

**FSM DEPARTMENT OF ENVIRONMENT, CLIMATE CHANGE, AND EMERGENCY MANAGEMENT
ADAPTATION FUND (AF) ENHANCING THE CLIMATE CHANGE RESILIENCE OF VULNERABLE
ISLAND COMMUNITIES IN FEDERATED STATES OF MICRONESIA**

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED DECEMBER 31, 2022

**FSM DEPARTMENT OF ENVIRONMENT, CLIMATE CHANGE, AND EMERGENCY MANAGEMENT
ADAPTATION FUND (AF) ENHANCING THE CLIMATE CHANGE RESILIENCE OF VULNERABLE
ISLAND COMMUNITIES IN FEDERATED STATES OF MICRONESIA**

FOR THE YEAR ENDED SEPTMBER 30, 2022

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FEDERATED STATES OF MICRONESIA

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INDEPENDENT AUDITORS' REPORT

Hon. Andrew R. Yatilman

Secretary

Department of Environment, Climate Change and Emergency Management

FSM National Government:

Report on the Financial Statements

We have audited the accompanying financial statements of the FSM Department of Environment, Climate Change and Emergency Management (FSMDECEM) for the Adaptation Fund (AF) Enhancing the Climate Change Resilience of Vulnerable Island Communities in Federated States of Micronesia (the Project), which comprise the schedules of receipts and disbursements for the year ended December 31, 2022, and 2021, and the related notes to the financial statements.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the

reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the receipts and disbursements of the Adaptation Fund agreement for the years ended December 31, 2022, and 2021 in accordance with the cash basis of accounting.

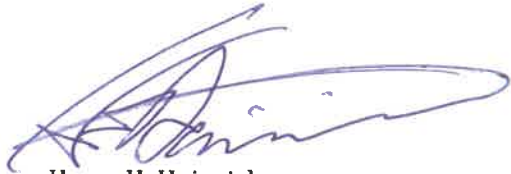
Basis for Opinion

We draw attention to Note 2 of the financial statement, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the receipts and disbursements of the Project and are not intended to present fairly the financial position and results of operations of the FSMDECEM in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 05, 2023 on our consideration of the Project's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and the grant agreement. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Project's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Project's internal control over financial reporting and compliance.



Haser H. Hainrick
National Public Auditor

Palikir, Pohnpei
October 05, 2023

**FSM DEPARTMENT OF ENVIRONMENT, CLIMATE CHANGE
AND EMERGENCY ADAPTATION FUND**
Enhancing the Climate Change Resilience of Vulnerable Island
Communities in the Federated States of Micronesia

Schedules of Receipts and Disbursements
For the Years Ended December 31, 2022 and 2021

	2022 (\$)	2021 (\$)
Cash on hand/fund balance, beginning of year	1,039,926	884,639
Receipts		
Adaptation Fund Grant	398,092	749,214
Total Receipts	<u>398,092</u>	<u>749,214</u>
Disbursements		
Contractual services	258,416	18,319
Office supplies and materials	226,769	56,302
Salaries and benefits	165,643	166,300
Travel and transportation	14,445	11,114
Expendable equipment and furniture	11,242	50,932
Freight	9,004	1,808
Equipment	6,590	-
Catering	6,268	5,762
Storage	6,000	6,000
Rental Services	2,806	4,440
Miscellaneous goods/services	2,112	-
POL	1,399	1,563
Advertising	463	1,010
Bank fees	450	-
Repair and maintenance	-	377
Total Disbursements	<u>711,607</u>	<u>323,927</u>
Excess of revenues over expenditures	<u>996,411</u>	<u>1,309,926</u>

See accompanying notes to schedule of receipts and disbursements

**FSM DEPARTMENT OF ENVIRONMENT, CLIMATE CHANGE
AND EMERGENCY ADAPTATION FUND**
**Enhancing the Climate Change Resilience of Vulnerable Island
Communities in the Federated States of Micronesia**

**Notes to Schedules of Receipts and Disbursements
For the Years Ended December 31, 2022 and 2021**

(1) Organization

The Project is funded by Adaptation Fund Board through the Secretariat of the Pacific Regional Environment Program (SPREP) which established an Agreement in the Federated States of Micronesia (FSM) pursuant to an Agreement between the Government of the FSM, Department of Environment, Climate Change and Emergency Management (FSMDECEM) in December 2017.

The Project was provided under a grant contract agreement with the Adaptation Fund Board, dated June 22, 2017. The implementing entity, SPREP, has designated the executing agency as the FSMDECEM for Enhancing the Climate Change Resilience of Vulnerable Island Communities in Federated States of Micronesia (the Project).

The overall goal of the Project is to build social, ecological, and economic resilience of target island communities of FSM and to reduce their vulnerabilities to extreme drought, sea level rise and other climate risks through water resource management, coastal resource, and development planning, and by promoting gender perspectives and ecologically sound climate resilient livelihoods.

The accompanying financial statements relate solely to those accounting records maintained by the FSM National Government (FSMNG), Department of Finance & Administration and FSMDECEM for the Project.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The Project uses the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The cash basis differs from accounting principles generally accepted in the United States of America primarily because receipts (revenues) are recognized when received rather than when earned and disbursements (expenses) are recognized when paid rather than when the obligation is incurred.

Reporting Period

The Project's financial statements cover the calendar year from January to December.

For financial reporting purposes, the Project was executed by the FSMDECEM, and it is a standalone and a separate donor-funded project from the FSMDECEM funds and activities. The funds and activities of the FSMDECEM are reported under the FSMNG accounts. The FSMNG funds are separately audited and issue their own financial statements.

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**Notes to Schedules of Receipts and Disbursements
For the Years Ended December 31, 2022 and 2021**

Reporting Period (cont'd)

These statements may be obtained by directly contacting the FSMNG or obtaining them directly from the Office of the National Public Auditor:

P.O. Box PS05
Palikir, Pohnpei State, FM 96941

Presentation of currency

The FSM currency is the US Dollar. In the presentation of the financial statements, the Project uses the US Dollar.

(3) Subsequent Events

The Project's executing agency, FSMDECCEM, has identified October 05, 2023, as the date the financial statements were available to be issued and the date through which subsequent events have been evaluated. The Project's executing agency, FSMDECCEM, has not identified any subsequent events that require adjustment to or disclosure in the financial statements as of October 05, 2023.



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Hon. Andrew R. Yatilman
Secretary
Department of Environment, Climate Change and Emergency Management
FSM National Government:

Report on the Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the FSM Department of Environment, Climate Change and Emergency Management (FSMDECEM) for the Adaptation Fund (AF) Enhancing the Climate Change Resilience of Vulnerable Island Communities in Federated States of Micronesia (the Project), which comprise the schedule of receipts and disbursements for the year ended December 31, 2022, and the related notes to the financial statements, and have issued our report thereon dated October 05, 2023.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Project's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control. Accordingly, we do not express an opinion on the effectiveness of the Project's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Project's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Project's Response to Findings

The Project's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The Project's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Project's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Project's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.



Haser Hainrick
National Public Auditor

Palikir, Pohnpei
October 05, 2023