



ASSOCIATION OF PACIFIC ISLANDS PUBLIC AUDITORS

August 30, 2008

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

Office of the Public Auditor Received	
Date <u>10/07/08</u>	Time <u>3:30 PM</u>
Received By <u>MMA</u>	
No. OPA <u>09-002</u>	

Dear Mr. Tewid:

A peer review of the Republic of Palau's Office of the Public Auditor has been completed for the period June 1, 2005 through December 31, 2007. In conducting the review, the standards and guidelines contained in the *Peer Review Guide* published in July 2006, by the Association of Pacific Islands Public Auditors (APIPA) were followed.

The internal quality control system of the audit organization was reviewed and tests were conducted in order to determine if the internal quality control system operated to provide reasonable assurance of compliance with *Government Auditing Standards* issued by the Comptroller General of the United States. 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.

Based on the results of the review, it is our opinion that the Office of the Public Auditor's internal quality control system is suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for audits and attestation engagements during the period June 1, 2005 through December 31, 2007.

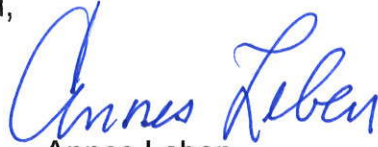
A separate letter to management has been prepared, which offers suggestions to further strengthen the internal quality control system of the organization. The management letter should be considered an integral part of this report.

This report, and the accompanying management letter, is to be made available to the public.

Respectfully Submitted,



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National Public Auditor
Federated States of
Micronesia
Team Leader
APIPA Peer Review Team



Annes Leben,
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Dear Mr. Tewid:

The external peer review of the Republic of Palau's Office of the Public Auditor (OPA) has been completed for audits and attestation engagements issued during the period from June 1, 2005 through December 31, 2007. During the period of our review the OPA completed and issued 1 attestation engagement report and 9 performance audit reports. We reviewed the working papers related to the 1 attestation engagement and 8 of the 9 performance audits or a total of 9 working paper files.

A report has been issued dated August 30, 2008 stating the OPA's overall level of compliance with government auditing standards. This letter to management is to offer certain observations and suggestions stemming from the peer review. This letter is to be read in conjunction with the opinion report.

The following observations and suggestions are made to enhance the OPA's demonstrated adherence to government auditing standards:

- **Personal Impairment Statements**. The OPA's Policies and Procedures (P&P) Manual requires each auditor to prepare and submit a Personal Impairment Statement at the beginning of each assignment. Out of 9 working paper files reviewed, we noted that 3 of the files did not include properly prepared Personal Impairment Statements. The Statements were missing from 1 of the working paper files and in 2 other files the Statements were not completed until months after the start of the assignments.

We suggest that the Public Auditor continue to emphasize to the audit staff the need to properly prepare Personal Impairment Statements at the beginning of each assignment.

- **Management Representations.** GAGAS states that when planning an audit, auditors should ask management to identify previous audits, attestation engagements, and other studies that directly relate to the audit objectives and follow up on recommendations. On at least 2 of the 9 assignments reviewed, the working papers only addressed findings contained in prior OPA audits or stated that it was the first time the entity was reviewed. The working papers did not indicate that management was asked to identify previous audits, attestation engagements or other studies performed by organizations other than OPA.

We suggests that the Public Auditor remind the staff to request formal representations as to whether other organizations have performed audits, attestation engagements, or other studies directly related to the audit objectives. If management identifies previous audits, attestation engagements or other studies related to the audit objectives, the staff should follow up on recommendations to ensure they have been implemented or resolved.

- **Quality Control Assurance.** GAGAS requires all audit organizations that conduct audits and attestation engagements to have an appropriate internal control system in place. Each audit organization should prepare appropriate documentation for its system of quality control to demonstrate compliance with its policies and procedures. Out of 9 working paper files reviewed, we found 6 that did not contain the quality control checklists, such as the Working Paper Checklist and the Supervisory Review Sheet, which are required by the OPA's P&P Manual. Furthermore, in 1 of the 9 files reviewed, we noted that the same auditor who performed the audit also handled the cross-referencing of the draft audit report. This is in contrary to OPA's P&P Manual which requires an independent referencer of draft audit report.

