

*Financial Statement, Supplementary and Other
Information, and Report on Internal Control and
Compliance*

Republic of the Marshall Islands
Preparing Urban Service Improvement Projects
(Financed by the Asian Development Bank's Special Fund -
Grant Number 6028 RMI (SF))

*Year ended September 30, 2023
with Report of Independent Auditors*



Republic of the Marshall Islands
Preparing Urban Service Improvement Projects
(Financed by the Asian Development Bank's Special Fund -
Grant Number 6028 RMI (SF))

Year ended September 30, 2023

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Report of Independent Auditors

Honorable Minister David Paul
Ministry of Finance, Banking and Postal Services
Republic of the Marshall Islands

Report on the Audit of the Financial Statement

Opinion

We have audited the financial statement of the Republic of the Marshall Islands (RMI) Preparing Urban Service Improvement Projects (the Project) financed by the Asian Development Bank's Special Fund - Grant Number 6028 RMI (SF), which comprises the statement of project account for the year ended September 30, 2023, and the related notes to the financial statement.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the cash receipts and disbursements of the Project for the year ended September 30, 2023 in accordance with the cash basis of accounting described in Note 2.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of the Project and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

Reporting Entity

As discussed in Note 1 to the financial statement, the financial statement referred to above presents only the activities of the Project administered by the RMI Ministry of Finance, Banking and Postal Services and is not intended to present fairly the 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.

Basis of Accounting

We draw attention to Note 2 of the financial statement, which describes the basis of accounting. The financial statement is 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.

Responsibilities of Management for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the cash basis of accounting described in Note 2 and for 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 of material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statement.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- Obtain an understanding of internal control relevant to the audit 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 Project's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Project's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement as a whole. The supplementary information on page 8 is presented for purposes of additional analysis and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement 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 statement as a whole.

Other Information

Management is responsible for the other information included in the financial statement. The other information comprises the Detailed Reconciliation of ADB Grant Funds Received on page 9 but does not include the financial statement and our auditor's report thereon. Our opinion on the financial statement does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statement, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statement, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2025, 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* in considering the Project's internal control over financial reporting and compliance.

Ernst + Young

April 11, 2025

Republic of the Marshall Islands
Preparing Urban Service Improvement Projects
(Financed by the Asian Development Bank's Special Fund -
Grant Number 6028 RMI (SF))

Statement of Project Account

Year ended September 30, 2023

Cash receipts:	
ADB grant drawdowns	\$ <u>619,363</u>
Total cash receipts	<u>619,363</u>
Cash disbursements:	
Investment costs:	
Consulting services	581,073
Materials and equipment	<u>38,290</u>
Total cash disbursements	<u>619,363</u>
Net change	\$ <u><u>---</u></u>

See accompanying notes.

Republic of the Marshall Islands
Preparing Urban Service Improvement Projects
(Financed by the Asian Development Bank's Special Fund -
Grant Number 6028 RMI (SF))

Notes to Financial Statement

Year ended September 30, 2023

1. Organization

On February 6, 2020, the Republic of the Marshall Islands (RMI) entered into a grant agreement (Grant Number 6028 RMI (SF)) with the Asian Development Bank (ADB) in the amount of \$5,000,000 for the Preparing Urban Service Improvement Projects (the Project), with a grant closing date of July 31, 2023. On July 27, 2023, the initial closing date was extended to July 31, 2025, as approved by the ADB.

The objective of the Project is to:

- a) provide capacity development of the project readiness financing (PRF) Implementing agencies for the Ensuing Projects through training and knowledge transfer activities, limited start-up activities including the establishment of the project management unit, and the implementation of public awareness and community outreach campaigns on water, sanitation and solid waste issues;
- b) provide project preparatory activities in the form of identifying the investment scope of ensuing Projects, conducting feasibility studies and due diligence assessments, completing detailed engineering design and surveys, and supporting advance procurement actions including preparation of bidding documents for priority project components;
- c) review of the financial management, performance, and tariff schemes of implementing agencies for the Ensuing Projects, capacity development to strengthen water supply and wastewater asset management and operations and procurement of leak detection equipment to support the building to reduce water loss; and
- d) development of an integrated solid waste management investment plan for Majuro.

The RMI Ministry of Finance, Banking and Postal Services is designated as the representative of the RMI for the purposes of the grant regulations as well as the Project Implementation Agency responsible for carrying out of the Project. The accompanying financial statement is prepared for and relates solely to those accounting records maintained by the RMI Ministry of Finance, Banking and Postal Services associated with the Project and do 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.

