

**REPUBLIC OF THE MARSHALL ISLANDS
PUBLIC FINANCIAL MANAGEMENT PROJECT
(FINANCED BY THE ASIAN DEVELOPMENT BANK'S
SPECIAL FUND)**

**(A GOVERNMENTAL FUND OF THE
REPUBLIC OF THE MARSHALL ISLANDS)**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

**YEAR ENDED SEPTEMBER 30, 2019 AND
PERIOD FROM INCEPTION (OCTOBER 17, 2017)
THROUGH SEPTEMBER 30, 2018**

**REPUBLIC OF THE MARSHALL ISLANDS
PUBLIC FINANCIAL MANAGEMENT PROJECT
(FINANCED BY THE ASIAN DEVELOPMENT BANK'S SPECIAL FUND)**

Year Ended September 30, 2019 and
Period from Inception (October 17, 2017) through September 30, 2018

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INDEPENDENT AUDITORS' REPORT

Honorable Minister Alfred Alfred, Jr.
Ministry of Finance, Banking and Postal Services
Republic of the Marshall Islands

Report on the Financial Statements

We have audited the accompanying financial statements of the Republic of the Marshall Islands (RMI) Public Financial Management Project (the "Project"), a governmental fund of the Republic of the Marshall Islands financed by the Asian Development Bank's Special Fund, which comprise the balance sheets as of September 30, 2019 and 2018, and the related statements of revenues, expenditures, and changes in fund balance for the year ended September 30, 2019 and for the period from inception (October 17, 2017) through September 30, 2018, and the related notes to the financial statements.

Management's 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; this includes 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 disclosures in the financial statements. The procedures selected depend on the auditor's judgment, 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 financial statements referred to above present fairly, in all material respects, the financial position of the Project as of September 30, 2019 and 2018 and the results of the Project's operations for the year ended September 30, 2019 and for the period from inception (October 17, 2017) through September 30, 2018, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Reporting Entity

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the activities of the Project administered by the RMI Ministry of Finance, Banking and Postal Services and are not intended to present fairly the financial position and results of other non-Project related operations of the RMI Ministry of Finance, Banking and Postal Services in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information:

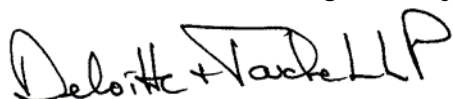
Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on page 9 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the RMI Ministry of Finance, Banking and Postal Service's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2020, 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 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.



May 27, 2020

**REPUBLIC OF THE MARSHALL ISLANDS
PUBLIC FINANCIAL MANAGEMENT PROJECT
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Balance Sheets
September 30, 2019 and 2018

	2019	2018
<u>ASSETS</u>		
Cash	\$ 21,347	\$ 95,059
ADB grant receivable	147,457	74,058
Travel advances	597	664
Total assets	\$ 169,401	\$ 169,781
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Accounts payable	\$ 34,890	\$ 39,376
Due to RMI Government	84,511	35,405
Total liabilities	119,401	74,781
Commitment and contingency		
Fund balance:		
Restricted	50,000	95,000
Total liabilities and fund balance	\$ 169,401	\$ 169,781

See accompanying notes to financial statements.

**REPUBLIC OF THE MARSHALL ISLANDS
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Statements of Revenues, Expenditures, and Changes in Fund Balance
Year Ended September 30, 2019 and the Period From
Inception (October 17, 2017) through September 30, 2018

	October 1, 2018 through September 30, 2019	October 17, 2017 through September 30, 2018
Revenues:		
ADB Grant drawdowns	\$ 615,350	\$ 519,526
Expenditures:		
Investment costs:		
Consulting services	610,383	394,865
Training and capacity building	35,693	15,301
Recurrent costs:		
Office equipment	5,883	2,250
Audit	4,500	-
Travel	1,346	6,191
Office supplies	1,069	1,242
Furniture and fixtures	790	2,005
Other charges	686	362
Printing and reproduction	-	2,310
Total expenditures	<u>660,350</u>	<u>424,526</u>
Change in fund balance	(45,000)	95,000
Fund balance - beginning	<u>95,000</u>	<u>-</u>
Fund balance - ending	<u>\$ 50,000</u>	<u>\$ 95,000</u>

See accompanying notes to financial statements.

