

Association of Pacific Island Public Auditors

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Quality Review Liaison

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February 13, 1998

Mr. Satrunino Tewid
Acting Public Auditor
Office of the Public Auditor
P.O. Box 850
Koror, Republic of Palau 96940

Dear Mr. Tewid:

We have completed an external quality control review of the Office of the Public Auditor, Republic of Palau for audits issued during the period October 1, 1995 through September 30, 1997. In conducting our review, we followed the standards and guidelines contained in the Association of Pacific Island Public Auditors (APIPA) *Quality Control Review Guide* published in September 1995 by the Association of Pacific Island Public Auditors.

As prescribed by the APIPA guide, we reviewed the internal quality control system of your audit organization and tested a sample of audits conducted by your office for compliance with government auditing standards issued by the Comptroller General of the United States. Due to variance in individual performance and judgement, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

We have concluded from our review that, except for the deficiencies noted below, your system of internal quality control was suitably designed and provided reasonable assurance that applicable government audit standards were followed in your audit work. In addition, except for some recurring instances of nonconformance, we have concluded that your quality controls were working effectively and that audits were conducted in conformance with applicable standards during the period under review.


It is our opinion, therefore, that except for the noted deficiencies, the Office of the Public Auditor Republic of Palau was in compliance with government auditing standards during the period October 1, 1995 through September 30, 1997.

The deficiencies found in your internal quality control system include a pervasive lack of documentation of the planning process and a lack of documentation of supervision and review. We would like to point out that these deficiencies do not infer that your office did not consider all elements in the planning process or failed to properly supervise and review your engagements. In fact, we found no material misstatements, errors, or omissions in the reports that we reviewed. However, government auditing standards require written documentation of the planning process and of review and supervision.

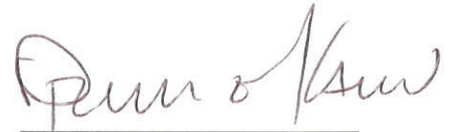
We have prepared a separate letter to management which provides details of our findings and recommendations for strengthening your internal quality control program.



R Wendell Harwell, CBA
Team Leader



Francis Sefo
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Advisor

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Dear Mr. Tewid:

We have completed an external quality control review of the Public Auditor's Office, Republic of Palau, for audits issued during the period October 1, 1995 through September 30, 1997. We have issued a report stating our opinion concerning your organization's overall level of compliance with government auditing standards. We are issuing this companion letter to management to discuss details of deficiencies identified during our review and offer suggestions for improvement. This letter should be read in conjunction with our opinion report.

We found weaknesses in:

- Reporting – We found no statement in each audit's working papers that the audit was conducted in accordance with generally accepted government auditing standards.
- Planning – We found no statement of independence (or lack of impairment) in the working papers for each audit.
- Planning – We found no clear documentation of an audit plan/program in the working papers for each audit. Moreover, we found that some audit reports contained audit objectives which did not appear to have support in the working papers.
- Quality Control – We found no evidence that all (or all major) working papers had been reviewed by a supervisor. In two audits we reviewed, more than half of the working papers were lacking documented supervisory review.
- Evidence – We found no documented objectives, scope, purpose, and source on many of the working papers we reviewed. Moreover, we found no evidential support for some audit objectives in the working papers.

We recommend that you strengthen your internal quality control system as follows:

- Ensure that each audit report contains language that the audit was conducted in accordance with generally accepted government auditing standards.
- Ensure that each audit contains a Planning audit program and a General Audit program.
- Ensure that each audit report's working papers contain a letter or document indicating that all auditors assigned to the engagement are free from impairment (and/or are independent).
- Ensure that all audit engagements have clearly written, well-documented audit plans/programs, and that the objectives of each audit are keyed to the working papers, so that all objectives are supported by a set of working papers.
- Ensure that a supervisor review all major working papers, and document this review with a clear, written indication of the review. This should include the supervisor's initials and the date the supervisor reviewed the working paper.
- Ensure that working papers each contain the objectives (purpose), source, and scope. Working papers should also be indexed to the audit objective(s) they support. If a working paper is unrelated to the objectives of a particular audit, it should not be included in the audit file.

In conclusion, many of our suggested improvements focus on documentation issues. For example, while it was apparent from our review that audits had been planned and were conducted under some level of supervision, those issues were not always apparent from the working papers.

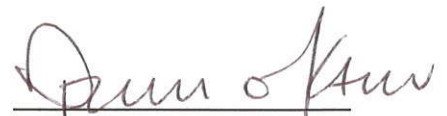
We hope that these suggestions, if implemented, will enhance your office's internal quality control system. Please contact us if you have any questions about these findings or recommendations.



R Wendell Harwell, CPA
Team Leader



Francis Sefo
Team Member



Drummond Kahn, CGFM
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