



External Quality Control Review

of the
Office of the City Auditor
City and County of Honolulu

Conducted in accordance with guidelines of the
**Association of Local Government
Auditors**
for the period July 1, 2009 to June 30, 2012



Association of Local Government Auditors

December 6, 2012

Mr. Edwin S.W. Young, City Auditor
Office of the City Auditor
City and County of Honolulu
1001 Kamokila Boulevard, Suite 216
Kapolei, Hawaii 96707

Dear Mr. Young,

We have completed a peer review of the Office of the City Auditor, City and County of Honolulu, for the period July 1, 2009 to June 30, 2012. In conducting our review, we followed the standards and guidelines contained in the *Peer Review Guide* published by the Association of Local Government Auditors (ALGA).

We reviewed the internal quality control system of your audit organization and conducted tests in order to determine whether your internal quality control system operated to provide reasonable assurance of compliance with *Government Auditing Standards* issued by the Comptroller General of the United States. Our procedures included:

- Reviewing the audit organization's written policies and procedures
- Reviewing internal monitoring procedures
- Reviewing a sample of audit and attestation engagements and working papers
- Reviewing documents related to independence, training, and development of auditing staff
- Interviewing auditing staff and management to assess their understanding of, and compliance with, relevant quality control policies and procedures

Due to variances in individual performance and judgment, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

Based on the results of our review, it is our opinion that the Office of the City Auditor, City and County of Honolulu, internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for audits and attestation engagements during the period July 1, 2009 to June 30, 2012.

We have prepared a separate letter offering suggestions to further strengthen your internal quality control system.

Sincerely,

Theresa M. Weatherman
Fairfax County Public Schools

Erin J. Kenney
Los Angeles Fire and Police Pensions



Association of Local Government Auditors

December 6, 2012

Edwin S. W. Young, City Auditor
Office of the City Auditor
City and County of Honolulu
1001 Kamokila Blvd., Suite 216
Kapolei, HI 96707

Dear Mr. Young,

We have completed a peer review of the Office of City Auditor, City and County of Honolulu, for the period July 1, 2009 to June 30, 2012, and issued our report thereon dated December 6, 2012. We are issuing this companion letter to offer certain observations and suggestions stemming from our peer review.

We would like to mention some of the areas in which we believe your office excels:

- The use of forms reinforces the Standards and enhances the knowledge of the Standards at all staffing levels
- The risk assessment process for each audit encourages staff to identify threats to the audited area and consider the impact of these on internal control, systems, and the possibility of fraud
- Congratulations on receiving the 2011 Knighton Award Silver and three certificates of achievement from the Association of Government Accountants

We offer the following observations and suggestions to enhance your organization's demonstrated adherence to *Government Auditing Standards*:

- Standard 1.33 (July 2007 Revision) and 2.12 (December 2011 Revision) state that "when performing nonaudit services for an entity for which the audit organization performs a GAGAS audit or attestation engagement, audit organizations should communicate, as appropriate, with requestors and those charged with governance to clarify that the scope of work performed does not constitute an audit under GAGAS." In reviewing the work papers for the only nonaudit service performed during the period, we noted that this communication did not occur.

We recommend that when performing nonaudit services, the Office of the City Auditor should communicate with requestors and those charged with governance to clarify that the scope of work performed does not constitute an audit under GAGAS.

- Standard 1.34 (July 2007 Revision) and 2.13 (December 2011 Revision) state that when "audit organizations provide nonaudit services to entities for which they also provide GAGAS audits, they should assess the impact that providing those nonaudit services may have on auditor and audit organization independence and respond to any identified threats to independence in accordance with the GAGAS independence standard." Standard 3.20 (July 2007 Revision) and 3.34 (December 2011 Revision) state that "the auditor should determine whether providing such a service would create a threat to independence, either by itself or in aggregate with other nonaudit services provided, with respect to any GAGAS audit it performs." Additionally, Standard 3.34 (December 2011 Revision) further states that, "A critical component of this determination is consideration of management's ability

to effectively oversee the nonaudit service to be performed. The auditor should determine that the audited entity has designated an individual who possesses suitable skill, knowledge, or experience, and that the individual understands the services to be performed sufficiently to oversee them. The individual is not required to possess the expertise to perform or reperform the services. The auditor should document consideration of management's ability to effectively oversee nonaudit services to be performed." While we did not identify any threats to independence, in reviewing the work papers for the only nonaudit service performed during the period, we noted that there was no evidence that threats to independence had been evaluated.

