial reports comply 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 2012 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 County of Middlesex, Virginia, and did not extend to any other engagements performed by your firm.

During our review, we noted the following significant 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 AICPA standards require auditors to prepare and maintain audit documentation. These 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 evidence that supports the auditors' significant judgments and conclusions. Audit documentation should also include documentation of specific items tested. Additionally, these standards require that the final audit file be assembled within 60 days following the report's release date.

There were numerous instances in which the firm's working papers did not document work performed and specific items tested or did not state the conclusions resulting from test work. In addition, the firm did not document all of the audit procedures performed as required by the professional standards, including sampling, analytical procedures, and gaining an understanding of internal controls. There was also no linkage between the planning activities and the actual work performed; therefore, reviewers could not determine if planned procedures were performed. Through discussions with the engagement personnel, we determined the auditors completed procedures that were not fully documented in the working papers. However, current auditing standards do not allow the use of oral explanations as support for work the auditor performed or conclusions the auditor reached. Furthermore the final audit file was not completely assembled at the time of our review, which was beyond the 60-day requirement.

Recommendation – We recommend the firm ensure they follow all applicable standards when performing and documenting audit test work. Specifically, we recommend that the firm ensure that the working papers reflect all procedures and explicitly document significant judgments and conclusions and cross-reference these judgments and conclusions to supporting documentation. In addition, we recommend that the firm ensure that final audit files are assembled on a timely basis.

Complete State Compliance Requirements

Comment – The Specifications for Audits of Counties, Cities, and Towns requires the firm to perform certain tests of state compliance and accounting transactions unique to Virginia localities. However, we were unable to determine whether the firm complied with all of the requirements since they did not complete or document certain aspects of tests of specific requirements in numerous areas.

Recommendation - We recommend that the firm incorporate the testing and documentation of all required procedures of the Specifications for Audits of Counties, Cities, and Towns in their audit programs and working papers.

Comply with OMB Circular A-133 Requirements

Comment – Office of Management and Budget (OMB) Circular A-133 sets forth standards for the audit of local governments expending federal awards. The working papers did not contain evidence to support that the firm complied with A-133 requirements in conducting an audit of federal awards.

For example, the working papers did not contain evidence that the firm obtained an understanding of the internal control structure surrounding compliance requirements related to the major programs. Therefore, we were unable to determine whether the firm planned the testing of internal control over major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program. In addition, the working papers did not contain supporting documentation to show that the firm tested all applicable compliance requirements for the major programs.

Recommendation - We recommend that the firm exercise due professional care in complying with OMB Circular A-133 by obtaining and documenting their understanding of the internal control structure surrounding the compliance requirements and sufficiently documenting the results of their test work.

In our opinion, due to the significant deficiencies noted in our review of the audit of the County of Middlesex, for the year ended June 30, 2012, the working papers did not support the requirements listed in A through E above. Firms can receive a rating of pass, pass with deficiency(ies) or fail. Davis and Associates has received a review rating of fail.

We discussed these matters with your firm on July 2, 2013. This was our first review of the firm. We will perform a follow-up review in the coming year 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: County of Middlesex
Virginia Board of Accountancy