

REPUBLIC OF THE MARSHALL ISLANDS
Office of the Auditor-General



Seventy-Eighth (78th) Semi-Annual Report of
the Functions and Activities of the Office of
the Auditor-General

SUBMITTED TO THE NITIJELA DURING ITS 44TH
CONSTITUTIONAL REGULAR SESSION [PART I]

JANUARY 2023



REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF THE AUDITOR-GENERAL

P.O. Box 245
Majuro, Republic of the Marshall Islands 96960
Email Address: patrjun@gmail.com Web: www.rmioag.com

February 14, 2023

The Honorable Kenneth A. Kedi
Speaker
Nitijela of the Marshall Islands
Majuro, MH 96960

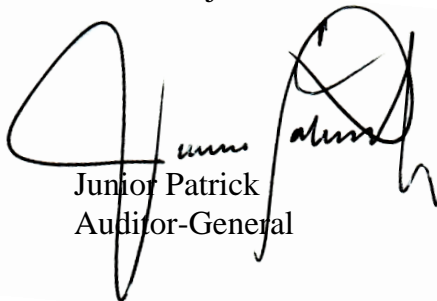
Dear Speaker Kedi:

I am pleased to submit herewith Thirty Six (36) copies of our Seventy-Eighth (78th) Semi-Annual Report of the Functions and Activities of the Office of the Auditor-General in accordance with Article VIII, Section 15(4) of the Constitution of the Republic of the Marshall Islands and Section 903(1) of the Auditor-General Act of 1986. This report covers activities of the Office during the period from July 1, 2022 thru December 31, 2022, and it included all reports completed as of the printing date of this report.

The electronic copies of each report completed and included in this Semi-Annual will also be available to Honorable Members of the Nitijela and other Stakeholders including the General Public via the Office website at www.rmioag.com.

Should you or any Member (s) of the Nitijela have question concerning this submission, please do not hesitate to contact this Office.

Ilo Kautiej,



Junior Patrick
Auditor-General

Enclosures: Thirty Six (36) copies of 78th Semi-Annual Report of the Functions and Activities of the Office of the Auditor-General

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REPUBLIC OF THE MARSHALL ISLANDS
OFFICE OF THE AUDITOR-GENERAL

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**SEVENTY-EIGHTH (78TH) SEMI-ANNUAL REPORT OF THE FUNCTIONS
AND ACTIVITIES OF THE OFFICE OF THE AUDITOR-GENERAL
JULY 1, 2022 THRU DECEMBER 31, 2022 (AND INCLUDED ALL AUDITS
COMPLETED AS OF THE PRINTING DATE OF THIS REPORT)**

INTRODUCTION

The Auditor-General, under the Constitution of the Republic of the Marshall Islands, Article VIII, Section 15, is charged with the responsibility to audit *“Public funds and accounts of the Republic of the Marshall Islands including those of all Departments or offices of the legislative, executive and judicial branches of government and of any other public corporation or statutory authority constituted under the law of the Republic unless, in relation to any such public corporation or other statutory authority, provision is made by Act for audit by any other person”*.

In addition, the following legislations imposed other duties and responsibilities upon the Auditor-General:

1. Public Law 1986-25 (The Auditor-General’s Act of 1986) – *“The Auditor-General shall from time to time make such other audits of the government agencies, activities, contracts, or grants as are possible within the budget provided for him and as he deems to be in the public interest and consistent with this Act”*. This Act also imposes a responsibility upon the Office of the Auditor-General to *“prevent and detect fraud, abuse, and waste in the collection and expenditure of all public funds”*. In accordance with Section 6 (1) of the Act the *“Auditor-General may retain the services of independent certified public accountants, qualified management consultants, or other professional persons, as he deems necessary to assist him in carrying out his duties”*.
2. Public Law 1981-2 (Local Governments Act of 1980), designates the Auditor-General as auditor for local governments’ funds and accounts.
3. Public Law 1993-63 (Ethics in Government Acts of 1993). The Auditor-General is a member of the Government Ethics Board pursuant to provisions of this Act and, therefore, the Auditor-General has a responsibility to enforce the ethical conduct principles stipulated in the Act.

The Auditor-General is required under the Constitution to report, “*at least once annually to the Nitijela at its regular session*”. We have established a policy of preparing semi-annual reports in January and August. This is the Seventy-Eighth (78th) semi-annual report.

