

**REPUBLIC OF THE MARSHALL ISLANDS  
ASIAN DEVELOPMENT BANK GRANT 0536 RMI (SF)  
IMPROVING THE QUALITY OF BASIC EDUCATION  
IN THE NORTH PACIFIC PROJECT**

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**FINANCIAL STATEMENTS,  
ADDITIONAL INFORMATION  
AND INDEPENDENT AUDITORS' REPORT**

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**YEARS ENDED SEPTEMBER 30, 2020 AND 2019  
(AS RESTATED)**

**REPUBLIC OF THE MARSHALL ISLANDS  
ASIAN DEVELOPMENT BANK GRANT 0536 RMI (SF)  
IMPROVING THE QUALITY OF BASIC EDUCATION  
IN THE NORTH PACIFIC PROJECT**

Years Ended September 30, 2020 and 2019

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## INDEPENDENT AUDITORS' REPORT

Honorable Minister Kitlang Kabua  
Ministry of Education, Sports and Training  
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) Improving the Quality of Basic Education in the North Pacific Project (the "Project"), financed by the Asian Development Bank's Special Fund (Grant Number 0536-RMI (SF)), which comprises the statements of project account for the years ended September 30, 2020 and 2019, 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 the cash basis of accounting described in Note 2 to the financial statements; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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 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 cash receipts and disbursements of the Project for the years ended September 30, 2020 and 2019, in accordance with the cash basis of accounting described in Note 2 to the financial statements.

## ***Basis of Accounting***

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. These financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## ***Emphasis-of-Matters***

### ***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 and implemented by the RMI Public School System and are not intended to present fairly the results of other non-Project related operations of the RMI Public School System in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Restatement***

As discussed in Note 6 to the financial statements, the 2019 financial statements have been restated to correct an error. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### ***Use of Proceeds of the Grant and Particular Covenants***

In connection with our audit, nothing came to our attention that caused us to believe that the Project failed to comply with the terms, covenants, provisions, or conditions of Articles III and IV of the grant agreements dated July 7, 2017 insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Project's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the grant agreement, insofar as they relate to accounting 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 combining financial statement information on pages 7 through 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 Public School System's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.



*Other Information, Continued*

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 combining financial statement information is fairly stated, in all material respects, in relation to the financial statements as a whole.

**Restricted Use Relating to Other Matters**

The communication related to compliance with the aforementioned grant agreement described in the Other Matters paragraph is intended solely for the information and use of the RMI Public School System's management and the Asian Development Bank and is not intended to be and should not be used by anyone other than these specified parties.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2021, 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.

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

April 21, 2021

**REPUBLIC OF THE MARSHALL ISLANDS**  
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**IMPROVING THE QUALITY OF BASIC EDUCATION**  
**IN THE NORTH PACIFIC PROJECT**

Statements of Project Account  
Years Ended September 30, 2020 and 2019

	2020	2019 (As Restated)
Cash receipts:		
ADB Grant drawdowns	\$ 668,358	\$ 275,550
Other	2,089	-
	<u>670,447</u>	<u>275,550</u>
Total cash receipts		
Cash payments:		
Investment Costs:		
Teaching supplies and resources	61,997	6,498
Training and capacity building	171,010	35,532
Equipment	49,629	1,994
Consulting services	229,000	80,000
Recurrent Costs:		
Project management costs	156,722	151,526
Refund to PSS	1,989	-
Disallowed bank charges	-	100
	<u>670,347</u>	<u>275,650</u>
Total cash payments		
Net change	<u>100</u>	<u>(100)</u>
Imprest account balance at beginning of year, as previously reported	49,900	56,395
Restatement (Note 6)	-	(6,395)
	<u>49,900</u>	<u>50,000</u>
Imprest account balance at beginning of year, as restated		
Imprest account balance at end of year	<u>\$ 50,000</u>	<u>\$ 49,900</u>

See accompanying notes to financial statement.

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Notes to Statement of Project Account  
Years Ended September 30, 2020 and 2019

**(1) Organization**

On July 7, 2017, the Republic of the Marshall Islands (RMI) entered into a grant agreement (Grant Number 0536 RMI (SF)) with the Asian Development Bank (ADB) in the amount of \$6,500,000 for the Improving the Quality of Basic Education in the North Pacific Project (the Project), with a grant closing date of January 31, 2024. The objective of the Project is to: (1) address factors to improve the conditions for learning in the Marshall Islands; (2) to build on the successes and lessons learned under the Quality Primary Education in the North Pacific technical assistance; (3) and to allow for a more comprehensive and sustained approach required for effective reforms within the primary education sector.

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 RMI Public School System (PSS), as the Project Implementation Agency, is responsible for carrying out the Project. PSS established the PSS Imprest Account to facilitate the implementation of the Project through timely release of funds and made \$50,000 of grant proceeds available for this purpose. PSS is required to operate and liquidate the PSS Imprest Account in accordance with ADB regulations. The accompanying statements of project account are prepared and solely incorporate the activities of the Project maintained by PSS and does not incorporate any accounts related to any other departments or agencies of the RMI or PSS.

