



OFFICE OF THE PUBLIC AUDITOR
REPUBLIC OF PALAU

CALENDAR YEAR 2008 ANNUAL REPORT

"Fiscal Accountability and Transparency is a Foundation of Good Governance"

Message from Acting Public Auditor

Fiscal accountability and transparency is a foundation of good governance. It is the foundation upon which the tax-paying public and other stakeholders look upon to build trust and confidence in their government. As the public “watchdog” of public funds, the Office of the Public Auditor (OPA) is responsible for conducting audits to ensure that use of public resources are accounted for and in conformance with established public policy. At the OPA, we are committed to conducting audits, reviews, and evaluations to provide the leadership and citizens with accurate and objective information about how our government is run.

Calendar year 2008 was a slow year for the OPA, in terms of the number of audits completed and issued. This was primarily due to the fact that the OPA underwent a Peer Review in July and the resignation of one of its Senior Auditors, as further explained in the report. With only five (5) auditors on staff, the OPA faces an uphill battle to provide audit services to myriad of National Government ministries, bureaus, divisions; as well as Boards, Commissions, and Authorities, and including semi-autonomous government agencies and state governments. In addition, as discussed in the report, the OPA is specifically mandated by law to conduct attestation audits of the aforementioned government agencies’ performance reports and campaign statements of political candidates running for public office. For this reason, State Government audits were put on a back burner and restarted again in fiscal year 2007. And with every national government department/agency competing for increase in funding, and understandably so, including OPA, it is unlikely, if at all, that an increase will be of significant amount to mitigate the shortage of manpower at the OPA. Accordingly, the OPA will continue to prioritize its audits to ensure the most effective and efficient use of its limited resources.

To maintain the quality and credibility of its reports, the Office of the Public Auditor follows *Generally Accepted Government Auditing Standards* (GAGAS) promulgated by the U.S. Government Accountability Office (GAO) in the conduct of its audits. One of the most important and universally observed and accepted standard is the standard on

Independence, which requires that an audit organization and its auditors shall maintain their independence from organizations that they audit. The standards further require, among other requirements, that auditors performing government audits maintain the minimum number of Continuing Professional Education requirements, which the OPA satisfies by sending its auditors to various training programs. In addition, the standards require the audit office to undergo an External Quality Control Review (Peer Review) every three (3) years, which the OPA has done so for the last thirteen (13) years, the most recent of which was completed in August 2008. Moreover, to facilitate efficiency and effectiveness in its operations, the OPA must keep up with technological advances in its office equipment and audit-support tools and related software applications. The OPA is thankful to the U.S. Department of the Interior for availing to the OPA technical assistance grants for training and equipment support and funding the Peer Review project. The OPA also recognizes the assistance of the Office of the Inspector General of the U.S. DOI for hosting On-The-Job training and other training opportunities for OPA auditors and investigator.

In the pursuit to advance accountability, efficiency, and effectiveness in government operations, the OPA approaches each audit with a mindset that it must work constructively with management to affect the desired improvements. To that end, the OPA continues to work with management and, at the same time, maintain its independence, to ensure objective, accurate, and impartial reporting.

We at the OPA will continue to report fraud, waste, abuse and public corruption. We will also work equally hard at building the trust and confidence of the people we serve by working with management officials to affect improvements in government operations while maintaining the highest standards of independence, integrity, and professionalism.



Satrunino Tewid
Acting Public Auditor

Introduction

The Office of the Public Auditor (OPA) is established pursuant to Article XII, Section 2 of the Constitution of the Republic of Palau and the Public Auditing Act of 1985. The first Public Auditor, Thomas Bostwick, was appointed on or about November 1985 and resigned before serving his full six-year term. On October 15, 1990, Mr. James Kinchen was appointed as the second Public Auditor and served his full six-year term ending October 14, 1996. Mr. Saturnino Tewid, a Senior Auditor with the OPA then, was designated Acting Public Auditor until November 14, 1999 when Mr. Tewid was appointed Public Auditor. Mr. Tewid served as the Public Auditor until the end of his six-year term on November 17, 2005. Mr. Tewid was appointed Acting Public Auditor by the Chief Justice of the Palau Supreme Court pending the appointment of a Public Auditor.

