

REPUBLIC OF PALAU



Office of the Public Auditor

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His Excellency Surangel Whipps, Jr.  
President of the Republic of Palau  
Office of the President  
Ngerulmud, Republic of Palau

And

The Honorable Hokkons Baules  
President of the Senate  
Senate, Eleventh Olbiil Era Kelulau  
Ngerulmud, Republic of Palau

And

The Honorable Sabino Anastacio  
Speaker, House of Delegates  
House of Delegates, Eleventh Olbiil Era Kelulau  
Ngerulmud, Republic of Palau

Dear Gentlemen:

Pursuant to Section 231 of the Public Auditing Act, I hereby transmit the Office of the Public Auditor's (OPA) Annual Report for the period ended December 31, 2020.

I apologize for the delay in the report submission as the workload is simply too harsh on my time.

Thank you for your patience and consideration.

Kom Kmal Mesulang,

Satrunino Tewid  
Acting Public Auditor

# ANNUAL REPORT

January 1, 2020 – December 31, 2020



## **OFFICE OF THE PUBLIC AUDITOR** **Republic of Palau**

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## Message from the Public Auditor

As Acting Public Auditor for the Republic of Palau, I am pleased to submit this Annual Report and to highlight the Office of the Public Auditor's (OPA) activities for the period of January 1, 2020 through December 31, 2020, and other periods as necessary. Our work involved audits in high priority programs of the National Government, Component Units, Agencies, State Governments and Development Partner Grants, all centering on the theme of effective management of public funds and compliance with applicable laws and regulations. The annual audit requirements of the National Government, Component Units, Agencies and State Governments necessitates the OPA to secure funding for the audits, procure the professional services, and provide oversight on the audits. This process is essential to ensure that funding for the annual audits of the National Government, Component Units and Agencies is available, procurement of professional services are properly conducted and awarded, audits start and finish on time and are conducted in accordance with U.S. Generally Accepted Government Auditing Standards. The annual audits are conducted not only to comply with the Republic of Palau's and U.S. federal financial assistance programs' laws and regulations but, more importantly, to achieve the desired outcome of instituting fiscal responsibility, accountability and transparency and to promote excellence, integrity and sound financial practices in governmental institutions and nonprofit organizations that receive public funds.

We report herein the single audits of the Republic of Palau National Government, its Component Units and Agencies, the ongoing financial audits of State Governments, audits of Development Partner Grants, and performance audits conducted by the OPA issued during the reporting period. In addition, we discuss the ongoing challenges and shortcomings of the OPA's operations without an Audit Manager. We report also on the technical assistance the OPA received in support of its capacity building programs and the Peer Review conducted to assess the OPA's system of quality control to ensure the quality of its work. Finally, we report on the OPA's existing office space requirements, current staff capacity and other OPA mandates that it has not been able to carry out due to insufficient resources, and the capacity required for the OPA to fulfill all of its mandates.

In closing, I want to express my gratitude to the OPA staff for their continued dedication and professionalism, to the management and staff of agencies we audit for their cooperation and, to those we serve, our citizens and stakeholders, for their trust and confidence in us. Further, I want to also express my gratitude to the U.S. Department of Interior's Office of Insular Affairs and the Office of the Inspector General for the financial assistance and training respectively provided to the OPA during the Calendar Year 2020. Finally, I would be remiss not to recognize the Association of Pacific Islands Public Auditors, the U.S. Graduate School Pacific Islands Training Initiative, and the Pacific Association of Supreme Audit Institutions for their relentless commitment and support to the OPA's capacity building programs. Finally, and most importantly, I want to extend my gratitude and to recognize the Office of the President and the Olbiil Era Kelulau for their continued support and commitments to good governance.

Mesulang,



Satrunino Tewid  
Acting Public Auditor  
Republic of Palau

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## I. About the Office of the Public Auditor

The Office of the Public Auditor (OPA) is established an independent agency of the Government of the Republic of Palau (ROP or Republic) pursuant to Article XII, Section 2, of the Constitution of the Republic of Palau and the Public Auditing Act of 1985. The OPA is headed by the Public Auditor, who is appointed for a six-year term by the President of the Republic with the advice and consent of the Palau National Congress, the Olbiil Era Kelulau (OEK). Under Article XII, Section 2(b), of the Constitution the Public Auditor is mandated to inspect and audit accounts of every branch, department, agency, and authority of the national government, and of all other public legal entities or nonprofit organizations that receive public funds from the National Government.

## II. Our Values and Our Mission

The OPA operates as an independent oversight agency responsible to the people and government of the Republic of Palau. Our mission is to promote excellence, integrity, transparency and accountability within the programs, operations and management of governmental, semi-governmental and nonprofit organizations that receive public funds. Our goal is to institutionalize economy, efficiency, accountability and transparency in the operations, programs and activities of public institutions.

We abide by the highest ethical standards by adhering to the professional ethics and standards of the auditing profession. We have the resolve to inform our stakeholders how public funds are put to public use by those holding responsibility to administer public funds. We do so by conducting audits that provide information to decision makers about program operations with which to make informed decisions. The audits are published on our website at [www.palauopa.org](http://www.palauopa.org).