Republic of the Marshall Islands
Preparing Urban Service Improvement Projects
(Financed by the Asian Development Bank's Special Fund -
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Notes to Financial Statement, continued

2. Summary of Significant Accounting Principles

Basis of Accounting

The Project's policy is to maintain its accounts and prepare its financial statement on the cash basis of accounting. Cash basis of accounting is a special purpose framework, and similar to other bases such as tax, regulatory and contractual, use a definitive set of logical, reasonable criteria that is applied to all material items appearing in the financial statements. The cash, tax, regulatory, and other bases of accounting are commonly referred to as other comprehensive basis of accounting.

The cash basis differs from accounting principles generally accepted in the United States of America (GAAP) 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. The American Institute of Certified Public Accountants (AICPA) issues nonauthoritative guidance and best practices in the form of Practice Aids.

The financial statements are presented in US Dollars, which is the Project's functional and presentation currency.

3. RMI Government Contributions

Under the provisions of the grant agreement, the RMI Government is required to provide counterpart in-kind contributions estimated at \$502,000 in the form of exemption of taxes and duties. Management believes that the counterpart in-kind contributions from the RMI Government will be provided throughout the duration of the Project. For the year ended September 30, 2023, the RMI Government has not yet made counterpart in-kind contributions.

4. Commitments

The ADB has made grant proceeds of \$5,000,000 available to the RMI Government for the purpose of exclusively financing Project expenditures in accordance with grant agreement provisions. As of September 30, 2023, remaining commitments associated with unused grant proceeds amount to \$4,221,970.

5. Subsequent Event

The RMI Ministry of Finance, Banking and Postal Services has evaluated subsequent events through April 11, 2025, which is also the date the Project's financial statement is available to be issued.

Supplementary and Other Information

Republic of the Marshall Islands
Preparing Urban Service Improvement Projects
(Financed by the Asian Development Bank's Special Fund -
Grant Number 6028 RMI (SF))

Schedule of Budgeted vs. Actual Expenditures

Period from inception (February 6, 2020) through September 30, 2023

	Budget			Actual			Variance
	Original Budget	Adjustments	Adjusted Budget	Cumulative from February 6, 2020 to September 30, 2022	Year ended September 30, 2023	Cumulative from February 6, 2020 to September 30, 2023	
Expenditures:							
Investment costs:							
Consulting services	\$ 4,616,000	\$ ---	\$ 4,616,000	\$ 104,855	\$ 581,073	\$ 685,928	\$ 3,930,072
Materials and equipment	70,000	---	70,000	53,812	38,290	92,102	(22,102)
	<u>4,686,000</u>	<u>---</u>	<u>4,686,000</u>	<u>158,667</u>	<u>619,363</u>	<u>778,030</u>	<u>3,907,970</u>
Contingencies:							
Physical	237,000	---	237,000	---	---	---	237,000
Price	<u>77,000</u>	<u>---</u>	<u>77,000</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>77,000</u>
	<u>314,000</u>	<u>---</u>	<u>314,000</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>314,000</u>
Total expenditures	<u>\$ 5,000,000</u>	<u>\$ ---</u>	<u>\$ 5,000,000</u>	<u>\$ 158,667</u>	<u>\$ 619,363</u>	<u>\$ 778,030</u>	<u>\$ 4,221,970</u>

Republic of the Marshall Islands
Preparing Urban Service Improvement Projects
(Financed by the Asian Development Bank's Special Fund -
Grant Number 6028 RMI (SF))

