



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

August 4, 2014

Michael B. Cooke, CPA, PC
2001 South Main Street, Suite 6
Blacksburg, VA 24060

We have reviewed the working papers for the audit of the Town of Christiansburg, 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 Christiansburg, 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.

Make Fraud Inquiries of Those Charged with Governance

Comment - While the firm did document its consideration of fraud and management's responsibilities pertaining thereto, no direct inquiries were made of those charged with governance.

Recommendation - We recommend the firm inquire directly of the Town Council or governing body regarding their knowledge and views of the risk of fraud in accordance with American Institute of Certified Professional Accountants (AICPA) Standards.

Improve Independence Documentation

Comment - The firm prepared the Town's financial statements based on information in the trial balance, which is considered a non-audit service. During our review, we did not see documentation related to the firm's consideration of whether this non-audit service created an independence threat.

Recommendation - The firm should document its determination of whether non-audit services provided to the audit client create a threat to the firm's independence as required by Government Auditing Standards.

Improve Working Paper Documentation

Comment - The firm did not fully document the audit work performed within its working papers. Government Auditing Standards and 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.

We noted that the working papers did not contain sufficient documentation for us to determine what procedures had been performed, how samples were selected, and the conclusions reached. There were numerous instances where the working papers did not clearly define the objective, scope, or conclusions of test work performed. In addition, although there was some documentation related to known misstatements, there was no documentation that the misstatements were communicated to management or that the firm performed any kind of overall analysis of them. We also noted that the working papers did not always indicate supervisory review of work performed.

Recommendation - We recommend the firm fully document its audit work as required by Government Auditing Standards and AICPA standards.

Improve Sample Documentation

Comment - When selecting a sample of items for testing, auditing standards require the auditor to consider the relationship of the sample to the relevant audit objective, the auditor's allowable risk of incorrect acceptance or assessing control risk too low, characteristics of the population, and tolerable misstatement or the maximum rate of deviations from prescribed controls that would support the planned assessed level of control risk. During our review we noted an overall lack of sampling documentation.

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

Document Consideration of Accounting Estimates

Comment - The firm did not document its analysis related to accounting estimates. AICPA standards require 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.

Recommendation - We recommend the firm document its consideration of accounting estimates and the basis for its conclusions about the reasonableness of those estimates and their disclosure and indicators of possible management bias, if any as required by AICPA standards.

Ensure Compliance With Most Recent GASB Pronouncements

Comment - Governmental Accounting Standards Board (GASB) Statement No. 63 addresses presentation changes associated with the financial position elements created in GASB Concepts Statement No. 4, Elements of Financial Statements. The Town of Christiansburg's fiscal year 2013 Comprehensive Annual Financial Report did not incorporate any of the required elements of GASB 63 and is; therefore, not in compliance with the most recent GASB pronouncements. Despite this, the firm did not modify its audit opinion.

Recommendation - We recommend that when performing its audit, the firm ensures that the financial statements are in compliance with the most recent GASB pronouncements.

Improve Fraud and Risk Assessment

Comment - The firm assessed risk only at the audit area level and not at the relevant assertion level as required by AICPA standards, did not include documentation of the assessment of the risk of material misstatement, and did not document the linkage between the risk assessment and the planned audit work. In addition, the firm's risk assessment did not identify management override of controls as a fraud risk.

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Recommendation - We recommend that the firm follow AICPA standards with respect to risk assessment.

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 some areas.

Recommendation - We recommend the firm design its audit procedures to satisfy all of the requirements set forth within the APA specifications.

We found that for the audit of the Town of Christiansburg, Virginia, for the year ended June 30, 2013, the working papers did not support the requirements listed in A through E above. Firms can receive a rating of pass, pass with deficiencies, or fail. Michael B. Cooke, CPA, PC has received a review rating of fail.

We discussed these matters with your firm on June 12, 2014. 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: Town of Christiansburg
Virginia Board of Accountancy
Virginia Society of Certified Public Accountants