Our core values help us fulfill our mission and include:

- placing the highest value on objectivity and independence to ensure integrity in all we do;
- conducting our work with professionalism and dedication;
- striving for continuous improvement; and
- encouraging and supporting the development of the skills and expertise of all who work in the OPA.

We strive to fulfill this mission by making tools available to management that they can use to improve operations. This is accomplished by conducting audits in an objective, impartial and unbiased manner and providing management with findings and recommendations for improvement. We plan and perform our audits in accordance with U.S. Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States. These standards require that we obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions.

The OPA is expressly charged by law to prevent fraud, waste and abuse in the collection and expenditure of public funds. Accordingly, we make recommendations in our audit reports on how to improve and strengthen internal controls and on ways that agencies can manage their funds more effective, more accountable, and in compliance with applicable laws, rules and regulations. We follow up in subsequent audits to make sure that our recommendations are being implemented.

When our audits disclose suspected cases of fraud, violations of law or other irregularities, we report these to the Attorney General or the Special Prosecutor for further investigation and possible prosecution. The successful prosecution of financial crimes against the Republic is essential to the deterrence of such misconduct in the future.

### **III. Audits, Inspections and Supports**

The OPA is responsible for coordinating, overseeing and conducting audits of State Governments, the National Government and its departments, agencies and programs. Most commonly, these audits are performance audits, distinct from financial statement audits, the objective of which is to express an opinion on the fairness of the financial statements. Whereas financial audits are focused on determining the accuracy of financial statements, performance audits are driven by the objective(s) of the audit, whether they are compliance with laws and regulations, economy and efficiency of operations, or achieving desired results.

The audit reports may be viewed at the OPA's website at [www.palauopa.org](http://www.palauopa.org)

#### **III.A. Single Audits**

The United States Federal Financial Assistance programs, the Compact of Free Association between the ROP and the United States, and the U.S. Single Audit Act require the ROP and its Component Units and other Agencies to undergo an annual Single Audit.

##### Funding and Oversight Responsibilities:

- The OPA applies for, secures and administers a Single Audit grant from the Office of Insular Affairs, U.S. Department of the Interior (USDOI), to fund annual Single Audits of the ROP National Government, Component Units and other Agencies.
- Coordinates with the Ministry of Finance and mediates audit issues between the independent auditor and auditee to ensure the audits are completed and finalized by June 30, each year.
- Works with independent auditors' to understand internal control, non-compliance and other deficiency issues identified in audit reports and collaborates with relevant government agencies in their execution and implementation of corrective actions and recommendations.

### III.A.1. Single Audits for Fiscal Year 2019

The OPA in 2020 secured and administered a \$563,400 Single Audit grant from the Office of Insular Affairs, USDOJ, to fund Single Audits of the Republic of Palau National Government and Component Units and other Agencies for the period ended September 30, 2019 (or December 31, 2019 as indicated\*). The audits were conducted by independent accounting firms with oversight by OPA:

Entity	Cost	Independent Auditor	Issue Date	Opinion	No. of Findings	Questioned Cost
Belau Submarine Cable Corporation	\$0	Burger, Comer, Magliari	7/8/2020	unmodified	0	\$0
Civil Service Pension Plan (including GASB 68 - Audit on Unfunded Liability)	\$52,500	Deloitte & Touche	1/7/2020	unmodified	1	\$0
National Development Bank of Palau	\$20,000	Deloitte & Touche	5/12/2020	unmodified	0	\$0
Palau Community Action Agency	\$22,000	Deloitte & Touche	12/30/2020	unmodified	0	\$0
Palau Community College	\$25,500	Burger, Comer, Magliari	7/20/2020	unmodified	0	\$0
Palau District Housing Authority	\$12,500	Burger, Comer, Magliari	1/22/2021	unmodified	0	\$0
Palau International Coral Reef Center	\$9,700	Burger, Comer, Magliari	1/14/2021	unmodified	0	\$0
Palau National Communications Corporation*	\$29,700	Burger, Comer, Magliari	6/2/2020	unmodified	2	\$0
Palau Visitor's Authority	\$15,000	Deloitte & Touche	3/9/2020	unmodified	0	\$0
Protected Areas Network Fund	\$10,000	Deloitte & Touche	5/15/2020	unmodified	2	\$0
Palau Public Utilities Corporation	\$45,000	Deloitte & Touche	7/31/2020	unmodified	1	\$0
Social Security Administration	\$22,500	Deloitte & Touche	6/22/2020	unmodified	0	\$0
ROP National Government	\$292,000	Deloitte & Touche	2/15/2021	unmodified	7	\$44,448

In the wake of COVI-19 and the preventive measures implemented around the world to prevent its spread, disrupting both private and government sector business activities, including audits, the U.S. Office of Management and Budget issued a Memorandum extending the deadline for Single Audits for up to six (6) months; thus, extending the deadline from June 30 to December 31. However, there were audits of Component Units that complicated the completion and issuance of the FY 2019 Single Audit by the December 31, 2020 deadline. The ROP requested and was granted an extension to finalize the audit report by February 15, 2021. The Single Audit for Fiscal Year 2019 was finally completed and issued on February 15, 2021.