REPUBLIC OF THE MARSHALL ISLANDS
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Notes to Financial Statements
Year Ended September 30, 2019 and Period from
Inception (October 17, 2017) through September 30, 2018

(1) Organization

On October 17, 2017, the Asian Development Bank (ADB) approved a grant (Grant No. 0547-RMI (SF)) in the amount of \$2,000,000, financed by ADB's Asian Development Fund (ADF), to the Republic of the Marshall Islands (RMI) for the Public Financial Management Project (the "Project"). On September 24, 2019, the ADB approved an additional grant (Grant No. 0658-RMI (SF)) in the amount of \$500,000 for the Project. The ADF was established in 1973 to provide grants to ADB's lower-income developing member countries. The objective of the Project is to improve public financial management of the RMI Government.

The RMI Minister of Finance, Banking and Postal Services is designated as the representative of the RMI for the purposes of the grant regulations. The Project is overseen by a Reform Steering Committee, with the RMI Ministry of Finance (MOF), Banking and Postal Services as the Project Executing Agency. The Ministry is responsible for establishing and managing an advance account used exclusively for the Project. The Ministry established the MOF Imprest Account to facilitate the implementation of the Project through timely release of funds and made \$95,000 of grant proceeds available for this purpose. During the year ended September 30, 2019, the Ministry liquidated a portion of imprest account and reduced the balance to \$50,000. The Ministry is required to operate and liquidate the MOF Imprest Account in accordance with ADB regulations. A Reform Coordination Unit established within the Ministry is the implementing agency assisting the Ministry in administering advanced grant funds, including preparation of financial and progress reports, payment claims, and withdrawal applications verified by the Ministry.

The accompanying financial statements are prepared for the year ended September 30, 2019 and for the period from Inception (October 17, 2017) through September 30, 2018 and relates solely to those accounting records maintained by the RMI Ministry of Finance, Banking and Postal Services associated with the Project and does not incorporate any accounts related to other non-Project activities of the RMI Ministry of Finance, Banking and Postal Services or any other departments or agencies of the RMI Government.

The Project's international consultants are paid using the Direct Payments method following ADB's withdrawal application method. National consultants and operational project expenditures are paid by the RMI Government on behalf of the Project and are reimbursed from the advance account.

(2) Summary of Significant Accounting Principles

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

A. Measurement Focus and Basis of Accounting

The Project reports the results of its operations in one governmental fund. A fund is a separate accounting entity with a self-balancing set of accounts. They are concerned only with the measurement of financial position and are not involved with measurement of results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

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Notes to Financial Statements
Year Ended September 30, 2019 and Period from
Inception (October 17, 2017) through September 30, 2018

(2) Summary of Significant Accounting Principles, Continued

A. Measurement Focus and Basis of Accounting, Continued

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds) and are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collectible with the current period or soon enough thereafter to pay liabilities of the current period.

Grant revenues are recognized as soon as all eligibility criteria have been met and the related amounts become available to finance expenditures of the current period. Expenditures are recorded in the period in which the related fund liability is incurred, including direct payments made by the ADB to vendors. Direct payments are disbursements made by the ADB, at the request of the Ministry, to designated beneficiaries (e.g., supplier, contractor, or consultant) directly.

B. Cash

For the purpose of the balance sheets, the Project considers cash to be cash in deposit accounts. As of September 30, 2019 and 2018, the carrying amount of the Project's total cash and the corresponding bank balance was \$21,347 and \$95,059, respectively, which is maintained in a financial institution subject to Federal Deposit Insurance Corporation insurance. The Project does not require collateralization of its cash deposits.

C. Grant Receivables

Grant receivables represent amounts due from the ADB for eligible Project expenditures not yet reimbursed or paid.