Detailed Reconciliation of ADB Grant Funds Received

Period from inception (February 6, 2020) through September 30, 2023

WITHDRAWAL APPLICATION NOS. (WA)	DISBURSEMENT METHOD (Identify whether Reimbursement, Direct Payment, etc)	Per APFS (amount reported in the project financial statement as reimb, DP etc.) (A)				Per LFIS (actual paid per ADB LFS/GFIS system) (B)		DIFFERENCE and REASON (ie. timing, forex, pending, rejected) (C = A - B)	
		Date	In local currency (i)	Exchange Rate (ii)	USD Equivalent (i*ii) (A)	Value Date	In USD (B)	Amount (A - B)	Reason/ Justification
1	Direct Payment	12/4/2020	20,000.00	1.00	20,000.00	12/4/2020	20,000.00	-	
2	Direct Payment	11/6/2020	15,323.83	1.00	15,323.83	11/6/2020	15,323.83	-	
3	Direct Payment	11/6/2020	10,542.00	1.00	10,542.00	11/6/2020	10,542.00	-	
4	Direct Payment	12/16/2020	7,380.00	1.00	7,380.00	12/16/2020	7,380.00	-	
5	Direct Payment	10/5/2021	4,281.73	1.00	4,281.73	10/5/2021	4,281.73	-	
6	Direct Payment	5/6/2021	1,620.00	1.00	1,620.00	5/6/2021	1,620.00	-	
7	Direct Payment	7/13/2021	7,946.00	1.00	7,946.00	7/13/2021	7,946.00	-	
10	Direct Payment	4/29/2022	8,308.00	1.00	8,308.00	4/29/2022	8,308.00	-	
11	Direct Payment	5/5/2022	6,690.00	1.00	6,690.00	5/5/2022	6,690.00	-	
12	Direct Payment	6/9/2022	30,000.00	1.00	30,000.00	6/9/2022	30,000.00	-	
13	Direct Payment	5/19/2022	21,210.00	1.00	21,210.00	5/19/2022	21,210.00	-	
14	Direct Payment	7/20/2022	5,574.00	1.00	5,574.00	7/20/2022	5,574.00	-	
15	Direct Payment	10/24/2022	38,290.63	1.00	38,290.63	10/24/2022	38,290.63	-	
16	Direct Payment	8/18/2022	5,000.00	1.00	5,000.00	8/18/2022	5,000.00	-	
17	Direct Payment	8/24/2022	2,676.00	1.00	2,676.00	8/24/2022	2,676.00	-	
18	Direct Payment	9/21/2022	4,000.00	1.00	4,000.00	9/21/2022	4,000.00	-	
19	Direct Payment	9/8/2022	3,378.00	1.00	3,378.00	9/8/2022	3,378.00	-	
20	Direct Payment	9/22/2022	4,736.69	1.00	4,736.69	9/22/2022	4,736.69	-	
21	Direct Payment	10/11/2022	69,750.00	1.00	69,750.00	10/11/2022	69,750.00	-	
23	Direct Payment	10/17/2022	9,545.00	1.00	9,545.00	10/17/2022	9,545.00	-	
24	Direct Payment	10/17/2022	5,494.41	1.00	5,494.41	10/17/2022	5,494.41	-	
25	Direct Payment	10/24/2022	6,640.00	1.00	6,640.00	10/24/2022	6,640.00	-	
27	Direct Payment	11/7/2022	9,130.00	1.00	9,130.00	11/7/2022	9,130.00	-	
28	Direct Payment	11/28/2022	16,169.88	1.00	16,169.88	11/28/2022	16,169.88	-	
30	Direct Payment	11/29/2022	8,300.00	1.00	8,300.00	11/29/2022	8,300.00	-	
31	Direct Payment	12/8/2022	22,200.00	1.00	22,200.00	12/8/2022	22,200.00	-	
32	Direct Payment	12/16/2022	9,704.46	1.00	9,704.46	12/16/2022	9,704.46	-	
33	Direct Payment	1/4/2023	9,612.00	1.00	9,612.00	1/4/2023	9,612.00	-	
34	Direct Payment	1/4/2023	10,830.00	1.00	10,830.00	1/4/2023	10,830.00	-	
35	Direct Payment	1/25/2023	16,000.00	1.00	16,000.00	1/25/2023	16,000.00	-	
36	Direct Payment	2/9/2023	11,683.18	1.00	11,683.18	2/9/2023	11,683.18	-	
37	Direct Payment	2/22/2023	17,850.00	1.00	17,850.00	2/22/2023	17,850.00	-	
38	Direct Payment	2/1/2023	11,150.00	1.00	11,150.00	2/1/2023	11,150.00	-	
39	Direct Payment	2/23/2023	13,957.58	1.00	13,957.58	2/23/2023	13,957.58	-	
40	Direct Payment	3/22/2023	41,100.00	1.00	41,100.00	3/22/2023	41,100.00	-	
41	Direct Payment	3/10/2023	11,412.40	1.00	11,412.40	3/10/2023	11,412.40	-	
42	Direct Payment	3/7/2023	20,519.44	1.00	20,519.44	3/7/2023	20,519.44	-	
43	Direct Payment	4/14/2023	10,400.00	1.00	10,400.00	4/14/2023	10,400.00	-	
44	Direct Payment	4/10/2023	11,803.90	1.00	11,803.90	4/10/2023	11,803.90	-	
45	Direct Payment	4/21/2023	8,148.61	1.00	8,148.61	4/21/2023	8,148.61	-	
46	Direct Payment	4/21/2023	3,642.00	1.00	3,642.00	4/21/2023	3,642.00	-	
47	Direct Payment	3/5/2023	20,800.00	1.00	20,800.00	3/5/2023	20,800.00	-	
48	Direct Payment	5/5/2023	9,585.00	1.00	9,585.00	5/5/2023	9,585.00	-	
49	Direct Payment	5/12/2023	120,250.00	1.00	120,250.00	5/12/2023	120,250.00	-	
50	Direct Payment	5/25/2023	1,500.00	1.00	1,500.00	5/25/2023	1,500.00	-	
51	Direct Payment	6/20/2023	6,152.00	1.00	6,152.00	6/20/2023	6,152.00	-	
52	Direct Payment	6/16/2023	10,830.00	1.00	10,830.00	6/16/2023	10,830.00	-	
53	Direct Payment	6/20/2023	11,508.00	1.00	11,508.00	6/20/2023	11,508.00	-	
54	Direct Payment	7/11/2023	22,004.57	1.00	22,004.57	7/11/2023	22,004.57	-	
55	Direct Payment	6/20/2023	1,500.00	1.00	1,500.00	6/20/2023	1,500.00	-	
56	Direct Payment	7/17/2023	10,400.00	1.00	10,400.00	7/17/2023	10,400.00	-	
57	Direct Payment	7/14/2023	10,000.00	1.00	10,000.00	7/14/2023	10,000.00	-	
58	Direct Payment	8/24/2023	1,500.00	1.00	1,500.00	8/24/2023	1,500.00	-	
TOTAL			778,029.31		778,029.31		778,029.31	-	