### III.A.2. Single Audits for Fiscal Year 2020

The OPA submitted a request, which was approved, for \$564,400 to Office of Insular Affairs, USDOJ, to fund the Single Audits of the National Government and Component Units and other Agencies for the period ended September 30, 2020 (or December 31, 2020 as indicated\*). The audits are to be conducted by independent certified public accounting firms with oversight by the OPA. Audits of Component Units and other Agencies should be completed and issued by April 30, 2021, to allow time for the ROP auditors to consolidate the financial information with the National Government's Single Audit in order to meet the June 30, 2021 deadline as required by law, 40 PNCA, §223 and U.S. Single Audit Act. Table 1 below lists the scheduled audits of the National Government, Component Units and other Agencies for the Fiscal Year 2020:

Table 1, Audits of National Government, Component Units and other Agencies

Entity	Cost	Independent Auditor
Belau Submarine Cable Corporation	\$0	Burger, Comer, Magliari
Civil Service Pension Plan (including GASB 69 - Audit on Unfunded Liability & Actuarial Studies)	\$52,500	Deloitte & Touche
National Development Bank of Palau (including FASB Audit)	\$27,000	Deloitte & Touche
Palau Community Action Agency	\$22,000	Deloitte & Touche
Palau Community College	\$25,500	Burger, Comer, Magliari
Palau District Housing Authority	\$12,500	Burger, Comer, Magliari
Palau International Coral Reef Center	\$9,700	Burger, Comer, Magliari
Palau National Communications Corporation*	\$29,700	Burger, Comer, Magliari
Palau Visitor's Authority	\$15,000	Deloitte & Touche
Protected Areas Network Fund	\$10,000	Deloitte & Touche
Palau Public Utilities Corporation	\$46,000	Deloitte & Touche
Social Security Administration	\$22,500	Deloitte & Touche
ROP National Government	\$292,000	Deloitte & Touche

### III.B. Performance Audits

The table 2, below, lists audits issued or are on-going conducted by the OPA in calendar year 2020:

Entity	Period	Status
Angaur State Government: Regina IV Repair Project	10/1/2014-12/31/2016	Issued 2/19/2020
Palau Public Utilities Corporation: Koror-Airai Sanitation Project (KASP)	2/5/2014-6/30/2019	Draft Report Issued March 3, 2021
Koror State Government: Japan GGP \$136,066 - Reconstruction for Koror State Recycling Center	2/23/2018-2/22/2019	On-going: Draft
Ngchesar State Government: Japan GGP \$88,950 - Equipment for Improving Rainwater Drainage System	12/6/2018-6/19/2019	Issued 8/11/2020
Melekeok State Government: Japan GGP \$59,416 - Dry Litter Piggery Technology Introduction	9/28/2018-3/31/2019	Issued 3/17/2021
Ngeremlengui State Government	10/1/2007-9/30/2015	Issued 6/8/2020
Ministry of Education – Palau High School Bus	3/16/2018-3/15/2019	Ongoing: Fieldwork



## Definitions of Types of Audit

**Financial Audit:** The primary purpose of a financial statement audit is to provide an opinion about whether an entity's financial statements are presented fairly in conformity with applicable financial reporting framework.

**Performance Audit:** The performance audits are driven by the objective(s) of the audit, whether they are compliance with laws and regulations, economy and efficiency of operations, or achieving desired results.

## Definitions of Status of Audit

**On-going:** Fieldwork, Reporting (drafting report), Draft Report

**Fieldwork** is the process of gathering evidence and analyzing and evaluating evidence in accordance with the audit program. The purpose of fieldwork is to collect sufficient and relevant evidence to reach a conclusion or finding and to support recommendations.

**Reporting:** Preparing the Draft Report

**Draft Report:** Presenting Draft Report to the entity being audited, to allow the entity 30 days to review and comment on findings and recommendations

**Final Report:** When the Draft Report is finalized and issued, with or without the entities comments.

**Independent or Management Review:** Draft report being reviewed by independent team or management

**Outsourced:** To be performed by independent CPA firms.

## STEPS to ensure a successful audit



### III.C. Financial Audits of State Governments (RPPL 9-9)

Pursuant to the RPPL No. 9-9, mandatory annual financial audit of State Governments, the OPA conducted an assessment of the condition of State Governments' (States) accounting systems and finance personnel capacities and determined that the most practical and cost-beneficial approach to conducting the financial audit of State Governments would be to apply the American Institute of Certified Public Accountants' (AICPA) practice guide entitled "Applying Special Purpose Framework in State and local Governmental Financial Statements." The Special Purpose Framework will use the "Cash-Basis" of Accounting: cash receipts and disbursements. This approach will shorten the time required to complete the audit and reduce the cost at the same time. The OPA will continue to train state finance staff, monitor the accounting functions, and assess each State's progress and, upon certification, will declare a States readiness to graduate to a full financial audit.

