



ASSOCIATION OF PACIFIC ISLANDS PUBLIC AUDITORS

November 18, 2011

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

Office of the Public Auditor Received	
Date	01-31-12
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Received By	<i>[Signature]</i>
No. OPA	12-027

Dear Mr. Tewid:

We have completed a peer review of the Office of the Public Auditor (OPA) for the period January 1, 2008 through December 31, 2010. In conducting our review, we followed the standards and guidelines contained in the *Peer Review Guide* approved by the Association of Pacific Islands Public Auditors (APIPA).

We reviewed the internal quality control system of your audit organization and conducted tests in order to determine if your 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 our review it is our opinion that, except for the deficiencies noted below, the OPA's quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for audits and attestation engagements during the period January 1, 2008 through December 31, 2010.

The following observations and recommendations are made to strengthen the OPA's quality control system to ensure compliance with *Government Auditing Standards*:

Independence. Government Auditing Standards (§3.02 through §3.39) require that audit organizations must be independent in fact and appearance from any impairment. To help accomplish this requirement the OPA's Policies and Procedures (P&P) Manual requires each auditor to prepare and submit a Project Statement of Independence (OPA Exhibit II-B) at the beginning of each assignment. Out of 6 working paper files review, we noted that all of the files did not include properly prepared Project Statements of Independence. The Statements were only prepared and signed by the auditor in charge and not by each of the staff participating in the assignment. The prior peer review of the OPA also disclosed that these Statements were not always properly prepared.

We recommend that the Public Auditor take steps to emphasize to the audit staff the need to be familiar with the P&P Manual of the OPA and ensure that Project Statements of Independence are properly prepared at the beginning of each assignment.

Quality Control and Assurance. Government Auditing Standards (§3.50 through §3.54) require all audit organizations that conduct audits and attestation engagements to have an appropriate internal quality control and assurance system in place. Out of the 6 working paper files reviewed we found inconsistencies in the implementation and documentation of the OPA's internal quality control and assurance system. Each of these concerns is discussed below:

Competence. Government Auditing Standards require that the staff assigned to conduct audit or attestation engagements must collectively possess the technical knowledge, skills, and experience necessary. Although the staff met the continuing professional education requirements contained in the Standards, staff did not consistently complete the Report of Completed Training (OPA Exhibit II-E) as required by the Audit Manual.

Planning. Government Auditing Standards require that auditors must adequately plan and document the planning of the work necessary to address the audit objectives. In one of the audits reviewed, there was no evidence of an audit plan and no evidence of any inquiry with management regarding prior audits, studies, etc. In two other audits, there was no evidence of internal control assessments in the working papers.

Appropriate Documentation. Government Auditing Standards require that each audit organization should prepare appropriate documentation for its system of quality control to demonstrate compliance with its policies and procedures. Out of the 6 working paper files reviewed, we found some common deficiencies. None of the files reviewed contained the Staff Qualifications Questionnaires (OPA Exhibit II-A) and the Project Control Checklists (OPA Exhibit IV-A) were missing from 3 sets of working papers. The prior peer review of the OPA also disclosed that documentation for the OPA's system of quality control was not always properly prepared.

Fraud, Waste and Abuse. Government Auditing Standards require that the work should be designed to provide reasonable assurance of detecting material misstatements, fraud, illegal acts, and violations that are significant to the audit objectives. The Standards also state that staff should be alert for indications of material abuse. The specific steps for detecting these types of events were not included in the Audit Programs for the working papers reviewed.

Evidence and Audit Documentation. Government Auditing Standards require that reports should present sufficient, appropriate evidence to support the finding and conclusions. The reports reviewed contained sufficient, appropriate evidence

in the working papers to support the findings. However, not all of the reports contained sufficient evidence in the working papers to support the introduction, background, and recommendations. In one audit reviewed, we also found that there were missing working papers that the senior auditor indicated were not done, but forgot to update the indexing to either remove them from the list or indicate they were not used. In another audit, the expenditure testing indicated there were potential findings, however, there was no documentation to state that further work or verification was done to justify their exclusion from the final report.

Reporting. When auditors comply with all applicable Government Auditing Standards, they should use the unmodified compliance statement in the report to indicate that they performed the audit in accordance with the Standards. In one audit reviewed, we found that the compliance statement was not present. However, confirmations with the Senior Auditor indicated that the performance audit was conducted in accordance with Government Auditing Standards, but the compliance statement was inadvertently omitted.


We recommend that the Public Auditor take steps to emphasize to the audit staff the need to be familiar with the requirements of the P&P Manual of the OPA are followed and ensure that all documentation for its system of internal quality control and assurance are followed.


The above observations and recommendations have been discussed with the Public Auditor and his staff during the exit conference conducted on November 4, 2011. The Public Auditor concurred with our observations, and has taken steps to implement our recommendations. In order to provide the reader with a fair and balanced discussion of the issues, the Public Auditor's comments are attached to this report and should be read in conjunction with our recommendations.

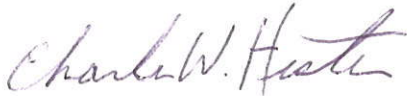
The report should be made available to the public.

We extend our thanks to you and your staff for the hospitality and cooperation extended to us during our review.

Respectfully submitted,


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Attachment