



FEDERATED STATES OF MICRONESIA

Office of The National Public Auditor

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July 4, 2022

His Excellency President David W. Panuelo
Honorable Members of the 22nd Congress
Federated States of Micronesia

Dear Mr. President and members of Congress:

We have performed an audit of the financial statements of the Renewable Energy Development Project (the "Project"), a Project funded by the Asian Development Bank and administered by the Department of Finance & Administration and implemented by the Department of Resources and Development of the FSM National Government, for the period December 03, 2019 to September 30, 2021, (the "financial statements"), in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards") and have issued our report thereon dated July 4, 2022.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which management of the Project is responsible.

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS, GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS AND THE GRANT AGREEMENT

Our responsibility under (1) generally accepted auditing standards, (2) the standards applicable to financial audits, contained in *Government Auditing Standards*, issued by the Comptroller General of the United States ("generally accepted government auditing standards") (generally accepted auditing standards and generally accepted government auditing standards are collectively referred to herein as the "Auditing Standards) and (3) the financial covenants and other requirements of the grant agreement (the Grant Agreement) has been described in our engagement letter dated April 20, 2022. As described in that letter, the objectives of an audit conducted in accordance with the Auditing Standards and the Grant Agreement are:

- To express an opinion on the fairness of the Project's financial statements for the period December 03, 2019 to September 30, 2021 (the "financial statements"), in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects;
- To report on the Project's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreement and other matters for the period December 03, 2019 to September 30, 2020, based on an audit of financial

statements performed in accordance with generally accepted government auditing standards; and

- To express an opinion on the Project's compliance with the financial covenants and other requirements of the Grant Agreement.

Our responsibilities under the Auditing Standards and the Grant Agreement include forming and expressing an opinion about whether the financial statements that have been prepared with the oversight of management and the Office of the President are presented fairly, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve management of the Office of the President of their responsibilities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to the Project's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Project's internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

We also considered the Project's internal control over compliance with requirements that could have a direct and material effect on the Project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Grant Agreement. Our report does not, however, provide a legal determination of the Project's compliance with those requirements.

SIGNIFICANT ACCOUNTING POLICIES

The Project's significant accounting policies are set forth in Note 2 to the Project's financial statements for the period December 03, 2019 to September 30, 2021.

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience about past and current events and on assumptions about future events. During the period December 03, 2019 to September 30, 2021, we are not aware of any significant changes in accounting estimates or in management's judgments relating to such estimates.

AUDIT ADJUSTMENTS AND UNCORRECTED MISSTATEMENTS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatements, whether caused by error or fraud. As the result of our audit work, we identified no matters that resulted in audit adjustments that we believe either individually or in the aggregate with others have had a significant effect on the Project's financial reporting process.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management related to matters that are material to the Project's financial statements for the period December 03, 2019 to September 30, 2021.

OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE THE SUBJECT OF CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations that management may have had with other accountants about auditing and accounting matters during the period December 03, 2019 to September 30, 2021.

SIGNIFICANT FINDINGS OR ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR RETENTION

Throughout the year, routine discussions regarding the application of accounting principles or auditing standards were held with management in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions were not held in connection with our retention as auditors.

OTHER SIGNIFICANT FINDINGS OR ISSUES ARISING FROM THE AUDIT DISCUSSED OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT

Throughout the year, routine discussions were held, or were subject of correspondence, with management. In our judgment, such discussions or correspondence did not involve significant findings or issued requiring communication to the Office of the President.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

In our judgment, we received the full cooperation of the Project's management and staff and had unrestricted access to the Project's senior management in the performance of our audit.

MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of the Project's management about the representations embodied in the financial statements. In addition, we have requested that management provide to us the written representations the Project is required to provide to its independent auditors under generally accepted auditing standards. We have attached to this letter, as Attachment I, a copy of the representation letter we obtained from management.

CONTROL-RELATED MATTERS

We have issued a separate report to you, dated July 4, 2022, on the Project's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, which was based on the audit performed in accordance with *Government Auditing Standards*. We have also issued a separate report to you, also dated July 4, 2022, involving the Project's compliance with requirements applicable to the Project and on internal control over compliance in accordance with the Grant Agreement. Within those reports, we noted certain matters that were considered to be a significant deficiency under standards established by the American Institute of Certified Public Accountants.

We have communicated to management in a separate letter dated July 4, 2022, other matters related to the Project's internal control over financial reporting that we identified during our audit.

Although we have included management's written responses to our comments, such responses have not been subjected to the auditing procedures applied in our audit of the financial statement and accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

This report is intended solely for the information and use of the Project management, the Office of the President, the Asian Development Bank and others within the organization and is not intended to be and should not be used by anyone other than these specified parties. However, this report is also a matter of public record.

Sincerely,



Haser H Hainrick
National Public Auditor

cc: Secretary, Department of Finance & Administration
Secretary, Department of Resources & Development



Secretary of Finance
&
Administration

**GOVERNMENT OF THE
FEDERATED STATES OF MICRONESIA**
Department of Finance and Administration

P.O. Box PS 158
Palikir, Pohnpei FM 96941
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E-mail: fsmsofa@mail.fm

Date: **June 3, 2022**

Mr. Haser Hainrick
Office of the National Public Auditor
Palikir
Pohnpei FSM 96941

Dear National Public Auditor

This representation letter is provided in connection with your audit of the financial statements of the Renewable Energy Development Project funded by the Asian Development Bank, which comprise the statement of financial performance for the period ended September 30, 2021, statement of financial position and the related notes to the financial statements, for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Certain representations in this letter are described as being limited to misstatements that are material. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

Except where otherwise stated below, immaterial matters less than \$48.17 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

We confirm that to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves the following representations:


Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of audit engagement dated April 20, 2022 for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.
2. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the presentation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. There have been no significant assumptions used by us in making accounting estimates, including those measured at fair value.
5. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

Information Provided

8. We have provided you with:
 - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
9. We have recorded all transactions in the accounting records and are reflected in the financial statements.
10. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
11. We have no knowledge or any fraud or suspected fraud that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others when the fraud could have a material effect on the financial statements.
12. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
13. We are not aware of any pending or threatened litigation, claims, and assessments whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation, claims, or assessments.
14. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.



Eugene Amor
Secretary - Department of Finance & Administration

Date: 10/06/14



DEPARTMENT OF RESOURCES & DEVELOPMENT
Federated States of Micronesia
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WRITTEN REPRESENTATIONS



3 June 2022

Mr. Haser Hainrick
Office of the National Public Auditor
Palikir
Pohnpei FSM 96941

Dear National Public Auditor,

This representation letter is provided in connection with your audit of the financial statements of the Renewable Energy Development Project funded by the Asian Development Bank, which comprise the statement of financial performance for the period ended September 30, 2021, statement of financial position and the related notes to the financial statements, for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the Unites States (U.S. GAAP).

Certain representations in this letter are described as being limited to misstatements that are material. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

Except where otherwise stated below, immaterial matters less than \$48.17 collectively are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial statements.

We confirm that to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves the following representations:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of audit engagement dated April 20, 2022 for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.
2. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the presentation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. There have been no significant assumptions used by us in making accounting estimates, including those measured at fair value.
5. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

Information Provided

8. We have provided you with:
 - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
9. We have recorded all transactions in the accounting records and are reflected in the financial statements.
10. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
11. We have no knowledge or any fraud or suspected fraud that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others when the fraud could have a material effect on the financial statements.
12. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
13. We are not aware of any pending or threatened litigation, claims, and assessments whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation, claims, or assessments.
14. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

Sincerely,


Elinor Akinaga
Secretary

Date: 6/4/22