

**Erie County Comptroller's Office
Division of Audit and Control**

Peer Review Report

For the period January 1, 2021 through December 31, 2023

December 19, 2024

Kevin R. Hardwick
Erie County Comptroller
Erie County Office Building
95 Franklin Street
Buffalo, NY 14202

Dear Mr. Hardwick,

We have completed a peer review of the Division of Audit and Control of the Erie County Comptroller's Office (the "Division") for the period January 1, 2021 through December 31, 2023. In conducting our review, we followed the standards and guidelines contained in the *Peer Review Guide for Assessing Conformance with Government Auditing Standards* published by the Association of Local Government Auditors.

We reviewed the internal quality control system of your audit organization and conducted tests to determine whether your internal quality control system was adequately designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* issued by the Comptroller General of the United States and applicable legal and regulatory requirements. Our procedures included:

- Reviewing the audit organization's written policies and procedures.
- Reviewing internal monitoring procedures.
- Reviewing a sample of engagements and working papers.
- Reviewing documents related to independence, training, and development of auditing staff.
- Interviewing auditing staff and management.

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. Organizations can receive a rating of pass, pass with deficiencies, or fail. The Division of Audit and Control of the Erie County Comptroller's Office has received a rating of pass with deficiencies.

We noted the following deficiencies in your internal quality control system that resulted in noncompliance with aspects of *Government Auditing Standards* and make the following recommendations to help your organization achieve full compliance with *Government Auditing Standards*:

1. Auditor Independence for Specific Audit Engagements

Condition – In reviewing the Division’s files, we observed that, for eleven of the thirteen audits reviewed, independence of the audit staff was not verified through either audit-specific independence forms or other means, such as a verification email to all audit staff involved with the engagement. These eleven audits all occurred between 2021 and 2022; the two audits conducted and released in 2023 included the appropriate independence verification for the specific audit engagement.

Criteria – Government Auditing Standard 3.20 requires that auditors verify they were independent during the period covered by the subject matter and the period of the engagement for a specific audit.

Effect – The failure to verify auditor independence in the identified audits could compromise the perceived objectivity and reliability of the audit process.

Recommendation – We recommend that the Division continue to verify auditor independence for each specific audit engagement going forward and to document this verification in the audit workpapers.

Management Response – Management acknowledges this deficiency as it applies to 2021 and 2022. This issue was discovered upon the arrival of the current Audit Deputy Comptroller in October 2022. Beginning in January 2023, independence was verified and documented not only for the auditors conducting the review but also for each member of the Audit Division within the Comptroller’s Office. Management recognizes the importance of independence verification and will continue to enforce the existing requirements to prevent recurrence.

2. Documentation of Audit Methodology Discussions

Condition – In reviewing the audit files, we observed that none of the audits reviewed included documentation that the audit team discussed the audit methodology with the auditee.

Criteria – Government Auditing Standards 8.20 through 8.22 require that the audit team communicate the objectives, scope, methodology, timing, and planned reporting of the audit to the appropriate parties, with any written communications retained.

Effect – The lack of documentation of discussions regarding the audit methodology could lead to misunderstandings between the audit team and the auditee, potentially affecting the effectiveness and efficiency of the audit process.

Recommendation – We recommend that the Division ensures that audit teams discuss the planned methodology and audit procedures with the auditee, and document these discussions in the audit workpapers.

Management Response – Management acknowledges the importance of clear lines of communication between the audit team and the auditee. Since January 2023, the methodology has been discussed in depth with each auditee at the entrance conference, throughout the review period, and at the exit conference. Management will ensure that discussions regarding the audit methodology and procedures are specifically documented going forward.

3. Inquiries Regarding Legal Proceedings

Condition – In reviewing audit files, we observed that none of the audits reviewed included documentation indicating that the audit team inquired with auditee management regarding any legal proceedings or investigations.

Criteria – Government Auditing Standard 8.27 requires auditors to inquire of management about any legal proceedings or investigations and evaluate the effect of any initiated or in-process legal proceedings or investigations on the audit objective.

Effect – The absence of documentation regarding inquiries about legal proceedings or investigations could result in a lack of necessary information, potentially impacting the audit's conclusions and reliability.