#### III.C.1. State Governments Financial Audits for FY 2016 and 2017

The Olbiil Era Kelulau under RPPL 10-29 (FY 2019 Budget) appropriated \$200,000 to the Ministry of Finance (MOF) for the purpose of funding the financial audit of State Governments. Lacking familiarity with the financial reporting frameworks for state governments, the MOF collaborated with the OPA to outsource the States' financial audits.

On December 31, 2018, the OPA through the competitive bidding process awarded the contracts for the financial audits of State Governments for Fiscal Years 2016 and 2017 to two (2) accounting firm: Deloitte & Touche (D&T) and Burger, Comer & Magiliari (BCM); allocating evenly, 7 to 7, the works between the two firms. The primary reason for the dividing the work was expediency. Table 1 below shows the status of State audits as of December 31, 2020:

State	Cost	Auditor	Status
Aimeliik	\$15,000	D&T	Final Issued 5/15/2020
Angaur	\$15,000	D&T	Final Issued 3/30/2020
Hatohobei	\$15,000	D&T	Final Issued 1/9/2020
Kayangel	\$15,000	BCM	Final Issued 6/25/2020
Melekeok	\$15,000	D&T	Final Issued 3/11/2020
Ngaraard	\$15,000	D&T	Final Issued 1/24/2020
Ngarchelong	\$11,000	BCM	Final Issued 2/10/2021
Ngardmau	\$13,000	BCM	Concluded fieldwork and in a process of drafting the report
Ngatpang	\$15,000	BCM	Final Issued 4/15/2020
Ngeremlengui	\$15,000	D&T	On hold awaiting documents from the State
Ngchesar	\$15,000	D&T	Final Issued 3/11/2020
Ngiwal	\$11,000	BCM	Final Issued 6/15/2020
Peleliu	\$16,000	BCM	On hold awaiting documents from the Governor/Legislature
Sonsorol	\$11,400	BCM	Final Issued 4/23/2020

#### III.C.2. State Governments Financial Audits FY 2018 and 2019

Under RPPL 10-42, the OEK appropriated \$200,000 the MOF for financial audits of State Governments, with the exception of Airai and Koror State Governments who procure their own audits, the OPA through competitive bidding process in June 2020 awarded the contracts to Deloitte & Touche (D&T) and Burger,

Comer & Magliari (BCM), again, for reason of expediency, evenly allocating the works 7 to 7 between the two firms. Table 2 below lists the status of State audits as of December 31, 2020:

State	Cost	Auditor	Status
Aimeliik	\$15,000	D&T	Commenced-issued engagement letter/awaiting documents
Angaur	\$15,000	D&T	Commenced-issued engagement letter/awaiting documents
Hatohobei	\$11,000	BCM	Commenced-issued engagement letter/awaiting documents
Kayangel	\$15,000	D&T	Commenced-issued engagement letter/awaiting documents
Melekeok	\$10,000	BCM	Commenced-issued engagement letter/awaiting documents
Ngaraard	\$15,000	D&T	Commenced-issued engagement letter/awaiting documents
Ngarchelong	\$12,000	BCM	Commenced-issued engagement letter/awaiting documents
Ngardmau	\$13,000	BCM	Commenced-issued engagement letter/awaiting documents
Ngatpang	\$15,000	D&T	Commenced-issued engagement letter/awaiting documents
Ngeremlengui	\$11,000	BCM	Commenced-issued engagement letter/awaiting documents
Ngchesar	\$15,000	D&T	Commenced-issued engagement letter/awaiting documents
Ngiwal	\$11,000	BCM	Commenced-issued engagement letter/awaiting documents
Peleliu	\$15,000	D&T	Commenced-issued engagement letter/awaiting documents
Sonsorol	\$12,000	BCM	Commenced-issued engagement letter/awaiting documents

Because of the ongoing lockdown on incoming/outgoing flights to/from Palau, preventing auditors from conducting audits on-site, the audit process is taking longer than under normal conditions as every aspect of the audit has to be done electronically, further compounding the capacity of State Governments, especially during the first virtual audit for Fiscal Years 2016 and 2017. The OPA is hopeful that with the experience gained in the FY 2016 and 2017 audit, the State Governments, the finance staff in particular, will be more knowledgeable of the virtual audit processes and expectations of auditors to hasten the audit for Fiscal Years 2018 and 2019.

In addition, the cause of delay in the audit of State Governments is also attributed to the audit of the National Government, including Component Units, as both audits use the same accounting firms. And because the audit of the National Government and Component Units has a set deadline, with accompanying sanctions for missing the deadline, completing these audits before deadline often takes precedence over State audits.

