

RENEWABLE ENERGY DEVELOPMENT PROJECT

**ASIAN DEVELOPMENT BANK
GRANT NUMBER 0680-FSM(SF)**

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2023

**RENEWABLE ENERGY DEVELOPMENT PROJECT
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

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FEDERATED STATES OF MICRONESIA

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INDEPENDENT AUDITORS' REPORT

Honorable Rose N. Nakanaga
Secretary
Department of Finance & Administration
FSM National Government

Report on the Financial Statements

We have audited the accompanying financial statements of the Renewable Energy Development Project which comprise the statement of financial position as of and for the year ended September 30, 2023 and the statement of financial performance for the year then ended and the related statement of and the related notes to the financial statements.

Managements Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America 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.

Auditors 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 disclosure 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, reasonableness of significant accounting estimates made by the 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 financial position of the Renewable Energy Development Project as of September 30, 2023, and the result of its operations for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We draw attention to Note 2 of the financial statement, which describes the basis of accounting.

Other Matters

In accordance with *Government Auditing Standards*, we have also issued our report dated August 21, 2024, 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 and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result 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.



Miriama Naivalu
Acting National Public Auditor

Palikir, Pohnpei
Date: August 21, 2024

CC: Secretary, Department of Resources & Development

**RENEWABLE ENERGY DEVELOPMENT PROJECT
ASIAN DEVELOPMENT BANK – GRANT NUMBER 0680-FSM (SF)**

**Statement of Financial Position
As of September 30, 2023**

	September 30, 2023 (\$)	September 30, 2022 (\$)
Assets		
Current Assets		
Receivables		
Project Coordinator Receivables	-	12,560
Finance & Administrative Officer Receivables	14,984	6,731
Project Assistant Kosrae Receivables	1,300	1,300
SMO Consultant Receivables	81,931	993
PUC Director Corporate Receivables	45,000	-
Total Assets	143,215	21,584
Liabilities		
Current Liabilities		
Payables		
Project Coordinator Payables	-	12,560
Finance & Administrative Officer Payables	14,984	6,731
Project Assistant Kosrae Payables	1,300	1,300
SMO Consultant Payables	81,931	993
PUC Director Corporate Payable	45,000	-
Total Liabilities	143,215	21,584
Net Position	-	-

RENEWABLE ENERGY DEVELOPMENT PROJECT
ASIAN DEVELOPMENT BANK – GRANT NUMBER 0680-FSM (SF)

Statement of Financial Performance
For the Year Ended September 30, 2023

	September 30, 2023 (\$)	September 30, 2022 (\$)
Revenues		
Grant Revenue from ADB	605,529	892,583
Contribution from FSM	113	-
Total Revenues	<u>605,642</u>	<u>892,583</u>
Expenditures		
Project Management and Other Expenses		
Output 1: Yap Renewable Energy	-	331,390
Output 2: Kosrae Main Grid Renewable Energy	-	342,986
Output 3: Pohnpei Utilities Corporation SMO	404,866	95,107
Output 4: Efficient Project Management	200,776	123,100
Total Expenditures	<u>605,642</u>	<u>892,583</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>

See accompanying notes to the financial statements.

**RENEWABLE ENERGY DEVELOPMENT PROJECT
ASIAN DEVELOPMENT BANK – GRANT NUMBER 0680-FSM (SF)**

**Notes to the Financial Statements
For the Year Ended September 30, 2023**

(1) General Information

(a) The Grant

The Federated States of Micronesia initially, on December 03, 2019, entered into a grant agreement (Grant Number 0680-FSM(SF)) with the ADB in the amount of \$15 million for the Renewable Energy Development Project (*the Project*).

On December 17, 2021, the ADB made available to the Project additional financing (Grant number 0813-FSM(SF)) of four million dollars (\$4,000,000) in which there were no disbursements in FY2023 the year under audit.

As a result of the additional financing, the closing date of the Grant was extended from August 31, 2023, to August 31, 2025, as agreed to on the Memorandum of Understanding signed on 01 June 2023.

The proceeds of these Grants were to exclusively finance the expenditures of the Project (refer (b) below) in accordance with the provision of the Grant Agreement.

