



PACIFIC REGIONAL REPORT ON PUBLIC DEBT MANAGEMENT



5TH COOPERATIVE PERFORMANCE AUDIT



Foreword

Cooperative performance audit is a robust capacity building tool used by the Pacific Association of Supreme Audit Institutions (PASAI) where public sector audit teams from a number of Pacific countries conduct a performance audit on the same topic.

Performance audits focus on improving how governments deliver programs and provide services. In conducting this type of audit, the expected result is that governments can improve the efficiency and effectiveness of their service delivery and have a positive impact on making a difference to lives of citizens.

PASAI has undertaken several cooperative performance audits within the region and is developing a reputation across the international auditing community for the standard and quality of our cooperative performance audits. To date, the focus of the cooperative performance audits has been environmental issues, such as sustainable fisheries management, access to safe drinking water, solid waste management, climate change adaptation and disaster risk strategies.

The cooperative performance audit on public debt is the fifth in this series but it is the first to focus on a financial related topic. PASAI members selected this topic because they share common challenges and issues of high levels of public debt and related risks in most governments in the Pacific.

This regional report provides a useful snapshot of how public debt management is being dealt with at a national and regional level. It provides key messages to SAIs and Pacific governments and stakeholders to strengthen governance, legal, financial and administrative systems to strengthen public debt management.

The impact from these audits is already making a difference to encourage governments to adopt robust debt management strategies, develop sound risk management practices and proper disclosure of levels of public debt.

This regional program has shown that a shared purpose, close cooperation, coordination, building networks will improve service delivery and ensure good governance for the people of the Pacific. Cooperative performance audits are also in keeping with INTOSAI's motto of 'Mutual experience benefits all', and PASAI's motto of 'Pacific auditors working together'.

We are pleased to present the consolidated result of our audit work in this report. Audit findings from the eight published audit reports have been clustered around two key performance themes of (i) governance arrangements and (ii) monitoring and reporting.

I commend this report to Pacific Island governments and regional stakeholders involved in managing public debt.

Mr John Path
PASAI Governing Board Chair

Acknowledgement:

A range of development partners including the INTOSAI Development Initiative (IDI), PASAI and the Asian Development Bank supported this regional cooperative audit. The Pacific Islands Forum Secretariat and the Pacific Financial Technical Assistance Centre provided specialist technical advice during the planning phase and over the course of the audit. The Asian Development Bank provided technical support to the development of the initial audit concept and support over the course of the audit.

Abbreviations

CPA	Cooperative performance audit
FSM	Federated States of Micronesia
GDP	Gross Domestic Product
IDI	INTOSAI Development Initiative
ISSAI	International Standards of Supreme Audit Institutions
PASAI	Pacific Association of Supreme Audit Institutions
PFTAC	Pacific Financial Technical Assistance Centre
PICT	Pacific Island Country and Territory
PIFS	Pacific Island Forum Secretariat
PRAI	Pacific Regional Audit Initiative
SAI	Supreme Audit Institution
SME	Subject Matter Expert
TSA	Technical Support Advisor

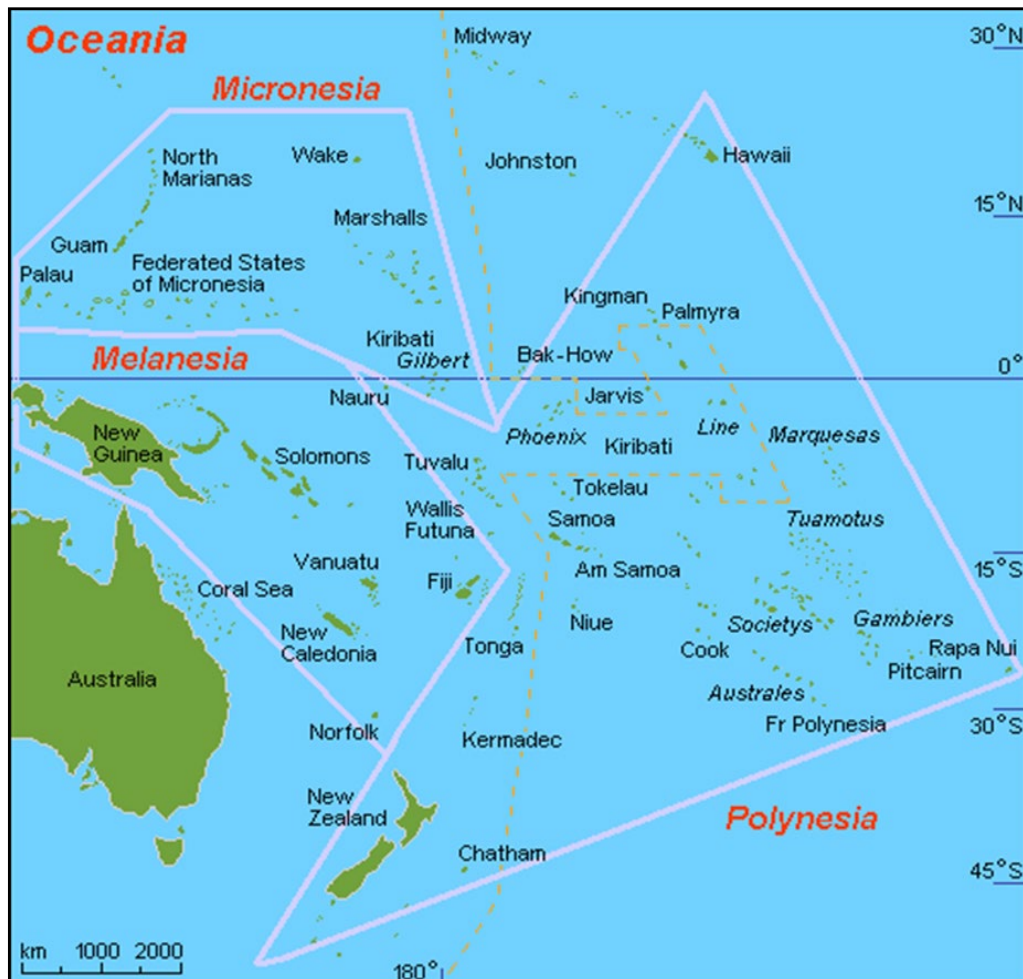


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Executive Summary

This Cooperative Performance Audit on Public Debt Management is the fifth regional cooperative audit conducted by the Pacific Association of Supreme Audit Institutions (PASAI). Supreme Audit Institutions (SAIs) from eight Pacific Island Countries and Territories conducted individual audits on Public Debt Management within their jurisdictions. The SAIs that chose to participate in this audit are: Cook Islands; Fiji; Federated States of Micronesia – National; Federated States of Micronesia – Kosrae; the Federated States of Micronesia – Pohnpei; Guam; Republic of the Marshall Islands and Samoa.

This report synthesizes the findings from the eight individual audits and identifies common findings in the management of public debt in the Pacific. Other jurisdictions may learn from both the individual audit reports as well as from this regional report. The outcomes of this report will also be shared with the INTOSAI Regional Working Committee on Public Debt.

Objectives of the regional cooperative audit

The key objectives of this cooperative performance audit were to:

- Objective 1: Build performance audit capacity within individual SAIs
- Objective 2: Promote improvements in the effectiveness, efficiency and economy of public administration in relation to public debt management
- Objective 3: Encourage the audit to be ISSAI-compliant.

As a result of an evaluation of this program, the objectives were all met and the results are summarised in A1.

What is public debt?

Public debt is the total debt obligations or debt liabilities of a country's central government and its statutory bodies. Governments obtain public loans and increase public debt on behalf of their citizens. A government's debt portfolio is usually its largest financial portfolio and often contains complex financial structures that can lead to substantial risk to the government's balance sheet and to the country's financial stability. There are usually multiple agencies involved in managing of public debt including disclosure and reporting.

The global financial crisis, the slowdown of the global economy, natural disasters, exchange rate fluctuations, civil and political unrest, downturns in tourism, and a slowdown in export sectors are all factors that have contributed to an increase in public debt. Public debt impacts economies and can seriously undermine the financial condition of a government.

Because of these factors, public debt issues are especially relevant in the Pacific region where public debt levels remain consistently high.

About the audit

This audit was the first time any of the participating SAIs had audited public debt management. They found the complexity and technical nature of the audit topic challenging. However, through the methodology developed for the PASAI's cooperative performance audit program, participants developed a sound understanding of public debt management. The audit also enhanced the participants' capacity to conduct a high-quality performance audit that is compliant with International Standards of Supreme Audit Institutions (ISSAIs). Practical audit experience and knowledge from colleagues and experts was shared, together with technical support for relevant and useful audit recommendations. If implemented, these audit recommendations will help to build robust public debt management practices in the participants' countries.

Challenges for audit teams

A common challenge faced by the SAIs conducting this audit was that the government ministries and agencies

responsible for public debt management lacked the resources and trained technical staff to administer and manage public debt or to compile reliable data for monitoring and reporting. Fiscal records and debt data were incomplete and of low quality. To a certain extent, these factors limited the scope of the audits.

The topic for this cooperative performance audit was complex and very broad. It was impossible for SAIs to conduct a performance audit across all sub-topics around public debt management. However, the program assisted the audit teams to plan and undertake these audits using an ISSAI-compliant performance audit methodology. The key principles of a robust public debt management system detailed in INTOSAI's *Guide for auditing public debt management — the INTOSAI Development Initiative and Working Group on Public Debt 2012* were also used to formulate audit criteria and guide the implementation of individual audit work plans for a number of sub-topics.

