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August 1, 2022

Mr. Patrick Langrine
Secretary of Finance, Banking and Postal Services
Public Financial Management Project
Republic of the Marshall Islands

Mr. Jack Chong Gum
Chief Executive Officer
Majuro Power Network Strengthening Project
Marshalls Energy Company, Inc.
P.O. Box 1439
Majuro MH 96960

Dear Secretary Langrine and CEO Chong Gum:

In planning and performing our audit of the financial statements of the Republic of the Marshall Islands (RMI) Majuro Power Network Strengthening Project (the Project) for the year ended September 30, 2021 (on which we have issued our report dated August 1, 2022), 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 the Project'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 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 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, other matters as of September 30, 2021, that we wish to bring to your attention.

We have also issued a separate report to the Minister of Finance, Banking and Postal Services, also dated August 1, 2022, 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 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 Minister of Finance, Banking and Postal Services, 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 the Project for their cooperation and assistance during the course of this engagement.

Very truly yours,

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

SECTION I - OTHER MATTERS

Our observations concerning other matters related to operations, compliance with laws 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) Timely Financial Reporting

Section 2.09 of the Project Grant Agreement requires that Marshalls Energy Company (MEC) maintain records of the Project, prepare annual financial statements of the Project, and submit the audited financial statements of the Project to the Asian Development Bank (ADB) nine months after the fiscal year ended September 30, 2021. MEC did not finalize the fiscal year financial information (schedule of expenditures) until May 25, 2022. We recommend MEC management establish internal control policies and procedures to timely facilitate the reporting process.

(2) Review of Consultant Billings

Schedule 2 of the Grant Agreement requires that 100% of total expenditure claimed are exclusive of taxes and duties imposed within the Republic of Marshall Islands. During the year ended September 30, 2021, payments made for consulting services of \$53,491 were net of \$5,943 representing 10% non-resident taxes. We recommend MEC management establish internal control policies and procedures requiring consulting service payments be made exclusive of taxes.

SECTION II - 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

The Project'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.