In the interest of maintaining organizational independence, Article VIII Section 15 (5) of the Constitution of the Republic of the Marshall Islands states, “*The Auditor-General shall not receive any direction from the Cabinet or from any other authority or person, but shall act independently*”. All reports submitted herein were performed and completed without known impairments to audit independence.

ORGANIZATIONAL STATUS

As of the reporting period, the Office of the Auditor-General (OAG) has 22 officers: 6 performance auditors; 6 financial auditors, 6 investigators, and 4 support staff. During this period, our Chief of Investigations returned to Australia to continue his Master’s Degree in Cyber Security study at the Edith Cowan University in Perth, Australia, under an Australian Awards scholarship. Two investigators went on (and are still on) extended medical leave in the US mainland.

We will revisit the salary compensation structure for our auditors to match their responsibilities. We will also consider the salary compensation that other government departments pay their auditors in their internal audit functions.

Exhibit I describes the updated organizational structure of the Office.

AUDIT ACTIVITIES

Exhibit II provides a status of audits that were commenced, ongoing, and completed during the reporting period. The following audits were completed during this reporting period (*See Attachment I and XVIII*).

- Lib Island Local Government FY2014 thru FY2018
- Ujae Atoll Local Government FY2014 thru FY2018
- Kili/Bikini/Ejit Local Government FY2014 thru FY2018
- Health Care Revenue Fund FY2021
- Marshalls Energy Company, Inc. FY2021
- Marshall Islands Development Bank FY2021
- Marshall Islands Postal Services Authority FY2021
- Marshall Islands Shipping Corporation FY2021
- Marshall Islands Scholarship Grant and Loan Board FY2021
- Marshall Islands Social Security Administration FY2021

- Majuro Resort, Inc. FY2021
- Office of Commerce, Investment & Tourism FY2021
- RMI Ports Authority FY2021
- Tobolar Copra Processing Authority FY2021

SINGLE AUDIT OF REPMAR FY2021

The Single Audit of the Government of the Republic of the Marshall Islands (RepMar) required by the Compact Treaty for the fiscal year ending September 30, 2021 (FY2021) is in the final stage of completion.

The draft auditor's report which is being finalized includes an adverse audit opinion because RepMar's financial statements do not include the financial statements of the College of the Marshall Islands (CMI), Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR), Majuro Water and Sewer Company, Inc. (MWSC) and the Marshall Islands Marine Resources Authority (MIMRA). CMI, KAJUR, MWSC and MIMRA are material component units of RepMar and generally accepted accounting principles (GAAP) in the United States of America require their financial statements to be included in the RepMar reporting entity financial statements. The omission of CMI, KAJUR, MWSC and MIMRA financial statements from the RepMar reporting entity financial statements represents a major departure from GAAP and hence the adverse audit opinion.

This final Single Audit report of RepMar will be transmitted to Nitijela under a separate cover.

INVESTIGATION ACTIVITIES

We continue our reviews into all known allegations of fraud that are reported to us, including those we come across in our audit engagements. During this reporting period, we recorded 3 new allegations: 1 of which we could not pursue due to jurisdictional issues. The other 2 allegations relate to embezzlement and/or misappropriation of public funds and assets.

As of this reporting period, we have 4 open investigations: 1 in the final state of completion and the other 3 investigations were completed and referred earlier but were sent back to us for purposes of obtaining additional evidence to support further legal proceedings. Our investigations will continue for other allegations recorded and the results will be referred directly to the Attorney-General when we have grounds to believe that criminal laws have been violated and other instances where civil recovery proceeding would be appropriate. In addition, we will also refer matters requiring administrative proceedings to the appropriate authorities in accordance with the revised Audit Act.

TRAINING AND CAPACITY BUILDING

We maintain training programs to increase staff proficiency. During this reporting period, we participated in the following training and capacity building programs:

- On October 5, 2022 and November 1, 2022, the Audit Manager and Supervisors (performance auditing) attended a training entitled *Compliance and Performance Audit – Strategic Audit Planning Workshop*. The objective of the training was to enhance auditors’ coverage of significant issues that will likely have an impact on improving the conduct of government operations and programs through compliance and performance audits. The training was sponsored by the Pacific Association of Supreme Audit Institutions (PASAI) and delivered virtually.