Consolidated findings

Based on the four key concepts of good public debt management detailed in ISSAI 5422¹, the audit issues identified by all participating SAIs can be summarised under two cross-cutting: governance and monitoring and reporting.

Governance

Four of the eight participating SAIs identified lack of a legal framework and a weak organisational structure for agencies involved in public debt management as being of concern. Common issues were lack of a procedures manual to guide and inform decision makers, lack of defined roles and responsibilities and a lack of coordination and monitoring across key government agencies. Critical operational risks related to weak internal controls of government agencies responsible for public debt management were also identified.

Monitoring and reporting

Six of the eight participating SAIs highlighted a lack of available information or documentation and weak or non-existent debt management strategies and loan repayment schedules. These issues can be partially attributed to the limited knowledge and experience of staff responsible for debt management activities. Another issue identified was the lack of regular and complete reporting due to sub-optimal use debt management software. This lack of information brings uncertainty to whether the reported financial condition of a government is complete and accurate.

Key message for Pacific SAIs

Through public sector audits, SAIs can develop a sound appreciation of the issues faced by government agencies that are responsible for public debt management. SAIs can have a positive impact on trust in society because audit scrutiny focuses the minds of custodians of public resources on how well they use those resources, including managing public debt levels.

PASAI has implemented a capacity building program to develop a cohort of auditors across the Pacific who are trained in auditing public debt management. The role SAIs play is crucial to:

- identifying sound and robust public debt management practices for government
- promoting accountability and transparency in reporting public debt by encouraging the disclosure of financial data that is reliable, accurate and relevant to measuring and managing public debt.

Public debt management is of global importance as evidenced by one of the themes considered at the XXI Congress of INTOSAI (INCOSAI) in 2013: The role of SAIs in safeguarding long-term sustainability of finance policies. In this context, SAIs can play an important role in assisting governments address issues of financial stability by conducting public debt audits.

1 ISSAI 5422 An Exercise of Reference Terms to Carry Out Performance Audit of Public Debt which is based on *IMF/World Bank guidelines for public debt management (2001)*.

Managing public debt also falls under one of the principal objectives of the framework for Pacific regionalism: strengthen governance, legal, financial and administrative systems. This regional report outlines lessons to support strengthening public debt management that will assist in achieving the Pacific regionalism objective.

This cooperative audit has allowed participating SAIs to develop a common sense of purpose and to share knowledge and lessons learnt.

Although the results of this cooperative audit cannot be generalised across the Pacific region, the critical deficiencies in public sector administration that were identified should be of interest to other member SAIs, Pacific Island governments, public debt managers, public policy analysts, development partners, INTOSAI working groups and regional bodies that have an interest in public debt management.

There is an opportunity for Pacific SAIs and agencies involved in managing public debt to develop a schedule of audits to strengthen public debt management in Pacific Island Countries and Territories.

Key message for Government agencies involved in managing public debt

Public debt activities depend on robust legal and policy frameworks supported by qualified staff and agencies clearly mandated with the responsibility to administer and manage public debt. These agencies and staff need effective recording and reporting systems for accurate and reliable whole-of-government reporting.

In conducting this audit, SAIs found that government ministries and agencies responsible for managing public debt commonly lacked the resources and trained technical staff to administer and manage public debt and to compile reliable data for monitoring and reporting.

Statements provided by the National Audit Office of the Federated States of Micronesia and the Audit Office of the State of Pohnpei show the concern of government about the audits' findings. They have outlined their planned approaches to respond to public debt management deficiencies identified by the audits. These responses show how relevant SAIs are to both parliaments and citizens. Governments and responsible agencies of other Pacific Island states would benefit from adopting a similar model of cooperation with their SAIs as is being adopted in FSM National and Pohnpei.

Overall Conclusion

Public debt levels are at unsustainable levels in most Pacific Island countries and action is needed to ensure this debt is managed competently and with appropriate disclosures. SAIs have a critical role to play by encouraging governments to adopt robust debt management strategies, sound risk management practices and proper reporting to disclose levels of public debt.

“ The effort in addressing our recommendations has also resulted in the government leadership taking action to build and to strengthen public debt in FSM. ”

- Public Auditor, FSM National Office

1. Introduction

1.1 What is public debt?

Public debt is the total debt obligations or debt liabilities of a country's central government and its statutory bodies. The meaning and definition of public debt varies across countries, particularly in the Pacific region, and ISSAI 5421 *Guidance on the Definition and Disclosure of Public Debt* states that public debt can include:

- i. liabilities or other commitments incurred directly by public bodies
- ii. central government or federal government, depending on the manner of political organisation in a country
- iii. state, provincial, municipal, regional and other local government or authorities
- iv. owned and controlled public corporations and enterprises
- v. other entities that are considered to be of a quasi-public nature
- vi. liabilities or other commitments incurred by public bodies on behalf of private corporations or other entities (for example, contractual obligations on the part of government for a public–private partnership that does not meet agreed performance expectations).

It is also important to distinguish between external and domestic debts. External debts are liabilities owed by residents to non-residents; domestic debts are liabilities owed by residents to other residents of the same country. Public sector external debts are debt obligations external to the public sector; public sector domestic debts are debts owed to the institutions and individuals of the home country.²

The complexity of public debt management depends to a large extent on the economic characteristics of the country, the size and structure of domestic securities market for government financing, the resilience of the economy to absorb shocks, as well as the completeness of documentation or records of past government borrowings, both domestic and international. In particular, the characteristics of Pacific Island countries and territories are that they have relatively small economies, so external debt dominates total public debt rather than domestic debt, as shown in Figure 1.

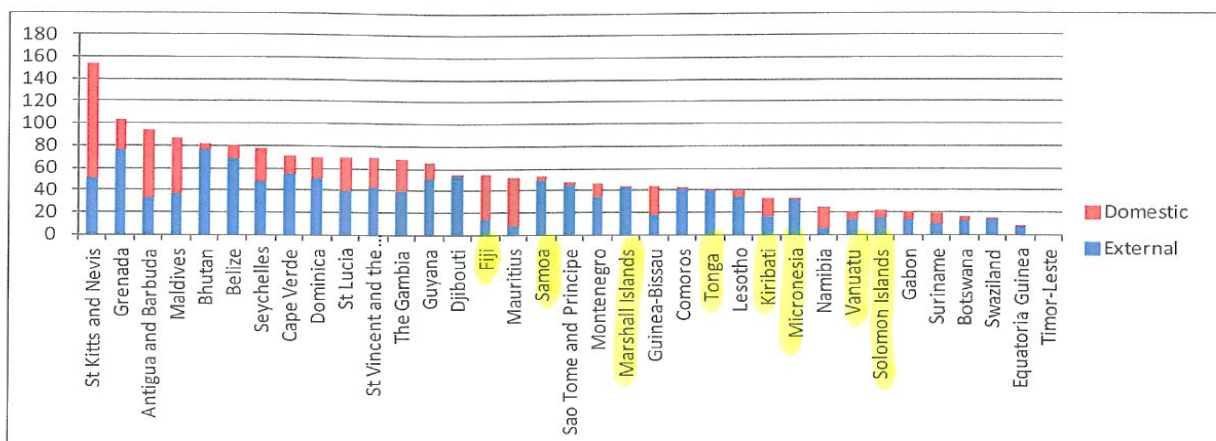
The countries highlighted in yellow in Figure 1 are the PASAI members that took part in the cooperative audit.³

Except for Fiji, most PASAI member countries rely heavily on external debt or financial flows from bilateral and multilateral donors. This status may be because Pacific Island countries and territories have low savings rates and underdeveloped domestic securities markets; significant commodity concentration in exports, often exacerbated by natural disasters; fluctuations in migrant remittances; and inward tourism flows.⁴

² IMF (2013) *Public Sector Debt Statistics: Guide for Compilers and Users*.

³ Guam is not shown in Figure 1 due to its status as a US Territory and data from the Cook Islands was not available.

⁴ Dr Pradah, H.K. (2007) 'Domestic and external debt management — perspectives from Pacific island nations', Commonwealth Secretariat presentation (April).



Source: IMF World Economic Outlook October 2012 and IMF Article IV Consultation Reports

Figure 1 Public debt composition — domestic vs external debt as a percentage of GDP (2012)

Source: IMF World Economic Outlook October 2012 and IMF Article IV Consultation Reports (Prasad, A Pollock, M Li, Y (2013) Small States Performance in Public Debt Management World Bank Policy Research Working Paper)

The sustainability of external public debt is vulnerable to external factors or risks such as exchange rate shocks, economic shocks, and natural disasters. For example, for PASAI members, the level of debt compared to GDP is quite high as shown in Table 1.

According to the IMF’s World Economic Outlook (2012), Samoa’s public external debt was estimated to be 48 per cent of GDP and domestic debt was estimated to be 3.9 per cent of GDP at the end of 2010/2011. The Republic of Marshall Islands also borrows heavily from external sources, such as the Asian Development Bank (ADB), with projected borrowings of 57 per cent of GDP in 2012. These figures indicate a heavy reliance on the external sector, making these economies vulnerable to exchange rate fluctuations and lower economic growth. Long-term sustainability depends on the fiscal consolidation and structural reform efforts of the government.

A country with high public debt will face obstacles to development because it:

1. weakens the government’s ability to achieve macroeconomic stability due to high debt servicing
2. creates adverse incentives associated with future taxes
3. increases the risk of a country’s ability to borrow.

An increase in public debt requires higher debt servicing in the future, which means that fewer public funds are available for public services or infrastructure critical to development. Research also shows that high debt levels may also create adverse incentives for future taxes because the potential revenue gained from taxes may, in part, be directed towards servicing debt. As a result of high levels of debt, some countries may not be able to pay their debts, which impacts their credit worthiness.