Mission Statement

The mission of the Office of the Public Auditor (OPA) is to conduct audits to institutionalize economy, efficiency, accountability, and transparency in government operations, programs, activities, and functions.

The OPA endeavors to fulfill this mission by providing management with tools (audit reports) 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. The quality of audits the OPA performs is guided by Generally Accepted Government Auditing Standards (GAGAS) promulgated by the United States Government Accountability Office. In accordance with the Standards, the OPA undergoes an External Quality Control Review every three years to ensure the OPA is conducting its audits in accordance with GAGAS.

In the conduct of audits, the OPA acts to prevent and detect fraud, waste and abuse in the expenditure of public funds. Any suspected cases of fraud, violations of laws, or other irregularities uncovered during audits are reported to the Office of the Special Prosecutor for further investigation and prosecution. The successful prosecution of financial crimes against the Republic creates an environment of deterrence to prevent future incidents.

Other OPA Duties mandated by Public Law(s)

Palau Board of Accountancy, RPPL 3-71

The Public Auditor serves as the Chairman of the Palau Board of Accountancy. The purpose of the Board is to regulate and monitor the practice of accountancy and audits in the Republic of Palau. This is carried out by licensing and permitting only those individuals and firms who meet the qualification requirements to practice accountancy in the Republic of Palau. The Board does not receive any appropriations to fund its operations; thus, the OPA absorbs all administrative costs of the Board. Presently, the Board lacks a quorum to act on its responsibilities as all Board members terms of office expired.

Budget Reform Act of 2001, RPPL 6-11, Section 372. Attestation

The RPPL No. 6-11, The Budget Reform Act of 2001, under Section 372, requires the OPA to perform attestation audits of government agencies performance reports. Although the OPA had started conducting the attestation audits; the effort was suspended due to insufficient manpower. The OPA simply cannot assign auditors to conduct performance and financial audits and still have available resources to perform attestation audits. Eventually, when funding becomes available, the OPA plans to hire additional (2) auditors in order to have sufficient manpower to conduct attestation audits. Performing attestation audits is an integral part of the Budget Reform Act as the process serves as a mechanism to verify an agency's performance, performance measures, and methods of data collection. However, at this point in time the OPA does not have sufficient funding (budget) to hire additional auditors.

Code of Ethics Act, RPPL 5-32, Section 11. Duties of the Public Auditor

The OPA has not conducted mandatory audits of campaign statements as it lacks the manpower to do so. This would not be a regular and ongoing activity as the audits will occur only during election years and during the periods that campaign statements are required to be filed.

Setting the Direction for OPA

To facilitate setting the direction for the OPA, the OPA will partner with the Pacific Islands Training Institute (PITI) to hire consultants (facilitators) to help formulate a strategic plan for the OPA. The strategic plan will set the direction for the OPA and establish long-term goals for the office. From audits to office management to human resource development, the strategic plan will enable the OPA to prioritize the use of its resources towards achieving its goals. The strategic plan will enable the OPA to fulfill its mandate in a more efficient and effective manner. The OPA plans to initiate discussions on the project in March 2009.

Office Space

The OPA has been leasing office space since the office first opened for operation in 1985. And after nearly twenty-five (25) years of operation, and spending well over \$500,000 for office space rental, the Republic still has no permanent building to house the OPA. If the Republic was to negotiate a debt-financing scheme to construct a permanent building for the OPA, then perhaps the money used for office space rental can be used instead to service the debt requirements.

Funding for the OPA

Local Funding

The operation of the OPA is funded via annual appropriations by the Olbiil Era Kelulau (Palau National Congress). The schedule below shows the level of funding for each fiscal year since fiscal year 2000:

FY2000	\$344,000
FY2001	\$350,000
FY2002	\$320,000
FY2003	\$320,000
FY2004	\$320,000
FY2005	\$315,000
FY2006	\$350,000
FY2007	\$375,000
FY2008	\$373,000

The local funding is primarily used for payroll, office space rental, utilities, and other operating expenses. The schedule below shows the breakdown of OPA's 2008 operating expenses:

1000 Personal Services	\$ 289,629
1200 Purchased-Property Services	25,392
1300 Other Purchased Services	18,413
1400 Supplies	23,021
1600 Other	2,758
Total	\$ 359,213

Grants and other funding Sources

In addition to local funding, the OPA also receives technical assistance grants from the U.S. Department of the Interior to fund the annual Single Audit of the Republic of Palau National Government and capacity building of the OPA. The schedule below shows the amounts of grants the OPA has received over the years to pay for the cost of the ROP Single Audit since fiscal year 2000.

