



ASSOCIATION OF PACIFIC ISLANDS PUBLIC AUDITORS

October 31, 2005



Mr. Haser H. Hainrick, National Auditor
Office of the National Public Auditor
Federated States of Micronesia
P. O. Box PS-05
Pohnpei, FM 96941

Dear Mr. Hainrick:

We have completed an external quality control review of the Office of the National Public Auditor (ONPA), Federated States of Micronesia for audits issued during the period October 1, 2002 through August 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 Islands 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 National Public Auditor, Federated States of Micronesia was in compliance with government auditing standards during the period October 1, 2002 through August 31, 2005. However, there is one area where we believe the National Auditor should take action and that concerns the types of audits conducted and the auditing standards used.

The National Public Auditor Act (Title 55 FSM Code Chapter 5) states that the ONPA shall perform audits in conformity with generally accepted auditing standards as established by the American Institute of Certified Public Accountants (AICPA).

Members
Office of the Public Auditor
of

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.

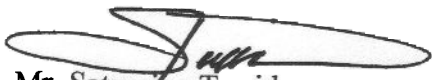
However the FSM Code (Section 507) lists three (3) types of audits to be performed: Financial & Compliance, Economy & Efficiency and Program Results. For governmental organizations, these 3 types of audits are normally performed in conformity with generally accepted government auditing standards established by the Comptroller General of the United States (GAO). Government auditing standards prescribes additional field work and reporting standards that go beyond the requirements contained in the AICPA's Standards. In fact, the ONPA's Audit Manual refers numerous times to government auditing standards in the sections on performing and reporting on all 3 types of audits.


We suggest that the National Public Auditor work with the Office of the President and Speaker of the National Congress to attempt to amend the National Public Auditor Act to require all audits be performed in conformity with generally accepted government auditing standards. In the interim, we suggest that the National Public Auditor refer to both of the auditing standards (AICPA and GAO) in all future audit reports. The National Public Auditor concurred with our suggestion, with some reservations. In order to provide the reader with a fair and balanced discussion of the issue, the National Public Auditor's comments are attached to this report and should be read in conjunction with our suggestion.


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.

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

Respectfully Submitted,


Mr. Saturnino Tewid
Public Auditor, Republic of Palau
Team Leader


Mr. Faumuina Francis Sefo
Acting Territorial Auditor,
American Samoa Government
Team Member


Mr. Charles W. Hester
APIPA Peer Review
Technical Consultant
Team Member

Attachment