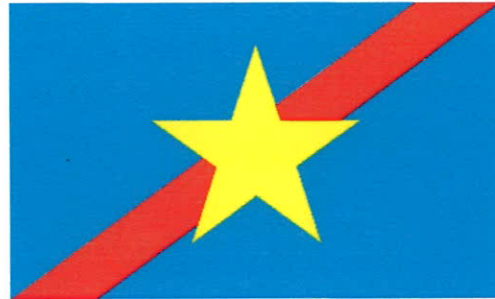




**OFFICE OF THE PUBLIC AUDITOR
REPUBLIC OF PALAU**

PERFORMANCE AUDIT REPORT



ON

**JAPAN'S GRANT ASSISTANCE FOR GRASS-ROOTS
HUMAN SECURITY PROJECT**

FOR

**"THE PROJECT FOR PROCUREMENT OF EQUIPMENT FOR
IMPROVING STATE ROADS IN NGARAARD STATE"**



**NGARAARD STATE GOVERNMENT
REPUBLIC OF PALAU**

Period from December 17, 2019 thru October 15, 2020

Performed by the Office of the Public Auditor

JPNGD-21-P02*opa00

REPUBLIC OF PALAU



Office of the Public Auditor

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July 4, 2022
Serial#: opa22-045au

Honorable Sharp Sakuma
Governor
Ngaraard State Government
Ngaraard, Republic of Palau

Subject: Final Report on the Audit of Japan's Grant Assistance for Grassroots Human Security Project for "The Project for Procurement of Equipment for Improving State Roads in Ngaraard State"

Dear Governor Sakuma:

This report presents the result of our audit of Japan's Grant Assistance for the Project for Procurement of Equipment for Improving Ngaraard State Roads.

The Office of the Public Auditor (OPA) received your response, with supporting documents, to the Draft Audit Report. Accordingly, the draft report was revised to reflect the additional information accompanying your response to produce this final report.

If you have any questions regarding the report or subject matters discussed therein, the OPA will be available to discuss such matters at your request.

Sincerely,

A handwritten signature in black ink, appearing to read "Satrunino Tewid".

Satrunino Tewid
Acting Public Auditor, ROP

**Japan’s Grant Assistance for Grass-Roots
Human Security Project for
“The Project for Procurement of Equipment
for Improving State Roads in Ngaraard State”**

**Ngaraard State Government
Republic of Palau**

For the Period December 17, 2019 thru October 15, 2020

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July 4, 2022

Honorable Sharp Sakuma
Governor
Ngarard State Government
Republic of Palau

Dear Governor Sakuma:

The Office of the Public Auditor at the request of the governor initiated an audit of the Japan's Grant Assistance for Grassroots Human Security Project (GGP); namely "The Project for Procurement of Equipment for Improving State Roads in Ngarard State".

The Embassy of Japan in the Republic of Palau awarded the sum of \$99,100 to Ngarard State Government for the procurement of a backhoe loader pursuant to a Grant Contract executed between the Embassy of Japan and Ngarard State Government on December 17, 2019, as shown below:



Signing of the Grant Contract on December 17, 2019
Source: Ngarard State Government

The Objective of the audit is to determine whether Ngarard State Government: (1) administered the grant in compliance with the terms and conditions of the Grant Contract; (2) complied with the grant's GGP procurement guidelines; and (3) properly recorded the fixed asset into the State's accounting records.

The Office of the Public Auditor audited the administration of the grant funds pertaining to the procurement procedures, receipt and disbursements of funds, reporting mechanisms, and other related requirements pursuant to the Grant Contract and GGP procurement guidelines.

Background

The Government of Japan through the Grant Assistance for Grassroots Human Security Projects (GGP) provides small-scale assistance scheme to assist NGOs and public authorities in developing countries in responding to various development needs that directly benefits local residents for the purpose of economic and social development.

By way of the GGP, Ngaraard State Government entered into a Grant Contract with the Embassy of Japan in the Republic of Palau for the Project for Procurement of Equipment for Improving State Roads in Ngaraard State. The purpose of the Project is to improve the roads within the State to facilitate effective and efficient transport among the different hamlets. These roads improvements will also support and enhance economic and social development opportunities in the State. As specified in the Grant Contract, the project is to be completed within one year period after the contract date.