<u>Fiscal Year</u>	<u>Grant Amount</u>
2000	\$385,000
2001	\$385,000
2002	\$385,000
2003	\$385,000
2004	\$385,000
2005	\$385,000
2006	\$385,000
2007	\$385,000
2008	\$420,000
2009	\$420,000

The Single Audit funding covers the audit of the National Government and its component units, namely; (1) Public Utilities Corporation (PUC), (2) Palau National Communications Corporation (PNCC), (3) National Development Bank of Palau (NDBP), (4) Palau Housing Authority (PHA), (5) Palau Community Action Agency (PCAA), (6) Palau Visitor's Authority (PVA), (7) Palau International Coral Reef Center (PICRC), (8) Civil Service Pension Plan (CSPP), (9) Social Security Administration (SS), and (10) Palau Community College (PCC). The grant is a reimbursable grant and therefore the grantee pays for the cost of the audit and is reimbursed by the grant.

In addition, the OPA received capacity-building grants from the U.S. Department of the Interior, which included the following grants:

08 Supplemental Audit Grant (GR870119) \$45,000 Exp. Date 03/31/2010

The objective of this grant is to provide supplemental funding in support of single audit costs; more specifically supplemental funding for FY2006 Single Audit, pay outstanding billings of FY2003 and 2004 audits; and to purchase duplicating machine for OPA.

Palau's Auditor Training Program - 2nd Cycle (PAL-118) \$52,200 Exp. Date 12/31/2008

This grant is to provide funding for the OPA to support training programs for auditors and investigators. The grant provides for both short and extended (OJT) training programs with the Department of the Interior's Office of the Inspector General (OIG). More specifically, this grant pays for the per diem and travel expenses of OPA resident auditors and investigators to receive training from the OIG and to attend training courses in Denver, Colorado; Albuquerque, New Mexico; and Sacramento, California. The selected auditors and investigators will also attend the OIG Academy/FLETC in Glynco, Georgia, and/or Arlington, Virginia during 2007 and 2008.

**OPA Auditor and Investigator Training Program, ROP - 3rd Cycle (TA-ROP-OPA-2008-1)
\$55,000 Exp. Date 03/31/2009**

This grant is to provide funding for the OPA to support training programs for auditors and investigators. The grant provides for both short and extended (OJT) training programs with the Department of the Interior's Office of the Inspector General (OIG). More specifically, this grant pays for the per diem and travel expenses of OPA resident auditors and investigators to receive training from the OIG and to attend training courses in Denver, Colorado; Albuquerque, New Mexico; and Sacramento, California.

External Quality Control Review

In accordance with Generally Accepted Government Auditing Standards (GAGAS), the OPA undergoes an External Quality Control Review (Peer Review) every three (3) years. The first Peer Review was conducted in February 1998, which the OPA received a Qualified Opinion report, but otherwise in compliance with GAGAS. The second Peer Review was conducted in October 2002. The OPA received an opinion report which states that the office was conducting its audits in accordance with GAGAS. July of 2005 saw the third time that Palau OPA was Peer Reviewed. The Peer Review Team concluded in its report that the Palau OPA was conducting its audits in compliance with Government Auditing Standards. The most recent Peer Review was conducted in July 2008 and, again, the OPA received an opinion report stating that it was in compliance with GAGAS. **Please refer to Appendix I** for illustration of said report. In all of these Peer Reviews, copies of the reports were provided to the President of the Republic, the President of the Senate (Olbiil Era Kelulau, Palau National Congress), and the Speaker of the House of Delegates. The next round of Peer Review is scheduled for July 2011.



