



March 17, 2023

Mr. Ihlen K. Joseph
Public Auditor
Office of the Public Auditor, Pohnpei State Government
P.O. Box 370
Kolonia, Pohnpei FM 96941

Dear Public Auditor Joseph,

We have completed a peer review of the Office of the Public Auditor, Pohnpei State Government (POPA), for the period October 1, 2017 through September 30, 2020. In accordance with generally accepted government auditing standards peer review requirements, we followed the standards and guidelines contained in the *Peer Review Guide* by the Association of Pacific Island Public Auditors (APIPA). Organizations can receive a rating of pass, pass with deficiency, or fail. POPA has received a rating of pass with deficiencies.

We reviewed the internal quality control system of your audit office. We conducted tests in order to determine whether your internal quality control system was adequately designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards (2011 Revision)* issued by the Comptroller General of the United States and applicable legal and regulatory requirements.

Our procedures included:

- Reviewing the audit organization's written policies and procedures.
- Reviewing internal monitoring procedures.
- Reviewing a sample of compliance, financial, and performance audit engagements and working papers.
- Reviewing documents related to independence, training, and development of auditing staff.
- Interviewing auditing staff and management to assess their understanding of and compliance with relevant quality control policies and procedures.

ASSOCIATION OF PACIFIC ISLANDS PUBLIC AUDITORS



Phone

+1.808.523.1650



Email

info@apipa2020.org



Address

900 Fort Street Mall, Suite 1540
Honolulu, HI 96813

APIPA

Based on the results of our review, it is our opinion that, except for the deficiencies noted below, the POPA's internal quality control system is adequately designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* and applicable legal and regulatory requirements for financial and performance audits during the period of October 1, 2017 through September 30, 2020. 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.

Deficiencies found in your internal control quality control system included inconsistency in the use of the independence statements, insufficient documentation on planning, inadequate documentation on supervisory review, insufficient documentation to support the findings and conclusions, and omission of the standard language for financial audit reports. These control deficiencies resulted in recurring nonconformance with *Government Auditing Standards* (GAS) on independence, competence, quality control and assurance, planning, supervision, evidence, conducting the engagement, documentation, and reporting.

We offer the following observations and suggestions to help your organization achieve full compliance with *Government Auditing Standards*:

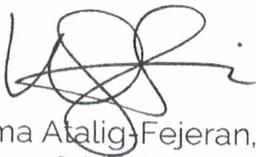
- GAS 3.02 on independence state that the audit organization and the individual auditor, whether government or public, must be independent in matters relating to the audit work. During our review of POPA's work papers for one performance audit, one financial audit, and one compliance audit, we observed that the statement of independence was not consistently used.
- GAS 3.72 requires that the audit staff assigned to conduct an audit in accordance with GAS should collectively possess the technical knowledge, skills, and experience necessary to be competent for the type of work being performed before beginning the audit. In reviewing POPA's work papers, we observed one performance audit wherein the *Statement of Professional Qualification* form was neither properly completed nor reviewed and approved by management.
- GAS 3.83 requires that an audit organization establish a system of quality control that includes the organization's policies and procedures designed to provide reasonable assurance of complying with GAS. In reviewing POPA's 2005 Audit Policies and Procedures Manual (Audit Manual), we observed that the Audit Manual covering the review period did not reflect the 2011 GAS revisions. However, we noted that POPA had updated its Audit Manual on October 2021 to reflect the current GAS.
- GAS 4.02 for financial audits requires that auditors performing financial audits in accordance with GAS should comply with the incorporated AICPA

Statements on Auditing Standards (SAS). During our review of two financial audits, we observed that POPA did not consistently apply the following AICPA SAS requirements related to audit documentation.

- GAS 4.01 and 6.06 require that auditors adequately plan and document the work necessary to address the audit objectives. In reviewing the POPA's work papers for two performance audits, we observed that planning and risk assessment were not adequately documented.
- GAS 4.10 and 6.56 requires that auditors obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions. In reviewing the work papers for two performance audits and two financial audits, we observed that documentation was insufficient to support the findings and conclusions.
- GAS 4.15, 6.53, and 6.54 require staff assigned to an audit to be properly supervised. In reviewing the POPA's work papers for two performance audits and one financial audit, we observed that documentation was insufficient to evidence proper supervision of audit staff.
- GAS 4.17, 5.56, and 5.57 requires auditors to adhere to AICPA and GAS reporting requirements. In the review of the work papers for two financial audits, we observed that the language used in the reports did not conform to the standards required by AICPA and GAS, respectively.

We commend POPA for adopting and implementing its revised Audit Manual. Hence, we recommend that POPA periodically meet with its staff to ensure they are familiar with the revised Audit Manual to support and strengthen its internal controls over performance and financial audits. In addition, we recommend that the auditor-in-charge and audit supervisors be more diligent in reviewing work papers to ensure that proper planning, supervision, and audit findings and conclusions are adequately documented and cross-referenced.

Sincerely,



Wilma Atalig-Fejeran, MPA, CFE
Office of the Public Auditor, CNMI
Peer Review Team Lead



Maludrik Maludrik
Office of the Auditor-General, RMI
Peer Review Team Member