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# **NSAA**

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## **National State Auditors Association**

STATE OF NORTH DAKOTA  
OFFICE OF THE STATE AUDITOR

EXTERNAL QUALITY CONTROL REVIEW  
FOR THE PERIOD  
APRIL 1, 2004 THROUGH MARCH 31, 2005





# National State Auditors Association

May 19, 2005

Mr. Robert R. Peterson  
State Auditor  
State Capitol Building  
600 East Boulevard  
Bismarck, North Dakota 58505

Dear Mr. Peterson:

We have reviewed the system of quality control of North Dakota Office of State Auditor (the office) in effect for the period April 1, 2004 to March 31, 2005. 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 conforming with government auditing standards. 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 government auditing 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. Because our review was based on selective tests, it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it.

Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, 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.

In our opinion, the system of quality control of State of North Dakota, Office of the State Auditor, in effect for the period April 1, 2004 through March 31, 2005, has been suitably designed and was complied with during the period to provide reasonable assurance of conforming with government auditing standards.

  
Team Leader

National State Auditors Association  
External Peer Review Team

  
Concurring Reviewer

National State Auditors Association  
External Peer Review Team

The first part of the paper discusses the importance of the study and the objectives of the research. It also mentions the scope of the study and the limitations. The second part of the paper discusses the methodology used in the study. It mentions the data sources and the statistical methods used. The third part of the paper discusses the results of the study. It mentions the findings and the conclusions. The fourth part of the paper discusses the implications of the study. It mentions the policy implications and the future research. The fifth part of the paper discusses the conclusion. It mentions the overall findings and the recommendations.

The study was conducted in a systematic and rigorous manner. The data was collected from a large sample of respondents. The statistical methods used were appropriate for the data. The results of the study are presented in a clear and concise manner. The findings of the study are discussed in detail. The implications of the study are discussed in detail. The conclusion of the study is presented in a clear and concise manner. The overall findings of the study are presented in a clear and concise manner. The recommendations of the study are presented in a clear and concise manner.

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# National State Auditors Association

May 19, 2005

Mr. Robert R. Peterson  
State Auditor  
State Capitol Building  
600 East Boulevard  
Bismarck, North Dakota 58505

Dear Mr. Peterson:

We have reviewed the system of quality control of North Dakota Office of the State Auditor in effect for the period April 1, 2004 to March 31, 2005 and have issued our report thereon dated May 19, 2005. That report should be read in conjunction with the comments in this letter, which were considered in determining our opinion.

## Field Work Standards for Financial Audits

**Finding** – Statements on Auditing Standards Number 99, Consideration of Fraud in a Financial Statement Audit, requires that the auditor should conduct the engagement with a mindset that recognizes the possibility that a material misstatement due to fraud could be present, regardless of any past experience with the entity and regardless of the auditor's belief about management's honesty and integrity . . . the auditor should not be satisfied with less-than-persuasive evidence because of a belief that management is honest. SAS 99 was effective for audits of financial statements for periods beginning on or after December 15, 2002. Our review found the Division of Local Government Audit did not implement SAS 99 during the period of our review. SAS 99 had been implemented by the Division of State Audit. However, our review found the state CAFR audit documentation did not support that the requirements of the SAS were fully implemented.

**Recommendation** – The North Dakota Office of State Auditor should ensure that the requirements of SAS 99 are fully implemented.

**Response** – The office concurs with this finding and will fully implement SAS 99 for the Division of Local Government Audits and will provide better documentation for the state CAFR audit.

## Reporting Standards for Financial Audits

**Finding** – GAGAS reporting standards require the audits use the AICPA standards. The AICPA has issued the State and Local Government Audit Guide with examples of wording for audit reports. North Dakota Office of State Auditor's policies and procedures require the audits to review the latest guidance from the AICPA.

The office did not properly implement all the changes made to the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, Reportable Instances on Noncompliance, and Other Matters Identified" or for the "Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in

Accordance with OMB Circular A-133." The changes were effective May 1, 2004 and were partially implemented on some audits but some audits were released with the former allowable language.

Recommendation – The North Dakota Office of State Auditor should carefully review all reports for compliance with required language, especially during a time of changing standards.

Response – The office concurs with this finding and will implement procedures to ensure timely implementation of new reporting language.

#### **Reporting Standards for Performance Audits**

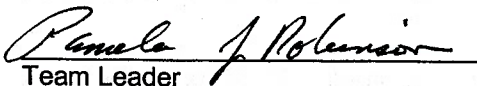
Finding – GAGAS reporting standards for performance audits require that auditors should report conclusions when called for by the audit objectives and the results of the audit. Conclusions should be clearly stated, not implied. Conclusions are stronger if they set up the report's recommendations and convince the knowledgeable user of the report that action is necessary.

North Dakota Office of State Auditor's quality control policies and procedures also require that conclusions should be clearly stated and not implied. During our review, we noted several audits that did not properly conclude on the audit objectives. The audit report identified the audit objectives and any findings and recommendations found during the audit. However, it did not clearly state the overall conclusion on the objectives. Without clear conclusions, the readers must assume what the conclusions are on the audit objectives.

Recommendation – We recommend that the North Dakota Office of State Auditor should clearly state the conclusions for each audit objective in their reports.

Response – The office concurs with this finding and will ensure future operational audit conclusions are clearly stated.

Respectfully submitted,



Team Leader  
National State Auditors Association  
External Peer Review Team



Concurring Reviewer  
National State Auditors Association  
External Peer Review Team