Peer Review Team with Acting Public Auditor

Reporting to Promote Improvement

Audit Reports issued by OPA in 2008

In fiscal year 2008 (October 1, 2007 - September 30, 2008), the OPA did not complete and issue as many audits as it normally does. This was partly due to the fact that the OPA had to organize and prepare for its Peer Review in July 2008. The decline is also attributed to the fact that one of the OPA's Senior Auditors resigned his position to run for an elected office. In addition, the OPA was in the process of implementing an "Audit Recommendation Tracking System," which demanded a lot of the Acting Public Auditor's time as well as the audit and support staff. Despite preoccupation with the above projects, the OPA was able to issue the audit reports summarized below:

Aimeliik State

The OPA's audit of Aimeliik State found several major deficiencies, among other findings, noted hereafter: (1) local revenues were collected and used for petty cash without first depositing the collection into the State Treasury and lacked proper supporting documents, (2) The State has not established a record-keeping system to record and account for its accounts payables and receivables, (3) the State did not comply with local procurement law and regulations in the procurement of goods and services greater or equal to \$5,000, (4) a developer for a golf course business venture has not commenced an engineering design for the Mongami Dock Project as stipulated in the Business Lease Agreement, (5) the Aimeliik State Public Lands Authority failed to initiate an audit of all funds received and disbursed by the Authority during the preceding calendar year in accordance with Aimeliik State Public Law No. 8-13, and (6) for the period covering fiscal year 2000-2004, we found expenditures totaling \$59,697 without adequate supporting documents.

Ngaraard State

The audit of Ngaraard State covered the period from fiscal years 2005 through 2007. The one major finding in this report, among other findings, is a transaction involving the purchase of a building by the State. The issues cited included lack of competitive bidding and planning for the utilization of the structure after the purchase. The building cost \$30,000.

Kayangel State

The audit of Kayangel State covered the period from fiscal 2000-2006. The major findings cited in the report, among other weaknesses, included the following: (1) withdrawals of some \$33,143 from the State's savings and checking accounts for which no documentation was provided to support their expenditure or deposit into other State accounts, (2) payments of some \$60,843 in checks to the Governor over a period of six years for representation funds, entertainment, transportation, official expenses, food items, travel, and contingency expenses without proper supporting documents, (3) payments of \$151,980 during the period from fiscal years 2000-2006 to members of the State legislature for official expenses the official purpose of which we were unable to determine due to lack of supporting documentation, (4) \$20,991 of questionable expenditures covering the period 2002, 2004, 2005, and 2006 due to lack of supporting documents, (5) lack of internal controls over the State's "open" POL charge account which, as a result, \$22,291 of POL expenditures in fiscal year 2006 were questioned due to lack of supporting documents, (6) non-compliance with local procurement law and regulations, (7) the State has not established a record-keeping system to record and account for cash receipts, accounts receivable and payable, fixed assets, and perform bank reconciliation.

Airai State

The audit of Airai State covered the period from fiscal year 1998 through fiscal year 2006. The report contained eight (8) findings; however, the major findings are as follows: (1) some cash collections

were not deposited into the State's bank account(s) in a timely manner and needlessly maintained in an unsecured repository which, as result, in 2005 thieves broke into the State office and stole \$3,190, (2) the State did not comply with RPPL No. 3-54, Procurement Law and Regulations, when procuring goods or services over \$5,000, (3) some expenditures of the State were processed without prior authorization on Accounts Payable Voucher (APV), (4) the State has not undergone an inspection and audit of its revenues and expenditures since fiscal year 1998 pursuant to Article IX, Section 2 of the State's Constitution, (5) State legislators were paid official expenses, however, no supporting documents were provide to substantiate the official nature of the expenditures, and (6) in our testing of expenditures covering fiscal year 1998 through 2006, we found \$78,762 of disbursements without adequate supporting documentation.

OPA Performance Audits on-going in 2008 and 2009

In addition to the above-issued reports, the OPA commenced the following performance audits in fiscal year 2008-2009:

- Angaur State
- Ngarchelong State
- Ngardmau State
- Ngaremlengui State
- Ngchesar State
- Peleliu State
- Bureau of National Treasury, Missing Receipts
- Procurement of Medical Supplies and Drugs
- Palau Severely Disabled Assistance Fund
- Fixed Assets

Audit Reports issued by Independent CPA firms in Fiscal Year 2008

The OPA, through Compact of Free Association between the Republic of Palau and the United States of America, receives annual grants from the U.S. Department of the Interior to conduct Single Audits of the National Government and its Component Units and other agencies. The OPA out-sources these financial statement audits to Independent Certified Public Accounting Firms but still maintain its oversight responsibilities over the conduct of the audits. Please refer to the schedule below for listing of financial statement audits issued in fiscal year 2008. At the time of drafting of this report, all the required single audits of the National Government and its Component Units and agencies for fiscal year 2008 are either ongoing or underway and should be completed by June 30, 2009.

