

ASSOCIATION OF PACIFIC ISLANDS PUBLIC AUDITORS

July 6, 2005

Ms. Gertrude Gootinan, Public Auditor
Office of the Yap State Public Auditor
Federated States of Micronesia
P. O. Box 927
Colonia, Yap FM 96943

Dear Ms. Gootinan:

We have completed an external quality control review of the Office of the Yap Stated Public Auditor, Federated States of Micronesia for audits issued during the period October 1, 2002 through May 31, 2005. In conducting our review, we followed the standards and guidelines contained in the *APIPA Quality Control Review Guide* published in September 1995 by the Association of Pacific Island Public Auditors (APIPA).

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 judgment, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

We have concluded from our review that your system of internal quality control was suitably designed and provided reasonable assurance that applicable government auditing standards were followed in your audit work. We have also concluded from the sample of audits tested that your quality controls were working effectively and that audits were conducted in conformance with applicable standards during the period under review.

In our opinion, the Office of the Yap State Public Auditor, Federated States of Micronesia was in compliance with government auditing standards during the period October 1, 2002 through May 31, 2005.

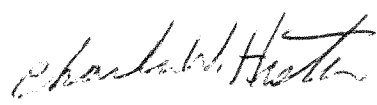
We have also prepared a separate letter to management, which offers suggestions for further strengthening your internal quality control system. The management letter should be considered an integral part of this report.

Members
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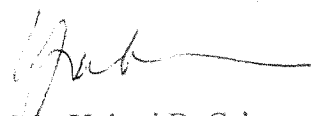
Territory of American Samoa, Commonwealth of the Northern Marianas Islands,
Republic of the Marshall Islands, Federated States of Micronesia, Republic of Palau,
Phonpei State, Yap State, Territory of Guam, Chuuk State, Kosrae State,
Samoa, Virgin Islands

It is recommended that this report, and the accompanying management letter, should be made available to the public.

Respectfully Submitted,



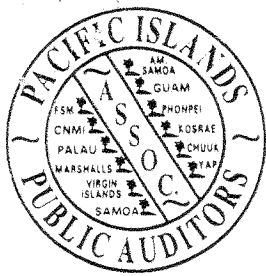
Mr. Charles W. Hester,
APIPA Peer Review Technical
Consultant
Team Leader



Ms. Yukari B. Cabrera, Auditor
Office of the Public Auditor,
Government of Guam
Team Member



Mr. Adair Sumang, Senior
Auditor, Office of the Public
Auditor, Republic of Palau
Team Member



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Colonia, Yap FM 96943

Dear Ms. Gootinan:

We have completed an external quality control review of the Office of the Yap State Public Auditor (OPA), Federated States of Micronesia for audits issued during the period October 1, 2002 through May 31, 2005. 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 offer suggestions for improvement. This letter should be read in conjunction with our opinion report.

The following suggestions are made for the purpose of strengthening your internal quality control systems:

Prior OCR Suggestion. It was noted in the management letter for the prior QCR that several of the files did not include the complete referencing of the draft report to the working papers. The management letter suggested that the Public Auditor emphasize to the audit staff the need for detailed referencing of audit reports to supporting working papers. The OPA agreed with the suggestion and stated that they would incorporate steps into their Final Audit Supervision and Review Questionnaire to make sure that future draft audit reports were referenced to the working papers. According to the Public Auditor the OPA now has a Final Audit Supervision and Review Questionnaire that is part of a software program for conducting audits in accordance with generally accepted auditing standards. However, the agreed to steps have not been incorporated into this Questionnaire. As a result, detailed referencing of audit report to supporting working papers is still not being done.

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Samoa, Virgin Islands

Our current QCR disclosed that of the 5 working paper files reviewed, it was noted that one file did not contain a completed Final Audit Supervision and Review Questionnaire. The other 4 files contained the Questionnaire, but the Questionnaire did not incorporate steps requiring detailed referencing of the audit reports to supporting working papers.