However, sometimes, high levels of public debt are sustainable when the debt is increased for development needs that, in turn, can improve economic outcomes.

Economic, institutional and political conditions influence the way public debt is defined, interpreted and managed across Pacific Island countries and territories. For this cooperative audit, it was important for the participating SAIs to understand these functions and interrelationships to be able to recommend practical ways for improving public debt management within their jurisdictions.

Figure 2 illustrates what is commonly seen as the structure of the public sector and the usual institutions expected to be involved in public debt management. Figure 3 shows there are many participants involved in managing public debt and it is important for SAIs to have a good understanding of these structures before starting an audit on public debt.

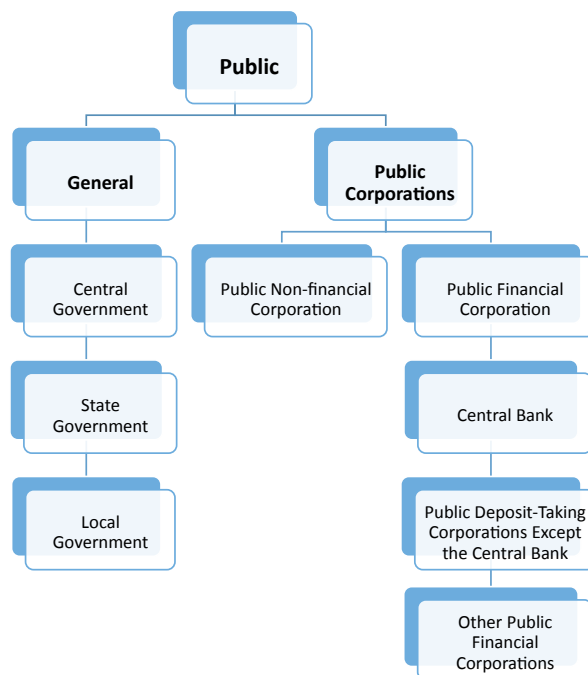


Figure 2 The public sector and its main components in relation to public debt

Source: INTOSAI (2012) Guide for auditing public debt management, developed for The INTOSAI Development Initiative and Working Group on Public Debt, pp. 17–18.

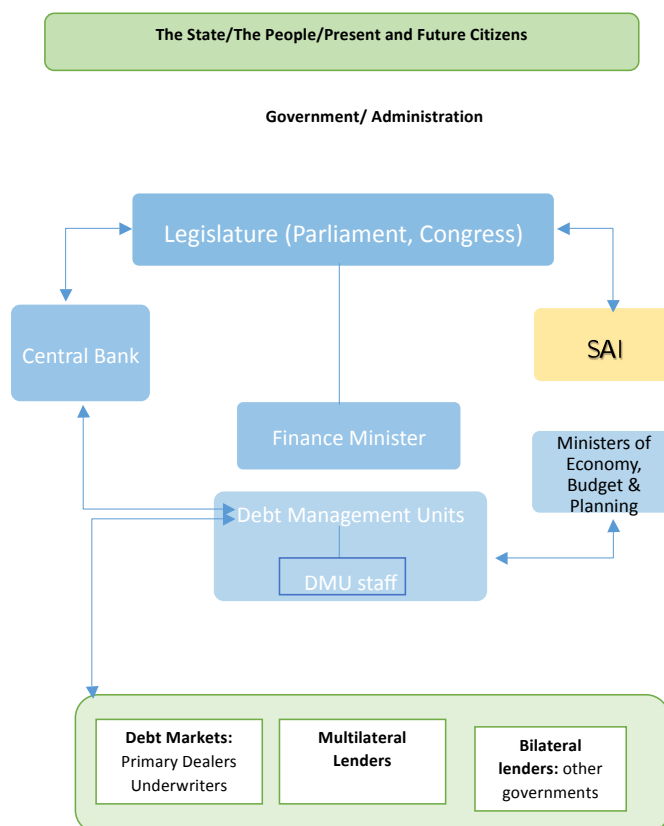


Figure 3 Contributors to public debt management

Source: INTOSAI (2012) Guide for auditing public debt management, developed for The INTOSAI Development Initiative and Working Group on Public Debt, p.20.

1.2 Background to the audit topic — public debt management

This cooperative performance on government public debt was agreed by member SAIs at the 15th PASAI Congress in 2012. In February 2013, the PASAI Governing Board agreed that PASAI would lead a cooperative performance audit on the topic of public debt.

Eight SAIs chose to participate in this audit: Cook Islands; Fiji; Federated States of Micronesia – National; Federated States of Micronesia — Kosrae; the Federated States of Micronesia — Pohnpei; Guam; Republic of the Marshall Islands and Samoa.

As with PASAI’s other cooperative performance audits, this program encouraged compliance with ISSAI 3000 and ISSAI 3100 as well as other ISSAIs relevant to auditing public debt management.

A summary of key references and guidelines relating to public debt management is listed in Appendix A1, including a list of experts that were consulted during this audit.

1.3 Pacific region context

SAIs chose to be a part of this cooperative program because of its significance to their economy and its relevance for improving public finance management in their countries.

During this cooperative audit, each participating SAI selected an area of public debt management to audit based on:

- their understanding of the contributors and main components of public debt management in their government
- cumulative audit knowledge and experience
- technical resources
- time available to conduct the performance audit.

Table 1 summarises the reporting period and relevant public debt figures for the SAIs participating in the audits.

Table 1 Value of public debt for the participating SAIs

SAI Country	Period reported	Public debt value ⁵	Breakdown of public debt	Debt to GDP %
Cook Islands	30 June 2013	NZ\$105 million	<ul style="list-style-type: none"> • ADB \$65.3 million • Bank of China NZ\$36.2 million • French development loans NZD\$3.1 million 	22.3% of GDP ⁵
Fiji	31 Dec 2013	FJ\$3.83 billion	<ul style="list-style-type: none"> • Domestic debt FJ\$2.74 billion • External debt FJD\$1.08 billion 	<p>2012 ⁶ 53.4% of GDP</p> <p>2013 52.2% of GDP</p> <p>2014 50.4% of GDP</p>

SAI Country	Period reported	Public debt value ⁵	Breakdown of public debt	Debt to GDP %
FSM — National	30 Sept 2012	US\$56.3 million	<ul style="list-style-type: none"> External debt consisting of concessional term loans ⁷ from ADB 	Gross public debt is relatively low at US\$87.1 million (below 30% of GDP) in FY2011, mostly owed ADB on concessional terms. ⁸
FSM — Kosrae	30 Sept 2012	US\$5.6 million	Not provided	
FSM — Pohnpei	30 Sept 2012	US\$16.4 million	<ul style="list-style-type: none"> Primary government debt US\$6.5 million Pohnpei Utilities Corporation US\$9.9 million 	
Guam	30 Sept 2008 30 Sept 2009 30 Sept 2010 30 Sept 2012	US\$1.01 billion US\$1.39 billion US\$1.47 billion US\$1.70 billion	Not provided	The Government of Guam's 2012 debt-to-GDP ratio of 26.4% was below the IMF's 60% benchmark. Also, Guam's 2011 debt-to-GDP of 20.4% ranked 13th among the US state governments, where New York was the highest at 28.6%. ⁹
Republic of Marshall Is.	30 Sept 2011	US\$64.47 million	Consists of external (long-term debt) and domestic (short-term debt)	Public and publicly guaranteed external debt has been on a downward trajectory since the early 2000s. It declined from 73.7% of GDP in FY2002 to 55.9% of GDP at end FY2012. ¹⁰
Samoa	30 June 2013	WST\$989.9 million	<ul style="list-style-type: none"> External debt WST\$952.48 million Domestic debt WST\$37.43 million 	At the end of 2011/2012, the face value of public external debt was estimated at 55.5% of GDP. ¹¹

5 Source: SAI reports (refer to section 5)

6 Ministry of Finance and Reserve Bank of Fiji (2012) 2012 Budget Strategy (Fiji Audit Report)

7 Non-interest bearing loans with a service charge that ranges from 1% to 1.5% per annum

8 Federated States of Micronesia (FSM): 2012 Article IV Consultation Concluding Statement of the IMF Mission November 19, 2012

9 Guam Public Auditor Report: http://opaguam.org/sites/default/files/opa1401_es.pdf

10 World Bank. 2013. Republic of Marshall Islands - Joint bank-fund debt sustainability analysis: 2013 update. Debt sustainability analysis (DSA). Washington DC; World Bank. <https://www.imf.org/external/pubs/ft/dsa/pdf/2014/dsacr1426.pdf>

11 World Bank. 2013. Samoa - Joint bank-fund debt sustainability analysis: 2013 update. Debt sustainability analysis (DSA). Washington DC; World Bank. <http://documents.worldbank.org/curated/en/2015/04/17893072/samoa-joint-bank-fund-debt-sustainability-analysis-2013-update>.

Debt-to-GDP ratio is one of the common measures of debt and it is the amount of national public debt as a percentage of gross domestic product. If this measure increases year after year, it means that public debt is growing faster than the economy, which could lead to a burdensome debt load. While this measure may be popular and easy to obtain and understand, it does not give a full picture of the level of debt. The International Monetary Fund's (IMF) External Debt Statistics Guide for Compilers and Users (2003) provides guidelines for compiling debt statistics, particularly for the public sector, to help users and compilers assess external vulnerabilities and undertake sustainability analyses through debt indicators such as liquidity and solvency risks. It includes guidance on (1) concepts, definitions and classifications on external debt data (2) the sources and techniques for compiling these data and (3) the analytical uses of these data.

