

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

**Federated States of Micronesia
Telecommunications Regulation Authority**
(A Component Unit of the Federated States of Micronesia National
Government)

Year Ended September 30, 2022





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November 10, 2023

The Board of Directors
Federated States of Micronesia Telecommunications Regulation Authority

We have performed an audit of the financial statements of Federated States of Micronesia (FSM) Telecommunication Regulation Authority (the Authority), a component unit of the FSM National Government, as of and for the year ended September 30, 2022, 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, and have issued our report thereon dated November 10, 2023.

Provided below is a summary of required communications between the audit team and those charged with governance, as required by AICPA Clarified US Auditing Standard (AU-C) 260, *“The Auditor’s Communication With Those Charged With Governance”*, and other applicable auditing standards.

This communication is intended solely for the information and use of the Board of Directors and management, and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

REQUIRED COMMUNICATIONS

Professional standards require the auditor to provide the Board of Directors (the Board or those charged with governance) with additional information regarding the scope and results of the audit that may assist the Board (or those charged with governance) in overseeing the financial reporting and disclosure processes which the management of the Authority 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 February 6, 2023 and at our audit planning meeting with management.

Auditor's responsibility under GAAS, including our discussion of the type of auditor's report we are issuing and the circumstances that affect the form and content of our auditor's report, if applicable

Our responsibilities are included in our audit engagement agreement. A copy of such agreement has previously been provided to you.

We have issued an unmodified opinion on the Authority's financial statements as of and for the year ended September 30, 2022.

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.

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

Our audit strategy is consistent with the plan communicated during the 2023 audit.

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 Authority's ability to continue as a going concern.

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

- **Accounting policies**
- **Accounting estimates**

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 our views regarding significant accounting estimates and financial statement disclosures and related matters in Note 2 of the basic financial statements.

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.

Significant findings and issues arising during the audit relating to related parties

We noted no significant matters regarding the Authority'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 Authority.

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

None.

Material corrected misstatements, related to accounts and disclosures

Refer to "Management Representations Letter" in Appendix A.

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

Refer to the "Management Representations Letter" in Appendix A.

Significant deficiencies and material weaknesses in internal control over financial reporting

No material weaknesses have been identified.

Fraud and illegal acts

We are not aware of any matters that require communication.

Independence matters

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

New accounting pronouncements

Management is still assessing the impact of adopting the following GASB Statements:

- GASB Statement No. 91
- GASB Statement No. 94
- GASB Statement No. 96
- GASB Statement No. 99
- GASB Statement No. 100
- GASB Statement No. 101

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

None.

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

None.

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 findings or issues regarding the oversight of the financial reporting process

There are no other findings or issues 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.

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 Company 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.

Representations we are requesting from management

Refer to “Management Representations Letter” in Appendix A.

Engagement team’s involvement with preparation of the financial statements

Under GAS 2011 Revision, Chapter 3 General Standards, Paragraph 3.34 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 who possesses suitable skill, knowledge or experience and that the individual understands 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.

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.
- The preparation of the financial statements is based on the Authority’s trial balance with our understanding that the Authority’s underlying books and records are maintained by the Authority’s accounting department and that the final trial balance prepared by the Authority is complete.
- All adjusting journal entries that Ernst & Young posted to the trial balance have been approved by management of the Authority.
- The Authority’s Accounting Manager has the skill sets to oversee and review the completeness and accuracy of the financial statements and footnote disclosures.

Appendix

A – Management Representations Letter

Appendix A – Management Representations Letter



Federated States of Micronesia
Telecommunication Regulation Authority
P.O. Box 1919 Pohnpei FM 96941
Tel: +691 320-2812 <http://www.tra.fm>

November 10, 2023

Ernst & Young LLP
231 Ypao Road
Suite 201 Ernst and Young Building
Tamuning, Guam 96913

In connection with your audit of the basic financial statements of FSM Telecommunications Regulation Authority (the Authority) as of September 30, 2022 and for year then ended, and the related notes to the financial statements, 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 statements present fairly, in all material respects, the financial position, results of operations and cash flows of FSM Telecommunications Regulation Authority in accordance with accounting principles generally accepted in the United States of America (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 February 6, 2023, for the preparation and fair presentation of the financial statements (including disclosures) in accordance with US GAAP applied on a basis consistent with that of the preceding periods except for the effects of adopting new accounting standards.

In preparing the financial statements, we evaluated whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for one year after the date that the financial statements are 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 statements in accordance with the liquidation basis of accounting.