**(2) Summary of Significant Accounting Principles**

**Basis of Accounting**

The Project's policy is to maintain its accounts and prepare its financial statements on the cash receipts and disbursements basis of accounting. All transactions are recognized as receipts or disbursements, including direct payments made by the ADB to vendors. Direct payments are disbursements made by the ADB, at the request of the RMI PSS, to designated beneficiaries (e.g., supplier, contractor, or consultant) directly. The cash basis differs from accounting principles generally accepted in the United States of America primarily because receipts/revenues are recognized when received rather than when earned and disbursements/expenses are recognized when paid rather than when the obligation is incurred.

**Cash**

For the purpose of the statements of project account, the Project considers cash to be cash in deposit accounts. As of September 30, 2020 and 2019, the carrying amount of the Project's total cash was \$30,066 and \$20,870, respectively, and the corresponding bank balance was \$35,171 and \$28,323, 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.

**(3) ADB Imprest Fund Account**

For the years ended September 30, 2020 and 2019, the ADB made available grant proceeds in the amount of \$668,358 and \$275,550, respectively, for expenditures incurred under certain categories of the Project.

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Notes to Statement of Project Account  
Year Ended September 30, 2020 and 2019

(3) ADB Imprest Fund Account, Continued

Reconciliation of the ADB Imprest Account to cash as of September 30, 2020 and 2019, is as follows:

	<u>2020</u>	<u>2019</u>
ADB Imprest Account balance end of year	\$ <u>50,000</u>	\$ <u>49,900</u>
Cash disbursements withdrawn from ADB Imprest Account:		
Claimed but not yet received	(16,818)	(12,481)
Not yet claimed for replenishment	<u>(3,116)</u>	<u>(16,549)</u>
	<u>(19,934)</u>	<u>(29,030)</u>
Cash balance end of year	\$ <u>30,066</u>	\$ <u>20,870</u>

(4) RMI Government Contributions

Under the provisions of the grant agreement, the RMI is required to provide counterpart in-kind contributions estimated at \$1,000,000 in the form of recurrent costs such as office space, utilities, administration and support staff, and taxes and duties exemption. The total actual amount of in-kind RMI Government contributions cannot be reliably measured and fully quantified. Management believes that the counterpart in-kind contributions from the RMI Government will be provided throughout the duration of the Project. For the years ended September 30, 2020 and 2019, 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 \$63,880 and \$45,148, respectively, for Project recurrent costs.

(5) Commitments

The ADB has made grant proceeds of \$6,500,000 available to the RMI for the purpose of exclusively financing Project expenditures in accordance with grant agreement provisions. As of September 30, 2020, remaining commitments associated with unused grant proceeds amount to \$5,121,799.

(6) Restatement

Subsequent to the issuance of the Project's 2019 financial statements, Project management determined that beginning Imprest Account balance was overstated by \$6,395 while ADB grant receipts and related Project cash payments were understated by \$13,658 and \$7,363, respectively. As a result of this determination, the related balances have been restated from the amounts previously reported as follows:

	<u>As Previously Reported</u>	<u>Restatement</u>	<u>As Restated</u>
As of October 1, 2018:			
Imprest Account	\$ <u>56,395</u>	\$ <u>(6,395)</u>	\$ <u>50,000</u>
Year ended September 30, 2019:			
Cash receipts:			
ADB Grant drawdowns	\$ <u>261,892</u>	\$ <u>13,658</u>	\$ <u>275,550</u>
Cash payments:			
Recurrent costs:			
Project management costs	\$ <u>137,868</u>	\$ <u>13,658</u>	\$ <u>151,526</u>
Refund from RepMar	\$ <u>6,395</u>	\$ <u>(6,395)</u>	\$ <u>-</u>
Disallowed bank charges	\$ <u>-</u>	\$ <u>100</u>	\$ <u>100</u>



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Combining Statement of Project Account Cash Receipts and Payments  
Year Ended September 30, 2020

	<u>PSS Imprest Account</u>	<u>ADB Direct Payments</u>	<u>Total</u>
Cash receipts:			
ADB Grant drawdowns	\$ 116,914	\$ 551,444	\$ 668,358
Other	2,089	-	2,089
Total cash receipts	<u>119,003</u>	<u>551,444</u>	<u>670,447</u>
Cash payments:			
Investment Costs:			
Teaching supplies and resources	5,369	56,628	61,997
Training and capacity building	5,880	165,130	171,010
Equipment	1,284	48,345	49,629
Consulting services	-	229,000	229,000
Recurrent Costs:			
Project management costs	104,381	52,341	156,722
Refund to PSS	1,989	-	1,989
Total cash payments	<u>118,903</u>	<u>551,444</u>	<u>670,347</u>
Net change	100	-	100
Imprest account balance at beginning of year	<u>49,900</u>	<u>-</u>	<u>49,900</u>
Imprest account balance at end of year	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ 50,000</u>

See accompanying independent auditors' report.