The participating SAIs did not assess liquidity and solvency risks due to a lack of technical expertise and data. However, participants were made aware of these measures and were encouraged to include these analyses in future performance audits on public debt as their knowledge and expertise to audit this topic increases.

The specific audit objectives and audit scope identified by each participating SAI are described in section 2.



Photo: Office of the Public Auditor – FSM National Office

1.4 Cooperative Performance Audit Approach

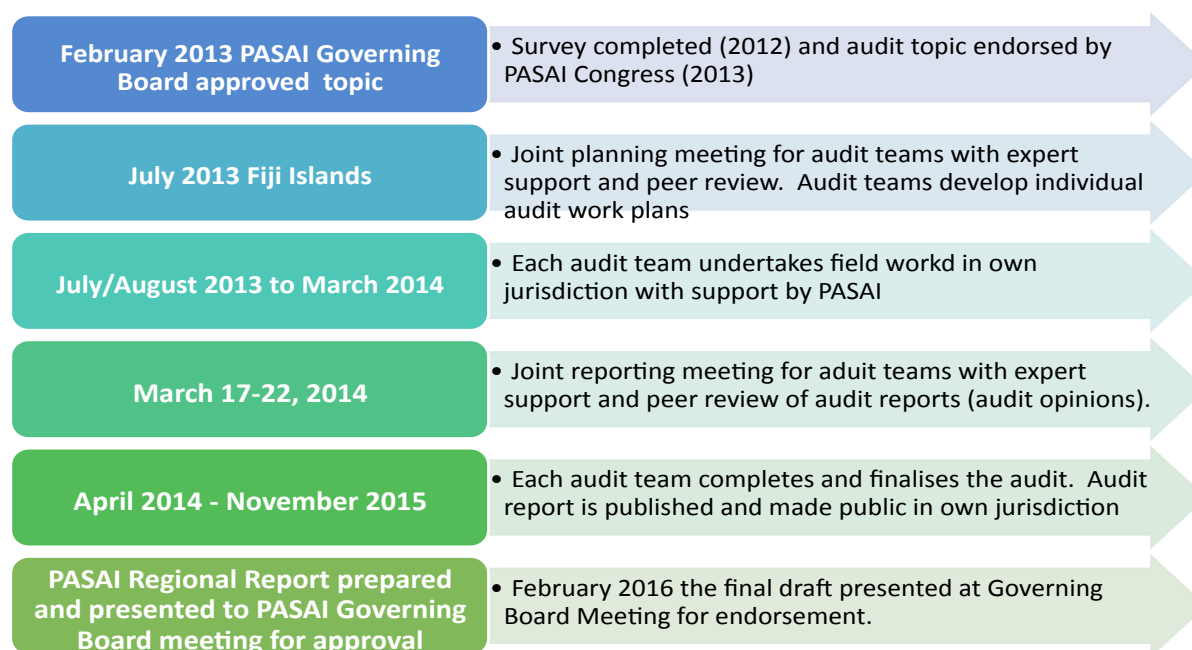
Since 2009, PASAI has completed four other cooperative performance audits across the Pacific:

- Solid Waste Management 2009–2010
- Access to Safe Drinking Water 2010–2011
- Sustainable Fisheries Management 2011–2012
- Climate Change Adaptation and Disaster Risk Reduction 2013–2015.

The previous cooperative audits focused on environmental issues. However, this Cooperative Performance Audit on Public Debt is the first cooperative performance audit with a focus on a core financial topic. It is also the first cooperative performance audit conducted and led by the PASAI Secretariat.

This methodology used for the Cooperative Performance Audit on Public Debt is similar to the methodology that has been used in other PASAI cooperative performance audits. Figure 4 shows the steps used to undertake this cooperative performance audit.

Figure 4 Methodology for the Cooperative Audit



PASAI 5th Cooperative Regional report published in 2016

Each participating SAI selected its own audit team of at least two auditors.

“ For the first time, many government leaders and management officials became aware of the extent of our public debt. ”

- Public Auditor FSM State of Pohnpei

Table 2 summarises the participating audit teams.

Table 2 Participating SAIs and their audit teams

PARTICIPATING SAI	AUDIT TEAM
Cook Islands	2 Performance Auditors: 1 x Senior Auditor and 1 x Auditor (understudy)
Fiji	2 Performance Auditors: 1 x Senior Auditor and 1 x Auditor (understudy)
FSM Kosrae	2 Performance Auditors: 1 x Head of SAI and 1 x Senior Audit Manager
FSM National	2 Performance Auditors: 1 x Senior Auditor and 1 x Auditor (understudy)
FSM Pohnpei	2 Performance Auditors: 1 x Audit Manager, 1 x Auditor (understudy)
Guam	1 Performance Auditor: 1 x Auditor <i>NOTE: Guam self-funded its own participation</i>
Palau	2 x Performance Auditors: 1 x Senior Auditor and 1 x Auditor (understudy) <i>NOTE: Palau only attended the joint planning meeting. Due to matters beyond their control and lack of resources Palau SAI withdrew and did not participate in the joint reporting meeting.</i>
Republic of Marshall Islands	2 Performance Auditors: 1 x Senior Auditor and 1 x Auditor (understudy)
Samoa	2 Financial Statement Auditors: 1 x Audit Manager and 1 x Principal Auditor (with performance audit experience)



2. What is Public Debt Management?

2.1 Overview

Public debt management is the process of establishing and executing a strategy to ensure that the government's financing needs and its payment obligations are met at the lowest possible costs over the medium to long term, consistent with a prudent degree of risk.¹² It is important that public debt management is also linked to a clear macroeconomic framework to ensure the rate of growth of public debt is sustainable.

The complexity of public debt management depends to a large extent on an economy's size, structure of the domestic securities market, the government structure that facilitates public debt, the resilience of the economy to absorb shocks (such as natural disasters or worldwide financial crisis), as well as a country's international and domestic borrowing history.

Sound public debt management is effective if data on public debt can be measured reliably and it is comprehensive, comparable and accurate to inform government policy makers and financial markets in a timely manner. Being able to compile, measure and evaluate public debt allows governments to control and manage public debt effectively, provides early detection of a country's external vulnerability and sustainability risks, and provides government with the possibility to understand the public debt phenomena from different perspectives.

2.2 Four key concepts of public debt management

Public debt management is made up of the design of contracts for credit with medium and long-term plans that must include four key concepts (ISSAI 5422):¹³

GOVERNANCE

1. debt structure in accordance with the currencies, holders, rates, terms, instruments and contractor entities
2. risk evaluations of the contracts
3. prudent management practices

MONITORING & REPORTING

4. recording, control and monitoring processes.

The first three concepts are related to governance matters and the fourth concept relates to monitoring and reporting.

Key concept 1: Debt structure in accordance with the currencies, holders, rates, terms, instruments and contractor entities

Debt must be structured so that servicing it is guaranteed and smooth over time. Some indicators that can be used to evaluate potential problems related to debt structure are summarised in ISSAI 5422.

¹² Hackett, R. (2013) presentation at PFTAC/IMF planning meeting, 5th Cooperative Performance Audit 23 July 2013.

¹³ ISSAI 5422 is also based on *IMF/World Bank guidelines for public debt management (2001)*.

Key concept 2: The risk evaluations of debt contracts

Risk evaluation is the process where situations and events that might prevent debt obligations prescribed in debt contracts from being met are defined, as well as defining the probability of those situations or events occurring. Common risks to public debt management are: market risk, rollover risk, liquidity risk and risk of not attaining desired fiscal revenue goals (tax and non-tax revenues), credit risk, settlement risk, risk of natural disasters, country risk and operational risks. Operational risks relate to:

- lack of clarity on functions and responsibilities of staff in charge of debt management
- lack of expertise or training
- lack of written procedures or instructions
- documentation risks
- fraud risks.

These operational risks mainly relate to internal controls of the government agency in charge of public debt.

Key concept 3: Prudent management practices

Prudent management practices should include:

- a legal framework
- a framework to compare risks and costs
- defined contingent debt or liabilities
- strategies that show debt management measures are linked with a solid macroeconomic framework.

Key concept 4: Recording, control and monitoring processes

There is a need for reliable, accurate information on external debt to achieve sound debt management practices, to measure and evaluate the risks a government might face, and for informed decision making.

In summary, public debt management is important for a number of reasons:

1. to ensure that the level and rate of growth of public debt is sustainable in a wide range of circumstances
2. to lower public borrowing cost, reducing the impact of deficit financing and contributing to debt and fiscal sustainability
3. avoid economic crises because of poorly structured external debt.

2.3 Overall audit objective

The PASAI Congress approved an 'umbrella' audit topic of public debt, enabling individual SAIs to develop their own audit objectives and audit plans relevant to their specific jurisdictions.

To assist the participating SAIs, the PASAI Secretariat completed a concept plan and preliminary study and provided the following overall audit objective:

'To assess whether public debt management is effective and efficient to achieve long-term sustainability and financial stability.'

The cooperative audit was led by the PASAI Secretariat with cooperation from the INTOSAI Development Initiative's (IDI) Program Manager. Two subject matter experts from the Pacific Island Forum Secretariat and Pacific Financial Technical Assistance Centre provided technical support to participating SAIs.

Before the audit teams attended the joint planning meeting, each SAI carried out a preliminary study to familiarize themselves with public debt management within their jurisdictions and to identify relevant and specific audit objectives.

At the planning meeting, the audit teams presented their preliminary studies and suggested their audit objectives. The IDI Program Manager, PASAI's Technical Support Advisor and the subject matter experts also presented on the topic of public debt and ISSAI requirements.