AUDIT MANGER AND SUPERVISORS WITH PARTICIPANTS AT THE *COMPLIANCE AND PERFORMANCE AUDITING - STRATEGIC AUDIT PLANNING WORKSHOP*

- In November 2022, the OAG received additional training and support in the area of fraud detection and prevention through the placement of an expert (Fraud Adviser) in the field. The Fraud Adviser will be stationed at the OAG for a period of 8-9 months, and possibly longer, to provide support to the OAG to strengthen its capability to conduct special reviews into alleged fraudulent activities across governmental institutions. The Fraud Adviser is funded through the Budget Support program from the EU towards RMI’s Public Financial Management (PRF) reforms.



MR. MARC ANDREW ALIX (FRAUD ADVISER) (R) WITH OAG INVESTIGATORS

- On November 23, 2022 the audit staff attended a 2-hour training on the Association of Pacific Islands Public Auditors (APIPA) Peer Review¹ process. The purpose of the workshop was to walk through the APIPA peer review manual, the peer review process, and required forms and documents that a peer review team must collect and prepare as part of an APIPA peer review. The training also covered planning for a peer review, conducting the on-site review, and preparing the peer review reports at the end of the review. This workshop focused on the practical work of an APIPA peer review team. The training was sponsored by Graduate School USA with funding support from the U.S. Department of the Interior, Office of Insular Affairs.
- On December 9, 2022, the Auditor-General and Assistant Auditor-General attended a full-day workshop on *Ethical Decision Making for Government Employees* with other senior leaders from government ministries and departments. The Government Ethics Board (GEB), which is comprised of the Chief Secretary, Attorney-General, and the Auditor-General, provided the opening address and gave a presentation on the RMI ethical conduct requirements imposed on all public officials and government employees as stipulated under the Constitution and the Ethics in Government Act of 1993 [P.L. 1993-63]. The

¹ Generally Accepted Government Auditing Standards (GAGAS) requires all audit organizations that perform audits and attestation engagements in accordance with GAGAS to have an external peer review performed by reviewers independent of the audit organization being reviewed at least once every three years. APIPA member offices have arranged for these peer reviews to be performed by and for its members every 3 years to satisfy the GAGAS requirement.

GEB remained on hand throughout the workshop to provide support to the instructor and also answer questions from the participants about ethical situation they may find themselves in the work place. The workshop was facilitated by Mr. Drummond Kahn of Graduate School USA and funded by the World Bank Public Financial Management (PAFM) project and organized by the Public Service Commission and the Office of the Chief Secretary.



MR. KAHN PRESENTS ETHICAL DECISION MAKING FOR GOVERNMENT EMPLOYEES AT THE ICC



MR. KAHN WITH MEMBERS OF THE GOVERNMENT ETHICS BOARD IN FRONT OF THE OFFICE OF THE AUDITOR-GENERAL COMPLEX

- From December 12 – 14, 2022, the Auditor-General and staff participated in a training in the area of *Performance Auditing and Writing Audit Reports by Objectives* at the OAG’s complex in Majuro. The training was designed for public audit professionals who are actively conducting and delivering performance audit results and new auditors who have just started their performance auditing careers. The training was delivered by Mr. Drummond Kahn who serves on the faculty of the Graduate School USA and who is also a past national President of the Association of Local Government Audits (ALGA). The three-day course was sponsored by Graduate School USA with funding support from the United States Department of the Interior, Office of Insular Affairs.



MR. KAHN DELIVERED PERFORMANCE AUDIT TRAINING TO OAG STAFF



MR. KAHN WITH OAG STAFF ON THE LAST DAY OF TRAINING IN FRONT OF THE OFFICE OF THE AUDITOR-GENERAL COMPLEX

- During its special meeting in December 2022 in the US Territory of Guam, the Association of Pacific Islands Public Auditors (APIPA) Principals (or APIPA Executive Body) formalized its decision for the APIPA 2023 annual conference and workshop to be held in Majuro, RMI. The APIPA 2023 conference has been tentatively scheduled to take place during the week of August 28, 2023 thru September 1, 2023. This will be the first in-person APIPA workshop after 3 years of virtual trainings. The purpose of the annual APIPA workshop is to provide trainings for our auditors to maintain the training hours (continuing professional education or CPEs) required of auditors that are performing audits and attestations engagement that are guided by the *Government Auditing Standards*.

The OAG will host this year’s conference in collaboration with the Graduate School USA with funding for instructors and training materials provided by the U.S. Department of the Interior’s Office of Insular Affairs.