Report of Independent Auditors 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 David Paul
Ministry of Finance, Banking and Postal Services
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) Preparing Urban Service Improvement Projects (the Project) financed by the Asian Development Bank's Special Fund (Grant Number 6028 RMI (SF)), which comprises the statement of project account for the year ended September 30, 2023, and the related notes to the financial statement, and have issued our report thereon dated April 11, 2025.

Report on 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.

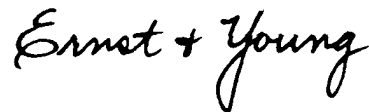
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Project's financial statement is 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*.

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.

The logo for Ernst & Young, featuring the company name in a stylized, handwritten-style script.

April 11, 2025

*The Auditor's Communication With Those Charged
With Governance*

Republic of the Marshall Islands
Preparing Urban Service Improvement Projects
(Financed by the Asian Development Bank's Special Fund -
Grant Number 6028 RMI (SF))

Year ended September 30, 2023



April 11, 2025

Honorable David Paul
Minister
Ministry of Finance, Banking and Postal Services
Republic of the Marshall Islands

Dear Minister Paul:

We have performed an audit of the financial statement of the Republic of the Marshall Islands (RMI) Preparing Urban Service Improvement Projects (the Project) financed by the Asian Development Bank's Special Fund (Grant Number 6028-RMI (SF)), which comprises the statement of project account for the year ended September 30, 2023, in accordance with auditing standards generally accepted in the United States of America (GAAS), and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), and have issued our report thereon dated April 11, 2025.

This report summarizes our communications with those charged with governance as required by our professional standards to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process.

REQUIRED COMMUNICATIONS

Professional standards require the auditor to provide those charged with governance with additional information regarding the scope and results of the audit that may assist those charged with governance in overseeing the financial reporting and disclosure processes which the management of the Project is responsible. We summarize these required communications as follows:

Overview of the planned scope and timing of the audit

Our audit scope and timing is consistent with the plan communicated in our engagement letter dated May 14, 2024 and at our audit planning meeting with management.

Auditors' Responsibilities under Auditing Standards Generally Accepted in the United States (US GAAS) and Generally Accepted *Government Auditing Standards* (GAGAS)

The financial statement is the responsibility of the Project's management as prepared with the oversight of those charged with governance. Our audit was designed in accordance with GAAS and *Government Auditing Standards* to obtain reasonable, rather than absolute, assurance that the financial statement is free of material misstatement.