It soon became evident that defining an audit objective was challenging because the overall topic was broad and too complex. Therefore, the audit teams workshopped to focus on manageable audit objectives. The teams were given a list of sub-topics from the IDI's *Guide for Auditing Public Debt Management*. Each audit team was asked to nominate topics they thought should be included in their audit scope. Each sub-topic was then discussed and the teams revised their selection based on the topics most relevant to their countries.

2.4 Audit focus

The sub-topics selected by SAIs to scope the subject matter into manageable audits were:

- legal framework of public debt management
- organisational arrangements in public debt management
- determination of public borrowing needs
- public debt management strategy
- borrowing activities
- public debt information systems
- debt service activities
- debt reporting
- fiscal risk.



Table 3 summarizes of the sub-topics chosen by each SAI, categorized under the four key concepts.

Table 3 Audit sub-topics chosen by SAIs under each key concept

SAI	SUB-TOPICS AND RELATED KEY CONCEPTS				
	Governance				Monitoring & Reporting
	Determination of public borrowing needs <i>(Key concept 1: debt structure)</i>	Public debt servicing activities <i>(Key concept 2: the risk evaluations of the contracts)</i>	Public debt management strategy <i>(Key concept 3: prudent)</i>	Legal framework of public debt management <i>(Key concept 3: prudent management strategies)</i>	Reporting public debt and loan guarantees <i>(Key concept 4: recording, control and monitoring processes)</i>
Cook Islands		X			
Fiji	X				X
FSM National			X	X	
FSM Kosrae		X	X	X	
FSM Pohnpei		X		X	
Guam			X		
Republic of Marshall Is.				X	
Samoa	X	X			

A joint reporting meeting was held on 17–22nd March 2014 in the Cook Islands to refine the audit reports and for quality reviews by audit teams, PASAI’s Technical Support Advisor, and the IDI Program Manager. Presentations were given on report writing and on identifying common cross-cutting issues.

After the joint planning meeting, further technical support was provided for FSM (National, Kosrae and Pohnpei) and Guam to assist with the finalization of their audit reports.

2.5 Individual SAI audit objectives

Countries in the Pacific region have different legal and legislative arrangements. Table 4 shows the specific audit objective and the focus adopted by each participating SAI. Individual SAIs analysed public debt management within the scope of their audit mandates and conducted the audit in accordance with internationally agreed auditing standards. The SAIs also investigated whether roles and responsibilities in relation to public debt management were clearly defined, and whether public debt was managed effectively. These issues were examined in the audits at several levels: in legislation; in strategies, plans and programs; and in implementation and monitoring arrangements by responsible government agencies.

Table 4 Summary of audit objectives and sub-topics selected by the SAIs

Overall topic: To assess whether public debt management is effective and efficient to achieve long-term sustainability and financial stability.

SAI	AUDIT OBJECTIVE	AUDIT FOCUS (SUB-TOPIC)
Cook Islands	<p>1a. Are debt-servicing activities appropriate and sufficient to provide the most effective use of resources?</p> <p>1b. Is debt servicing effective and is there opportunity for improvement?</p> <p>1c. Do debt-servicing procedures ensure the sustainable operations of debt management?</p>	Public debt servicing activities
Fiji	<p>1a. To ascertain whether the actual borrowing made by the government in previous years was based on correct and complete estimate of borrowing needs.</p> <p>1b. To determine whether the Debt and Cash Flow Management Unit and Budget Division ensure that relevant estimate of expenditure from both explicit and implicit contingencies allowed for budget preparation.</p> <p>2a. To establish whether the public debt is properly recorded and reported (completeness, reliability and timeliness of public debt data).</p> <p>2b. To establish whether loan guarantees are properly recorded and reported in accordance with reporting regulations, standards and other reporting requirements.</p>	<p>Determination of borrowing needs</p> <p>Reporting public debt and loan guarantees</p>
FSM National	<p>1a. To determine if the relevant government loans and loan guarantees activities are properly monitored, served and recorded.</p> <p>2a. To determine the effectiveness of legal framework including the effectiveness of the related processes and controls on compliance, monitoring and reporting.</p> <p>2b. To determine the effectiveness of institutional framework including the related processes and controls on compliance, monitoring and reporting.</p>	<p>Public debt management strategy</p> <p>Legal framework of public debt management</p>
FSM — Kosrae	<p>1a. To evaluate the legal framework in managing public debts.</p> <p>2a. To evaluate the effectiveness and efficiency of public debts database.</p> <p>3a. To determine if borrowing plans prepared by government are consistent with its public debt strategy.</p>	<p>Legal framework of public debt management</p> <p>Public debt servicing activities</p> <p>Public debt management strategy</p>

SAI	AUDIT OBJECTIVE	AUDIT FOCUS (SUB-TOPIC)
FSM — Pohnpei	1a. To evaluate the effectiveness of the legal framework and the organisational structure in managing public debt.	Legal framework of public debt management
	2a. To determine the efficiency of debt servicing in Pohnpei State Government and its component units.	Public debt servicing activities
Guam	1a. To determine whether the Government of Guam could sustain its debt level as of FY 2012 (Scope: Government public external and domestic debt from FY 2008–2012)	Public debt management strategy
Republic of Marshall Islands	1a. To evaluate the effectiveness of the legal framework of public debt management 1b. To ascertain the effectiveness of the debt management strategy	Legal framework of public debt management
Samoa	1a. To determine whether the public debt database is complete, accurate, and consistent to provide reliable financial information	Public debt servicing activities
	2a. To ascertain whether actual borrowing made by government is based on correct and complete estimate of borrowing needs	Determination of public borrowing needs

“ In our follow-up meetings and discussions with relevant management officials earlier this month, we noted that they are in the process of developing for implementation appropriate corrective measures to address the internal control weaknesses identified in our report. ”

- Public Auditor FSM State of Pohnpei



3. Summary of Key Audit Findings

This section is a summary of the audit findings under the two cross-cutting themes of: (1) governance (2) monitoring and reporting. For many of the participating SAIs, this was the first time they had conducted a performance audit on public debt management. These findings show that countries at different stages of economic and financial development can improve their public debt management practices.

Further details on individual country audit results are found in the SAI audit findings and recommendations of this report.

3.1 Governance

A range of legal and policy instruments support public debt management. Given the complex nature of public debt, the main purpose of these instruments is to provide a framework to guide the effective management of public debt processes, strategies and to help governments ensure they monitor their public debt obligations and measure the performance of systems and processes.

Four of the eight participating SAIs identified lack of a legal framework and a weak organisational structure for agencies involved in public debt management as being of concern. Common issues were a lack of a procedures manual to guide and inform decision makers, lack of defined roles and responsibilities, and a lack of coordination and monitoring across key government agencies. Critical operational risks related to weak internal controls of government agencies responsible for public debt management were also identified.

Further details of these audit issues identified are summarised in the following sections.

3.1.1 Legal framework of public debt management¹⁴

Establishing a robust legal framework is a positive sign to creditors that countries can reduce their borrowing costs over time. It can protect the country against fraud and abuse of borrowed funds and prevent waste and corruption in public debt management.

The legal framework should clarify the legal authority from Parliament or Congress to an Executive branch of the government to borrow, issue new debt, invest and undertake transactions on the government's behalf. SAIs examined whether five key elements of a best practice framework are explicitly, clearly and consistently defined in the existing legal framework:

1. delegation of sovereign powers by Parliament to the Executive
2. remit (responsibility and activity) of debt management office
3. borrowing purposes
4. debt management goals and objectives
5. debt reporting obligations.

Legal framework — summary of findings

- Limited legal frameworks are in place to enable the implementation of a sound debt management system.
- The organisational structure for public debt management is not clearly defined in state law.
- Lack of defined roles and responsibilities for public debt management tasks.
- The legal framework is outdated and does not include essential elements required of a sound public debt management
- There is no debt management unit.

14 GIDI and Working Group on Public Debt (2012), *Guide for Auditing Public Debt Management*.

3.1.2 Public debt management strategy

A debt management strategy should have a longer-term focus than a borrowing plan. A debt management strategy should be designed to define the government's optimal funding sources based on the:

- government's risk tolerance
- stage of development of domestic financial markets
- ability of the government and the private sector to obtain external funding
- country's stage of economic development.

The SAIs examined whether a debt management strategy is made public after it is approved and is disseminated to strengthen the relationship with investors, creditors and other key stakeholders and facilitate an open dialogue on key factors influencing the choice and implementation of the strategy. Making the strategy public could also help secure support for the strategy and reduce investor uncertainty. The strategy must be updated frequently, preferably annually to reflect the changes in circumstances.

Public debt management strategy — summary of findings

- Lack of available information on public debt and borrowing activities.
- Absence of loan limit and regular risk analysis on the states' and public enterprises' loans and on guaranteed or re-lent loans.
- Absence of a strategic plan on borrowing and repayments.
- Not having a debt management strategy in place, contributes to increased debt.
- No medium-term debt management strategy is in place.
- Lack of stringent debt policies to cap external government borrowing.

3.1.3 Public debt servicing activities

Paying debt on time as specified in public debt agreements requires the participating entities — usually debt management units or offices of the Ministry of Finance or Treasury, Central Bank, creditors, or fiscal agents responsible for foreign exchange reserves and monetary policy — to manage the budgeting and payments of debt service obligations. SAIs examined whether these public debt-servicing activities summarised above also include managing principal, interest, commission and interest penalties imposed due to late repayments of debt. Debt servicing activities can be in the form of cash payments, rescheduling of principal payments, creation of an arrear, prepayment schedule, debt forgiveness or debt swap.