Recommendation – We recommend that the Division ensure that audit teams continue to inquire with auditees regarding legal proceedings and investigations related to the audit objectives, and document these inquiries in the audit workpapers.

Management Response – Management acknowledges this deficiency and recognizes the importance of inquiring about legal proceedings and investigations. Although inquiries regarding ongoing legal proceedings that might impact audit objectives were made to the auditees, they were not specifically documented. Additionally, the Audit Division conducts legal inquiries using public records. In 2024, a specific workpaper was added to document these inquiries and their outcomes for all current audits performed by the Division. Moving forward, management will ensure this practice is consistently followed and appropriately documented to maintain compliance with audit quality standards.

4. Internal Controls Documentation

Condition – In reviewing the audit files, we observed that audit teams did not consistently document which internal controls were significant to the audit objectives, or the procedures performed within the audit program to assess those significant controls. Although walkthrough procedures and internal and system control questionnaires were completed, they did not indicate which controls were significant to the audit objective.

Criteria – Government Auditing Standards 8.39 through 8.40, 8.49, 8.54, and 8.59 require auditors to determine and document whether internal controls are significant to the audit objectives, gain an understanding of the controls, plan and perform procedures to assess the controls, and evaluate and document the significance of identified deficiencies.

Effect – The lack of consistent documentation regarding significant internal controls and assessment procedures could lead to gaps in the audit process, potentially affecting the reliability of audit conclusions and overall audit quality.

Recommendation – We recommend that, as part of the internal control walkthroughs and questionnaire process, audit teams identify which internal controls are significant to the audit objectives, gain an understanding of those controls, perform procedures to assess the controls, and evaluate and document the significance of any identified deficiencies.

Management Response – Management acknowledges this deficiency and understands the need for consistent documentation of significant internal controls and related assessment procedures. This issue was discovered upon the arrival of the current Audit Deputy Comptroller in October 2022. Since January 2023, auditors have been required to identify internal controls significant to audit objectives while developing the audit planning memorandum. They must assess each risk pertaining to these controls and document them on the appropriate workpapers. Going forward, management will ensure that the audit team consistently follows this procedure and will provide training to team members to enhance their understanding of assessing and documenting significant deficiencies. This will improve the effectiveness and reliability of the Division's audits.

5. Fraud Risk Assessment Documentation

Condition – In reviewing the audit files, we observed that for five of the thirteen audits reviewed, all of which were completed in 2021, there was no evidence that the audit team identified any risks of fraud related to the audit objectives, considered these risks when developing the audit program, or tested the risks and their potential effects on the audit findings. Audits conducted in 2022 and 2023 did include an assessment of the risk of fraud related to the audit objectives.

Criteria – Government Auditing Standards 8.71 and 8.72 require that audit teams gather and assess information to identify the risk of fraud related to the audit objectives and extend the audit steps and procedures to determine whether fraud has likely occurred, and the effect on the audit findings.

Effect – The failure to identify, assess, and document risks of fraud could result in undetected fraudulent activities, potentially leading to inaccurate audit conclusions and undermining the overall reliability of the audit findings.

Recommendation – We recommend that the Division continue to assess the risk of fraud as it relates to the audit objectives for each audit performed. Additionally, audit teams should develop procedures to test for these fraud risks and evaluate their effects on the audit findings.

Management Response – Management acknowledges this deficiency as it applies to 2021. This issue was discovered upon the arrival of the current Audit Deputy Comptroller in October 2022. Since January 2023, auditors have been required to identify and assess the risk of fraud related to the audit objectives at the outset of the review and document these assessments in granular detail. Procedures have been developed to test these fraud risks and evaluate their potential effects on the audit findings, ensuring adherence to Government Auditing Standards.

Based on the results of our review, it is our opinion that, except for the deficiencies noted above, the Division of Audit and Control of the Erie County Comptroller's Office's internal quality control system was adequately designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* and applicable legal and regulatory requirements for engagements during the period January 1, 2021 through December 31, 2023.

We have prepared a separate letter providing other findings and recommendations for strengthening your internal quality control system.

Tronconi Segana & Associates LLP

Williamsville, New York
December 19, 2024