An audit of financial statements includes consideration of 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 entity's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

Our responsibilities are included in our audit engagement agreement.

Changes to the audit strategy, timing of the audit and significant risks identified

Our audit strategy is consistent with the plan communicated during the October 2024 meeting with Management.

Matters relevant to our evaluation of the entity's ability to continue as a going concern

We did not identify any events or conditions that led us to believe there was substantial doubt about the Project's ability to continue as a going concern.

Our views about the qualitative aspects of the entity's significant accounting practices, including:

- **Accounting policies**

Management has not selected or changed any significant policies or changed the application of those policies in the current year.

We have provided a discussion of significant accounting policies and financial statement disclosures and related matters in Note 2 of the financial statement.

We determined that those charged with governance are informed about management's process for formulating particularly sensitive estimates and about the basis to our conclusions regarding the reasonableness of those estimates.

Related party relationships and transactions

We noted no significant matters regarding the Project's relationships and transactions with related parties.

Changes to the terms of the audit with no reasonable justification for the change

None.

Significant unusual transactions

We are not aware of any significant unusual transactions executed by the Project.

Difficult or contentious matters subject to consultation outside of the audit team

There were no difficult or contentious matters that required consultation outside of the audit team.

Material corrected misstatements related to accounts and disclosures

Refer to the “Management Representations Letter” in Appendix A.

Uncorrected misstatements related to accounts and disclosures, considered by management to be immaterial

No uncorrected misstatements were identified in connection with our audit of the Project’s financial statement for the year ended September 30, 2023.

Significant deficiencies and material weaknesses in internal control over financial reporting

We have issued our Report of Independent Auditors 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* dated April 11, 2025. In that report, we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Fraud and noncompliance with laws and regulations (illegal acts)

We are not aware of any matters that require communication.

Obtain information relevant to the audit

Inquiries regarding matters relevant to the audit were performed during the October 2024 meeting.

Independence matters

We are not aware of any matters that in our professional judgment would impair our independence.

New accounting pronouncements

No issues have been identified with regard to management’s planned application of new accounting pronouncements.

Significant issues discussed with management in connection with the auditor’s initial appointment or recurring retention

We are not aware of any matters that require communication.

Disagreements with management and significant difficulties encountered in dealing with management when performing the audit

There were no difficulties encountered in dealing with management in performing the audit.

Management's consultations with other accountants

We are not aware of any consultations made by management with other accountants or specialists.

Other material written communications with management

None.

Other matters

There are no other matters arising from the audit that are, in our judgment, significant and relevant to those charged with governance regarding the oversight of the financial reporting process.

Representations from management

We have obtained from management a representations letter related to the audit and a copy of the management representations letter is included in Appendix A.

AICPA ethics ruling regarding third-party service providers

From time to time, and depending on the circumstances, (1) we may subcontract portions of the Audit Services to other EY firms, who may deal with the Project or its affiliates directly, although EY alone will remain responsible to you for the Audit Services and (2) personnel (including non-certified public accountants) from an affiliate of EY or another EY firm or any of their respective affiliates, or from independent third-party service providers (including independent contractors), may participate in providing the Audit Services. In addition, third-party service providers may perform services for EY in connection with the Audit Services.

Engagement team's involvement with preparation of the financial statements

Under *Government Auditing Standards* 2018 Revisions, Chapter 3 General Standards, Paragraph 3.73 Requirements for Performing Non-audit Services explains that the audit team should make consideration of management's ability to effectively oversee the non-audit (or non-attest) services to be performed. The engagement team should determine that the audited entity has designated an individual(s) who possesses suitable skill, knowledge or experience and that the individuals understand the services to be performed sufficiently to oversee them. The engagement team should document consideration of management's ability to oversee non-audit services to be performed.

April 11, 2025

The engagement team believes that this significant threat is reduced to an acceptable level upon application of the following safeguards:

- An engagement quality control review was performed by a qualified Ernst & Young Partner who was not otherwise involved in the audit.
- All adjusting journal entries that Ernst & Young posted to the trial balance have been approved by management of the Project.
- The preparation of the financial statement is based on the Project's trial balance with our understanding that the Project's underlying books and records are maintained by the Project's accounting department and that the final trial balance prepared by the Project is complete.
- The Project's Accountant has the skill sets to oversee and review the completeness and accuracy of the financial statement and footnote disclosures.