There are two public debt recording systems designed to strengthen the capacity of developing countries to manage their debt in an effective and sustainable way: the United Nations Conference on Trade and Development's Debt Management and Financial Analysis System (DMFAS) Programme and the Commonwealth Secretariat's Debt Management Solutions (CS-DMS). These software products are designed to help countries manage their external and domestic public debt.

The DMFAS is a specialized debt management and financial analysis software developed for countries to manage their external and domestic public debt. The CS-DMS comprises of a suite of three software products, including associated capacity building support and is free of charge to Commonwealth member countries. It is used in 60 Commonwealth and non-Commonwealth countries across more than 100 sites in finance ministries, central banks, treasuries, accountant general offices and provincial governments.

SAIs examined whether public debt servicing activities should adopt or consider using these packages to ensure governments always pay creditors on time and reduce public debt to enable a higher credit status and lower borrowing costs. The responsible ministries or agencies must have accurate, secure and reliable recording systems or a database that can accurately and completely record these transactions.

Public debt servicing activities — summary of findings

- There is a lack of operational procedures to assist staff responsible within the relevant government agencies to carry out public debt servicing activities
- Lack of documentation supporting government loans and incomplete submissions of loan and re-lending agreements.
- Debt servicing payments not included in the budget.
- Inaccurate loan repayment schedules result in no prioritisation and repayment schedules.
- Lack of documented operational procedures or training manuals for sustainability of operations.
- Lack of comprehensive procedures manuals or requirements about public debt management. Lack of coordination, reporting and monitoring of loans.
- Lack of regular review of information entered into the CS-DRMS for those that use it.
- Underutilisation of the CS-DRMS or existing debt management information systems.
- Delayed repayments and weak processes to mitigate foreign exchange risks.

3.1.4 Determination of public borrowing needs

Governments should have mechanisms in place to determine how much to borrow. Determining the net borrowing needs for a defined period is a critical and complex function that requires a significant amount of information and coordination across government agencies. Borrowing more than the actual requirement could put serious pressure on the government's fiscal position, while under-borrowing could create an obstacle in implementing the government's development plans.

In general, net borrowing needs are determined by the following key four factors:

1. debt due
2. an estimate of medium-term budget deficits
3. an estimate of the contingencies (such as defaults of guaranteed loans that would be triggered in the medium term)
4. estimate of net financial assets, including accumulation of cash balances.

Usually, debt managers will know with certainty the amount of debt that comes due within a year; the other three factors are commonly provided by other government agencies. Therefore, determining borrowing needs requires complete, accurate, reliable and up-to-date information and coordination of relevant data from other agencies to provide the full picture. SAIs examined whether the responsible government agencies have robust mechanisms in place to determine and estimate their borrowing needs including assessing the performance of inter-agency coordination efforts to minimise borrowing, and strengthen budget execution, estimate loss contingencies and increase returns on financial investments.

Determination of public borrowing needs — summary of findings

- Contingent liabilities are not considered in the disclosure of public debt.
- Lack of coordination, reporting and monitoring of loans.

3.2 Monitoring and reporting

The complex nature of public debt, its dependence on consistent and timely data for accurate analysis by government, and the increasing amount of debt records and transactions that must be captured by the information system have encouraged some countries to develop or acquire computerised systems for monitoring and reporting. — primarily the CS-DMS or the DMFAS. Governments should have proper systems in place, including staff capacity, to enhance transparency, accountability and reporting of public debt.

Six of the eight participating SAIs highlighted a lack of available information or documentation and weak or non-existent debt management strategies and loan repayment schedules. These issues can be partially attributed to the limited knowledge and experience of staff responsible for debt management activities. Another issue identified was the lack regular and complete reporting due to sub-optimal use debt management software. This lack of information brings uncertainty to whether the reported financial condition of a government is complete and accurate.

This is further elaborated in the next section.

3.2.1 Reporting public debt and loan guarantees

SAIs examined how the responsible agencies for public debt fulfill reporting obligations to public administration bodies or other stakeholders and to support management functions.

Regular reporting allows legislators, creditors, taxpayers and other interested parties to assess compliance with debt legislation and determine if debt levels are sustainable. Timely reporting can improve public debt management and provides an opportunity for governments to address potential problems before debt levels become unsustainable and helps to avoid risky debt decisions that can exacerbate an economic, fiscal or financial crises.

Reporting public debt and loan guarantees — summary of findings

- Inconsistencies in reporting debt maturities.
- Lack of regular reporting of public debt, can led to poor decision making.



4. Conclusion

Public debt levels are at unsustainable levels in most Pacific Island countries and action is needed to ensure this debt is managed competently and with appropriate disclosures. SAIs have a critical role to play by encouraging governments to adopt robust debt management strategies, sound risk management practices and proper reporting to disclose levels of public debt.

As a result of this cooperative audit, the participating SAIs have made several recommendations aimed at enhancing governance, including monitoring and reporting of government public debt. From a regional perspective, PASAI has identified two recommendations that could be considered by SAIs together with their stakeholders, both nationally, locally and regionally to improve public debt management within their respective countries:

1. The Debt Management and Financial Analysis System (DMFAS) and the Commonwealth Secretariat Debt Management Solution systems exist to help countries manage their external and domestic public debt. Pacific countries should either consider the use of either these systems to manage debt. For those countries that do use either of these systems, they should seek further assistance to enable them to fully utilize the functions available.
2. Key roles and responsibilities should be clearly defined for those agencies responsible for public debt management. This will improve coordination between all these agencies, which will improve public debt management activities.

Key message for Pacific SAIs

Through public sector audits, SAIs can develop a sound appreciation of the issues faced by government agencies that are responsible for public debt management. SAIs can have a positive impact on trust in society because audit scrutiny focuses the minds of custodians of public resources on how well they use those resources, including managing public debt levels.

PASAI has implemented a capacity building program to develop a cohort of auditors across the Pacific who are trained in auditing public debt management. The role SAIs play is crucial to:

- identifying sound and robust public debt management practices for government
- promoting accountability and transparency in reporting public debt by encouraging the disclosure of financial data that is reliable, accurate and relevant to measuring and managing public debt.

Public debt management is of global importance as evidenced by one of the themes considered at the XXI Congress of INTOSAI (INCOSAI) in 2013: The role of SAIs in safeguarding long-term sustainability of finance policies. In this context, SAIs can play an important role in assisting governments address issues of financial stability by conducting public debt audits.

Managing public debt also falls under one of the principal objectives of the framework for Pacific regionalism: strengthen governance, legal, financial and administrative systems. This regional report outlines lessons to support strengthening public debt management that will assist in achieving the Pacific regionalism objective.

This cooperative audit has allowed participating SAIs to develop a common sense of purpose and to share knowledge and lessons learnt.

Although the results of this cooperative audit cannot be generalised across the Pacific region, the critical deficiencies in public sector administration that were identified should be of interest to other member SAIs, Pacific Island governments, public debt managers, public policy analysts, development partners, INTOSAI working groups and regional bodies that have an interest in public debt management.

There is an opportunity for Pacific SAIs and agencies involved in managing public debt to develop a schedule of audits to strengthen public debt management in Pacific Island Countries and Territories.

Key message for Pacific Island Heads of Government and the agencies involved in managing their public debt

Public debt activities depend on robust legal and policy frameworks supported by qualified staff and agencies clearly mandated with the responsibility to administer and manage public debt. These agencies and staff need effective recording and reporting systems for accurate and reliable whole-of-government reporting.

In conducting this audit, SAIs found that government ministries and agencies responsible for managing public debt commonly lacked the resources and trained technical staff to administer and manage public debt and to compile reliable data for monitoring and reporting.

Statements provided by the National Audit Office of the Federated States of Micronesia and the Audit Office of the State of Pohnpei show the concern of government about the audits' findings. They have outlined their planned approaches to respond to public debt management deficiencies identified by the audits. These responses show how relevant SAIs are to both parliaments and citizens. Governments and responsible agencies of other Pacific Island states would benefit from adopting a similar model of cooperation with their SAIs as is being adopted in FSM National and Pohnpei.

Initial audit impacts

The impacts from the audits undertaken as part of this cooperative performance audit will take time to measure and will occur over different time periods in each country. The audits will only have impact if the audit recommendations are implemented locally. PASAI will monitor implementation and will report on the impacts through our Monthly Update to PASAI members and our Quarterly Bulletin to all stakeholders.

However, two SAIs — FSM National Audit Office and Pohnpei Audit office — are already reporting positive impacts.



Haser Hainrick, Public Auditor of FSM National Audit Office

The audit report certainly caught the attention of our top management. We were called to a meeting with the President to discuss the report. The President's comments on the report were very positive. For FSMSAI that is really important. As I have said before, audit reports are for the executive to implement, so hearing straight from them that we're doing something that meets their needs was both pleasing and encouraging to us.

Another event that occurred as a result of this report was that the departments were summoned to Congress to discuss the findings and recommendations. The Congress has asked the relevant offices to prepare detailed action plans in response to this audit report and generally required them to take immediate corrective actions.

The effort in addressing our recommendations has also resulted in the government leadership taking action to build and to strengthen public debt in FSM. For example, this particular topic is included on the agenda for the State National Leadership Conference, which is being held this week. FSM SAI is invited to sit in during the public debt management presentation and discussions which will take place tomorrow here in Palikir.¹⁵

¹⁵ Provided by Haser Hainrick through Senior Auditor Eriwhne David in an email received 21 January 2015 and reported to PASAI Governing Board meeting February 2015 New Zealand.

September 2015 update:

The President has responded to our audit by setting up a Debt Management Advisory Committee (DMAC). This committee is composed of senior officials from the Department of Finance and Administration and Office of Statistics, Budget, and Economic Management and Overseas Development Assistance and Compact Management.