Agency	Period	Performed By	Final
CIVIL SERVICE PENSION PLAN	9/30/07	DELOITTE & TOUCHE	6/23/2008
NATIONAL DEVELOPMENT BANK OF PALAU	9/30/07	DELOITTE & TOUCHE	4/8/2008
PALAU COMMUNITY ACTION AGENCY	9/30/07	DELOITTE & TOUCHE	11/13/2008
PALAU COMMUNITY COLLEGE	9/30/07	J. SCOTT MAGLIARI & COMPANY	3/10/2008
PALAU DISTRICT HOUSING AUTHORITY	9/30/07	J. SCOTT MAGLIARI & COMPANY	11/30/2007
PALAU INTERNATIONAL CORAL REEF CENTER	9/30/07	DELOITTE & TOUCHE	5/27/2008
PALAU NATIONAL COMMUNICATIONS CORPORATION	12/31/07	DELOITTE & TOUCHE	6/10/2008
PUBLIC UTILITIES CORPORATION	9/30/07	DELOITTE & TOUCHE	7/15/2008
PALAU VISITOR'S AUTHORITY	9/30/07	DELOITTE & TOUCHE	5/14/2008
REPUBLIC OF PALAU	9/30/07	DELOITTE & TOUCHE	6/24/2008
SOCIAL SECURITY ADMINISTRATION	9/30/07	DELOITTE & TOUCHE	2/14/2008

Joint Program Initiatives with Regional Organizations

Anti-Corruption Action Plan

In June of 2004, the Republic of Palau became an endorsing member to the Asian Development Bank (ADB)/Organization for Economic Cooperation and Development (OECD)-sponsored Initiative on Anti-Corruption Action Plan for Asia and the Pacific. In 2007, the OPA sent a representative to a meeting in Bali, Indonesia. In 2008, another meeting was hosted by Singapore; however, the OPA was unable to send a representative. As an endorsing member, the Palau OPA prepares and submits stocktaking reports identifying the measures (Pillars) taken to combat corruption. The ADB/OECD follows up on these stocktaking reports and, during meetings, representatives of the respective endorsing member countries report progress of implementation of anti-corruption measures.

Pacific Regional Audit Initiative (PRAI)

Under the overall coordination of the Pacific Association of Supreme Audit Institutions (PASAI), with support from the Asian Development Bank (ADB) and Australian Agency for International Development (AUSAID), the Pacific Regional Audit Initiative (PRAI) is being established. The PRAI is one of the major components of the Pacific Plan, which was endorsed by the Pacific Islands Forum Leaders. The overarching objective of the PRAI is to raise Pacific public auditing to uniformly high standards. In turn, uniformly high public auditing standards are expected to contribute to good governance through improved transparency, accountability, and efficiency in managing and using public resources. The initiative involves each Public Auditor's or Auditor General's office of the PASAI to undergo diagnostic assessment by a team of consultants to assess the structure, audits, standards used, and overall operation of the office. The next meeting of the PRAI Transition Working Group is scheduled to take place in March 2009 in New Zealand. The Republic of Palau's OPA was unanimously elected in the last PASAI Congress in the Cook Islands in 2008 to host the next Congress in July 2009.

OIG and APIPA Annual Meeting and Training Initiatives

The Insular Area Act of 1982 requires the Office of the Inspector General of the U.S. Department of the Interior to maintain a satisfactory level of independent audit oversight of the governments of the Insular Areas. The Annual Conference/Meeting assembles the Public Auditors and the Inspector General to determine how the OIG can best fulfill that responsibility and, at the same time, assist the Public Auditors with their responsibilities. Presently, the OIG, with funding from the DOI, and in collaboration with OPA offices, assess the existing capabilities and limitations of each OPA office and develops training programs to address those limitations and improve the capabilities of the offices. This is accomplished by sharing new audit and investigative tools and techniques and providing On-The-Job Training for OPA auditors and Investigators at the various OIG regional offices in the U.S. In 2008 one (1) Investigator from the OPA and one (1) from the Special Prosecutor's office attended a 45-days training at OIG headquarters office in Washington D.C.