### III.D. Audits of Development Partner Grants

The Embassy of Japan in the Republic of Palau through the Government of Japan’s Grant Assistance for Grassroots Development Project (GGP) frequently awards grants to finance various development projects in Palau. The GGP grants in the past have been awarded to the Belau National Hospital for purchases of various medical equipment and supplies, public schools (e.g., school buses, water tanks, etc.), and other organizations. The grants are executed via a Grant Contract stipulating various terms and conditions one of which is an audit requirement upon completion of the project. The Japan Embassy has communicated to the Office of the Public Auditor that “it may be difficult to consider further grants for the people of Palau since submitting an audit report is one of the requirement of the Project.” Hence, the OPA has been using its resources to audit the GGP grants to ensure the continuation of the GGP grants to Palau.

### III.E. Other Mandated Audits

In addition to the above, the OPA is mandated by the **Code of Ethics Act** (RPPL 5-32) to audit campaign statements filed by candidates for the Offices of President and Vice President and to conduct random audits of

other statements filed under the Act. The OPA is also required by the **Budget Reform Act** of 2001 (RPPL 6-11) to conduct attestation audits of each agency’s performance report and comment on the reasonableness, appropriateness, validity, and reliability of the performance measures and data collection efforts. These mandates are further described below:

**III.E.1. Code of Ethics Act (RPPL 5-32) - Audits of Financial Disclosure Statements**

To conduct audits of campaign statements of candidates for the Offices of the President and Vice President of the Republic and random audits of other campaign statements filed under this chapter.

Development/Performance in 2020: The OPA has not conducted these audits since the enactment of the law due to lack of manpower.

Audits of financial disclosure statements are a critical part of the Code of Ethics Act as it ensures that candidates who run for public office are filing the required financial disclosures and, more importantly, are properly reporting financial contributions and expenses of their election campaigns and account(s) from which a campaign is funded and administered.

**III.E.2. Budget Reform Act of 2001 (RPPL 6-11)**

To Conduct Attestation Audits of Performance Reports

Development/Performance in 2020: The OPA has not conducted these audits since the enactment of the law due to lack of manpower.

The OPA feels that Attestation Audits are critical component of this law as they verify the credibility, accuracy and reliability of an agency’s performance report, the data collection and measurement methodologies. Without attestation audits, the leadership and relevant stakeholders cannot reasonably gauge the performance of an agency, or determine the credibility, accuracy and reliability of data collection and measurement methodologies.

**IV. Other Mandates**

**IV.A. Board of Accountancy (RPPL 3-71)**

The Public Auditor serves as Chairman of the Palau Board of Accountancy (PBOA or Board), which is responsible for regulating and overseeing the practice of accountancy in the Republic. The PBOA regulates and oversees the practice by screening applications, licensing qualified practitioners, and issuing permits to those individuals and firms that meet the statute’s qualification requirements to practice accountancy in the ROP. The Board receives no appropriations to fund its operations; thus, the OPA absorbs all of the Boards’ administrative costs.

Developments/Performances in 2020 (calendar year):  
The PBOA administers a critical function in ensuring the integrity of the practice of public accountancy in the

*In calendar year 2020, the PBOA issued a total of 13 permits to 4 Accounting Firms and 9 Certified Public Accountants and collected and deposited \$950 into the National Treasury therewith.*

CPA Firm	Payment	Permit
Deloitte & Touche	\$100.00	F20-01
Ernst & Young LLP	\$100.00	F20-02
Ahzzma CPA LLP	\$100.00	F20-03
Burger, Comer, Magliari	\$100.00	F20-04
CPA Individual	Payment	Permit
Daniel S. Fitzgerald	\$50.00	20-01
Michael S. Johnson	\$50.00	20-02
Lee Vensel	\$50.00	20-03
John R. Onedera	\$50.00	20-04
James N. Whitt	\$50.00	20-05
Lance K. Kamigaki	\$50.00	20-06
Edmund E. Brobesong	\$50.00	20-07
Yoichi Ahzzma	\$150.00	20-08
David J. Burger	\$50.00	20-09

Republic. The Board serves a critical role in ensuring that those licensed to practice meet qualifications requirements and, in doing so, assures the quality of audits and other financial services offered in the Republic. Without it, certified public accountant or accounting firm cannot practice or conduct audits and related assurance services without the requisite licenses and permits issued by the Board.

## V. OPA’s Capacity to carry-out its Mandates

### V.A. Staff Level needed to carry-out OPA Mandates

*“...OPA senior auditors are approaching retirement age...”*

Position	Years of Service	Projected Year of Retirement/End of Contract
Acting Public Auditor	35	Retirement Age November 2020/ Appointment will terminate upon appointment and confirmation of new Public Auditor
Audit Manager		Recruiting
Senior Auditor III	33	Retirement in January 2021
Senior Auditor II	28	Retirement in May 2021
Senior Auditor I	23	Retirement in March 2029
Junior Auditor III	6	Retirement in May 2045
Junior Auditor II	3	End of contract, Sept 2021
Junior Auditor I	1	Retirement in October 2055
Administrative Officer/System Administrator	30	Retirement in September 2029
Administrative Assistant	24	Retirement in March 2025

At present, the OPA has only six (6) auditors, three (3) of whom have acquired the experience level to conduct audits with minimal supervision and three (3) who require on-the-job supervision. In addition, the OPA has two (2) administrative support staff, an Administrative Officer and an Administrative Assistant. In addition to performing all administrative tasks of the office, the administrative staffs also provide critical support to the audit process, e.g., processing audit reports, distribution and other support. Because only half of the professional staffs are seasoned auditors, only three (3) audits can be initiated at one time. This is because the OPA is operating without an Audit Manager, who is responsible for the overall process of supervision, training, reviewing and drafting audit reports. Thus, by default the Acting Public Auditor has to perform the duties and responsibilities of the Audit Manager, taking time away from the Acting Public Auditor in performing his duties and responsibilities of managing the Office of the Public Auditor.