The key task of the DMAC is to develop a means to improve the legal and institutional framework for debt management in the FSM. This includes the drafting of a Public Debt Act, which will lay out the regulations, guidelines and procedures that will provide strategic direction and define and clarify duties and responsibilities for debt management in the FSM. The Public Debt Act should include provisions on the following elements:

- a. Debt management goals, objectives, and strategy;
- b. Delegation of authority to borrow;
- c. Borrowing limits for the national government, the states and public enterprises;
- d. Borrowing options;
- e. Guidelines on annual reporting to Congress on debt status, including a periodical debt sustainability analysis;
- f. Appraisal and approval framework, as well as progress and final report requirements, for debt-financed projects;
- g. National government oversight on loans contracted by public enterprises; and
- h. Auditing and assessment of debt management activities.

Another recent development from the DMAC committee is that a specialist has been contracted to assist the DMAC in preparing a draft Public Debt Management Bill. The specialist will also prepare a policy based on the Bill. The specialist will be responsible for overall management and implementation for the public debt management bill; timely delivery of high-quality reports and knowledge products, including a policy note on the Bill, and arranging workshop and training with the DMAC. The specialist will deliver a draft public debt management bill plus a policy/explanatory note for transmission with the bill to Congress. Haser Hainrick



Ihlen K Joseph, Public Auditor, Pohnpei

(1) We issued our audit report on Public Debt Management for Pohnpei State Government and one of its component units, the Pohnpei Utilities Corporation (PUC) in April 2014. The report shows that at the end of the Fiscal Year 2012, Pohnpei State Government's outstanding loan payables totaled approximately US\$16.4 million. Of this total, \$6.4 million is for the Pohnpei primary government (fully secured) while the remaining \$10 million is for the Pohnpei Utilities Corporation (PUC), a component unit of Pohnpei Government (partially secured).

(2) We have carefully reviewed the draft report on the Public Debt Management and services and related issues prepared by PASAI. We feel the draft report provides an excellent representation of the Public Debt Cooperative performance audit for the FSM-Pohnpei State. We commend the preparer of the report as drafted for a job-well-done.

(3) The report discloses important information and promotes public awareness and greater understanding of the Pohnpei Government debt. For the first time, many government leaders and management officials became aware of the extent of our public debt.

A1. Program Evaluation

A1-1 Evaluation of this cooperative performance audit

PASAI uses cooperative audits as a capacity-building strategy to facilitate knowledge sharing, pool expert resources with a view to deepen auditors' understanding of an audit topic, and to enhance the quality of performance audits to comply with ISSAIs and international good practice.

Evaluating each cooperative audit is useful to determine whether the program is working and its objectives and also provides a way to track progress and fine-tune planning for future cooperative performance audits. Evaluation is also helpful for participants so that any necessary adjustments to the program can be made to ensure they stay on track to achieve results.

A qualitative methodology was used to evaluate this cooperative performance audit. Questionnaires, observations and discussions were used to gather evaluative feedback during both joint planning meetings.

A1-2 Questionnaires and observations — joint planning meeting

PASAI evaluated the joint planning meeting through a questionnaire (refer to Appendix A2.1) that asked participants to rate their experience of the program on a scale from 'Poor', 'Fair', 'Good' to 'Excellent'. Overall, the responses were positive with a suggestion for the subsequent joint reporting meeting to provide more training on report writing and ISSAIs.

During the joint planning meeting, audit teams drafted their audit work plans or audit matrix plans. Throughout this process the technical support adviser, the IDI program manager and the subject matter experts worked with the teams to identify specific audit objectives and assist with drafting audit work plans.

Given the complex and broad topics of public debt management, the group also undertook a peer review process. Each audit team presented their draft audit plans to the group for feedback. This approach allowed the audit teams to learn from each another.

Observations were also made about what worked well at the overall program level. Performance audit skills gained by participants in the cooperative performance audit program included:

- developing a detailed audit work plan and suitable audit methodology related to the broad audit objective, which was endorsed by heads of SAIs, and learning to tailor the plan to the specific circumstances of the country or state being audited
- gaining an understanding of the relevance and application of auditing standards that underpin each stage within the performance audit cycle: planning, consultation, evidence gathering, analysis, drafting and reporting
- peer review support for other teams
- presentation skills for audit plans and reports
- fieldwork, evidence gathering and testing the adequacy of evidence against the audit criteria relevant to the audit topic
- analysis of audit evidence and translating this into audit findings and recommendations
- report writing, focusing on key messages.

The joint planning meeting proved to be a strong performance audit capacity-building exercise, as audit teams were:

- able to see and develop linkages between audit objectives, audit criteria and audit methodology
- supported in consolidating their understanding of international auditing standards (ISSAIs) by developing ISSAI-compliant audit work plans
- able to share knowledge and ideas through a group discussion and peer review process
- able to provide a completed draft audit work plan or audit design matrix
- able to identify and develop an overall approach for public debt management performance audits to be carried out in the future
- able to gain experience working together through the group peer review approach and on the last day of the planning meeting when ‘stronger’ audit teams worked alongside less-experienced audit teams on similar sub-topics.

After the joint planning meeting, participants provided feedback about whether the training was useful to complete the fieldwork and data collection and analysis stage. Responses included:

- “Yes, because planning guides fieldwork and this meeting helps us develop our audit work plan.”
- “Training was very detailed, which should allow for easier implementation of the audit fieldwork.”
- “Yes, it has helped a lot of where to direct the audit, especially narrowing down of what we need to look into and address the issue.”

A1-3 Self-assessment questionnaire — joint reporting meeting

At the joint reporting meeting, an evaluation form (refer to Appendix A2.2) was used for participants to self-assess their knowledge at the beginning of the program, and then self-assess their knowledge at the end of the program based on a rating scale shown in Table 5.

Table 5 Participants’ self-assessment rating scale

Rating scale	1. Not applicable (did not attend meeting)
	2. Little or no knowledge in this area
	3. Basic level of knowledge in this area
	4. Moderate level of knowledge in this area
	5. High level of knowledge in this area

The joint reporting meeting was also an audit capacity-building opportunity as audit teams learnt how to identify good audit recommendations; however, further training and coaching was required as teams still struggled with report writing.

Many audit teams learnt to identify the cause, condition and recommendations of their audits, but found it difficult to articulate the ‘so what’ message.

At the final joint reporting meeting, participants completed an evaluation form to self-assess their capacity development and learning when they started this program (joint planning meeting) and at the completion of it (joint reporting meeting). The scores for each participant were averaged out and the results are shown in Figure 5.

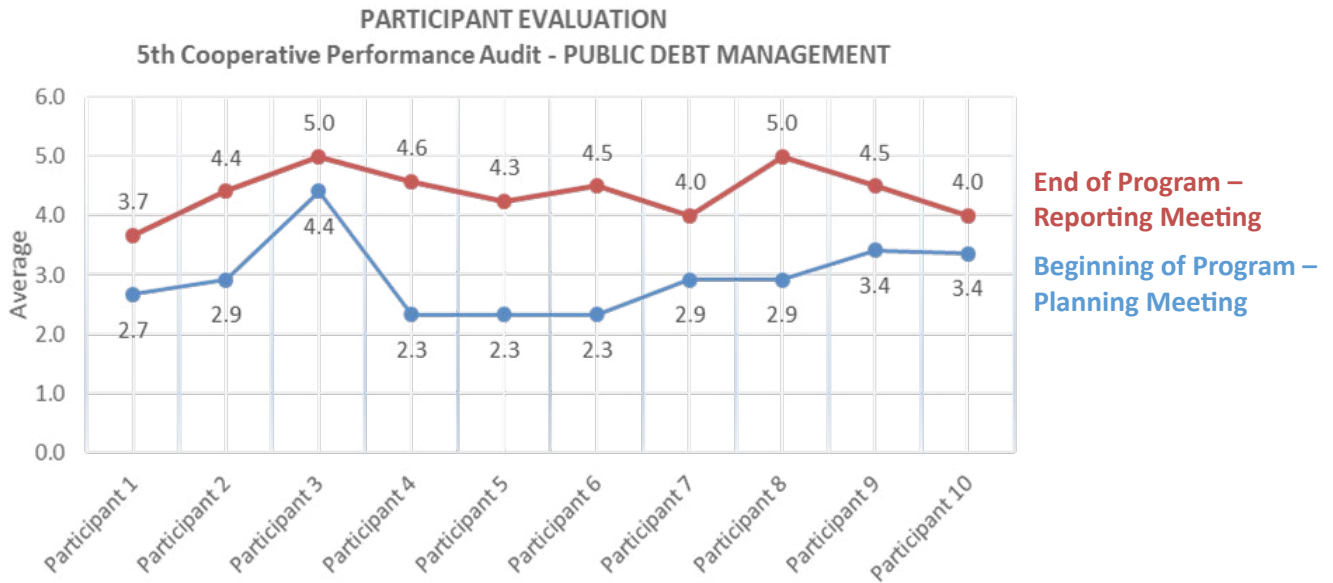


Figure 1 Overall results from participants' evaluation forms

A1-4 SAI in-country visits

At the joint reporting meeting, participants were able to visit the Cook Islands Audit Office in March 2014. This was the first time that a cooperative performance audit was held at a specific SAI. The participants were able to get to know the staff of the Cook Island Audit Office, and were given a demonstration on using electronic working papers via TeamMate. Many participants found the tool interesting and were able to pass this onto their Head of SAI when they returned to their own country.

The intrinsic benefits have been invaluable for all participants and contributed to their capacity, networking and knowledge sharing. This exercise is an excellent example of knowledge sharing and 'public auditors working together'.