(b) The Project

The Project, named Renewable Energy Development Project (REDP), aims to increase sustainable generation and utilization of renewable energy in the states of Yap, Kosrae and Pohnpei.

The project comprises four parts:

Part	Sub-part	Output
1	(i)	The installation of approximately 1.15MW of solar photovoltaic (PV) capacity and mini-grid and solar-home-system investments for Kosrae Utility Authority (KUA) in Kosrae;
	(ii)	Electrification of the Walung Community, Kosrae, through the installation of 60kW hybrid solar, 30kW diesel, 30kW/160kWh battery mini-grid and 2.5kW/4kWh solar home systems;
	(iii)	Capacity building for Kosrae Utility Authority (KUA)
2	(i)	The installation of 300kW rooftop solar photovoltaic system on Yap Sport Center rooftops; 1.950MW ground mounted solar photovoltaic array system; 800kW/800kWh battery energy storage system;
	(ii)	Upgradation of existing control system at Yap State Public Service Corporation (YSPSC); and
	(iii)	Capacity building for YSPSC;
3		Institutional strengthening support for Pohnpei Utility Company (PUC);
4		Support for effective project management and DORD's capacity building.

The project completion date was extended and is expected to be completed by 31 August 2025.

**RENEWABLE ENERGY DEVELOPMENT PROJECT
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**Notes to Financial Statements
For the Year Ended September 30, 2023**

(c) Grant Administration

The Secretary of Finance and Administration of the Federated States of Micronesia (FSM) National Government is designated as the representative of the FSM. The Department of Finance & Administration (DoFA) is the executing agency (EA) for the Project and is responsible for all disbursement approvals, accounting, and fiscal oversight. The Department of Resources & Development (DoRD) is the implementing agency (IA) for the Project and is responsible for the day-to-day implementation of the Project, manages the Project Management Unit (PMU) and maintains all documentation. It is a standalone and a separate donor funded project from the FSM National Government funds and activities. These statements may be obtained by directly contacting the FSM National Government or obtaining them directly from the National Public Auditor;

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Palikir, Pohnpei State, FM 96941

The Project is governed by a Project Steering Committee (PSC) who should meet at least twice per year, and quarterly (if possible) to receive project updates, make key decisions and provide overall guidance to the PMU. The membership of the PSC includes: Kosrae Utilities Authority (KUA), Yap State Public Service Corporation (YSPSC), Pohnpei Utilities Corporation (PUC), DoRD, DoFA, and PMU.

(2) Summary of Significant Accounting Policies

The accompanying financial statements of the Project have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Project's accounting policies are described below.

For financial reporting purposes, this is a standalone and a separate donor-funded project from the FSM National Government funds and activities.

Basis of Accounting

The Project's financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Receivables

The Project's receivable is recognized when the Project has received invoices from the consultants (external party) in accordance with agreed conditions/requirements and is entitled to receive the agreed funding. Where uncertainty exists in relation to the receipt of grant funding, a receivable

RENEWABLE ENERGY DEVELOPMENT PROJECT
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(and associated revenue) would not be recognized unless it was more probable than not that payment would be made hence allowances for uncollectible amounts are not necessary.

Notes to Financial Statements
For the Years Ended September 30, 2023

Payables

Payables refers to consultants (external party) invoices received as of September 30, 2023, and yet to be paid.

Reporting Period

The accompanying financial statements cover the fiscal year from October 01, 2022, to September 30, 2023. The period for the comparative balances covers the period October 01, 2021, to September 30, 2022.

Presentation of currency

The FSM currency is the US Dollar. In the presentation of the financial statements, cost estimates and financing plan, the Project uses the US Dollar.

(3) Direct Payments made by ADB

Direct payment procedures are used for civil works, consulting services, and equipment. The Project management unit (PMU) support such as the project coordinator, consultant and project steering committee meeting costs are reimbursed.

The executing agency and/or implementing agency covered the PMU support costs directly and submitted withdrawal applications to ADB for reimbursement.

From October 1st, 2022, to September 30, 2023, direct payments by ADB to the consultants amounted to \$463,614.40.