AUDITOR GENERAL (JOINED ONLINE) AND ASST. AUDITOR-GENERAL (JOINED IN-PERSON) AT THE SPECIAL MEETING OF APIPA PRINCIPALS AT THE GUAM OFFICE OF PUBLIC ACCOUNTABILITY IN THE US TERRITORY OF GUAM WHERE DECISION WAS MADE TO HAVE APIPA 2023 IN RMI

OTHER MATTERS

OAG TO ENGAGE ERNST & YOUNG LLP MICRONESIA TO REPLACE DELOITTE

We previously reported that Deloitte Micronesia was discontinuing its audit business in RMI and across the Pacific region, and therefore unable to perform its outstanding obligations under our audit service agreement. Deloitte’s sudden closure puts us in a desperate situation to find a qualified CPA firm (audit firm)² to ensure the continuity of audit services for RMI governmental institutions.

After several meetings with relevant authorities³ to consider and weigh our options to engage the services of a qualified audit firm to replace Deloitte, we have decided to assign or transfer the

² Compact Treaty requires the annual Single Audit of the GRMI to be performed by a reputable audit firm (one of the Big 4 accounting firms). The Big4 accounting firms recognized worldwide are Deloitte, Ernst & Young (EY), PricewaterhouseCoopers (PwC) and Klynveld Peat Marwick Goerdeler (KPMG)

³ OAG held several meeting with the Secretary of Finance, Attorney-General and Chief Procurement Office to discuss options to engage a qualified CPA firm to ensure continuity of audit services for RMI governmental institutions.

current contract agreement between the GRMI and Deloitte Micronesia to Ernst & Young LLP of Guam (EY) via a sole source.

This decision was made after EY pledged to the RMI Auditor-General that it has the resources and is willing to continue the remainder of the contract between GRMI and Deloitte under the same terms and conditions. EY also confirmed that it has completed the legal process and had been granted a Corporate Charter and Foreign Investment Business License to carry on business lawfully in the Republic. EY also confirmed to the RMI Auditor-General to deliver quality audit services using the EY audit process and that it will absorb the entire professional staff from Deloitte and operate a full-time EY office in Majuro. We understand that in addition to the Majuro professional staff, EY has employed other former Deloitte auditors, including senior professional staff, while some are in transition to be employed by EY.

Our assessment is that EY Micronesia has the ability and resources to fulfill the audit services called for under the current audit service contract. We determined also that EY, after taking over Deloitte's professional staff, is the only qualified CPA firm in our region⁴ with the capability to provide the audit services we require.

To satisfy the RMI procurement requirement, we prepared a justification to document the decision and rationale to assign (via sole source) the current audit service contract between Deloitte and the GRMI to EY without going out for bid altogether again. This document explains why the legally mandated competitive process required for the procurement of services for the GRMI is not the most practicable option or is not in the best interests of the Republic under the circumstances. Our sole source justification is attached to this report as Exhibit III.

AUDITOR-GENERAL ATTENDED 32ND PASAI GOVERNING BODY MEETING

On November 24, 2022, the Auditor-General attended the 32nd Governing Body meeting of the Pacific Association of Supreme Audit Institutions (PASAI) in Auckland, New Zealand. The Auditor-General attended the PASAI Governing Board meeting in the capacity as representative of Micronesia SAIs.

PASAI is the official association of supreme audit institutions (government audit offices and similar organizations, known as SAIs) in the Pacific region. PASAI promotes transparent, accountable, effective, and efficient use of public sector resources in the Pacific. The Governing Board sets PASAI's direction and oversees the activities of its Secretariat. The Governing Board is responsible for formulating strategies and policies for the organization.

During the meeting, the Board received updates from PASAI's Secretariat on its activities during the first four months of the 2022-2023 financial year. The Members also reviewed and endorsed

⁴ It is in the interest of the GRMI to engage CPA firms within closed proximity in order to keep reimbursable expenses at minimum (travel expenses, car rental and hotel accommodation are example of reimbursable expenses).

certain revisions to PASAI’s policies and also commenced work on developing PASAI’s next Strategic Plan.



AUDITOR-GENERAL WITH ATTENDEES AT PASAI 32ND GOVERNING BOARD MEETING IN AUCKLAND, NEW ZEALAND

DEDICATION AND BLESSING OF OAG’S NEWLY REPAIRED AND EXPANDED COMPLEX

On November 11, 2022, the OAG held a blessing ceremony for its newly constructed/renovated Office complex in Delap Village, Majuro. Among those attending the dedication ceremony were H.E. David Kabua, President, First Lady Ginger Kabua, and Honorable Kenneth A. Kedi, Speaker of the Nitijela and several members of the Presidential Cabinet and the Nitijela. Both President Kabua and Speaker Kedi delivered remarks and congratulated the Auditor-General and staff for the completion of the newly renovated/expanded OAG complex.