We recommend that when performing nonaudit services, the Office of the City Auditor should document an evaluation of whether the project would create a threat to independence, management's ability to oversee the nonaudit service, and the other requirements of Standard 3.34.

- Standard 3.95 (December 2011 Revision) states that "the audit organization should analyze and summarize the results of its monitoring process at least annually, with identification of any systemic or repetitive issues needing improvement, along with recommendations for corrective action. The audit organization should communicate to appropriate personnel any deficiencies noted during the monitoring process and make recommendations for appropriate remedial action." The Audit Manual states that the office annually analyzes and summarizes the results of its monitoring procedures in accordance with GAGAS. However, we found no evidence that this annual process was completed during the last two years of the review period.

We recommend that the Office of the City Auditor implement an annual process to monitor quality and document the results.

- Standard 7.12e (July 2007 Revision) and 6.47 (December 2011 Revision) state that auditors should communicate an overview of the objectives, scope, and methodology, and timing of the performance audit and planned reporting to management of the audited entity. Standard 7.50 (July 2007 Revision) and 6.51 (December 2011 Revision) state that auditors must prepare a written audit plan and update the plan to reflect any significant changes. In one audit we noted a significant scope change was not communicated to the audited entity, nor was it reflected as an update to the written audit plan.

We recommend that when significant changes are made during the course of an audit, the audited entity should be notified and the written audit plan should be updated.

We extend our thanks to you, your staff, and the other city officials we met for the hospitality and cooperation extended to us during our review.

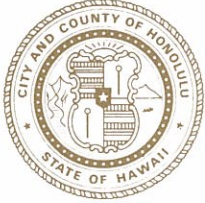
Sincerely,



Theresa M. Weatherman
Fairfax County Public Schools



Erin J. Kenney
Los Angeles Fire and Police Pensions



OFFICE OF THE CITY AUDITOR
CITY AND COUNTY OF HONOLULU

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EDWIN S.W. YOUNG
CITY AUDITOR

December 6, 2012

Ms. Theresa McGrady Weatherman
Peer Review Team Leader
Audit Director
Fairfax County Public Schools
8115 Gatehouse Road, Suite 4600
Falls Church, Virginia 22042

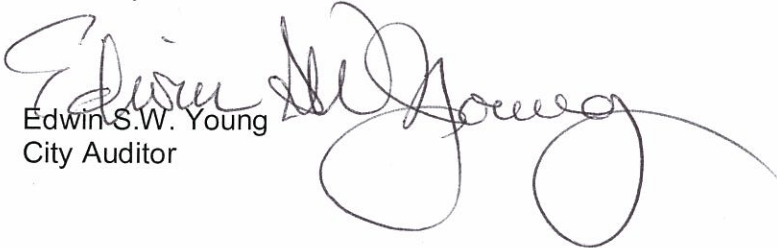
Dear Ms. Weatherman:

We have read the peer review report dated December 6, 2012 containing the results of your external quality control review of the Office of the City Auditor, City and County of Honolulu. I am pleased that an independent peer review team found that our office conducts its work in full compliance with generally accepted government auditing standards. In addition, I am pleased that your review found that our quality control system was functioning as intended.

We have reviewed the recommendations in your management letter. We appreciate the constructive comments provided and we will strive to incorporate your recommendations into our office policies and procedures. We also appreciate your thoughtful comments about the areas where you found our office to excel and your verbal suggestions to further enhance our operations.

I wish to extend my personal thanks to you and Erin Kenney, Departmental Audit Manager, Los Angeles Fire and Police Pension, for your participation in the peer review process and for taking the time to review our operations. We will share your report with our City Council, and make it available to the public on our website.

Sincerely,

A handwritten signature in black ink, appearing to read "Edwin S.W. Young". The signature is fluid and cursive, with a long horizontal stroke at the end.

Edwin S.W. Young
City Auditor