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July 21, 2020

Mr. Danny Wase
General Manager
Marshall Islands Shipping Corporation

Dear Mr. Wase:

In planning and performing our audit of the financial statements of Marshall Islands Shipping Corporation (MISC) as of and for the year ended September 30, 2019 (on which we have issued our report dated July 21, 2020), 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, we considered MISC's 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 MISC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MISC's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to MISC's internal control over financial reporting and other matters as of September 30, 2019 that we wish to bring to your attention.

We have also issued a separate report to the Board of Directors, also dated July 21, 2020, on our consideration of MISC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of the Board of Directors, management, others within the organization, and the Office of the Auditor-General and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of MISC for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte + Touche LLP

SECTION I - CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving MISC's internal control over financial reporting as of September 30, 2019 that we wish to bring to your attention:

1. Prepaid Dry-docking Expenses

   During the year ended September 30, 2019, we noted prepaid dry-docking expenses amortized at payment date which overstated the dry-docking expenses by $14,145. Such was subsequently adjusted during the audit process. We recommend MISC properly amortize prepaid dry-dock upon final payment or dry-docking clearance.

2. Taxes

   During the year ended September 30, 2019, we noted social security taxes payable of $100,609 from which $20,114 pertains to unremitted taxes (including penalties and interests) for the quarter ending March 31, 2017. We recommend MISC timely file and pay social security taxes.

3. Employee Receivables

   During the year ended September 30, 2019, we noted receivables from employees aged more than 90 days amounting to $262,137, net of $3,399 of subsequent collections. Employee receivables are supported by a corresponding allowance for uncollectible accounts. We recommend MISC increase collection efforts.

4. Capital Assets

   During the year ended September 30, 2019, we noted the following:

   1. Fully depreciated capital assets of $9,750 that were disposed of in the prior year. Such was adjusted during the audit process.

   2. MISC has not established policies and procedures governing estimated useful lives of capital assets.

   3. In 2017, return of certain capital assets were not performed by the previous General Manager. Recovery of capital assets with an aggregate book value of $12,395 as of September 30, 2019 has not occurred.

   We recommend MISC consider periodical checking of the condition of fully depreciated assets and de-recognize unused, disposed, or out-of-service capital assets.

5. Related Party Reconciliations

   During the year ended September 30, 2019, unreconciled rental charges amounting to $28,051 were payable to a related party. We recommend MISC communicate and reconcile related party accounts.

6. Cash Management

   During the year ended September 30, 2019, cash and checks were not timely deposited to bank. The delay was represented to be due to employees being busy or few staff working and, as a result, no one made the deposit. We recommend MISC implement cash management procedures requiring timely bank deposits to minimize the risk of mishandling and theft of cash. Furthermore, MISC may consider revisiting its manpower requirements.

SECTION I - CONTROL DEFICIENCIES, CONTINUED

7. Revenues

During the year ended September 30, 2019, we noted the following:

1. $669 overstatement of ship sales due to incorrect prices.

2. $1,140 ship sales dated April 24, 2019 were recorded on September 24, 2019.

We recommend MISC properly reflect current prices and facilitate timely recording of invoices.

SECTION II - OTHER MATTERS

Our observations concerning other matters related to operations, compliance with law and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention at this time are as follows:

1. Voyage Analysis

Cargo manifests do not appear to be supported by an analysis/reconciliation to support the recorded amount of cargo revenue. We recommend a revenue analysis be performed per voyage to verify the reasonableness of recorded revenues against voyage data provided by the booking staff.

2. Board Sitting Fees

During the year ended September 30, 2019, MISC paid sitting fees of $22,800 to Board members. These fees may constitute wages under the Income Tax Act 1989 and thus be subject to withholding taxes. No withholding taxes were withheld by MISC. We recommend management obtain an interpretation from the Ministry of Finance, Banking and Postal Services Chief of Revenue and Taxation concerning the applicability of withholding taxes on sitting fees paid to Board members.

SECTION III - DEFINITIONS

The definition of a deficiency is as follows:

A *deficiency* 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

MISC's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.