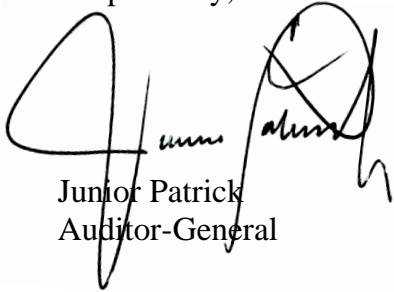
We are grateful to the Nitijela for the funding that has made this much needed Office repair and expansion work possible.



PUBLICATION OF AUDIT REPORTS SUBMITTED

In accordance with the Auditor-General Act of 1986 [P.L. 1986-25], all audits completed during this reporting period will also be made available to the Honorable Members of the Nitijela and other stakeholders including the general public via the official website of the OAG at www.rmioag.com.

Respectfully,



Junior Patrick
Auditor-General

February 2023

EXHIBIT I: UPDATED ORGANIZATIONAL CHART

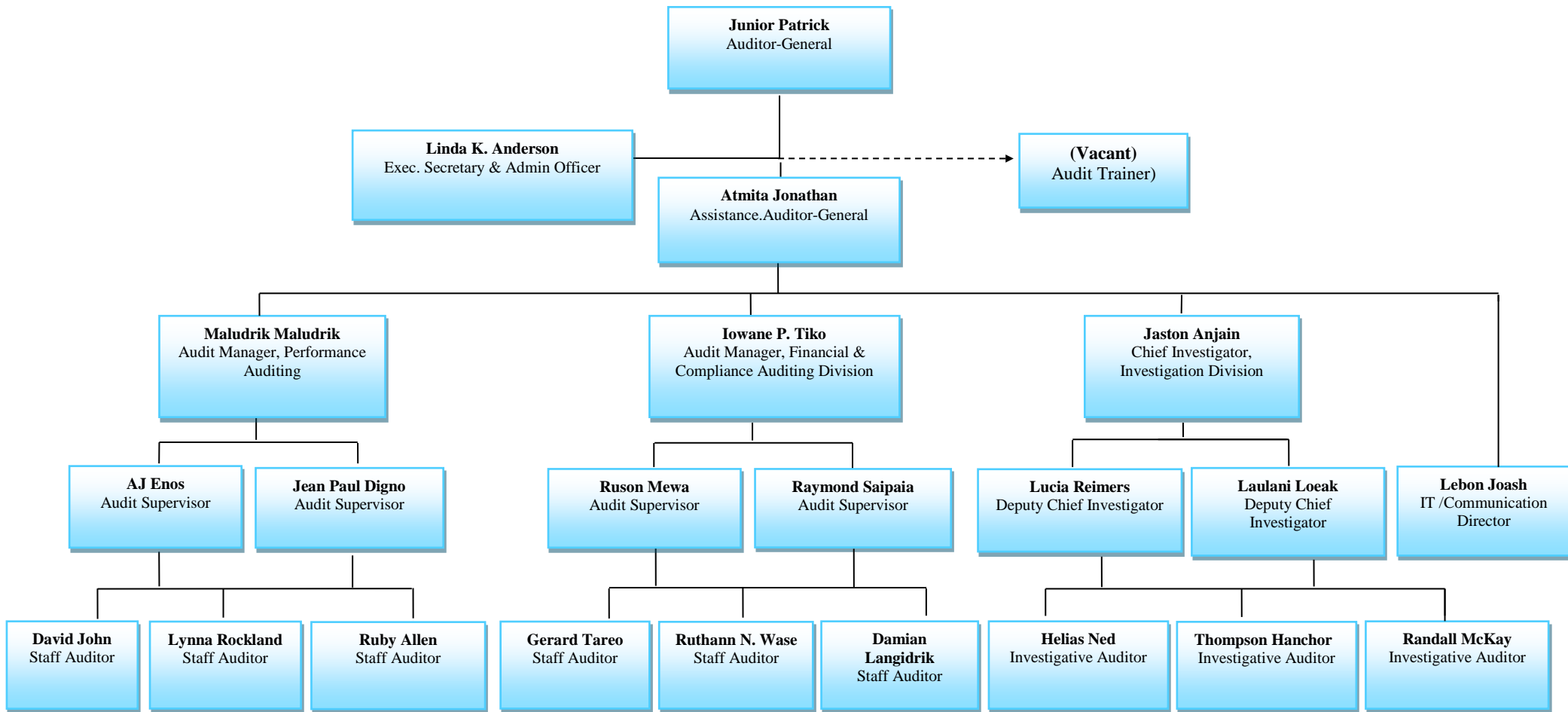


EXHIBIT II: AUDIT ACTIVITIES (JULY 1, 2022 THRU DECEMBER 31, 2022 (INCLUDED STATUS AS OF PRINTING DATE OF THIS REPORT))