(4) Procurement of Goods and Consulting Services

The procurement of goods, works and consulting services were based on an ADB-approved Procurement Plan which requires International Competitive Bidding.

(5) Withdrawals from Grant Account

The proceeds of the grant were allocated to items of expenditure, and disbursement on the basis of withdrawal percentage for each item of expenditure. For the fiscal year 2023 there was no payment made for Outputs 1 and 2. Refer to the table below for payments made in FY2023 for Outputs 3 & 4 for both direct payment to consultant and payment made by DORD on reimbursement basis.

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**Notes to Financial Statements
For the Years Ended September 30, 2023**

Description (Inv. No & Date)	Withdrawal Application No.	Amount Accounted for this Period (\$)	Payee
Inv No. 041023-DL Date: Apr 10, 23	ADB WA No. 057	1,050.00	Debran Laan
Inv No. 030323-DL Date: March 8,23	ADB WA No. 048	875.00	Debran Laan
Inv No. 23 Date: 6/22/23	ADB WA No. 063	49,432.99	Tetra Tech
Inv No. 22 Date: 5/12/23	ADB WA No. 062	8,279.41	Tetra Tech
Inv No. 25 Date: 7/24/23	ADB WA No. 065	3,591.34	Tetra Tech
Inv No. 24 Date: 7/24/23	ADB WA No. 064	50,014.14	Tetra Tech
Inv No. 26 Date: 8/17/23	ADB WA No.066	10,598.02	Tetra Tech
Inv No. 19 Date: 3/8/23	ADB WA No. 051	95,355.03	Tetra Tech
Inv No. 20 Date: Mar 28, 23.	ADB WA No. 052	51,952.00	Tetra Tech
Inv No. 32 Date: 1/9/23	ADB WA No. 042	767.32	Tetra Tech
Inv No.18 Date: 2/9/23	ADB WA No. 045	11,969.28	Tetra Tech
Inv No.120422-DL Date: Dec 4, 22	ADB WA NO.038	1,400.00	Debran Laan
Inv No.010223-DL Date: Jan 2, 23	ADB WA NO.040	1,925.00	Debran Laan
Inv No.020823-DL Date: Feb 08,23	ADB WA NO. 044	875.00	Debran Laan
Inv No.092923-DL Inv Date: Aug 29,23	ADB WA NO.068	1,050.00	Debran Laan
Inv No. 21 Date: 4/10/23	ADB No. WA058	33,800.82	Tetra Tech
Inv No. 110122 Date: 11/01/23	ADB WA No.. WA037	2,200.00	Andy George
Inv No. 040323 Date: Ap 3, 23	ADB NO. WA055	2,200.00	Andy George
Inv No. 050123 Date: Ap 28, 23	ADB WA No. 056	500.00	Andy George
Inv No. 2023-03 Date: Ap 4,23	ADB WA053	8,400.00	Palikir Consultant
In No. 2022-10-A Date: Nov 16, 22	ADB WA 035	7,195.99	Palikir Consultant
Inv No. 2022-11-C Date: dec 21, 2022	ADB WA 029	4,715.87	Palikir Consultant
Inv No. 020123 Date: Feb 01, 23	ADB WA No. 046	2,100.00	Andy George
Inv No. 110122 Date: 11/01/23	ADB WA No. 034	2,200.00	Andy George
Inv No. 2023-21 Date: 2023-01	ADB WA No. 043	8,503.25	Palikir Consultant
Inv No. 030232 Date: Mar 3, 23	ADB WA No. 049	1,500.00	Andy George
Inv No. 2022-12 Date: Feb 21, 2023	ADB WA NO. 050	21,526.08	Palikir Consultant
Inv No.2022-11 Date: 11/25/22	ADB WA NO. 036	8,800.00	Palikir Consultant
Inv No. REDP9152023 Date: 9/15/23	ADB WA No. 073	1,925.00	Darlynn H
Inv No. REDP092722023 Date: 9/27/23	ADB WA No. 071	23,489.00	Darlynn H
Inv No. REDP071723 Date: 8/8/23	ADB WA NO.061	1,925.00	Darlynn H
Inv No. REDP081623 Date: 8/8/23	ADB WA NO.067	1,925.00	Darlynn H
Inv No.REDP081323 Date: 8/8/24	ADB WA NO.069	1,925.00	Darlynn H
Inv No.REDP10052023 Date: 10/5/23	ADB WA NO.074	1,925.00	Darlynn H
Inv No. 10123 Date: 01/04/23	ADB WA NO.041	1,400.00	Andy George
Inv No. 2023-02 Date: Mar 1, 23	ADB WA No. 047	7,600.00	Palikir Consulting