D. Interfund Receivables/Payables

During the course of its operations, the Ministry records transactions between individual funds for goods provided or services rendered. Receivables and payables resulting from transactions between funds are classified as "due from RMI Government" or "due to RMI Government" on the governmental fund balance sheet.

E. Fund Balances

Fund balance classifications are based on the extent to which the Project is bound to honor constraints on the specific purposes for which amounts in those funds can be spent and are reported under the following fund balance classifications:

- Nonspendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

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Notes to Financial Statements
Year Ended September 30, 2019 and Period from
Inception (October 17, 2017) through September 30, 2018

(2) Summary of Significant Accounting Principles, Continued

E. Fund Balances, Continued

- Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Unassigned - includes negative fund balances in other governmental funds.

The Project has a general policy to first use restricted resources for expenditures incurred for which both restricted and unrestricted (committed and unassigned) resources are available. When expenditures are incurred for which only unrestricted resources are available, the general policy of the Project is to use committed resources first followed by unassigned. The use of restricted/committed resources may be deferred based on a review of the specific transaction.

A formal minimum fund balance policy has not been adopted.

F. Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(3) ADB Imprest Fund Account

For the year ended September 30, 2019 and for the period from inception (October 17, 2017) through September 30, 2018, the ADB made available grant proceeds in the amount of \$615,350 and \$519,526, respectively, for expenditures incurred under certain categories of the Project.

Reconciliation of the ADB Imprest Account to cash as of September 30, 2019 and 2018, is as follows:

	<u>2019</u>	<u>2018</u>
ADB Imprest Account balance end of year/period	\$ <u>50,000</u>	\$ <u>95,000</u>
Cash receipts deposited to ADB Imprest Account:		
RepMar advance	100	100
Cash disbursements withdrawn from ADB Imprest Account:		
Not yet claimed for replenishment	(28,652)	-
Miscellaneous bank charges	<u>(101)</u>	<u>(41)</u>
	<u>(28,653)</u>	<u>59</u>
Cash balance end of year/period	\$ <u>21,347</u>	\$ <u>95,059</u>

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Year Ended September 30, 2019 and Period from
Inception (October 17, 2017) through September 30, 2018

(4) Grant Receivables

Grant receivables represent amounts due on Asian Development Bank (ADB) Withdrawal Applications submitted for Project expenditures not reimbursed or paid by the ADB as at September 30, 2019 and 2018 as follows:

	<u>2019</u>	<u>2018</u>
G0031	\$ -	\$ 10,647
G0032	-	7,800
G0033	-	6,780
G0049	-	48,831
G0054	42,109	-
G0084	13,553	-
G0085	8,650	-
G0086	6,960	-
G0092	7,273	-
G0093	44,855	-
G0098	21,745	-
G0099	<u>2,312</u>	<u>-</u>
	<u>\$ 147,457</u>	<u>\$ 74,058</u>

(5) RMI Government Contributions

Under the provisions of the grant agreement, the RMI Government is required to provide counterpart in-kind contributions estimated at \$350,000 in the form of recurrent costs such as office space, utilities, administration and support staff, and taxes and duties exemption. Total actual amount of in-kind RMI Government contributions cannot be reliably measured and fully quantified. For the year ended September 30, 2019 and for the period from inception (October 17, 2017) through September 30, 2018, the RMI Government made available counterpart in-kind contributions in the form of income taxes and other personnel benefits, such as social security services and health insurance of national consultants, in the amount of \$23,590 and \$8,191, respectively, for Project recurrent costs.