We suggest that the Public Auditor ensures that the OPA's quality control system requirements are consistently observed by ensuring that all the appropriate quality control checklists are used and completed for each audit performed. We also suggest that the Public Auditor should ensure that all draft audits are independently referenced by a staff member who has no involvement in the audit.

- **Audit Planning.** Audits that are performed in accordance with GAGAS are required to be adequately planned, and OPA's P&P Manual contains sufficient tools to assure that audits are appropriately planned. During our review of 9 working paper files, we found some common audit planning deficiencies such as the following:
 - Did not prepare or use Assignment Authorization forms;
 - Did not send or document Engagement Letters;

- Did not perform or document the results of audit surveys;
- Did not obtain or document auditor's understanding of the entity's internal control system;
- Audit Plans (Planning Memo) did not contain the critical audit areas, i.e. audit standard to follow, audit resources allocation, and audit milestones, etc;
- Did not always have written audit programs documenting the steps and procedures to perform relative to the audit objectives; and/or
- Did not hold the various audit conferences throughout the audit engagement which are required by OPA's P&P Manual, i.e. entrance conference, mid-point meeting, end-of-review meeting, and exit conference.

The OPA has a well developed P&P Manual, but it has not been consistently followed.

We suggest that the Public Auditor require all audit staff to provide written certification semi-annually confirming that they have regularly studied and updated their knowledge of OPA's P&P Manual. We also suggest that the Public Auditor ensure that all pertinent requirements of the P&P Manual are complied with in order that all performance audits and attestation engagements are adequately planned and conducted in full adherence with GAGAS.

- **Audit Reports**. OPA audit reports should be appropriately prepared to include all the pertinent reporting elements as required by GAGAS and by its P&P Manual, specifically as they relate to reporting on the auditee's internal controls and audit conclusions. Chapter 8, Section 8.17 of GAGAS requires that "Auditors should include in the audit report the scope of their work on internal control and any deficiencies found during the audit." We found that none of the 8 performance audit reports reviewed included the scope of their audit on internal controls. GAGAS and the OPA's P&P Manual also require the audit reports to include the audit conclusions, as appropriate. We found that all of the 8 performance audit reports did not have audit conclusions.

We suggest that the Public Auditor ensure that performance audit reports disclose the scope of the audit work on internal controls under the Objectives, Scope and Methodology part of the audit report. We further suggest that the Public Auditor include audit conclusion in the audit reports to assist the stakeholders and other user's gain sufficient understanding and knowledge about the entity's operations specifically as they relate to the audit objectives.

- **Financial Audit Reviews.** OPA has developed procedures to ensure compliance with its mandate to direct and supervise all financial and management audits, which include the requirement that a desk review be performed. However, the OPA has not developed a specific checklist to document that the desk review was performed to monitor whether single audit report met standards and was acceptable. There are various checklists that can be use to desk review single audit reports. For example, the President's Council on Integrity and Efficiency (PCIE) has developed its Uniform Guide for Initial Reviews of A-133 Audit Reports and its Uniform Quality Control Review Guide for A-133 Audits.

We suggest that the Public Auditor require that the PCIE's Uniform Guide for Initial Reviews of A-133 Audit Reports be used to desk review each Annual Financial Audit of the Republic of Palau's government activities (A-133 Single Audit). If there are questions as to whether the audit report meets required standards, we suggest that the Public Auditor require that the PCIE's Uniform Quality Control Review Guide for A-133 Audits be used to identify any deficiencies and to take appropriate actions.

The above suggestions have been discussed with management and staff of the Office of the Public Auditor during the exit conference conducted on August 1, 2008. The Public Auditor concurred with our suggestions, *with some reservations*. In order to provide the reader with a fair and balanced discussion of the issues, the Public Auditor's comments should be read in conjunction with our suggestions.

This letter should be made an integral part of the Opinion Report when it is submitted to the oversight body.

In closing we would like to thank you and your staff for the professional courtesy and cooperation extended to us during our review.

Respectfully submitted,



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Federated States of
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Team Leader
APIPA Peer Review Team



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