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**Notes to Financial Statements
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Description (Inv. No & Date)	Withdrawal Application No.	Amount Accounted for this Period (\$)	Payee
Inv No. 2022-10 Date: Nov 1, 22	ADB WA No. 033	11,485.41	Palikir Consulting
Inv No. WA060	ADB WA No. 060	17,238.45	Palikir Consulting
Inv No 27	ADB WA No. 072	39,850.11	Tetra Tech
Inv No. 28 Date: 9/26/23	ADB WA No. 075	27,324.90	Tetra Tech
Inv No. 29 Date: 10/06/23	ADB WA No. 076	14,755.52	Tetra Tech
Chq No. 311779	N/A	961.54	Nicole Solomon
Chq No. 312747	N/A	823.30	Nicole Solomon
Chq No. 314548	N/A	1,554.56	Nicole Solomon
Chq No. 315847	N/A	869.44	Nicole Solomon
Chq No. 316786	N/A	891.13	Nicole Solomon
Chq No. 317649	N/A	1,001.60	Nicole Solomon
Chq No. 317681	N/A	1,001.60	Nicole Solomon
Chq No. 319602	N/A	1,001.60	Nicole Solomon
Chq No. 321630	N/A	1,001.53	Nicole Solomon
Chq No. 322539	N/A	2,003.06	Nicole Solomon
Chq No. 327834	N/A	3,004.80	Nicole Solomon
Chq No. 313226	N/A	869.39	Nicole Solomon
Accrued as per signed contract	N/A	45,000.00	Trevayne Esiel
Inv No. REDPO9272023 Date: 10/29/23	N/A	113.26	MCS Pohnpei
TOTAL		605,641.74	

(6) Procurement

All procurement of project goods and works was undertaken in accordance with ADB's Procurement guidelines (2015, as amended from time to time). An 18-month procurement plan indicating threshold and review procedures, goods, works, and consulting service contract packages and national competitive bidding guidelines includes the following:

<u>Method</u>	<u>Threshold</u>
International Competitive Bidding for Works	Above \$3,000,000
International Competitive Bidding for Goods	Above \$1,000,000
National Competitive Bidding for Works	Below or Equal to \$3,000,000
National Competitive Bidding for Goods	Below or Equal to \$1,000,000
Shopping for Works/Goods	Below or Equal to \$300,000

RENEWABLE ENERGY DEVELOPMENT PROJECT
ASIAN DEVELOPMENT BANK – GRANT NUMBER 0680-FSM (SF)

Notes to Financial Statements
For the Years Ended September 30, 2023

(8) Statement of Budgeted versus Actual Expenditures

The schedule below shows the estimated project cost and actual expenditures incurred in FY 2023.

Particulars	Budgeted	Actual Expenditures (millions – USD)			Savings/(Deficit)
		FY 2021	FY 2022	FY 2023	
Yap					
1 BESS at power station	1.31	-	0.33	-	1.31
2 Ground mount solar photovoltaic array near power station	4.47	-	-	-	4.47
3 Rooftop solar photovoltaic extension at sports center	0.49	-	-	-	0.49
4 Upgrade to power station SCADA and controls	0.31	-	-	-	0.31
Total Capital Expenditure (CAPEX)	6.58	-	0.33	-	6.25
Total Import Taxes and Duties	0.26	-	-	-	0.26
Total for the Yap Project	6.84	-	0.33	-	6.51
Kosrae					
1 KUA Main Grid	3.69	-	0.34	-	3.69
2 Walung mini-grid and solar home system	1.16	-	-	-	1.16
Total Capital Expenditure (CAPEX)	4.85	-	0.34	-	4.85
Total Import Taxes and Duties	0.20	-	-	-	0.20
Total for the Kosrae Project	5.05	-	0.34	-	5.05
Pohnpei					
1 SMO Consultant	0.74	0.09	0.10	0.40	0.34
Total for the Pohnpei Project	0.74	0.09	0.10	0.40	0.34
FSM					
1 Project Implementation Consultants (PIC)	0.87	0.07	-	0.02	0.85
2 Project Management Unit (PMU) Support	0.23	-	0.12	0.04	0.19
Total Project Management Support	1.10	0.07	0.12	0.06	1.04
Contingency	1.78	-	-	-	1.78
Total Project Costs	15.51	0.16	0.89	0.46	15.05