OPA Initiatives

Training

In accordance with Generally Accepted Government Auditing Standards (GAGAS), auditors who perform government audits must comply with Continuing Professional Education (CPE) requirements. GAGAS require a minimum of 80 hours of CPE every two (2) years, 20 hours of which must be acquired in any one year. The OPA audit staff acquires most of its CPE through the Association of Pacific Islands Public Auditors (APIPA) annual conference, USDA Graduate School - Pacific Islands Training Institute (PITI), and training grants from the U.S. Department of the Interior. The most recent APIPA Conference was hosted by the Public Auditor of the Commonwealth of the Northern Marianas Islands (CNMI) in July of

2008. The OPA was able to send four (4) of its auditors to the conference. In addition, the OPA also obtains CPE via the Pacific Association of Supreme Audit Institutions (PASAI) and other regional conferences sponsored by regional audit and accounting professional bodies.



Picture above is the Palau delegation to the 2008 APIPA Annual Conference in CNMI (OPA travel expenses were covered by Training Grant 2nd Cycle)



Investigators Training in Guam, sponsored by OIG; OPA & OSP staffs travel expenses were paid by OIG 3rd Cycle Training Grant

Audit Follow-Up System

In fiscal year 2007, the OPA implemented an audit follow up system. On a semi-annual basis (June 30 and December 31), calendar year basis, the OPA issues follow up letters to agencies with outstanding audit recommendations to determine the status of the recommendations. The agency's responses are evaluated and compiled into a report entitled "Report on Agencies' Implementation of Audit Recommendations" and transmitted to the President of the Republic, the Presiding Officers of the Olbiil Era Kelulau and IACAG members apprising them of agencies efforts to implement OPA's audit recommendations. However, due to continuing efforts to refine and implement the process, the OPA was unable to issue reports for the period ended December 31, 2007 and June 30, 2008. The OPA plans to issue a report for the period ended December 31, 2008.