Further, many of the OPA’s senior auditors are approaching retirement age so the OPA needs to hire new staff, provide them the essential training and foster their development via work (audit) experience in order to establish a smooth transition for the eventual retirement of older staff. This is an opportune time to recruit and hire professional staff as the OPA can apply for technical assistance from Office of Insular Affairs, USDOJ (see Training and Professional Development), to fund its training programs, which otherwise would have to be funded out of local funds.

The most urgent need facing the OPA today is to fill the vacancy of the Audit Manager. As previously mentioned, the primary responsibility of the Audit Manager is to oversee, manage and supervise all audits of the OPA and to assist in drafting audit reports. Presently, the Acting Public Auditor serves double duty as the

Public Auditor and Audit Manager. This arrangement sacrifices the quality and timeliness of service delivery in both positions, and is not sustainable. It sacrifices the quality, timeliness, and quantity of audits as the Acting Public Auditor has to divide his time between conducting reviews of ongoing audits and performing his duties as Public Auditor. For example, while preparing this annual report, the Acting Public Auditor simultaneously was working to update the OPA’s Audit Manual to ensure it conforms to Generally Accepted Government Auditing Standards. At the same time, the Acting Public Auditor was actively involved in reviewing and drafting the report for the KASP audit and other ongoing audits. The position of Audit Manager is critical to ensure the quality and timeliness (quantity) of audits and to support on-the-job training for Junior Auditors.

The OPA must have sufficient resources to carry-out its mandate as set forth in the Constitution, the Public Auditing Act, other applicable laws set forth below. The OPA requires additional staff (auditors and support staff) enumerated below in order to effectively carry out its responsibilities:

<u>Mandate</u>	<u># of staff</u>
Audit Manager	1
RPPL No. 9-9: State Financial Audits	1
RPPL No. 6-11: Attestation Audits	2
RPPL No. 5-32: Audits of financial disclosure statements	2
Audit Findings and Recommendation Tracking System	1
Administrative support	1

The above numbers of staff include a dedicated staff to oversee and assist in the conduct of State Governments financial audits, provided the Olbiil Era Kelulau continues to fund annual financial audits of State Governments that are outsourced to independent accounting firms. In addition, the OPA needs another staff dedicated to creating and maintaining an automated Audit Recommendation Tracking System.

### **Specialized Audits**

Occasionally, the OPA is either requested to or it elects to conduct a specialized audit. Under these circumstances, depending on the subject matter of the audit, the audit could involve a highly technical or complex matter that, in most cases, the OPA does not have a subject-matter expert on staff and therefore would require contracting an expert to serve as a consultant on the audit. For example, if the OPA was requested to or it decided to audit a certain Capital Improvement Project, e.g., road construction, it would have to hire an expert (i.e., engineer) to serve as a consultant on the audit to ensure the quality of the audit.

### **Legal Matters**

Further, in audits that deal with sensitive and complex legal matters, the OPA would require a legal counsel to research the legal issues surrounding matters relating to the audit to support the audit findings and conclusions in the report. The Office of the Attorney General serves as legal counsel to the Executive Branch and therefore it is in a position that presents potential conflict of interest if it provides legal advice to the OPA on audit matters the subject of which relates to a program or agency under the executive branch.

### **V.A.1. OPA’s Recruitment Efforts**

The OPA again is actively recruiting for an Audit Manager and Junior auditors. One of the recruitment strategies that we have been using in the past is to actively recruit Palauan students studying in colleges and universities abroad in the field of accounting and related discipline:

- The OPA works with the Palau National Scholarship Board (PNSB) to identify these students and offer internship programs through the PNSB’s Summer and Winter Fellowship Program,
- The OPA has provided internships to the Palauan students returning from Taiwan, and
- Over the years the OPA has been actively conducting meetings with Palauans studying at the University of Guam to inform the students of internship programs and employment opportunities. Because of COVID, this program has been temporarily suspended.

It is the position of the OPA to hire Palauans in order to take advantage of the training grants the OPA receives from the Office of Insular Affairs, USDOl, instead of using the resources to train non-Palauans.

However, the OPA needs to increase its entry-level and step-level pay in order to attract and retain staff. The OPA has lost professional staff in the past due to higher pay offers by other government agencies. To rectify this problem, the OPA is working to increase its entry-level compensation and education/experienced/skilled-based adjustment to its pay structure. Please refer to Section V.A.2., Human Resources and Compensation Structure Study, below, for further explanation.