The purpose of the grant was to procure the following equipment:

Item	Quantity
Backhoe Loader	1
Shipping	1

Objective, Scope, and Methodology

The Objective of the audit is to determine whether Ngaraard State Government: (1) administered the grant in compliance with the terms and conditions of the Grant Contract; (2) complied with the grant's GGP procurement guidelines; and (3) properly recorded the fixed asset into the State's accounting records.

The scope of the audit covered the period from December 17, 2019 through October 15, 2020.

As this is a performance audit, we did not conduct audit procedures to assess the fairness of the financial statements of Ngaraard State Government or the grant or any component or accounts within those financial statements and therefore express no opinion on the financial statements.

In line with the Government of Japan's Grant Assistance for Grassroots Human Security Project, the GGP imposes and requires recipients to follow the GGP procurement policies and therefore we did not assess compliance with the Republic of Palau's Procurement Law and Regulations. In addition, as the grant funds are required to be deposited into a separate bank to be administered

outside of and independent of the state and national treasury, we did not assess compliance with state or national treasury laws and regulations.

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Public Auditing Act of 1985 empowers the Office of the Public Auditor to specifically act to prevent fraud, waste, and abuse in the collection and expenditures of public funds. The Public Auditor may make recommendations on the prevention and/or detection of fraud, waste, and abuse of public funds.

To accomplish our objective, we reviewed project revenues, expenditures, and supporting documents maintained at the Ngaraard State Government and the Japan Embassy in the Republic of Palau. We also reviewed the project Grant Contract and applicable GGP procurement policies and procedures. In addition, we discussed the project with State officials, Japan Embassy and conducted on-site visit of the project to inspect the equipment.

Grant Contract

In accepting the grant from the Embassy of Japan, Ngaraard State Government agreed to the following terms and conditions in the Grant Contract:

- A. To provide the Donor with an official receipt for the grant received;
- B. To provide the Donor with documents relevant to the Project such as procurement contracts for products and/or services upon request by the Donor;
- C. To use the grant properly and exclusively for the purchase of such products and/or services necessary for the execution of the Project as enumerated in the Annex of the contract and not to use those products and/or services purchased with the grant for purposes other than the execution of the Project, without acquiring any prior written approval from the Donor;
- D. To provide the following reports on the progress of the Project:
 1. One (1) project completion report to be provided upon the completion of the Project (the report should outline achieved results in the light of the original goals and objectives as stated in the application proposal for the Project. The report should include a clear accounting report of the allocation and disbursement of the grant.)

2. Any other reports on the Project to be provided upon request of the Donor, in accordance with the Donor's instructions;
- E. To complete the Project within one year after the contract date;
- F. To consult with and receive instructions from the donor in case the recipient wishes:
 1. To change how the grant is spent from the original plan in the application
 2. To change the contents of the Project
 3. To suspend and/or terminate execution of the Project
 4. To extend the completion date of the Project;
- G. To keep accounting documents that verify how the grant was spent for at least five years after the completion of the Project;
- H. To bear all responsibilities for deaths, injuries, diseases, and any other damages to the members of the Recipient in the course of the execution of the Project, and that the Donor will not be responsible for anything that happens during the execution of the Project;
- I. To consult with the Donor promptly on all matters which may have any influence on the execution of the Project;
- J. To recognize that the Donor reserves the right to claim a refund of a portion or the whole of the grant if:
 1. A part or the whole of the grant remains unused when the execution of the Project is suspended or terminated;
 2. The Recipient breaches this contract; and
- K. That this contract shall be governed by and construed and interpreted in accordance with the laws agreed to by the Donor and the Recipient.