**RENEWABLE ENERGY DEVELOPMENT PROJECT
ASIAN DEVELOPMENT BANK – GRANT NUMBER 0680-FSM (SF)**

**Notes to Financial Statements
For the Years Ended September 30, 2023**

(10) Subsequent Events

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, to affect significantly the operations of the Project, the results of those operations or the state of affairs of the Project in the subsequent financial year.



FEDERATED STATES OF MICRONESIA

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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

Honorable Rose N. Nakanaga
Secretary
Department of Finance & Administration
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 Renewable Energy Development Project (the Project), which comprise the statement of financial position as of September 30, 2023, and the related statement of financial performance for year then ended and the related notes to the financial statements, and have issued our report thereon dated August 21, 2024.

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 statement 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. We consider the deficiency in the accompanying Schedule of Findings and Responses as item 2023/01 to be a significant deficiency.

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 did not disclose any noncompliance or other matters that is 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 subject 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.



Miriama Naivalu
Acting National Public Auditor

Palikir, Pohnpei
August 21, 2024

CC: Secretary, Department of Resources & Development



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH THE FINANCIAL COVENANTS AND OTHER REQUIREMENTS OF THE GRANT AGREEMENT

Honorable Rose N. Nakanaga
Secretary
Department of Finance & Administration
FSM National Government

Report on Compliance with the Financial Covenants and Other Requirements of the Grant Agreement

We have audited the Renewable Energy Development Project (*the Project's*) compliance with the types of compliance requirements described in the Grant Agreement dated December 17, 2021, with the Asian Development Bank, which could have a direct and material effect on the Project for the year ended September 30, 2023.

Management's Responsibility

Management is responsible for compliance with the financial covenants and other requirements of the grant agreement.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance with the financial covenants and other requirements of the grant agreement referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the Grant Agreement. Those standards and the Grant Agreement require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the Project occurred. An audit includes examining, on a test basis, evidence about the Project's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

Opinion

In our opinion, the Project is in compliance to the finance covenant hence complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Project for the year ended September 30, 2023. In addition, funds were used for the purposes of the project as set out in the ADB Grant Agreement signed on December 17, 2021.

Other Matters

The results of our auditing procedures disclosed one other instance of noncompliance which is required to be reported in accordance with the Grant Agreement and which is described in the accompanying Schedule of Findings and Responses as item 2023/01. Our opinion on the Project is not modified with respect to this matter.

The Project's response to the noncompliance 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 compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Project is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Project's internal control over compliance with the types of requirements that could have a direct and material effect on the Project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the grant agreement, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Project's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, we identified a deficiency in internal control over compliance that we consider to be significant deficiency described in the accompanying Schedule of Findings and Responses as item 2023/01.

The Project's response to the internal control over compliance 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 compliance and, accordingly, we express no opinion on the response.

The Project is responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The Project's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Grant Agreement. Accordingly, this report is not suitable for any other purpose.



Miriama Naivalu
Acting National Public Auditor

Palikir, Pohnpei
August 21, 2024

CC: Secretary, Department of Resources & Development

**RENEWABLE ENERGY DEVELOPMENT PROJECT
ASIAN DEVELOPMENT BANK – GRANT NUMBER 0680 (SF)**

**Schedule of Findings and Responses
September 30, 2023**

2023/01: Non-Maintenance of separate accounts and records for the Project

Criteria: Section 4.02 of Article IV of the grant agreement dated December 17, 2021, states that the recipient shall maintain separate accounts and records for the project.