### **V.A.2. Human Resources and Compensation Structure Study**

Pursuant to the Public Auditing Act, the OPA is exempt from the Bureau of Public Civil Service System. In addition, the National Public Service System does not provide for classification, classes and related compensation for auditors to ensure equitable compensation based on education, specialized skills and experience. Due to the low entry-level and skill/experience-based compensation, the OPA has been losing staff to other national government agencies, lured by higher pay. Because of the exemption, and lack of classification for auditors and similar fields of specialization, the OPA through a grant from the Office of Insular Affairs, USDOl, hired a consultant to conduct a study on the OPA’s human resources policies and procedures and compensation structure. The consultant has completed the fieldwork and has issued a “Draft” report. In the wake of COVID lockdown, the OPA has not been able to meet with the consultant to address certain issues and other essential efforts needed to advance the Human Resource Manual to the final phase and adoption.

The study not only prescribes personnel policies and procedures for the OPA but, most importantly, it will establish a compensation structure for the OPA that is more competitive and attractive to support and sustain the recruitment and retention of professional staff.

## **V.B. Moving Forward Initiatives: Improving and Enhancing the Work of the OPA**

### **V.B.1. Training and Professional Development**

The OPA is committed to promoting the professional development of its audit staff. It does so by providing capacity-building opportunities to enhance their skills, improve performances and maintaining Continuing Professional Education (CPE) in good standing. Due to the COVID pandemic restricting on travel in 2020, most of the training, listed below, by development partners were delivered virtually.

<b>Attendee(s)</b>	<b>Date</b>	<b>Location</b>	<b>Purpose</b>	<b>Funded by</b>
Public Auditor	2/27-28/2020	New Zealand	PASAI Governing Board Meeting	PASAI/ Palau Govt
Auditors/Administrative Officer	8/3-14/2020	Virtual	APIPA Annual Conference & Workshop	U.S. Graduate School, PITI
Junior Auditor and Administrative Officer	8/25-26/2020	Virtual	QuickBooks Module: 1, 2, 3	Palau SBDC

Public Auditor and Auditors	10/21/2020	Virtual	Auditing COVID Spending in the Pacific Islands: Opportunities and Challenges	U.S. Graduate School, PITI
Auditors	12/1-2/2020	Virtual	Government Auditing Standards	U.S. Graduate School, PITI
Auditors	12/14-16/2020	Virtual	Assessing Controls in Performance Audits	U.S. Graduate School, PITI
Administrative Officer	12/15-16/2020	Virtual	Practical Ethics for Government Employees	U.S. Graduate School, PITI
Senior Auditor I	October and November 2020	Virtual	Communications Training: Strategy and Implementation	PASAI

**Pacific Association of Supreme Audit Institutions (PASAI):** The OPA is a member of the PASAI comprising of island countries’ Audit Offices (Supreme Audit Institutions, SAIs) in the North and South Pacific Regions including Palau, Guam, CNMI, FSM (and its four states of Pohnpei, Kosrae, Chuuk and Yap), Marshalls, American Samoa, Fiji, Samoa, Cook Islands, Vanuatu, Tonga, Tuvalu, Papua New Guinea, Solomon Islands, and Kiribati.

The PASAI is one of the seven regional bodies of the International Organization of Supreme Audit Institutions (INTOSAI) with an overall goal to promote transparent, accountable, effective, and efficient use of public sector resources in the Pacific.

PASAI provides capacity building programs and projects to help improve and strengthen audit services delivered by each regional SAI and to bring the quality of audits to uniform high standards in the Pacific.

One of the premier projects that the PASAI sponsors is the Cooperative Performance Audit that each PASAI member office voluntarily participates. The topic of the audit is decided by the members during the annual PASAI Congress. The most recent PASAI-sponsored Cooperative Performance Audit was on the Theme “Preparedness for the Implementation of Sustainable Development Goals”, which Palau participated and issued a report.

**Association of Pacific Islands Public Auditors (APIPA):** The Annual Conference of the APIPA is funded by the U.S. Department of the Interior’s Office of the Insular Affairs through the U.S. Graduate School USA’s Pacific Islands Training Initiative (PITI). The Annual Conference is a week-long (40 hours of CPE) training delivering courses in Audit, Finance and Grants Management to the Insular Area governments. Because of travel restrictions stemming from the COVID Pandemic, the conference is delivered virtually using “Zoom” platform. The logistics of the conference is coordinated between the Graduate School and the hosting country. During the conference the Public Auditors hold an executive meeting to discuss the business of the APIPA and select the next conference host.

The most recent Annual Conference was held in 2020, <http://www.apipa2020.org/>, which was also delivered virtually through the Zoom platform. The conference was hosted by Guam and registered a record of 699 participants.

It is important to note that the Annual APIPA Conference is the least expensive forum for Public Auditors’ Offices staff to obtain and maintain their Continuing Professional Education (CPE) requirements under the U.S. Generally Accepted Government Auditing Standards (GAGAS or Yellow Book). It also provides vital updates to Finance and Grants personnel on changes to government Generally Accepted Accounting Principles and grant rules and regulations respectively.