**REPUBLIC OF THE MARSHALL ISLANDS
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Schedule of Budgeted v Actual Expenditures
Period From Inception (October 17, 2017) through September 30, 2019

	Original Budget	Adjustments	Adjusted Budget	Actual Expenditures		Cumulative from October 17, 2017 to September 30, 2019	Variance
				October 1, 2018 to September 30, 2019	Prior Period Cumulative		
Expenditures:							
Investment Costs:							
Consulting services	\$ 2,163,356	\$ (10,000)	\$ 2,153,356	\$ 610,383	\$ 394,865	\$ 1,005,248	\$ 1,148,108
Training and capacity building	<u>142,369</u>	<u>50,000</u>	<u>192,369</u>	<u>35,693</u>	<u>15,301</u>	<u>50,994</u>	<u>141,375</u>
	<u>2,305,725</u>	<u>40,000</u>	<u>2,345,725</u>	<u>646,076</u>	<u>410,166</u>	<u>1,056,242</u>	<u>1,289,483</u>
Recurrent Costs:							
Project management costs	<u>103,300</u>	<u>500</u>	<u>103,800</u>	<u>14,274</u>	<u>14,360</u>	<u>28,634</u>	<u>75,166</u>
Contingencies:							
Physical	42,456	(28,200)	14,256	-	-	-	14,256
Price	<u>48,519</u>	<u>(12,300)</u>	<u>36,219</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,219</u>
	<u>90,975</u>	<u>(40,500)</u>	<u>50,475</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,475</u>
Total expenditures	<u>\$ 2,500,000</u>	<u>\$ -</u>	<u>\$ 2,500,000</u>	<u>\$ 660,350</u>	<u>\$ 424,526</u>	<u>\$ 1,084,876</u>	<u>\$ 1,415,124</u>

See accompanying independent auditors' report.

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 Minister Alfred Alfred, Jr.
Ministry of Finance, Banking and Postal Services
Republic of the Marshall Islands:

We have audited, 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, the financial statements of the Republic of the Marshall Islands Public Financial Management Project (the "Project"), a governmental fund of the Republic of the Marshall Islands financed by the Asian Development Bank's Special Fund, which comprise the balance sheet as of September 30, 2019 and the related statement of revenues, expenditures, and changes in fund balance for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 27, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Project's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as item 2019-001 that we consider to be material weaknesses.

Compliance and Other Matters

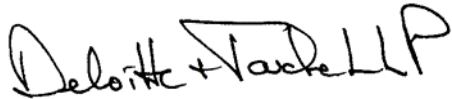
As part of obtaining reasonable assurance about whether the Project's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 or other matters that are required to be reported under *Government Auditing Standards*.

The Project's Responses to Findings

The Project's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Project's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Deloitte + Tatchell LLP". The signature is written in a cursive, slightly stylized font.

May 27, 2020

**REPUBLIC OF THE MARSHALL ISLANDS
PUBLIC FINANCIAL MANAGEMENT PROJECT
(FINANCED BY THE ASIAN DEVELOPMENT BANK'S SPECIAL FUND)**

Schedule of Findings and Responses
Year Ended September 30, 2019

Finding No. 2019-001

Reimbursement of RepMar's General Fund

Criteria: Withdrawal applications should be periodically and timely submitted by the Project to facilitate replenishment of the advance account and timely reimbursement of RepMar's general fund.

Condition: At September 30, 2019, the Project was liable to RepMar's general fund for \$84,511; however, cash on hand in the advance account was insufficient to reimburse RepMar.

Cause: The cause of the above condition is the lack of timely replenishment of the advance account.

Effect: The effect of the above condition is the inability to timely reimburse RepMar's general fund.

Recommendation: We recommend timely replenishment of the advance account. Furthermore, we recommend the Project consider utilizing the direct payment procedures for certain Project expenditures currently being financed by RepMar's general fund.

Auditee Response and Corrective Action Plan: In compliance with the Project's Procedure Administration Manual (PAM) Section B Paragraph 18, "ADB will generally pay the international consultants using direct payment procedures. The national consultants will be paid through an advance account". The Ministry of Finance, Banking and Postal Services regularly submits its withdrawal applications for replenishment of the advanced amount on a quarterly basis. However, replenishment of the advanced account depends on ADB's completion of its evaluation and approval of the withdrawal applications submitted.

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Unresolved Prior Year Findings
Year Ended September 30, 2019

There are no unresolved prior year findings.