While it appears there has been improvement in this area since the prior external quality control review, we believe that this situation occurred because of the lack of a comprehensive Policies and Procedures Manual to guide the staff. The OPA is in the process of establishing its Policies and Procedures Manual; however we suggest completing of this Manual be given top priority. We also suggest that until the Manual is adopted, the Public Auditor ensure that steps requiring the proper referencing of audit reports to supporting working papers be incorporated into the Final Audit Supervision and Review Questionnaire.

Agreed-Upon Procedures. During the period of our review the OPA completed and issued one Agreed-Upon Procedures Report. This agreed-upon procedures audit was initiated prior to the effective date of the 2003 revision to government auditing standards. However, the audit would not fully comply with the requirements contained in Chapter 6 of the 2003 revisions to the government auditing standards were it initiated today. The working papers for the audit did not contain sufficient evidence to demonstrate that the auditors had asked audit entity officials to identify previous financial audits, attestation engagements, performance audits or other studies in order to follow up on significant findings and recommendations that directly relate to the subject matter of the engagements undertaken. In addition, the audit report did not contain a statement limiting its use to the parties who requested the engagements.

We believe that the potential for this situation to occur is because of the lack of a comprehensive Policies and Procedures Manual to guide the staff. The OPA is in the process of establishing its Policies and Procedures Manual; however we suggest that until the Manual is adopted, the Public Auditor continue to emphasize to the audit staff the need to ensure that current Agreed-Upon Procedure engagements fully comply with all of the requirements contained in Chapter 6 of the 2003 revisions to the government auditing standards.

Financial Audit Working Papers. Although government auditing standards do not specifically require referencing of working papers, many audit organizations have adopted standard policies and procedures to require that the Auditor-In-Charge for each audit assignment be responsible for ensuring that the draft report is referenced to the working papers supporting significant conclusions and judgments. Another standard policies and procedure adopted by many audit organizations is to require that the referenced draft report be independently referenced by an individual not associated with conducting the audit. These requirements are also standard practices for auditors to enhance the ability for

other auditors, during supervisory review or quality control review, to follow the evidential material contained in the files.

During our review the OPA completed and issued 7 Financial Statement Audit Reports performed under government auditing standards. Our review of the working papers for 4 of these files disclosed that in all 4 either the draft reports were not completely referenced to supporting documentation, supporting documentation was not cross-referenced back to the report or some of the references to Notes in the Financial Statements were incorrectly numbered. None of the 4 files indicated that the draft report had been independently referenced by an individual not associated with conducting the audit.

We believe that this situation occurred because of the lack of a comprehensive Policies and Procedures Manual to guide the staff. The OPA is in the process of establishing its Policies and Procedures Manual; however we suggest that until the Manual is adopted, the Public Auditor continue to emphasize to the audit staff the need to completely reference draft reports to supporting documentation, cross-reference supporting documentation back to the draft report and the draft report be independently referenced by an individual not associated with conducting the audit.

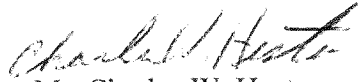
Personal Impairment Statements. Although government auditing standards do not specifically require them, many audit organizations have adopted standard policies and procedures to require each auditor assigned to the engagement to sign a certification of independence. The OPA's informal policy calls these certifications Personal Impairment Statements. Out of the 5 working paper files reviewed, we noted that 3 of the files did not include properly prepared Personal Impairment Statements. The Statements were not completed until the end of the audit and in one case after the final report was issued.

We believe that this situation occurred because of the lack of a comprehensive Policies and Procedures Manual to guide the staff. The OPA is in the process of establishing its Policies and Procedures Manual; however we suggest that until the Manual is adopted, the Public Auditor continue to emphasize to the audit staff the need to properly prepare Personal Impairment Statements at the beginning of each engagement.

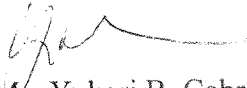
The above suggestions were discussed with the Public Auditor during the exit conference conducted on June 23, 2005. The Public Auditor concurred with our suggestions and has taken steps to effectively address all of the issues.

In closing we would like to thank your Office for the warm reception and cooperation extended to us by all of your staff during our review.

Respectfully Submitted,



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



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Government of Guam
Team Member



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