<u>AUDITEE</u>	<u>TYPE OF AUDIT</u>	<u>REMARKS</u>
1. Lib Island Local Government	Financial/Compliance [FY2014 thru FY2018]	Report completed and included in this semi-annual report
2. Ujae Atoll Local Government	Financial/Compliance [FY2014 thru FY2018]	Report completed and included in this semi-annual report
3. Jaluit Local Government	Financial/Compliance [FY2014 thru FY2018]	Audit completed and final review before draft is issued
4. Aur Atoll Local Government	Financial/Compliance [FY2014 thru FY2019]	Audit fieldworks completed, and report being reviewed
5. Ebon Atoll Local Government	Financial/Compliance [Y2013 thru FY2018]	Audit in planning and survey in progress
6. Maloelap Atoll Local Government	Financial/Compliance [FY2017 thru FY2020]	Audit in planning and survey in progress
7. Mili Atoll Local Government	Financial/Compliance [FY2013 thru FY2017]	Audit planned for this year
8. Namdrik Atoll Local Government	Financial/Compliance [FY2014 thru FY2018]	Audit planned for this year
9. Wotje Atoll Local Government	Financial/Compliance [FY2015 thru FY2019]	Audit planned for this year
10. ADB Project 6028 (Preparing Urban Service Improvement Projects)	Financial/Compliance [FY2021 & FY2022]	Audit planning and survey in progress
11. RMI Embassy in Japan	Internal Control/Compliance	Audit completed and draft report issued for management response
12. RMI Embassy in Taiwan	Internal control/Compliance [FY2011 thru FY2019]	Audit in planning phase
13. RMI Embassy in Fiji	Internal control/Compliance [FY2017 thru FY2020]	Audit in planning phase
14. RMI Consulate General Office HI	Internal Control/Compliance [FY2017 thru FY2020]	Audit planned for this year
15. Covid19 Relief Funds (National Treasury)	Compliance [FY2017 thru FY2021]	Audit in planning phase

EXHIBIT III: A COPY OF JUSTIFICATION FOR SOLE SOURCE DECISION



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Justification Concerning the Novation of Current Audit Service Contract Between the GRMI and Deloitte Micronesia to Ernst & Young Micronesia

Purpose

This is being prepared for RMI procurement records to document the decision and rationale to assign (via sole source) the current audit service contract between Deloitte LLP Micronesia (Deloitte) and the Government of the Republic of the Marshall Islands (GRMI) to Ernst & Young LLP Micronesia (EY) without going out for bid altogether again. This document explains why the legally mandated competitive process required for the procurement of services for the GRMI is not the most practicable option or is not in the best interests of the Republic under the circumstances.

Background

GRMI is required under the Compact Treaty with the U.S. Government to submit an annual Single Audit Report to the U.S. Congress each year. To satisfy this audit requirement, the GRMI has been engaging the services of Deloitte to perform its annual Single Audit which includes the audits of GRMI's reporting entities or component units over the years. The last audit service contract was also awarded to Deloitte to perform the single audit of GRMI and its component units for the fiscal years ending September 30, 2018, 2019 and 2020.

In April 2021, the Office of the Auditor-General (OAG), acting on behalf of GRMI, through its Chief Procurement Officer, went out for bidding and soliciting proposals from qualified CPA firms¹ to perform the single audit of GRMI and its component units for the financial year endings September 30th, 2021, 2022, and 2023. The solicitation of audit services was done through the use of Request for Proposals or RFP. Twenty-Two (22) CPA firms were invited to submit a proposal to perform the audit services in the RFP. At the proposal submission deadline, 2 submitted a proposal for our review and consideration which resulted in the selection of Deloitte which once again was determined to be the most advantageous proposal based on our evaluation criteria.