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Combining Statement of Project Account Cash Receipts and Payments  
Year Ended September 30, 2019

	<u>PSS Imprest Account</u>	<u>ADB Direct Payments</u>	<u>Total</u>
Cash receipts:			
ADB Grant drawdowns	\$ 181,892	\$ 93,658	\$ 275,550
Cash payments:			
Investment Costs:			
Teaching supplies and resources	6,498	-	6,498
Training and capacity building	35,532	-	35,532
Equipment	1,994	-	1,994
Consulting services	-	80,000	80,000
Recurrent Costs:			
Project management costs	137,868	13,658	151,526
Disallowed bank charges	100	-	100
Total cash payments	<u>181,992</u>	<u>93,658</u>	<u>275,650</u>
Net change	<u>(100)</u>	<u>-</u>	<u>(100)</u>
Imprest account balance at beginning of year, as previously reported	56,395	-	56,395
Restatement	<u>(6,395)</u>	<u>-</u>	<u>(6,395)</u>
Imprest account balance at beginning of year, as restated	<u>50,000</u>	<u>-</u>	<u>50,000</u>
Imprest account balance at end of year	<u>\$ 49,900</u>	<u>\$ -</u>	<u>\$ 49,900</u>

See accompanying independent auditors' report.

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Schedule of Budgeted v Actual Expenditures  
Period From Inception (July 7, 2017) through September 30, 2020

	<u>Budget</u>	<u>Actual Expenditures</u>			<u>Variance</u>
		<u>October 1, 2019 to September 30, 2020</u>	<u>Prior Period Cumulative</u>	<u>Cumulative from July 7, 2017 to September 30, 2020</u>	
Expenditures:					
Investment Costs:					
Teaching supplies and resources	\$ 1,222,663	\$ 61,997	\$ 7,834	\$ 69,831	\$ 1,152,832
Training and capacity building	2,183,556	171,010	439,167	610,177	1,573,379
Equipment	124,769	49,629	8,834	58,463	66,306
Consulting services	<u>1,140,000</u>	<u>229,000</u>	<u>80,000</u>	<u>309,000</u>	<u>831,000</u>
	<u>4,670,988</u>	<u>511,636</u>	<u>535,835</u>	<u>1,047,471</u>	<u>3,623,517</u>
Recurrent Costs:					
Project management costs	<u>907,800</u>	<u>156,722</u>	<u>174,008</u>	<u>330,730</u>	<u>577,070</u>
	<u>907,800</u>	<u>156,722</u>	<u>174,008</u>	<u>330,730</u>	<u>577,070</u>
Contingencies:					
Physical	557,879	-	-	-	557,879
Price	<u>363,333</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>363,333</u>
	<u>921,212</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>921,212</u>
Total expenditures	<u>\$ 6,500,000</u>	<u>\$ 668,358</u>	<u>\$ 709,843</u>	<u>\$ 1,378,201</u>	<u>\$ 5,121,799</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 Kitlang Kabua  
Ministry of Education, Sports and Training  
Republic of the Marshall Islands:

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 *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statement of the Republic of the Marshall Islands (RMI) Improving the Quality of Basic Education in the North Pacific Project (the "Project"), financed by the Asian Development Bank's Special Fund (Grant Number 0536-RMI (SF)), which comprises the statement of project account for the year ended September 30, 2020, and the related notes to the financial statement, and have issued our report thereon dated April 21, 2021.

### **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) as a basis for designing 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. 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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as item 2020-001 that we consider to be significant deficiencies.

### **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 disclosed no instances of noncompliance or other matters that are 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 subjected to the auditing procedures applied in the audit of the financial statements 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 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 + Tuck LLP". The signature is written in a cursive, stylized font.

April 21, 2021

**REPUBLIC OF THE MARSHALL ISLANDS  
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Schedule of Findings and Responses  
Year Ended September 30, 2020

Finding No.: 2020-001  
Area: Bank Reconciliations

Criteria: Bank reconciliations are an essential internal control procedure necessary in preventing and detecting fraud as well as identifying accounting and bank errors.

Condition: Bank reconciliations are not performed between the Project's accounting records cash balance and the bank balance position per the imprest account bank statement.

Cause: There is a lack of established internal control policies and procedures requiring the reconciliation between cash and bank statement balances.

Effect: The effect of the condition is an inability to timely identify accounting and bank errors.

Recommendation: We recommend the Project establish internal control policies and procedures requiring timely reconciliation of reported cash to bank statement balances.

Auditee Response and Corrective Action Plan: In addition to the Advance Account Reconciliation Statement (AARS) required by ADB, the Project already has a system in place to monitor the incoming and outgoing of cash in the Advance Account/Imprest Account. It is updated every month following the receipt of the Account's monthly statement from Bank of Guam. The record is provided in the following page. This system allows us to keep track of all checks issued and all other activities that modify the balance of the Advance/Imprest Account. It even shows the checks that are outstanding. The cash balance shown in the record matches what is shown on Note 3 of the Notes to Statement of Project Account.

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Unresolved Prior Year Findings  
Year Ended September 30, 2020

There are no unresolved prior year findings.