Side Letter

In addition to the Grant Contract, Ngaraard State Government also agreed to additional terms in a "Side Letter" of commitment with the Embassy of Japan stipulating the following:

1. Ngaraard State Government will open an account with Bank of Hawaii exclusively for the purpose of the aforementioned project.
2. Ngaraard State Government will not withdraw any amount from the said account without prior written consent of the Embassy of Japan.
3. Ngaraard State Government will shoulder any excess amount necessary to complete the project, if the cost of the project surpasses the Government of Japan's grant.
4. Ngaraard State Government will submit an audit report on the Government of Japan's grant issued by the Public Auditor upon completion of the project.
5. Ngaraard State Government will be responsible for parking a backhoe loader at the state office premises.
6. Ngaraard State Government will be responsible for the fuel expenses, daily inspection and the fee for any maintenance of a backhoe loader.

7. Ngaraard State Government will keep an operating log for a backhoe loader in order to prevent personal or other usage aside from its intended purpose.
8. Ngaraard State Government will assign a operator/operators for a backhoe loader from public works staff.

Project Expenditures

Ngaraard State Government purchased one (1) backhoe loader. Table 1 below shows the cost of the backhoe loader, including shipping fees.

Table 1: Cost of Backhoe Loader

Item/Quantity	Price (\$US)	Description
Total Japan Grass-roots Grant	\$ 99,100	The fund was deposited into BOH C/A No. 0032-865054 on March 31, 2020.
1	90,000	Backhoe Loader 4WD, Make: New Holland, Year: 2020, Model:B951B, Engine: 95Hp, New Holland Diesel Liquid-Cooled US Emission Certified.
1	3,500	Shipping, Handling, and Insurance
Total Expenditures	\$ 93,500	
Balance	\$ 5,600	



On June 16, 2020, the backhoe loader was turned over to Ngaraard State Government in a formal Handover Ceremony shown below:



Handover ceremony on June 16, 2020
Source: Ngaraard State Government

Although Ngaraard State Government for the most part complied with the Grant terms and conditions, we report below one (1) audit finding on the project:

FINDINGS AND RECOMMENDATIONS

Finding No. 1 –Unexpended Funds (Grant)

The Grant Contract states: The Donor reserves the right to claim a refund of a portion or the whole of the grant if:

1. A part or the whole of the grant remains unused when the execution of the Project is suspended or terminated
2. The Recipient breaches the contract

We found that Ngaraard State Government received a GGP grant in amount of \$99,100 and only expended \$93,500, leaving a balance of \$5,600.

According to Ngaraard State Treasurer, the disposition surrounding the unused portion of the grant, \$5,600, will be discussed and agreed with the Japan Embassy following the submission of the audit report on the project.

Recommendation: We recommend that Ngaraard State Government follow-up on the discussion with the Embassy of Japan regarding the disposition of the \$5,600 upon submission of the audit report on the project.



Source: OPA pictures

Ngaraard State Government’s Response: According to the Governor, the main reason for the significant remaining balance on the grant is because of the discount given by the vendor on the tires for the backhoe loader. Further, according to the Governor, the Japan Embassy requires that the remaining balance of the grant shall be returned to the Grantor for further determination of how and who will expend the balance.

Conclusion

Ngaraad State Government applied for and was awarded a grant from the Government of Japan’s Grant Assistance for Grass-Roots Human Security Project (GGP) for the procurement of the Backhoe Loader. The purpose of the project is to improve the State roads, as shown in the photos in Appendix I. The improvements of state’s roads will support and enhance commerce, and social activities in Ngaraard State.










The Office of the Public Auditor would like to thank the staff and management of Ngaraard State Government and the Embassy of Japan in the Republic of Palau for their professional courtesy and cooperation during this audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Satruniho Tewid".

Satruniho Tewid
Acting Public Auditor

Appendix I: Photos of Road Improvement Projects with the Backhoe Loader

 <p>SECONDARY ROAD TO ULIMANG</p>	 <p>ROAD TO DUMP SITE</p>	 <p>NGURANG ELAB ROAD CEMETARY</p>
 <p>ROAD TO URUNG DOCK</p>	 <p>SECONDARY ROAD TO NGKEKLAUI</p>	 <p>NGESANG ELAB ROAD</p>
 <p>ULIMANG ROAD TO OTECHEI</p>	 <p>CHOLL ROAD TO REMACHEL</p>	 <p>CHOLL SECONDARY ROAD</p>



**ILLEGAL OR WASTEFUL ACTIVITIES
SHOULD BE REPORTED TO:**

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