¹ Compact Treaty requires the annual Single Audit of the GRMI to be performed by a reputable audit firm (one of the Big 4 accounting firms). The Big4 accounting firms recognized worldwide are Deloitte, Ernst & Young (EY), PricewaterhouseCoopers (PwC) and Klynveld Peat Marwick Goerdeler (KPMG)

In August 2021, the GRMI awarded a new contract to Deloitte to perform its annual Single Audit and its component units and certain local governments for the fiscal year endings September 30th 2021, 2022, and 2023. Deloitte is currently performing the annual Single Audit of the GRMI and its component units for the fiscal year ending September 30, 2021 (or FY2021).

On July 11, 2022, unfortunately, Deloitte Micronesia informed the GRMI and other clients in the Pacific region about its parent company (Deloitte Global)'s decision to wind down its audit business and eventually will cease providing audit services and therefore will not take on any new audit engagements under Deloitte banner.

In light of this important development and to ensure continuity of audit services for GRMI governmental institutions, the OAG, the agency that is tasked under laws to audit and/or overseeing audit services, has met with relevant authorities to discuss options that are available to find a new auditor(s) to replace Deloitte. This is important as GRMI must satisfy its reporting obligation and submit its Single Audit annually as required under the Compact Treaty and other financial reporting obligations to its development partners and others stakeholders, including the RMI public.

In short, options that are available to the GRMI to secure a new auditor (s) are:

1. Go out for bid altogether again, or
2. Novate the current audit contract to Ernst & Young Micronesia (EY) to continue the remainder of the contract period under the same terms and conditions via sole source. This option was considered after EY notified the RMI Auditor-General that it is willing and able to continue the remainder of the contract period under the same terms and conditions should the GRMI "entertain" or "give its consent" to the contract assignment option. In addition, we receive word that the employees of Deloitte Micronesia and Deloitte offices throughout Micronesia, including the Majuro office, will become EY's.

§118. Authority to Contract for Certain Services.

(1) For the purpose of procuring the services of accountants, clergy, physicians, lawyers, and dentists, any governmental body of the Government may act as a Purchasing Agency and contract on its own behalf for such services, subject to this Act and regulations promulgated by the Policy Office. The Purchasing Agency shall consult with the Chief Procurement Officer or a designee of such officer when procuring such services.

(2) No contract for the services of legal counsel may be awarded without the approval of the Attorney-General. [P.L. 1988-33, §18.

§128. Sole Source Procurement.

A contract may be awarded for a supply, service, or construction item without competition when, under regulations promulgated by the Policy Office, the Chief Procurement Officer, the head of a Purchasing Agency, or a designee of either officer above the head of a Purchasing Agency, or a designee of either officer above the level of the

Procurement Officer determines in writing that there is only one source for the required supply, service, or construction item.
[P.L. 1988-33, §28.]

Justification/Rationale to Novate Current Contract to EY Micronesia without Going Out for Bid

As indicated above, procurement of the audit services was already done through the competitive process (RFP) as required by law. Unfortunately, Deloitte's unexpected decision to close down its audit business in the middle of its contract with the GRMI put GRMI in a desperate situation to find a new auditor, especially that audit deadlines do not wait. To engage the services of another CPA firm, we had initially considered going out for bid altogether (Option 1 above) despite it being a long process and would cause additional delays. However, Option 2 was later considered after we received word that EY is willing to continue the remainder of the audit services and contract period (audit FY2022 and FY2023) between Deloitte and GRMI.

In its letter to the RMI Auditor-General dated November 8, 2022, EY pledged to perform the remainder of the audit services or to perform the Single Audit of the GRMI for the fiscal year endings September 30, 2022 and 2023. EY also confirmed that it has completed the legal process and had been granted a Corporate Charter and Foreign Investment Business License to carry on business lawfully in the Republic. Further, EY also confirmed to the RMI Auditor-General to deliver quality audit services using the EY Audit Process and that will absorb or employ the entire professional staff from Deloitte and operate a full-time EY office in Majuro. We understand that in addition to the Majuro professional staff, some former Deloitte senior professional staff members have already moved over to EY while some are in transition to be employed by EY.