We acknowledge our responsibility for 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. We have provided you with:

Appendix A – Management Representations Letter, continued

- Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements 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 Authority from whom you determined it necessary to obtain evidence

We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

From October 1, 2021 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 statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

Corrected misstatements

We have reviewed and approved the adjustment, summarized in the accompanying schedule, and reflected this adjustment in the financial statements. Refer to the “Schedule of Corrected Misstatements” in Appendix A.

Internal control

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

We have communicated to you all deficiencies in the design or operation of internal control over financial reporting. There have been no significant changes in internal control since September 30, 2022.

Minutes and contracts and internal audit reports

The dates of meetings of shareholders, directors, committees of directors and important management committees from October 1, 2021 to the date of this letter are as follows:

- Regular Meeting – December 22, 2021
- Regular Meeting – March 15, 2022
- Regular Meeting – May 4, 2022
- Regular Meeting – June 29, 2022
- Regular Meeting – July 25, 2022
- Regular Meeting – September 24, 2022
- Regular Meeting – September 25, 2022
- Regular Meeting – March 16, 2023
- Regular Meeting – June 27, 2023
- Regular Meeting – September 26, 2023

Appendix A – Management Representations Letter, continued

We have made available to you all minutes of the meetings of shareholders, directors and committees of directors or summaries of actions of recent meetings for which minutes have not yet been prepared.

We also 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 statements in the event of noncompliance, including all covenants, conditions or other requirements of all outstanding debt.

Methods, significant assumptions, and data used in making accounting estimates

The appropriateness of the methods, the consistency in application, the accuracy and completeness of data, and the reasonableness of significant assumptions used by us in developing accounting estimates and related disclosures, including those measured at fair value, are reasonable and supportable.

Ownership and pledging of assets

Except for right-of-use assets, the Authority has satisfactory title to all assets appearing in the statements of net position as of September 30, 2022. No security agreements have been executed under the provisions of the Uniform Commercial Code, and there are no liens or encumbrances on assets, nor has any asset been pledged except as disclosed in the financial statements. All assets to which the Authority has satisfactory title appear in the statements of net positions.

Receivables and revenues

Receivables have been determined in accordance with all relevant GASB Statements, including GASB Statements No. 33 and 62 – as amended.

Adequate provision has been made for losses, costs and expenses that may be incurred subsequent to the statement of net position dates in respect of sales and services rendered prior to that date and for uncollectible accounts, discounts, returns and allowances, etc., that may be incurred in the collection of receivables at that date.

Long-lived assets to be held and used, including amortizable intangible assets

No events or changes in circumstances have occurred that indicate the carrying amounts of long-lived assets (asset groups) to be held and used, including intangible assets that are subject to amortization, may not be recoverable.

Fair value measurements

We are responsible for the estimation methods and assumptions used in measuring assets and liabilities reported or disclosed at fair value, including information obtained from brokers, pricing

Appendix A – Management Representations Letter, continued

services or other third parties. Our valuation techniques have been consistently applied from period to period. The fair value measurements reported or disclosed represent our best estimate of fair value as of the measurement date in accordance with the requirements of GASB Statement No. 72—as amended. In addition, our disclosures related to fair value measurements are consistent with the objectives outlined in GASB Statement No. 72—as amended.

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, as defined in GASB Statement No. 56 – as amended, has been considered and appropriate adjustments or disclosures are made in the basic financial statements, and information concerning these transactions and amounts has 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 statements.

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 accordance with GASB Statement No. 62 – as amended.

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 statements or as a basis for recording a loss contingency.

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 statements.

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 by GASB Statement No. 62 – as amended, nor are there any accruals for loss contingencies included in the statements of net position or gain contingencies reflected in earnings that are not in conformity with the provisions of GASB Statement No. 62 – as amended.

Appendix A – Management Representations Letter, continued

Oral or written guarantees

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

Purchase commitments

At September 30, 2022 the Authority had no purchase commitments for inventories in excess of normal requirements or at prices that were in excess of market at that date.

There were no agreements or commitments to repurchase assets previously sold. There were no material commitments outstanding at September 30, 2022 as a result of being a party to futures or forwards contracts, short sales or hedge transactions.

Non-compliance with laws and regulations, including fraud

We acknowledge that we are responsible to determine that the Authority'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 statements may be materially misstated as a result of fraud.

We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Authority's internal control over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees where the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Authority.

Independence

We have communicated to you the names of all the Authority's affiliates, officers and directors.