## V.B.2. Peer Review

The OPA undergoes an External Quality Control Review (Peer Review) once every three (3) years. The purpose of the Peer Review is to assess the Office of the Public Auditor's system of quality control to determine its compliance with GAGAS.

The APIPA member offices participate in conducting the Peer Review of each member office. With financial assistance from the Office of Insular Affairs, USDOl, two member offices team up with a consultant to conduct a review of a designated member office. The Peer Review is conducted in accordance with the APIPA Peer Review Manual.


The most recent Peer Review of the Palau OPA was conducted and issued in June 2018. The Peer Review report found Palau's OPA to be in "full Compliance with GAGAS". The OPA's Peer Review Reports are published on its website. The next Peer Review for Palau OPA is in 2021.

## V.B.3. Audit Management System (TeamMate)

TeamMate is Audit Management System software that facilitates the conversion of the audit process from paper to electronic. The tool allows preparation and storage of audit work papers in electronic format instead of volumes of papers and files. It also facilitates a more effective and efficient process for reviewing work papers and saves enormous space requirements for storage of work papers. Because of the turnover of staff, and the recent COVID pandemic, the OPA has been struggling to implement TeamMate but continues to move forward in seeking assistance to implement the system.

## V.C. OPA's Office Space Requirements

The OPA has been leasing office space since the office was established in 1985. Thirty six (36) years and nearly a million dollars later, the ROP has no asset to show for its investment. Presently, the OPA is leasing office space and will continue to do so for the foreseeable future until the ROP invests in a facility that can house the OPA and other government agencies that lease office space.



**I. Background**

The Association of Pacific Islands Public Auditors (APIPA) completed its 31<sup>st</sup> annual conference, held virtually from August 3 to 14, 2020. Until the pandemic restricted travel options, the conference was planned to be an in-person event in Saipan, Commonwealth of the Northern Mariana Islands (CNMI). CNMI Public Auditor Mike Pai, CPA, hosted the virtual conference. "Unusual times like these called for innovative approaches to offer the professional training we need," said Pai. "More than ever, our accountability profession needs to maintain its core competence as we serve the public and our governments."

The conference was funded through the U.S. Department of the Interior's Office of Insular Affairs' technical assistance program and delivered by the Graduate School USA's Pacific and Virgin Islands Training Initiatives (PITI-VITI).

**II. Participants**

Six hundred and ninety-nine (699) unique participants attended the virtual APIPA 2020 Conference. This total is 57% more than the 444 participants who attended the 2019 APIPA conference in Guam. Participation in recent years is shown in the table below:

Year	Location	# of Participants
2004	Majuro, RMI	--
2005	Koror, Palau	--
2006	Pohnpei, FSM National Office	--
2007	American Samoa	111
2008	Saipan, CNMI	200
2009	Guam	323
2010	Pohnpei State, FSM	337
2011	Majuro, RMI	299
2012	Koror, Republic of Palau	290
2013	Saipan, CNMI	277
2014	American Samoa	94
2015	Guam	339
2016	Pohnpei State, FSM	325
2017	Majuro, RMI	334
2018	Koror, Republic of Palau	337
2019	Guam	444
2020	Virtual	699

## **VI. Non-Audit Services**

### **VI.A. Local Governance Strengthening Project (LGSP)**

The Local Governance Strengthening Project (LGSP) is a UNDP-ROP funded project administered by the Ministry of State through the Bureau of Domestic Affairs. The purpose of the LGSP is to provide training on the concept of Public Financial Management System and create Standard Operating Procedures (SOP) for the five (5) Pilot States; namely Aimeliik, Hatohobei, Kayangel, Melekeok, and Ngeremlengui. Simultaneously, the project incorporates training on QuickBooks software, which all five pilot states use as their accounting system, to facilitate the implementation of the SOP using QuickBooks. In the process, the Project hopes to upgrade the States' QuickBooks to the 2021 version. The Bureau of Domestic Affairs partners with the OPA to provide training programs geared to strengthen State Governments accounting systems and promote good governance. The goal is to strengthen each State's Financial Management System by creating, training and implementing SOP via QuickBooks to further improve fiscal responsibility, accountability, and transparency in State operations. Upon successfully implementing the Financial Management System, the system will support timely financial audit of State Governments. Upon completing the project for the five (5) Pilot States, the Ministry of State and the OPA anticipates rolling out the project to the rest of the State Governments.

The OPA assists in the LGSP in the following ways:

- Participates in conducting Clinics for States' Leadership,
- Provides comprehensive training on Standard Operating Procedures and Rules and Regulations of Financial Accountability and Financial Audit for State Governments, and
- Provides training on automated accounting system using Quickbooks software

### **VI.B. Assistances to State Governments**

In addition, the OPA provides assistance to State Governments in preparation for annual financial audit as follows:

- Assists State Governments prepare Trial Balances and financial statements for financial audits for FYs 2016, 2017, 2018 and 2019
- Provides advisory services for State Governments in preparing for financial audits, and
- Provides advisory services in the area of procurement, budget, personnel and other related matters.