Our assessment is that EY Micronesia has the ability, capacity, resources and experience to fulfill the audit services called for in the current audit service contract. And accordingly, we believe that the novation of the current audit contract with Deloitte to EY is the best option to the GRMI under the circumstances. Other important factors we considered:

1. GRMI is already late in completing its required annual Single Audit. The audit for the financial year ending September 30, 2021 (FY2021) required by the Compact Treaty is currently underway. The deadline for the annual Single Audit is 9 months after each fiscal year ends. Accordingly, the deadline for the FY2021 audit was June 30, 2022 (7 months late from the deadline and counting). Going out for bid altogether again will only delay the commencement of the audit for FY2022 and subsequent audits. On the other hand EY has committed to fulfilling the audit services and it is our assessment that EY has the ability to perform the required audit services called for under the current contract.

2. GRMI must fulfill audit obligation under the Compact Treaty and complete its annual Single Audit in a timely manner and be accountable to its other development partners. The importance of GRMI completing its annual Single Audit in a timely manner cannot be overstated as the consequences of not completing the audit in a timely manner could result in the GRMI being designated a “high-risk” grantee, a position that will put the GRMI under closed financial scrutiny and possibility of funds being withheld. This is especially important as the GRMI engages with the US Government on future funding arrangements. Equally important, GRMI must demonstrate that same level of accountability and fulfill its other obligations to other development partners. Accordingly, securing the service of a CPA firm to perform the annual Single Audit as soon as possible is crucial.
3. There is a high probability that the GRMI will pay a higher price if it were to go out for bid altogether again. This is in addition to further delays caused by going through the bid process itself. There is a shortage of government auditors not only in our region but globally. In our region, Deloitte has been the audit firm that dominated government sector auditing. EY’s decision to absorb Deloitte’s professional staff including those in the Majuro office will make EY the only qualified CPA firm in our region² with the capability to provide the required services call for under the current audit service contract. Thus, it makes sense to award to EY that is willing to continue the 2 remaining years under the same terms and conditions. This works great for GRMI from a budget allocation perspective. On the other hand, if the GRMI were to go out for bid altogether, not only it would delay the engagement of a CPA firm to commence the audit works but there is a high probability that EY will use the opportunity and capitalize on this new monopoly and put a higher price tag. If such were to happen, GRMI will be forced to pay a higher price for the same service. Accordingly, accepting EY’s offer to continue to perform the remainder of the audit services under the same terms and conditions is the most reasonable option available to the GRMI.
4. We determined also that given the long years of performing the annual Single Audit of GRMI and its component units under previous arrangements, the Deloitte auditors have gained the knowledge and understanding of the financial activities and operations of GRMI and its entities. This was demonstrated by a clear audit work plan to accomplish the task in its bid. These same professional auditors will be taken over by EY and will continue to provide audit services. Furthermore, EY has committed to provide quality audit services and to investing in a long-term relationship with the GRMI through the operation of a full-time EY office in Majuro (soon-to-be former Deloitte Majuro office). By accepting the audit contract EY commits into a legally

² It is in the interest of the GRMI to engage CPA firms within closed proximity in order to keep reimbursable expenses at minimum (travel expenses, car rental and hotel accommodation are example of reimbursable expenses).

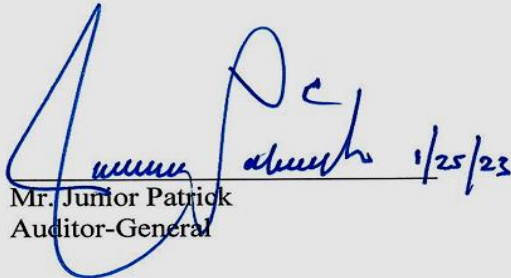
binding agreement with the GRMI to perform the audit services which can be enforced under RMI laws in the event of a breach of any terms of the agreement.

5. Discussion with Public Auditors in the region whose governments have been affected by the sudden closure of Deloitte audit business affirms our understanding that EY Micronesia, after taking over the Deloitte auditors, will be the most qualified CPA firm to provide audit services to governments in our region.

Final Decision to Novate the Current Audit Service Contract to EY Micronesia

Based on the justification and rationale above, we are of the opinion that the best option available for the GRMI to engage and secure the services of the CPA firm to perform its annual Single Audit is to assign the current audit service contract between the GRMI and Deloitte to EY. Going out for bid altogether again is not in the best interests of the GRMI under the circumstances and reasoning described above.

Submitted for the RMI procurement records by,

 1/25/23
Mr. Junior Patrick
Auditor-General


Mr. Bruce Loeak
Chief Procurement Officer

Enclosures:

1. Copy of commitment letter from EY to the RMI Auditor-General dated November 8, 2022.
2. Copy of Single Audit RFP and Contract (FY2021, FY2022 & FY2023)

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