

OFFICE OF THE NATIONAL PUBLIC AUDITOR
FEDERATED STATES OF MICRONESIA

**ASIAN DEVELOPMENT BANK – PRIVATE SECTOR
DEVELOPMENT PROJECT AUDIT
FISCAL YEAR 2005**

AUDIT NO. 2005-07



Haser H. Hainrick
National Public Auditor



FEDERATED STATES OF MICRONESIA

Office of The National Public Auditor

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December 2, 2005

Mr. Akillino H. Susaia
Secretary
FSM Department of Economic Affairs
FSM National Government
Palikir, Pohnpei, FM, 96941

RE: Audit of Private Sector Development Project – ADB Loan 1874-FSM

We have audited the accompanying statement of project account of the Federated States of Micronesia Asian Development Bank Loan 1874-FSM (SF) (the Project) as of and for the year ended September 30, 2005. This financial statement is the responsibility of the Project's management. Our responsibility is to express an opinion on this financial statement based on our audit.

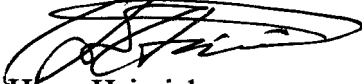
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are 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 express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 2, this financial statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement presents fairly, in all material respects, the cash receipts and disbursements of the Project for the year ended September 30, 2005, on the basis of accounting described in note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2005, on our consideration of the Project's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink, appearing to read 'H. Hainrick', written over a horizontal line.

Håser Hainrick
National Public Auditor

Cc: Mr. Matthew Abel, Project Manager

**FEDERATED STATES OF MICRONESIA
ASIAN DEVELOPMENT BANK LOAN 1874 FSM (SF)**

**Statement of Project Account
Year Ended September 30, 2005 and Cumulative**

	Fiscal Year 2005			Cumulative (Unaudited - note 6)		
	ADB Share	FSM Share	Total	ADB Share	FSM Share	Total
Cash receipts:						
Loan proceeds – Direct	\$ 826,070	\$ -	\$ 826,070	\$ 1,148,896	\$ -	\$ 1,148,896
Loan proceeds - Imprest Account	177,374	-	177,374	325,814	-	325,814
Contributions from FSM	-	23,574	23,574	-	56,959	56,959
Total cash receipts	\$ 1,003,444	\$ 23,574	\$ 1,027,018	\$ 1,474,710	\$ 56,959	\$ 1,531,669
Cash disbursements:						
Civil Works						
Land Administration	\$ 188,729	\$ -	\$ 188,729	\$ 191,283	\$ -	\$ 191,283
Equipment and Materials						
Land Administration & Management	4,795	-	4,795	6,990	302	7,292
Project Implementation Unit	8,140	-	8,140	8,140	-	8,140
Consulting Services						
Secured Transactions	136,401		136,401	136,401		136,401
Land Administration & Management	403,315		403,315	403,315		403,315
FSMDB Strengthening	138,732		138,732	273,318		273,318
Project Implementation Unit	159,227		159,227	401,217		401,217
Audit	7,000		7,000	7,000		7,000
Operating Costs	36	23,574	23,610	262	56,657	56,919
Total cash disbursements	\$ 1,046,375	\$ 23,574	\$ 1,069,949	\$ 1,427,926	\$ 56,959	\$ 1,484,885
Net change in cash	\$ -42,931	-	\$ -42,931			
Cash at beginning of year	89,715	-	89,715			
Cash at end of year	\$ 46,784	-	\$ 46,784			

**FEDERATED STATES OF MICRONESIA
ASIAN DEVELOPMENT BANK LOAN 1874 FSM (SF)**

Notes to Statement of Project Account
September 30, 2005

(1) Organization

On January 24, 2002, the Federated States of Micronesia (FSM) National Government entered into a loan agreement (Loan Number 1874 FSM (SF) (the Project)) with the Asian Development Bank (ADB) in the amount equivalent to Special Drawing Rights (SDR) 3,912,000 for the purpose of developing the private sector for the Federated States of Micronesia. The FSM National Government Department of Finance and Administration is the Executing Agency and established the ADB Imprest Account to facilitate the implementation of the Project through timely release of funds. The FSM National Government Department of Economic Affairs is the Implementing Agency and is responsible for the carrying out of the Project, including authorization of payments to be made from the Imprest Account. The Imprest account is required to be operated and liquidated in accordance with ADB regulations. The accompanying statement of project account is prepared for the year ended September 30, 2005, and solely incorporates the activities of the Project.

(2) Summary of Significant Accounting Principles

Basis of Accounting

The Project's policy is to maintain its accounts and prepare its financial statement on the cash receipts and disbursements basis of accounting. All transactions are recognized as receipts or disbursements. Noncash transactions are not recognized. 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.

Cash

For the purpose of the statement of project account, the Project considers cash to be cash in deposit accounts. As of September 30, 2005, the carrying amount of the Project's total cash was \$46,784, which is maintained in a financial institution subject to Federal Deposit Insurance Corporation (FDIC) insurance. As of September 30, 2005, the Project's deposits were fully FDIC insured.

(3) ADB Imprest Fund Account

A reconciliation of the ADB Imprest Account to cash as of September 30, 2005, is as follows:

ADB Imprest Account Bank Balance as of September 30, 2005	\$ 46,784
Outstanding checks	0
	<hr style="width: 100%; border: none; border-top: 1px solid black; margin-bottom: 2px;"/> 46,784

**FEDERATED STATES OF MICRONESIA
ASIAN DEVELOPMENT BANK LOAN 1874 FSM (SF)**

**Notes to Statement of Project Account
September 30, 2005**

(4) FSM Contributions

Under the provisions of the loan agreement, FSM is required to provide counterpart funding for expenditures incurred under certain categories of the Project. During the year ended September 30, 2005, FSM made available \$23,574 in counterpart funding.

Additional in-kind assistance was provided in terms of an office for the Project Implementation Unit, staff assistance in both the National and State governments. A numerical value for this assistance has not been computed and is therefore not included in the accompanying statement of project account.

(5) Compliance with the Debt Covenants

Management is of the opinion that compliance with applicable debt covenants has occurred.

(6) Cumulative Amounts

The amounts in the cumulative cash receipts columns were calculated using the predecessor auditor's audited Financial Statements for Fiscal Year 2003 and 2004, and this report for 2005. The amounts in the cumulative cash disbursement subcategories were calculated using unaudited reports from the loan project manager for 2003 and 2004, and this report for 2005. The total cash disbursements in the cumulative columns agree with the calculation of total cash disbursements using the predecessor auditor's audited Financial Statements for Fiscal Year 2003 and 2004, and this report for 2005.



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Mr. Akillino H. Susaia
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RE: Audit of Private Sector Development Project – ADB Loan 1874-FSM

**AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statement of project account of Federated States of Micronesia Asian Development Bank Loan 1874-FSM (SF) as of and for the year ended September 30, 2005, and have issued our report thereon dated December 2, 2005. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered project account of Federated States of Micronesia Asian Development Bank Loan 1874-FSM(SF)'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weakness.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatement in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and, accordingly, would not necessarily disclose all reportable conditions that are also considered to

be material weaknesses. We noted no matters involving internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the project account of Federated States of Micronesia Asian Development Bank Loan 1874-FSM (SF)'s financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the management of project account of Federated States of Micronesia Asian Development Bank Loan 1874- FSM (SF).

Sincerely,



Haser Hainrick
National Public Auditor

Cc: Mr. Matthew Abel, Project Manager