We are not aware of any business relationship between the Authority 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 Authority's audit.

Appendix A – Management Representations Letter, continued

Conflicts of interest

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

Effects of new accounting principles

As discussed in Note 2, we have not completed the process of evaluating the effects that will result from adopting the amendments to the codification provided in Governmental Accounting Standards Board (GASB):

- GASB Statement No. 91
- GASB Statement No. 94
- GASB Statement No. 96
- GASB Statement No. 99
- GASB Statement No. 100
- GASB Statement No. 101

As discussed in Note 2, the Authority is therefore unable to disclose the effects that adopting the amendments in the aforementioned GASB Statements will have on its financial position and the results of its operations when such statements are adopted.

Required supplementary information

We acknowledge our responsibility for the required supplementary information on the management’s discussion and analysis on pages 4 through 5, which have been measured and presented in conformity with the guidelines established by the GASB in its applicable GASB Statement. There have been no changes in the methods of measurement or presentation of the required supplementary information from those used in the prior period. We are responsible for the significant assumptions and interpretations underlying the measurement and presentation of the required supplementary information. We believe that the significant assumptions and interpretations used are reasonable.

Going concern

In preparing the financial statements, we evaluated the entity’s ability to continue as a going concern and provide appropriate disclosures are made in the financial statements as necessary under GASB requirements.

Other matters

We have received a draft copy of the financial statements as of and for the year ended September 30, 2022. The accuracy and completeness of the financial statements, including footnote disclosures, are our responsibility.

You have assisted in the preparation of our financial statements based on the 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

Appendix A – Management Representations Letter, continued

- All adjusting journal entries posted to the trial balance have been approved by us, and
- We have designated a competent representative to oversee our services and that our personnel have sufficient financial competence who are able to challenge and review the completeness and accuracy of the financial statements, including footnote disclosures.

We acknowledge that we have reviewed the draft financial statements for accuracy and completeness, and we take responsibility for them.

Subsequent events

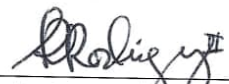
Subsequent to September 30, 2022, no events or transactions have occurred or are pending that would have a material effect on the financial statements at that date or for the period then ended, or that are of such significance in relation to the Authority's affairs to require mention in a note to the financial statements in order to make them not misleading regarding the financial position, results of operations or cash flows of the Authority.

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 statements as a whole, 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,



Takuro Akinaga, Chief Executive officer



Regina Rodriguez, Accountant

Appendix A – Management Representations Letter, continued

Appendix

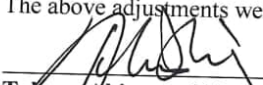
A – Summary of Corrected Misstatements

Appendix A – Management Representations Letter, continued

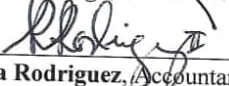
A – Summary of Corrected Misstatements

Communication schedule for corrected misstatements										
Entity:		FSM Telecommunications Regulation Authority		Period ended:		30-Sep-2022		Currency:		USD
Corrected misstatements		Analysis of misstatements Debit/(Credit)								
No.	W/P ref.	Account (misstatements are recorded as journal entries with a description)	Assets	Assets	Liabilities	Liabilities	Equity	Effect on the	Income statement	
			Current	Non-current	Current	Non-current	components	current period OCI	effect of the current period	Non taxable
			Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	
1		to correct the overstatement of rent expenses								
		Accounts Payable			1,400					
		Rent & Lease Expenses							(1,400)	
2		to reflect the variances noted on the beginning balances								
		Miscellaneous Expenses								(605)
		Unrestricted Net Position					505			
3		To record the set-up of RTU lease asset and lease liability								
		Right-to-use Lease Asset		33,513						
		Lease Liability				(33,513)				
4		To record amortization for the year								
		Lease Expense								16,757
		Accumulated amortization of RTU asset		(16,757)						
		To record the interest expense								
		Interest expense								62
		Lease liability					16,738			
		Rent & Lease Expenses								(16,800)
Total of corrected misstatements before income tax			0	16,756	1,400	(16,775)	505	0		(1,886)
Financial statement amounts			181,620	49,325	(10,174)	(16,775)	(203,996)			41,817
Effect of corrected misstatements on F/S amounts			0.0%	34.0%	-13.8%	100.0%	-0.2%			-4.5%

Management's Representation:
The above adjustments were discussed with us and we agree to record them:



Takuro Akinaga, Chief Executive officer



Regina Rodriguez, Accountant