FEDERATED STATES OF MICRONESIA
Office of The National Public Auditor
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September 10, 2024

His Excellency President Wesley W. Simina
Honorable Members of the 23rd Congress
Federated States of Micronesia

Dear Mr. President and Members of Congress:

We have performed an audit of 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), a Project funded by the Adaptation Fund Board and executed by the Department of Environment, Climate Change and Emergency Management (DECEM) of the FSM National Government, for the years ended December 31, 2023, (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 September 10, 2024.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which the 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 June 11, 2024. As described in that letter, the objectives of the 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 year ended December 31, 2023 (the "financial statements"), in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects; and

- 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 year ended December 31, 2023, based on an audit of financial statements performed in accordance with generally accepted government auditing standards.

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 year ended December 31, 2023.

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 year ended December 31, 2023, 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 year ended December 31, 2023.

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 year ended December 31, 2023.

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 September 10, 2024, 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*. Within that report, we did not note any matters that we considered to be a significant deficiency under standards established by the American Institute of Certified Public Accountants.

We did not identify any other matters during the course of our audit that would require a separate communication to the management team.

This report is intended solely for the information and use of the Project management, the Office of the President, SPREP, DECEM 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,

Kelly Samuel
Acting National Public Auditor

cc: Secretary, Department of Environment, Climate Change and Emergency Management

DEPARTMENT OF ENVIRONMENT,
CLIMATE CHANGE AND EMERGENCY MANAGEMENT
PO BOX PS-69
Palikir, Pohnpei FM 96941 Phone: (691) 320-8814/15 Fax: (691) 320-8936

August 13, 2024

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 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 years ended December 31, 2023, 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).

We confirm that we are responsible for the following:

1. The fair presentation in the schedule of cash receipts and expense of the Project on a cash basis.
2. The design and implementation of programs and controls to prevent and detect fraud.
3. Establishing and maintaining effective internal control over financial reporting.

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.

We confirm, that to the best of our knowledge and belief, the following representations made to you during your audit.

1. The schedule referred to above is fairly presented in conformity with the basis of accounting described in Note 2.
2. The project has provided to you all relevant information and access as agreed in the terms of the audit engagement letter.
3. The Project has made available to you all:
    a) Financial records and related data
    b) There have been no minutes of meetings of the Adaptation Fund (AF) Enhancing the climate Change Resilience of Vulnerable Island Communities in FSM or summaries of actions of recent meetings relating to the Project or applicable resolutions supporting transactions underlying cash receipts and disbursements in the schedule.

4. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.
5. The Project has not performed a risk assessment, including the assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding about the risks of fraud in the Project and do not believe that the financial statements are materially misstated as a result of fraud.
6. We have no knowledge or any fraud or suspected fraud that affects the entity and involves:
    a) Management;
    b) Employees who have significant roles in internal control; or
    c) Others when the fraud could have a material effect on the financial statements.
7. We have no knowledge of any allegations of fraud or suspected fraud affecting the Project received in communications from employee or former employees or others.
8. There are no:
    a) Related-party transactions and related amounts receivable or payable, including sales, purchases, loan transfers, leasing arrangements, and guarantees.
    b) Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances or similar arrangements.
9. There are no violations or possible violations of laws or regulations whose effects should be considered for disclosure in the schedule of cash receipts and expenses.
10. We acknowledge that we did not create a separate Project Account in United States Dollars to maintain the grant proceeds received for the Project. Except for this, the Project has complied with all aspects of contractual agreements that may have an effect on the schedule of cash receipts and expenses in the event of noncompliance.
11. There are no material transactions that have not been properly recorded in the accounting records underlying the schedule of cash receipts and expenses.
12. 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.
13. No events have occurred after December 31, 2023, to the date the financial statement was available to be issued, that require consideration as adjustments to, or disclosures in, the financial statement.

Andrew R. Yatilman
Secretary – Department of Environment, Climate Change and Emergency Management

Date: 9/15/24