Personnel

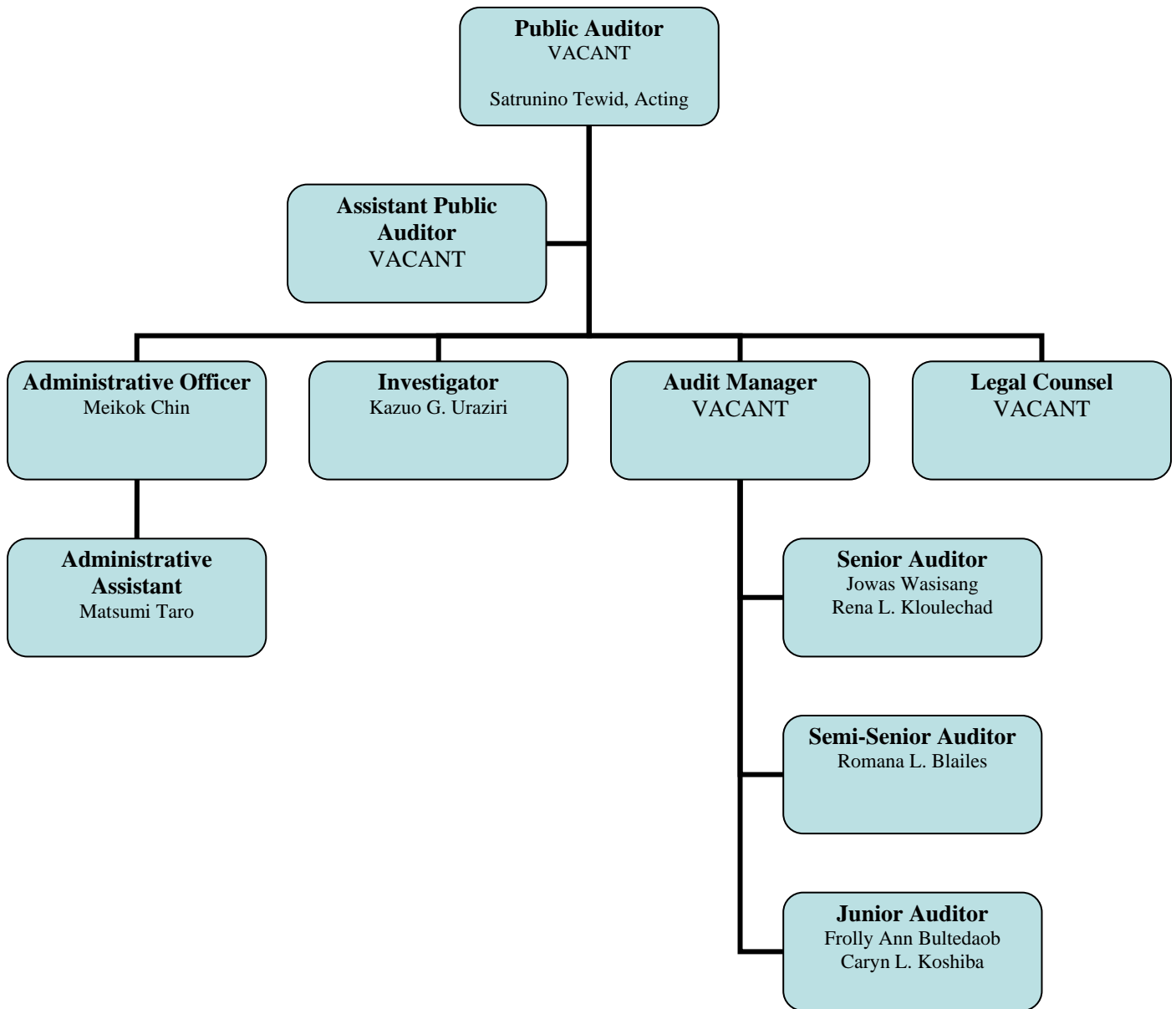
At present, the OPA's personnel is comprised of an Acting Public Auditor, 2 Senior Auditors, 1 Semi-Senior Auditor, 2 Junior Auditors, 1 Investigator, and 2 Administrative support staff. Since 1995, the OPA has experienced only four (4) turnovers of staff involving four auditors; one leaving to take a position as a Chief Financial Officer for a semi-autonomous government agency, another as Director of Finance for a State Government, and an Audit Manager who was terminated for insubordination and conduct contrary to Government Auditing Standards and her contract. The most recent departure involved a Senior- Auditor who resigned from his position to run for an elected office. In addition, due to funding constraints, the OPA has not hired additional auditors, which is essential in order to achieve its mandate, but hired two (2) Junior Auditors to replace the two who left. At present, the OPA is in desperate need to hire an Audit Manager whose responsibilities include reviewing the work of staff auditors, drafting audit reports, training, and other duties as assigned by the Public Auditor.