Condition: Despite the efforts by DoRD and DoFA in recruiting a Project Finance and Administration Officer who is responsible for maintaining the project accounts and a National Coordinator for overall supervision, the following anomalies were noted:

- separate accounts and records specifically for the project were not maintained such as reconciliations, trial balances, subsidiary expenses ledgers
- Journal vouchers summary sent to DOFA for Fundware updates failed to be updated and reconciled on payments made out of LFIS
- Reliance on the Asian Development Bank Consultant to prepare the financial statements for REDP.
- There was a variance of \$2,008.10 between Fundware (\$465,622.50) and LFIS payout (\$463,614.40).

Effects: As a result of not maintaining separate accounts and records for the Projects:

- There were delays in the preparation and submission of draft financial statement for audit. The draft financial statement was submitted to ONPA via shared folder on June 26, 2024 which has lapsed deadline for completion which was March 31, 2023.
- Non-compliance to the requirements of the Project Administration Manual

Root-Causes: Oversight function is not effective to ensure that:

- records are maintained and updated for the Project.
- Proper training and capacity building for the Project Finance & Administration Officer to ensure that reconciliations are maintained for balance sheet items, subsidiary expenses ledgers are maintained and trial balances are maintained and updated.
- financial statements are thoroughly reviewed prior to submission for audit verification.

Recommendations: Oversight function to be strengthened by:

- increased monitoring by the National Project Coordinator to ensure that records are maintained and updated for the Project.
- Proper training and capacity building for Project Finance & Administration Officer to ensure that reconciliations are maintained for balance sheet items, subsidiary expenses ledgers are maintained and trial balances are maintained and updated.

**RENEWABLE ENERGY DEVELOPMENT PROJECT
ASIAN DEVELOPMENT BANK – GRANT NUMBER 0680 (SF)**

- Ensuring that financial statements are thoroughly reviewed, checking that all balances are properly supported and free from errors and misstatements, prior to submission for audit verification.

Management Responses:

1. Separate accounts and records specifically for the project were not maintained such as reconciliations, trial balances, subsidiary expenses ledgers
 - *As mentioned, we don't have a separate bank account to do reconciliation on since all transactions are paid directly to the vendors by ADB and we do journal vouchers to populate the DOFA Fundware and we reconcile the CPD transactions against the Expense report from DOFA.*
 - *Payment are made based off the PAM on contractual basis. JV's are under contractual as all activities are under contract per output.*
 - *The PMU will work with DOFA team to see if contractual payment can be sub-categorized in the Fundware system however payments made meet PAM requirement set forth by the grant owner/ADB which FSM Government is required to adhered to.*
2. Journal vouchers summary sent to DOFA for Fundware updates failed to be updated and reconciled on payments made out of LFIS/
 - *We need justification from auditors for which updates were made way before the field audit was expedited. JV's were made after the new National Coordinator (NC) came on board since this was one of the findings for the previous audit.*
 - *Journal voucher entries to DOFA will be submitted monthly and reconciliation will be maintained monthly to ensure disbursement in Fundware expenditure matches ADB LFIS disbursement records.*
 - *Actions have been taken by the PMU team to enhance and strengthen procedures for control to schedule monthly reconciliation of ADB LFIS and Fundware records, modifying record keeping procedures in Cashbook to reflect ADB LFIS and Fundware transaction number, date processed in each system and assigned JV number.*
3. Reliance on the Asian Development Bank Consultant to prepare the financial statements for REDP.
 - *This is only because there was no PA/FO at that time that ADB sent a consultant to prepare their FS. Also this should be a plus since it was done by ADB themselves.*
 - *The consultant is DORD consultant as it was paid for by DORD funds.*
 - *Moving forward, PMU team will set up their processes to ensure learning opportunities in preparation of Financial Statements for future audits.*
4. There was a variance of \$2,008.10 between Fundware (\$465,622.50) and LFIS payout (\$463,614.40).
 - *The variance has been identified and a reverse JV will balance out Fundware and LFIS payout amount. The PMU team will work with the Treasury Division team to ensured corrective action to missed entry to be processed.*