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Subject: Suggestions for Further Consideration

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LEGISLATIVE AUDIT DIV.

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Government processes benefit from regular review, especially when the review specifically seeks ways for improvement. The Montana Legislative Audit Division (LAD) recognizes the importance of ensuring the quality of the office's work. It requested an NCSL/NLPES peer review to identify whether its Performance and Information Systems Audits Unit (the Unit) complies with Government Auditing Standards (i.e., the Yellow Book or GAGAS), statutory and internal criteria, and professional best practices. LAD also asked for recommendations to improve its Unit's processes.

The peer review team found positive aspects of the Unit's staff work.

- Positive office culture.
- Use of key memos, summary documents and tools to demonstrate audit teams' judgments and compliance with auditing standards, such as:
 - Audit assessment memo.
 - Audit point sheets.
 - Report process memo template.
 - Internal draft process.
 - Materiality review.
 - Risk assessment memo.
- Good processes for assessing team selection and competence.
- Clear indications of supervisory review, and supervisory review provided a good mix of positive and constructive feedback.
- Good demonstration of significance of the audit topic, audit objectives and planned work.

During its review, the peer review team suggested improvements for consideration by the Unit's management. The suggestions were not criticisms of the office. Rather, they were provided as opportunities for further refinement and do not affect the peer review team's overall judgment of the Unit or its compliance with Government Auditing Standards.

Planning.

- Tighten documentation of independence and the manner in which it should be documented.
 - Independence was not clearly documented for previous lead/staff or specialist.
 - Independence documentation was started but not completed for staff person who did not end up working on the audit.
 - Align documentation of independence for the legislative auditor and legal counsel to processes outlined in the audit manual (e.g., Section 2.05).
 - Align audit process checklist to practice. For example, the audit process checklist states that all staff that code hours to project (seemingly to include those staff not completing audit work) need to complete independence process; adjust language to actual practice.
- Consider creating templates or points within existing processes to more explicitly address the following Yellow Book standards, and align the language in the audit manual and quality control policy with practice.
 - Requirement to ask the auditee about investigations and legal proceedings significant to the audit objectives (2018 Yellow Book Section 8.27).
 - Requirement to ask the auditee about any audits/reviews *and* what corrective actions were taken to previous audit recommendations relevant to audit objectives (2018 Yellow Book Section 8.30).
 - Requirement to address audit risk (2018 Yellow Book Sections 8.04 and 8.16). For example, add a notation in the audit plan or other document that explicitly addresses assessment of audit risk and look at alignment with the audit manual (e.g., Section 9.32).
- To better conform with requirements in the 2018 Yellow Book revision, the Unit could be more explicit about the determination whether internal control, fraud risk, and risk of noncompliance are significant, and if yes, plan steps (2018 Yellow Book Sections 8.38-8.76).

Fieldwork

- Consider creating templates or points within existing processes to more explicitly address the following Yellow Book standards:
 - Overall assessment of evidence (2018 Yellow Book Sections 8.90-8.115). For example, establish a meeting or template where the team assesses the overall evidence and documents the decision.
 - Data reliability. The peer review team noticed a few issues with data reliability documentation for some reports reviewed. However, after those reports were released, the Unit developed (and began using) a new process. The peer review team believes the use of its new templates, including an MsWord file and a spreadsheet, is a good way for the Unit to improve documentation of its data reliability process.
- If a workpaper isn't used or finished, either include notations to explain why or delete the workpaper.
- Clarify in policy the timing of when documents should be reviewed. The team saw instances where workpapers were prepared or reviewed in the E-Index after the report has gone to the agency for response or to print.

- Add more precise documentation throughout audit point sheets (APS) and summary documents. The peer review team noticed that audit point sheets (APS) and summary documents were not always thoroughly sourced with hyperlinks, which increases the risk that a mistake in a report might be missed by an audit team member or reviewer, especially if a referenced report points back to an APS or summary document rather than the strongest form of evidence. Sourcing the APS and summary documents more thoroughly on the front end will make report review and referencing easier.
- When using specialists, document procedures performed to rely on their work (Audit Manual Section 10.05h).

Reporting

- Consider including more detail regarding sampling in the audit report (2018 Yellow Book Sections 8.107 and 9.13-9.14). For example, more clearly state what kind of sample was used (e.g., judgmental, random, targeted selection, etc.) and clarify the relationship between the sample tested and the population.
- When sensitive data must be omitted, evaluate and document the impact of that omission (2018 Yellow Book Section 9.62).
- The quality control checklist and the audit manual (Section 6.33) say that all numbers and statements of fact are to be referenced, but the audit process checklist does not. Align language in these documents with practice.
- Consider the purpose of the Unit's current referencing procedure and whether it is adding value. Possibly consider a layer of review or referencing to check final draft report for accuracy.

Quality Assurance/Quality Control (QAQC)

- Ensure that quality control reviews of selected audits are conducted after completion of the audits (to allow for assessment of all aspects of the audits and the projects' documentation), summary results of the office's quality control reviews are compiled timely, and results are used to identify reviews any improvements to processes or training.

As discussed in our final peer review report, members of the peer review team have a favorable opinion of the Performance and Information Systems Audits Unit and its staff. We were impressed with numerous aspects of its operation. We appreciate the many courtesies shown us during our in-person peer review and the opportunity to work with and learn from you and your staff.