

Audited Project Financial Statements

Project Number: 50295-001

Loan/Grant Number: 0547

Period covered: 17 October 2017 to 30 September 2018

RMI: Public Financial Management Project

Prepared by Ministry of Finance

For the Asian Development Bank

Date received by ADB: 3 April 2019

The audited project financial statements are documents owned by the borrower. The views expressed herein do not necessarily represent those of ADB's Board of Directors, Management, or staff. These documents are made publicly available in accordance with ADB's Access to Information Policy and as agreed between ADB and the Ministry of Finance.

**REPUBLIC OF THE MARSHALL ISLANDS
PUBLIC FINANCIAL MANAGEMENT PROJECT
(FINANCED BY THE ASIAN DEVELOPMENT BANK'S
SPECIAL FUND)**

**FINANCIAL STATEMENT
AND
INDEPENDENT AUDITORS' REPORT**

**PERIOD FROM INCEPTION (OCTOBER 17, 2017)
THROUGH SEPTEMBER 30, 2018**

**REPUBLIC OF THE MARSHALL ISLANDS
PUBLIC FINANCIAL MANAGEMENT PROJECT
(FINANCED BY THE ASIAN DEVELOPMENT BANK'S SPECIAL FUND)**

Period from Inception (October 17, 2017) through September 30, 2018

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INDEPENDENT AUDITORS' REPORT

Her Excellency Hilda C. Heine
President
Republic of the Marshall Islands

Report on the Financial Statement

We have audited the accompanying financial statement of the Republic of the Marshall Islands (RMI) Public Financial Management Project (the "Project") financed by the Asian Development Bank's Special Fund, which comprises the statement of revenues, expenditures, and changes in fund balance for the period from Inception (October 17, 2017) through September 30, 2018, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

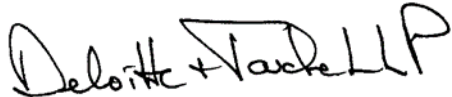
In our opinion, the financial statement referred to above presents fairly, in all material respects, the results of operations of the Project for the period from Inception (October 17, 2017) through September 30, 2018, in conformity with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

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 and is not intended to present fairly the results of other non-Project related operations of the RMI Ministry of Finance in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2019, 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 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 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.

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

April 1, 2019

**REPUBLIC OF THE MARSHALL ISLANDS
PUBLIC FINANCIAL MANAGEMENT PROJECT
(FINANCED BY THE ASIAN DEVELOPMENT BANK'S SPECIAL FUND)**

Statement of Revenues, Expenditures, and Changes in Fund Balance
Period from Inception (October 17, 2017) through September 30, 2018

Revenues:		
ADB grant contributions		\$ <u>470,695</u>
Expenditures:		
Contractual services		394,865
Training and staff development		15,301
Travel		6,191
Printing and reproduction		2,310
Office equipment		2,250
Furniture and fixtures		2,005
Office supplies		1,242
Other charges		<u>362</u>
Total expenditures		<u>424,526</u>
Change in fund balance		46,169
Fund balance at beginning of period		<u>-</u>
Fund balance at end of period		<u>\$ 46,169</u>

See accompanying notes to financial statement.

REPUBLIC OF THE MARSHALL ISLANDS
PUBLIC FINANCIAL MANAGEMENT PROJECT
(FINANCED BY THE ASIAN DEVELOPMENT BANK'S SPECIAL FUND)

Notes to Financial Statement
Period from Inception (October 17, 2017) through September 30, 2018

(1) Organization

On October 17, 2017, the Asian Development Bank (ADB) approved a grant (Grant No. 0547-RMI (SF)) in the amount of \$2,000,000, financed by ADB's Asian Development Fund (ADF), to the Republic of the Marshall Islands (RMI) for the Public Financial Management Project (the "Project"). The ADF was established in 1973 to provide grants to ADB's lower-income developing member countries. The objective of the Project is to improve public financial management of the RMI Government.

The RMI Minister of Finance is designated as the representative of the RMI for the purposes of the grant regulations. The Project is overseen by a Reform Steering Committee, with the RMI Ministry of Finance (MOF) as the Project Executing Agency. The MOF is responsible for establishing and managing an advance account used exclusively for the Project. The total outstanding advance to the advance account should not exceed estimated Project expenditures for the forthcoming six (6) months or \$100,000, whichever is less. A Reform Coordination Unit established within the MOF is the implementing agency assisting the MOF in administering advanced grant funds, including preparation of financial and progress reports, payment claims, and withdrawal applications verified by the MOF.

The Project's international consultants are paid using the Direct Payments method following ADB's withdrawal application method. National consultants and operational project expenses are paid from the advance account.

As of September 30, 2018, the balance of the advance account was \$95,074. The accompanying financial statement is prepared for the period from Inception (October 17, 2017) through September 30, 2018 and relates solely to those accounting records maintained by the RMI Ministry of Finance associated with the Project and does not incorporate any accounts related to any other departments or agencies of the RMI Ministry of Finance.

(2) Summary of Significant Accounting Principles

The financial statement of the Project has been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Project's accounting policies are described below.

A. Measurement Focus and Basis of Accounting

The Project reports the results of its operations in one governmental fund. A fund is a separate accounting entity with a self-balancing set of accounts. They are concerned only with the measurement of financial position and are not involved with measurement of results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds).

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Notes to Financial Statement
Period from Inception (October 17, 2017) through September 30, 2018

(2) Summary of Significant Accounting Principles, Continued

B. Basis of Presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurement" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related liability is incurred.

C. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(3) Description of the Project

The Project shall comprise strengthening of the institutional capacity of the MOF to: (i) implement the public financial management reform roadmap and (ii) implement state-owned enterprise reforms.

The Project is expected to be completed by December 31, 2020.

(4) RMI Government Contributions

Under the provisions of the grant agreement, the RMI is required to provide counterpart in-kind contributions estimated at \$300,000 in the form of recurrent costs such as office space, utilities, administration and support staff, and taxes and duties exemption.

(5) Subsequent Event

For the period from inception (October 17, 2017) through September 30, 2018, no liquidation of Project expenditures was recorded against the \$95,000 grant advance received during the period. A \$54,392 grant advance was liquidated on March 12, 2019. As of April 1, 2019, the Project advance account had not been replenished by ADB.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Her Excellency Hilda C. Heine
President
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 Public Financial Management Project (the "Project") financed by the Asian Development Bank's Special Fund, which comprises the statement of revenues, expenditures, and changes in fund balance for the period from Inception (October 17, 2017) through September 30, 2018, and the related notes to the financial statement, and have issued our report thereon dated April 1, 2019.

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) to determine the 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.

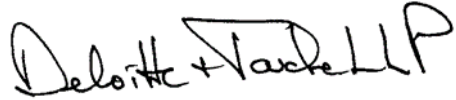
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Project's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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.

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

April 1, 2019

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Unresolved Prior Year Findings
Period from Inception (October 17, 2017) through September 30, 2018

There are no unresolved prior year findings.