This communication is intended solely for the information and use of the Ministry of Finance, Banking and Postal Services and management and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Ernst + Young

Honorable David Paul, Minister
Ministry of Finance, Banking and Postal Services
RMI Preparing Urban Service Improvement Projects

April 11, 2025

Appendix

A - Management Representations Letter

April 11, 2025

A - Management Representations Letter



Ministry of Finance Banking & Postal Services
Government of the Republic of the Marshall Islands

April 11, 2025

Ernst & Young LLP
Ernst & Young Building
231 Ypao Road, Suite 201
Tamuning, Guam 96931

In connection with your audit of the financial statement of the Republic of the Marshall Islands (RMI) Preparing Urban Service Improvement Projects (the Project) financed by the Asian Development Bank's Special Fund, for the year ended September 30, 2023, and the related notes to the financial statement, we recognize that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion whether the financial statement presents fairly, in all material respects, the cash receipts and disbursements of the Project in conformity with the cash basis of accounting, which is a basis of accounting other than US generally accepted accounting principles (US GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief:

Management's responsibilities

We have fulfilled our responsibilities, as set forth in the terms of the audit engagement agreement dated May 14, 2024, for the preparation and fair presentation of the financial statement (including disclosures) in accordance with the cash basis of accounting, which is a basis of accounting other than US GAAP, applied on a basis consistent with that of the preceding years.

In preparing the financial statement, we evaluated whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Project's ability to continue as a going concern for one year after the date that the financial statement is issued (or available to be issued, if applicable), and to provide appropriate financial statement disclosure, when applicable, related to going concern and using the going concern basis of accounting unless we prepared the financial statement in accordance with the liquidation basis of accounting.

A - Management Representations Letter, continued

We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statement that is free from material misstatement, whether due to fraud or error. We have provided you with:

- Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statement such as records, data, documentation and other matters
- Additional information that you have requested from us for the purpose of the audit
- Unrestricted access to persons within the Project from whom you determined it necessary to obtain evidence

From October 1, 2022 through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorized access to our information technology systems that either occurred or is reasonably likely to have occurred, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material effect on the financial statement, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

Uncorrected misstatements

There are no uncorrected misstatements (including the effects of correcting or reversing prior period uncorrected misstatements), or uncorrected misstatements in disclosures relating to the current period financial statement.

Corrected misstatements

We are in agreement with the audit adjustments you have proposed (Appendix A) and have posted the adjusting journal entries to the Project's books.

Internal control

There are no material transactions that have not been properly recorded in the accounting records underlying the financial statement.

We are not aware of any significant deficiencies or material weaknesses in the design or operation of internal control over financial reporting.

A - Management Representations Letter, continued

Significant Contracts

We have made available to you all significant contracts, including amendments, and agreements and have communicated to you all significant oral agreements. We have complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance, including all covenants, conditions or other requirements of all outstanding debt.

Related party relationships and transactions

We have made available to you the names of all related parties and all relationships and transactions with related parties.

The substance of transactions with related parties has been considered and appropriate adjustments or disclosures are made in the financial statement, and information concerning these transactions and amounts have been made available to you.

Side agreements and other arrangements

There have been no side agreements or other arrangements (either written or oral) that have not been disclosed to you.

Arrangements with financial institutions

Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements have been properly recorded or disclosed in the financial statement.

Contingent liabilities

There are no unasserted claims or assessments, including those our lawyers have advised us of that are probable of assertion and must be disclosed in the financial statement. For the year ended September 30, 2023, the Project did not consult with legal counsel concerning any matters relative to litigation, claims or assessments made against the Project.

There have been no violations or possible violations of laws or regulations in any jurisdiction whose effects should be considered for disclosure in the financial statement or as a basis for recording a loss contingency other than those disclosed or accrued in the financial statement.

There have been no internal investigations or communications from regulatory agencies or government representatives in any jurisdiction concerning investigations or allegations of noncompliance with laws or regulations, noncompliance with or deficiencies in financial reporting practices, or other matters that could affect the financial statement other than those disclosed or accrued in the financial statement.

There are no other liabilities or gain or loss contingencies considered material, individually or in the aggregate, that are required to be accrued or disclosed in the financial statement.

A - Management Representations Letter, continued

Oral or written guarantees

There are no oral or written guarantees, including guarantees of the debt of others.

