The Auditor's Communication with Those Charged with Governance

Small Islands Food and Water Project (SIFWaP)

Federated States of Micronesia

Funded by the International Fund for Agriculture Development (IFAD)

GRANT NUMBER 2000004158

Year ended September 30, 2025

FEDERATED STATES OF MICRONESIA
Office of The National Public Auditor
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May 27, 2026

His Excellency President Wesley W. Simina
Honorable Members of the 24th Congress Federated
States of Micronesia

Dear Mr. President and Members of Congress:

We have audited the financial statements of the Small Islands Food and Water Project (SIFWAP) Grant Number 2000004158, for the year ended 30 September 2025, and the related notes. The Project is funded by the International Fund for Agriculture Development (IFAD), administered by the Department of Finance & Administration (DOFA), and implemented by the Department of Resources and Development (DR&D).

Our audit was conducted in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. We have issued our report thereon dated May 27, 2026.

We have prepared the following comments to assist you in fulfilling your obligation to oversee the financial reporting and disclosure process for which the Project's management is responsible.

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS, GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS, AND THE GRANT AGREEMENT

Our responsibility under (1) generally accepted auditing standards, (2) the standards applicable to financial audits, contained in *Government Auditing Standards*, issued by the Comptroller General of the United States ("generally accepted government auditing standards")(generally accepted auditing standards and generally accepted government auditing standards are collectively referred to herein as the "Auditing Standards"), and (3) the financial covenants and other requirements of the grant agreement (the Grant Agreement) are described in our engagement letter dated February 22, 2026. As described in that letter, the objectives of the audit conducted in accordance with the Auditing Standards and the Grant Agreement are:

- To express an opinion on the fairness of the Project's financial statements for the year ended September 30, 2025 (the "financial statements"), in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), in all material respects; and

- To report on the Project's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters as of and for the year ended September 30, 2025, based on an audit of financial statements performed in accordance with generally accepted government auditing standards.

Our responsibilities under the Auditing Standards and the Grant Agreement include forming and expressing an opinion on whether the financial statements prepared under the oversight of Project Management and the Office of the President are fairly presented, in all material respects, in conformity with generally accepted accounting principles. The audit of the financial statements does not relieve Project Management and the Office of the President of their responsibilities.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether caused by fraud or error. In making those risk assessments, we considered internal control over financial reporting relevant to the Project's preparation and fair presentation of the financial statements to design audit procedures appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Project's internal control over financial reporting. Our consideration of internal control over financial reporting was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

We also considered the Project's internal control over compliance with requirements that could have a direct and material effect on the Project to determine our auditing procedures for expressing our opinion on compliance and for testing and reporting on internal control over compliance in accordance with the Grant Agreement. However, our report does not provide a legal determination of the Project's compliance with those requirements.

SIGNIFICANT ACCOUNTING POLICIES

The Project's significant accounting policies are set forth in the Summary of Significant Accounting Policies and in the Notes to the Project's financial statements for the year ended September 30, 2025.

ACCOUNTING ESTIMATES

Accounting estimates are integral to the financial statements prepared by management and are based on management's current judgments. Those judgments are ordinarily based on knowledge and experience of past and current events, as well as assumptions about future events. During the year ended September 30, 2025, we were not aware of any significant changes in accounting estimates or in management's judgments related to those estimates.

AUDIT ADJUSTMENTS AND UNCORRECTED MISSTATEMENTS

Our audit of the financial statements was designed to obtain reasonable, rather than absolute, assurance that the financial statements are free of material misstatements, whether caused by error or fraud.

During the audit, we identified misstatements and classification errors affecting payroll and related expenditure accounts totaling USD 14,087.70. The matter was associated with system-generated reversal entries and posting issues within the FundWare financial management system.

The issue was initially identified through payroll testing and subsequently expanded through additional audit procedures. Management provided explanations indicating that the discrepancies resulted from automated reversal entries generated following interruptions in payroll batch processing. At the time of audit fieldwork, corrective journal entries and complete reconciliations had not been fully processed or verified.

As a result, the matter contributed to a qualification in the audit opinion and was reported as Finding 2025/01 in the accompanying management letter.

DISAGREEMENTS WITH MANAGEMENT

We have not had any disagreements with management regarding matters material to the Project's financial statements for the year ended September 30, 2025.

OUR VIEWS ABOUT SIGNIFICANT MATTERS THAT WERE THE SUBJECT OF CONSULTATION WITH OTHER ACCOUNTANTS

We are not aware of any consultations management may have had with other accountants regarding auditing and accounting matters during the year ended September 30, 2025.

SIGNIFICANT FINDINGS OR ISSUES DISCUSSED, OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT PRIOR TO OUR RETENTION

Throughout the year, routine discussions regarding the application of accounting principles or auditing standards were held with management in connection with transactions that have occurred, are contemplated, or are being reassessed, as well as current circumstances. In our judgment, such discussions were not held in connection with our retention as auditors.

OTHER SIGNIFICANT FINDINGS OR ISSUES ARISING FROM THE AUDIT DISCUSSED OR SUBJECT OF CORRESPONDENCE, WITH MANAGEMENT

During the audit, certain matters related to financial reporting and internal control were discussed with management and communicated in the accompanying management letter.

These matters included payroll and expenditure misstatements associated with FundWare generated reversal entries, as well as delays in providing supporting documentation during the audit process.

SIGNIFICANT DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

Although we received the cooperation of Project management and staff during the audit, delays were encountered in obtaining the requested supporting documentation from DOFA. These delays affected the timing and efficiency of certain audit procedures and contributed to extensions in the audit timeline.