Acting Public Auditor and Staff

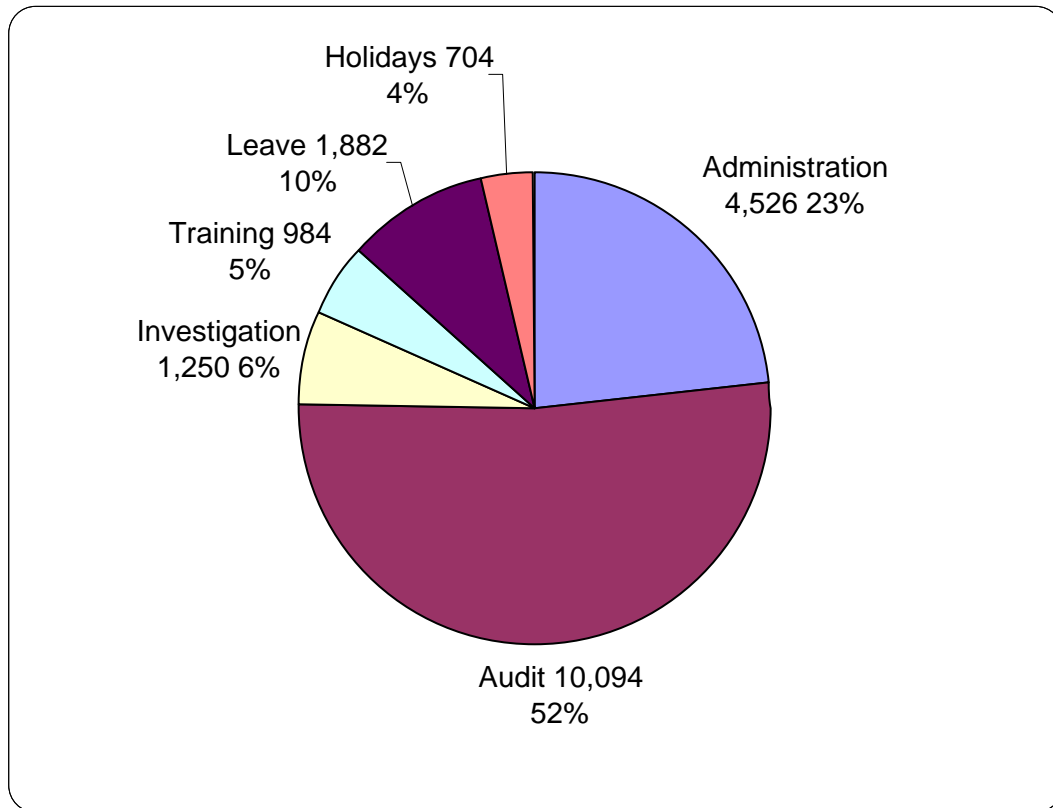
Employees	Title	Years of Service
Satrunino Tewid	Acting Public Auditor	23
Jowas Wasisang	Senior Auditor	21
Rena L. Kloulechad	Senior Auditor	16
Romana L. Blailles	Semi-Senior Auditor	11
Frolly Ann Bultedaob	Junior Auditor	2
Caryn L. Koshiba	Junior Auditor	2
Kazuo G. Uraziri	Investigator	11
Meikok Chin	Administrative Officer	18
Matsumi Taro	Administrative Assistant	13

ORGANIZATIONAL CHART



OPA Staff Hour Distribution

As previously mentioned, the OPA has a total of 9 staff, including the Acting Public Auditor, who account for a total of 19,440 hours in fiscal year 2008. Illustrated below is a chart showing the distribution of staff hours:





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>[Signature]</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.

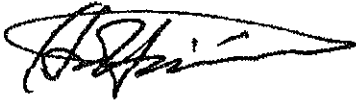
The internal quality control system of the audit organization was reviewed and tests were conducted in order to determine if the internal quality control system operated to provide reasonable assurance of compliance with *Government Auditing Standards* issued by the Comptroller General of the United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

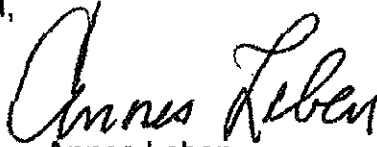
A separate letter to management has been prepared, which offers suggestions to further strengthen the internal quality control system of the organization. The management letter should be considered an integral part of this report.

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

Respectfully Submitted,



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



Annes Leben,
Pohnpei State Public Auditor
Pohnpei State, FSM
Team Member
APIPA Peer Review Team



Charles W. Hester,
Technical Consultant,
APIPA Peer Review Team



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

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.

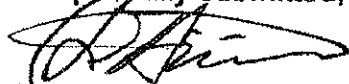
We suggest that the Public Auditor require that the PCIE's Uniform Guide for Initial Reviews of A-133 Audit Reports be used to desk review each Annual Financial Audit of the Republic of Palau's government activities (A-133 Single Audit). If there are questions as to whether the audit report meets required 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.

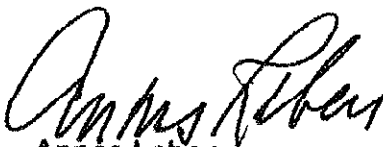
This letter should be made an integral part of the Opinion Report when it is submitted to the oversight body.

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

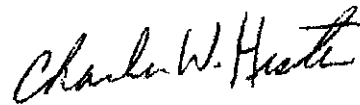
Respectfully submitted,



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**ILLEGAL OR WASTEFUL ACTIVITIES
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