Non-compliance with laws and regulations, including fraud

We acknowledge that we are responsible to determine that the Project's business activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws or regulations, including fraud.

We acknowledge our responsibility for the design, implementation and maintenance of a system of internal control to prevent and detect fraud.

We have disclosed to you the results of our assessment of the risk that the financial statement may be materially misstated as a result of fraud.

We have disclosed to you all significant facts relating to any frauds or suspected frauds, or allegations of fraud known to us that may have affected the Project (regardless of the source or form and including, without limitation, allegations by "whistle-blowers"), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the financial statement. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the financial statement.

We have disclosed to you all known actual or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statement.

Independence

We have communicated to you the names of the Project's affiliates, officers and directors, or individuals who serve in such capacity for the Project.

We are not aware of any business relationship between the Project and Ernst & Young LLP or any other member firm of the global Ernst & Young organization.

We are not aware of any reason that Ernst & Young LLP would not be independent for purposes of the Project's audit.

Conflicts of interest

There are no instances where any officer or employee of the Project has an interest in a company with which the Project does business that would be considered a "conflict of interest."- Such an interest would be contrary to the Project policy.

A - Management Representations Letter, continued

Going concern

In preparing the financial statement, we evaluated the entity's ability to continue as a going concern for twelve months after the date that the financial statement is issued and provide appropriate financial statement disclosure.

Supplementary information

We are responsible for the preparation and fair presentation of the following schedules (the "Supplementary Information"):

- Combining Statement of Project Account - Cash Receipts and Disbursements
- Schedule of Budgeted vs. Actual Expenditures
- Schedule of Budgeted vs. Actual Expenditures (In-Kind Contributions)

We believe the supplementary information, including its form and content, is fairly stated in all material respects.

There have been no changes in the methods of measurement or presentation of the supplementary information from those used in the prior period.

There are no significant assumptions or interpretations underlying the measurement or presentation of the information.

Additional representations

- We recognize that we are responsible for the Project's compliance with the laws, regulations, provisions of contracts and grant agreements that are applicable to it. We have identified and disclosed to your representatives all laws, regulations, provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- We have identified to your representatives all previous audits, attestation engagements, and other studies related to the audit objectives and whether the related recommendations have been implemented.

A - Management Representations Letter, continued

- We have informed you of any investigations or legal proceedings that have been initiated or are in process with respect to the period under audit.
- We have identified and disclosed to you, all provisions of laws and regulations that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds. We have identified and disclosed to you, all instances of identified or suspected noncompliance with laws, regulations, and provisions of contracts and grant agreements where the noncompliance could have a direct and material effect on the financial statement.
- We have followed all applicable laws and regulations in adopting, approving and amending budgets, and deposits, including collateral requirements on depository accounts.
- There have been no instances of abuse that have occurred or are likely to have occurred that could be quantitatively or qualitatively material to the financial statement.
- The Project has obligated, expended, received and used public funds in accordance with the purpose for which such funds have been appropriated or otherwise authorized by Marshall Islands or federal law. Such obligation, expenditure, receipt or use of public funds was in accordance with any limitations, conditions or mandatory directions imposed by Marshall Islands or federal law.
- Subsequent events have been evaluated and classified as recognized or nonrecognized through the date of this letter.

Other matters

We have received a draft copy of our financial statement for the year ended September 30, 2023. The accuracy and completeness of the financial statement, including footnote disclosures, are our responsibility.

You have assisted in the preparation of our financial statement based on information in our trial balance and accounting records. It is our understanding that:

- Our underlying books and records are maintained by our accounting department and that the final trial balance prepared by us is complete and,
- All adjusting journal entries posted to the trial balance have been approved by us, and
- We have designated a competent representative to oversee your services and that our personnel have sufficient financial competence who are able to challenge and review the completeness and accuracy of the financial statement, including footnote disclosures.

April 11, 2025

A - Management Representations Letter, continued

We have reviewed the draft financial statement for accuracy and completeness.

We acknowledge that we have reviewed them and taken responsibility for them.

Subsequent events

Subsequent to September 30, 2023, no events or transactions have occurred or are pending that would have a material effect on the basic financial statement at that date or for the period then ended, or that are of such significance in relation to the Project's affairs to require mention in a note to the financial statement in order to make them not misleading regarding the financial position and changes in financial position of the Project.

