



FEDERATED STATES OF MICRONESIA

Office of The National Public Auditor

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June 30, 2025

His Excellency President Wesley W. Simina
Honorable Members of the 24th FSM Congress
Federated States of Micronesia

Dear Mr. President and Members of Congress:

We have performed an audit of the financial statements of the FSM Small Island Food and Water Project, (the “project”) a Project funded by the International Fund for Agricultural Development, for the years ended September 30, 2023, and September 30, 2024 (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 June 30, 2025.

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 dated April 15, 2025. 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 years ended September 30, 2023, and September 30, 2024 (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 years ended September 30, 2023, and September 30, 2024, 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 years ended September 30, 2023 and September 30, 2024.

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 years ended September 30, 2023, and September 30, 2024, 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.

During the course of our audit, we identified misstatements related to the accounting treatment of equipment and materials expenditures. Specifically, certain items were both expensed and capitalized, resulting in overstatements in the Statement of Financial Position:

- For the fiscal year ended September 30, 2023, an amount of \$2,298 relating to the purchase of equipment and materials was recorded as an expense in the Statement of Financial Performance but was also inappropriately capitalized under property and equipment, in the Statement of Financial Position.
- A similar issue was noted for the fiscal year ended September 30, 2024, where \$6,591.96 was also both expensed and capitalized.

These matters were discussed with project management, who concurred with our findings. Management subsequently made the necessary adjustments by removing the duplicated amounts

from the Statement of Financial Position, thereby correcting the misstatements prior to the finalization of the financial statements.

Accordingly, the financial statements reflect the appropriate accounting treatment, and there are no uncorrected misstatements to report as of the conclusion of our audit.

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 years ended September 30, 2023 and September 30, 2024.

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 years ended September 30, 2023 and September 30, 2024.

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

Throughout the audit period, routine discussions regarding the application of accounting principles and relevant audit considerations in connection with transactions that occurred or were contemplated during the year. These discussions were part of the normal course of our audit responsibilities. In our judgment, no such discussions or correspondence took place prior to our engagement as auditors for the Project. Accordingly, there were no significant findings, issues, or circumstances discussed with management that influenced our acceptance of this engagement.

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 June 30, 2025, 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, Department of Resource and Development 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 Resource and Development
Secretary, Department of Finance and Administration