



Chuuk State

Office of the Public Auditor

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OFFICE OF THE CHUUK STATE PUBLIC AUDITOR (OCPA) PRESS RELEASE 2022-03

OCPA releases its follow-up audit on Debt Relief Fund (Audit Report No. 2022-03)

The Office of the Chuuk State Public Auditor (OCPA) completed the follow-up audit on the Chuuk State Debt Relief Fund Payable covering Fiscal years September 2019 to September 2021. The purpose of the follow-up was to determine whether actions were taken as regards to the audit recommendations indicated in the related previous audit report 2019-02.

During the previous audit, there was outstanding payable amounting to \$13 million under debt relief fund not recorded in the books and thus, not reflected in the audited financial statement. The non recording of these payables to the books caused qualification of audit (unclean opinion) on the financial statement by the external auditor. This opinion means that the financial statements may not be reliable as they could be. The preferred auditor's opinion is unqualified opinion (clean opinion). The OCPA made several recommendations in the previous audit report to improve the record keeping and management of this payable. These include:

1. Coming up with target payment plan and schedule
2. Establishing good relationship with creditors
3. Examining the suggested possible revenue sourcing activities for the debt relief fund
4. Reconciling and recording the \$13 million payable in the books of accounts

Based on follow up audit, the OCPA conclude that the Debt Relief Task Force did not completely take corrective actions to address ALL audit findings and recommendations from the previous audit report No. 2019-02. The OCPA noted though that the details of payable balances were now established and supported by updated subsidiary ledgers. The total amount that was newly established was \$8.7 million which was lower than the \$13 million reported in the previous audit report. However, these payables remained unrecorded in the books.

During the course of the follow up audit, the OCPA further noted that in addition to the above payable, the Department of Administrative Services (Finance) has classified a related and recorded payable in the books for 'Land Acquisition Payable' amounting to \$8,564,795 under current liability in the financial statement. The OCPA questioned the classification for this payable under current liability, which is a liability that must be paid in one year, because it did not actually reflect the financial position of the government with regard to current liability. The Chuuk State Government had actual control of payment for this payable because the payment in a year is being limited by Legislative appropriation, so, not all this liability is due and demandable within one year. The current assets are assets to be

converted to cash to pay for current liabilities. An analysis of the movements of this payable for the last ten years based on audited financial statements revealed that there were minimal payments made in the past; in FY14 for \$53,750 and in FY18 for \$48,000. In addition to unrecorded judgment claims amounting to \$7,945,725.13 (net of payments), the total amount of payable by the Chuuk State Government to citizens would amount to \$16,510,520. This represents 158% (\$10 million) excess of the current assets (\$6 million net of restricted current assets) of the Chuuk State government and significant 30% claim to the Chuuk State government total assets (\$54 million, net of the total restricted assets) at end of fiscal year September 30, 2020.

The OCPA became aware of the Chuuk State law that limits the period of time an action could be initiated against the state. This law prescribed the period of time within which a cause of action could be enforced against the state. The total \$16,510,520 total payable to the citizens' claim is intergenerational and, so, the recovery of some claims may have lapsed already due to the statutory limitation for action to collect against the state. The OCPA recommended that further policy be provided by the Legislature for payables reaching the statutory limitation most especially on issues involving land used by the government

The actual audit report can be accessed on "Office of the Chuuk State Public Auditor" Face Book public group account titled "**Debt Relief Fund Payable: The Total Claims Payable by the Chuuk State to the Citizens' Amounted to \$16 Million. \$7 Million of which not Booked and Significant Amount may have Reached the Statutory Limitation Within Which to Claim Court Judgement Against the State**"

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