We understand that your audit was conducted in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America and was, therefore, designed primarily for the purpose of expressing an opinion on the financial statement of the Project and that your tests of the accounting records and other auditing procedures were limited to those that you considered necessary for that purpose.

Very truly yours,



Ayako Yamaguchi-Eliou
Secretary, Ministry of Finance, Banking and Postal Services

A - Management Representations Letter, continued

Appendix

A– Schedule of Corrected Misstatements

A - Management Representations Letter, continued

Appendix A – Schedule of Corrected Misstatements

Communication schedule for corrected misstatements

Entity: RMI Preparing Urban Service Improvement Projects

Period ended: 30-Sep-2023

Currency: USD

Corrected misstatements			Analysis of misstatements Debit/(Credit)							
No.	W/P ref.	Account	Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current	Equity components	Effect on the current period OCI	Income statement effect of the current period	
		(misstatements are recorded as journal entries with a description)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Non taxable
1	VE1	To correct recorded expense								
		Equipment							38,291	
		Consultancy Services							(38,291)	
Total of corrected misstatements before income tax			0	0	0	0	0	0	0	0
Financial statement amounts			0	0	0	0	0		0	
Effect of corrected misstatements on F/S amounts			0.0%	0.0%	0.0%	0.0%	0.0%		0.0%	

[For US PCAOB audits we are required to communicate all misstatements that are accumulated on our SAD.]

*Report of Independent Accountants on the Schedule of
Project Expenditures*

Republic of the Marshall Islands
Preparing Urban Service Improvement Projects
(Financed by the Asian Development Bank's Special Fund -
Grant Number 6028 RMI (SF))

Year ended September 30, 2023



Republic of the Marshall Islands
Preparing Urban Service Improvement Projects
(Financed by the Asian Development Bank Grant Number 6028 RMI (SF))

Schedule of Project Expenditures

Year ended September 30, 2023

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Report of Independent Accountants

Honorable Minister David Paul
Ministry of Finance, Banking, and Postal Services
Republic of the Marshall Islands

We have examined the Republic of the Marshall Islands (RMI) Ministry of Finance, Banking and Postal Services' compliance with appropriate use of grant proceeds as set forth in the terms, covenants, provisions and conditions of Articles III and IV of the grant agreement dated February 6, 2020 for the Preparing Urban Service Improvement Projects grant, as presented in the accompanying schedule (Schedule of Project Expenditures), for the year ended September 30, 2023. The RMI Ministry of Finance, Banking, and Postal Services' management is responsible for compliance with the specified requirements. Our responsibility is to express an opinion on the RMI Ministry of Finance, Banking, and Postal Services' compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants ("AICPA"). Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the RMI Ministry of Finance, Banking, and Postal Services complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the RMI Ministry of Finance, Banking, and Postal Services complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

We are required to be independent of the RMI Ministry of Finance, Banking, and Postal Services and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our examination engagement.

Our examination does not provide a legal determination on the RMI Ministry of Finance, Banking, and Postal Services' compliance with specified requirements.

Our examination was limited to compliance with the specified sections of the grant agreement. Because of the nature and inherent limitations, controls may not prevent, or detect and correct, all errors or fraud that may be considered relevant.

In our opinion, the RMI Ministry of Finance, Banking, and Postal Services complied, in all material respects, with appropriate use of Preparing Urban Service Improvement Projects grant proceeds as set forth in the terms, covenants, provisions and conditions of Articles III and IV of the grant agreement requirements during the year ended September 30, 2023.

This report is intended solely for the information and use of the RMI Ministry of Finance, Banking, and Postal Services and the Asian Development Bank for assessing the RMI Ministry of Finance, Banking, and Postal Services' compliance with appropriate use of Preparing Urban Service Improvement Projects grant proceeds as set forth in the terms, covenants, provisions and conditions of Articles III and IV of the grant agreement and is not intended to be and should not be used by anyone other than the specified parties.

Ernst + Young

April 11, 2025

Republic of the Marshall Islands
Preparing Urban Service Improvement Projects
(Financed by the Asian Development Bank's Special Fund -
Grant Number 6028 RMI (SF))

Schedule of Project Expenditures

Year ended September 30, 2023

Project expenditures:

Investment costs:

Consulting services	\$ 581,073
Materials and equipment	<u>38,290</u>
Total project expenditures	<u><u>\$ 619,363</u></u>