



Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

August 1, 2014

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P.O. BOX 2080  
118 Roberts Avenue S.W.  
Wise, VA 24293

We have reviewed the working papers for the audit of the Town of Wise, Virginia, for the year ended June 30, 2013. 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 2013 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 Town of Wise, 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 Fraud and Risk Assessment**

*Comment* – The American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards AU-C Section 240 states that management override of controls is a significant fraud risk. In the firm's risk assessment for the audit of the Town of Wise it did not identify management override of controls as such nor perform procedures to address this risk. Paragraphs .31 thru .32 of AU-C Section 240 explain that there are specific audit procedures that auditors must perform to address the risk associated with management override.

*Recommendation* – When documenting the risk assessment, the firm should clearly indicate their consideration of management override of controls as a significant risk and perform appropriate tests to ensure appropriate controls are in place to reduce risk.

### **Improve Sample Documentation**

*Comment* – When selecting a sample of items for testing, AICPA standards require the auditor to consider the relationship of the sample to the relevant audit objectives, the auditor's allowable risk of incorrect acceptance or of assessing control risk too low, characteristics of the population, and the maximum rate of deviations from prescribed controls that would support the planned assessed level of control risk. During our review we noted considerable improvement in sampling documentation since our last review; however, the firm continued to exclude certain elements required by the standards.

*Recommendation* – When selecting a sample of items for testing, we recommend the firm document all of the elements required by the standards.

### **Accounting Estimates**

*Comment* – AICPA AU-C Section 540 requires that, for those accounting estimates that give rise to significant risks, the auditor should document the basis for his/her conclusions about the reasonableness of accounting estimates and their disclosure and indicators of possible management bias, if any. While we noted adequate documentation for the firm's consideration of the Allowance for Doubtful Accounts, its documentation related to other accounting estimates did not meet auditing standards.

*Recommendation* – When reviewing significant accounting estimates, the firm should document conclusions about the reasonableness of the estimates and their disclosure and indicators of possible management bias, if any.

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**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 auditor's significant judgments and conclusions. In some cases, the firm's working papers did not provide an adequate explanation of the work performed. While documentation has significantly improved since our last review, there were still areas where it was difficult to determine how and why the firm reached its conclusions.

*Recommendation* – We recommend the firm ensure that its working papers reflect all procedures and explicitly document all work performed, significant judgments, and conclusions reached.

We found that for the audit of the Town of Wise, Virginia, for the year ended June 30, 2013, 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. Larry D. Sturgill, CPA, PC has received a review rating of pass with deficiencies.

We discussed these matters with your firm on June 10, 2014.

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: Town of Wise  
Virginia Board of Accountancy  
Virginia Society of Certified Public Accountants