MANAGEMENT'S REPRESENTATIONS

We have made specific inquiries of the Project's management regarding the representations embodied in the financial statements. In addition, we have requested that management provide us with the written representations that the Project is required to provide to its independent auditors under generally accepted auditing standards. We have attached, as Attachment I, a copy of the representation letter we obtained from management.

CONTROL-RELATED MATTERS

We have issued a separate report to you, dated May 27, 2026, on the Project's internal control over financial reporting and its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters based on the audit conducted in accordance with Government Auditing Standards.

During our audit, we identified deficiencies in internal control related to payroll reconciliation processes, review of system-generated reversal entries within the FundWare financial management system, and delays in the provision of supporting documentation for audit purposes.

We consider the matter reported as Finding 2025/01 to represent a significant deficiency in internal control over financial reporting. Finding 2025/02 was considered a deficiency in internal control.

These matters are reported in the accompanying management letter as Findings 2025/01 and 2025/02.

This report is intended solely for the information and use of Project management, the Office of the President, Members of the 24th Congress, the International Fund for Agriculture

Development, and others within the organization, and is not intended for use by anyone other than these specified parties. However, this report is also a matter of public record.

Sincerely,

Haser H. Hainrick
National Public Auditor

Cc: Secretary, Department of Finance & Administration
Secretary, Department of Resources & Development

DEPARTMENT OF RESOURCES & DEVELOPMENT
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May 27, 2026

Mr. Haser Hainrick
Office of the National Public Auditor Palikir
Pohnpei FSM 96941

SUBJECT: WRITTEN REPRESENTATIONS

Dear National Public Auditor:

This representation letter is provided in connection with your audit of the financial statements of the Small Islands Food and Water Project (the Project), which comprise the Statement of Financial Performance and Statement of Financial Position for Grant 2000004158 and Grant 2000004673 for the years ended September 30, 2025, and the related notes to the financial statements. The purpose is to express an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).
We confirm that we are responsible for the following:

1. The fair presentation of each Grant Statement of Financial Performance and Statement of Financial Position of the Project on an accrual basis.
2. The design and implementation of programs and controls to prevent and detect fraud.
3. Establishing and maintaining effective internal control over financial reporting.

Certain representations in this letter are limited to misstatements that are material. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment of a reasonable user based on the financial statements.
We confirm that, to the best of our knowledge and belief, the following representations were made to you during your audit.

1. The statements referred to above are fairly presented in accordance with the basis of accounting described in the Notes.

2. The project has provided you with all relevant information and access, as agreed in the audit engagement letter.

3. The Project has made available to you all financial records, documentation, and related data.

4. There have been no communications from regulatory agencies regarding noncompliance with or deficiencies in financial reporting.
5. The Project has not performed a risk assessment, including an assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has provided you with their understanding of the risks of fraud in the Project and does not believe that the financial statements are materially misstated as a result of fraud.
6. We have no knowledge of any fraud or suspected fraud affecting the entity and involving:
   a) Management;
   b) Employees who have significant roles in internal control; or
   c) Others, when the fraud could have a material effect on the financial statements.
7. We have no knowledge of any allegations of fraud or suspected fraud affecting the Project that were communicated to us by employees, former employees, or others.
8. There are no:
   a) Related-party transactions and related amounts receivable or payable, including sales, purchases, loan transfers, leasing arrangements, and guarantees.
   b) Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances or similar arrangements.
9. There are no violations or potential violations of laws or regulations whose effects should be considered for disclosure in the Statement of Financial Performance and the Statement of Financial Position.
10. There are no material transactions that have not been properly recorded in the accounting records underlying the Statement of Financial Performance and the Statement of Financial Position.
11. We are not aware of any pending or threatened litigation, claims, or assessments whose effects should be considered in preparing the financial statements, and we have not consulted legal counsel regarding litigation, claims, or assessments.
12. No events have occurred after September 30, 2025, up to the date the financial statement was available for issuance that require consideration as adjustments to, or disclosures in, the financial statement.
13. There have been no communications from regulatory agencies regarding noncompliance with or deficiencies in financial reporting practices.
14. The Project has not performed a risk assessment, including an assessment of the risk that the financial statements may be materially misstated as a result of fraud. However, management has made available to you their understanding of the risks of fraud in the Project and does not believe that the financial statements are materially misstated as a result of fraud.
15. We have no knowledge of any fraud or suspected fraud affecting the entity and involving:
    a) Management;
    b) Employees who have significant roles in internal control; or
    c) Others, when the fraud could have a material effect on the financial statements.
16. We have no knowledge of any allegations of fraud or suspected fraud affecting the Projects that were received in communications from employees, former

employees, or others.

17. There are no:
    d) Related-party transactions and related amounts receivable or payable, including sales, purchases, loan transfers, leasing arrangements, and guarantees.
    e) Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances or similar arrangements.
18. There are no violations or potential violations of laws or regulations whose effects should be considered for disclosure in the Statement of Financial Performance and the Statement of Financial Position.
19. There are no material transactions that have not been properly recorded in the accounting records underlying the Statement of Financial Performance and the Statement of Financial Position.
20. We are not aware of any pending or threatened litigation, claims, or assessments whose effects should be considered in preparing the financial statements, and we have not consulted legal counsel regarding litigation, claims, or assessments.
21. No events have occurred after September 30, 2025, up to the date the financial statement was available for issuance that require consideration as adjustments to, or disclosures in, the financial statement.

Elina P Akinaga
Secretary