A1-5 Assessment of cooperative program objectives

There were three key objectives of this cooperative performance audit: build performance audit capacity within individual SAIs; promote improvements in the effectiveness, efficiency and economy of public administration in relation to public debt management; and encourage the audit to be ISSAI compliant. Table 6 assesses the outcomes of the objectives of the program.



Table 6 Assessment of key objectives of the cooperative performance audit program

KEY OBJECTIVES	RESULTS
1. Build performance audit capacity within individual SAIs	<p>✓ Achieved</p> <p>Participants all acknowledged they had increased their understanding and capacity to conduct performance audits. Participants also learnt how to plan and audit a series of future public debt topics. SAIs now have more staff with enhanced capacity and capability to conduct ISSAI compliance performance audits.</p>
2. Promote improvements in the effectiveness, efficiency and economy of public administration in relation to public debt management	<p>✓ Achieved</p> <p>The audit recommendations given to the responsible government authorities, and agencies will contribute towards improving public administration. The audit reports are already making a positive impact in some of the countries. (see section 9 Impact statements – Feedback from the Heads of SAI).</p>
3. Encourage the audit to be ISSAI compliant	<p>✓ Achieved</p> <p>Throughout the program, ISSAIs were emphasised and relevant guidelines and manuals were used by participants within their countries. The PASAI Secretariat is continuing a dialogue with participants through emails.</p>



A2. SAI Audit Reports – Executive Summaries

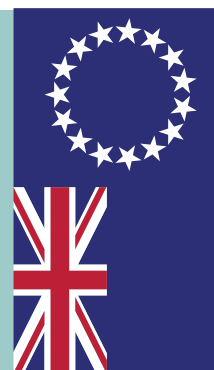
This section presents details of the audit objectives, scope, key findings and recommendations, conclusion for each of the eight published audit reports.

A2-1 Cook Islands

COOK ISLANDS
COOK ISLANDS AUDIT OFFICE

Name of audit: *Management of Public Debt — Funds Management Division (Ministry of Finance and Economic Management)*

Publishing details: [Contact Director of Audit Mr Allen Parker at allen.parker@cookislands.gov.ck](mailto:allen.parker@cookislands.gov.ck)



COOK ISLANDS

NATIONAL AUDIT OBJECTIVE

To evaluate the effectiveness of the Funds Management Division (FMD) in servicing public debt. The objective was achieved by reviewing the following lines of enquiries:

1. Do debt-servicing procedures ensure the sustainability of operations?
2. Were debt-servicing activities appropriate and sufficient to provide the most effective use of resources?
3. Do debt-servicing activities effectively manage cash flow and foreign exchange risks?

AUDIT SCOPE

The audit examined the FMD's debt-servicing activities from 1 January 2011 to 30 June 2013. We compared FMD's operating activities to the following internationally recognised guidelines:

1. International Monetary Fund — Public Debt Good Management Practices
2. World Bank Debt Management Performance Assessment Tool.

AUDIT FINDINGS & RECOMMENDATIONS:

Sustainability of debt servicing operations

1. FMD staff had limited SA knowledge and experience in debt management; however, their duties were undertaken competently with a clear understanding of their roles and responsibilities, which was possible due to the current composition of public debt. However, if the composition of debt changes, the limited technical knowledge of the FMD will be stretched.
2. The FMD did not have any documented operational procedures or training manuals in place to ensure the sustainability of operations. Also, the training needs of staff were not effectively identified.

Adequacy of debt servicing activities

1. The current Debt Reporting Management System (DRMS) was adequate in providing relevant data on public debt activities. However, greater efficiency and effectiveness may be attained through the use of the Commonwealth Secretariat (CS-DRMS).
2. The current availability of relevant public debt information enhances the Cook Islands government's transparency and accountability in relation to public debt.
3. The recently revised debt repayment procedures will ensure future repayments are made consistently and on time. The revised procedures ensure FMD is more proactive in making repayments.

Management of cash flow and foreign exchange risk

1. The current exposure to foreign exchange risk and cash-flow issues have been adequately managed and mitigated by the FMD. However, further consideration should be taken by FMD if government continues taking on additional Renminbi denominated debt.

AUDIT CONCLUSIONS:

Our audit concluded that the sustainability of debt servicing operations could not be ensured due to the lack of documented standard operational procedures.

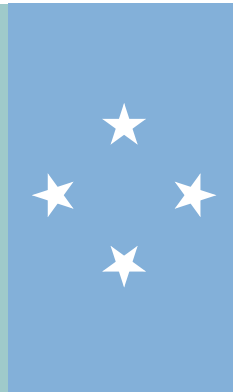
However, debt-servicing activities were appropriate to provide the most effective use of resources.

The current exposure to foreign exchange and cash-flow risk have been adequately managed and mitigated by the FMD.

FEDERATED STATES OF MICRONESIA (FSM) OFFICE OF THE NATIONAL PUBLIC AUDITOR

Name of audit: *Audit of the Public Debt Legal and Institutional Framework*

Publishing details: <http://www.fsmopa.fm/>
<http://www.fsmopa.fm/files/onpa/2013/Public%20debt%20audit%20report.pdf>



FEDERATED STATES
OF MICRONESIA

NATIONAL AUDIT OBJECTIVE:

To assess the adequacy of FSM National Public Debt management with respect to:

- the legal and institutional framework and the related processes and controls on compliance, monitoring and reporting
- government loan relending and guaranteeing activities.

AUDIT SCOPE:

We reviewed the related constitutions, laws, regulations, policies, processes and procedures including testing of debt transactions to verify the compliance with prudent debt management practices. Our audit covered the long-term debts as of the end of the 2012 financial year.

Our audit of public debt was limited to long-term loan obligations contracted by the FSM National Government and any other related contingencies. It did not include short-term obligations (due within a year) and other payables, which amount to US\$32,403,660 as at 30 September, 2012 or 36% of the total recorded liabilities (US\$88.7 million) of the FSM National government.

AUDIT FINDINGS & CONCLUSIONS:

Based on the results of the audit, we found that FSM legal and institutional framework lacked permanent and necessary provisions to adequately implement the system of debt management. It has been only during the approval of each debt that the FSM Congress defines the requirements and some functions related to debt management. The basic requirements include borrowing purposes, debt management goals and objectives, reporting of debt obligations and others.

We also found that the institutional framework needs strengthening before the debt management system is deployed. Similar to the legal framework, the institutional functions related to debt management were scattered and performed by different departments without proper coordination to ensure adequate debt management.

Lastly, we found that State Governments and public enterprises could generate risks to the National Government not only in consequence of guaranteed loans, but also by an undisciplined or unsustainable way of borrowing. However, there was no limit and analysis of the risks with respect to those loans.



AUDIT RECOMMENDATIONS:

Finding 1: US\$21 million of FSM's external debt was spent on failed or partly successful projects

Recommendation 1:

- a. Development and implementation of a more comprehensive project appraisal and approval framework is necessary to ensure that decision makers are able to consider all relevant elements of a project to make a more informed judgment about their success, or otherwise.
- b. Establish a Debt Management Advisory Committee to review and recommend loan finance (debt financing) project proposals.
- c. Initiate a study to strengthen the legal and institutional framework to mandate it and make it answerable to law and to clearly establish the responsibilities and accountabilities for the selection, approval and implementation of loan-financed projects. Some of the requirements that could be legislated or regulated include:
 - allowable projects for loan financing e.g. investment projects
 - using project appraisal and approval framework
 - forming a project governance structure
 - developing and implementing a project life cycle framework and risk management on implementation of the project
 - gathering baseline metrics, statistics or parameters before, during and after the completion of the project.

Finding 2: US\$13 million in trust accounts and sinking funds were not regularly assessed to identify whether there were sufficient funds for the repayment of the associated loans with outstanding balance of \$31 million

Recommendations 2:

- a. Assign the responsibility for regularly estimating the sufficiency of the amount in the trust account and request an appropriation for the transfer of funds from the general account to the trust account, if necessary.
- b. Comply with the law to establish or maintain a sufficient amount of funds in the trust account for debt servicing the related loans.
- c. Disclose in the yearly audited financial statements whether the amount in the trust account or sinking fund is sufficient to cover the associate loans for transparency and accountability.

Finding 3: Legal framework was limited and lacked permanent provisions to enable an implementation of a sound debt management system

Recommendations 3:

- a. The President should require the development and proposal for the enactment of a *Public Debt Act* or the FSM Secretary of Finance and Administration should develop and implement regulations, guidelines and procedures to provide strategic direction for debt management, define and clarify duties and responsibilities, and support the professional and operational focus of debt management.
- b. The legal framework should include specific requirements such as:
 - authority to borrow and delegation of power
 - borrowing purposes
 - debt management goals and objectives
 - debt management strategy
 - borrowing limits, including borrowing limits for the states and public enterprises

- borrowing options — issuing bonds, instruments, multilateral or bilateral loan agreement
- project appraisal and approval framework
- nomination of the office responsible for handling/coordinating the debt management operation
- annual debt reporting to Congress including debt status, guaranteed loans and debt sustainability analysis
- project progress and final report including report on outcome effectiveness
- National Government oversight on loans contracted by public enterprises (component units)
- gathering and developing project-related baseline and operational data to allow comprehensive evaluation of the completed projects
- auditing and assessment of debt management activities including an independent assessment of the economy, efficiency and effectiveness of projects funded by debts.

Finding 4: Limited organisational functions resulted in inadequate implementation of an effective debt management system

Recommendations 4:

- a. The President should create a committee, for example a Debt Management Committee that would be responsible for reviewing all government borrowings including guarantees.
- b. The Secretary of Finance and Administration should define the roles and responsibilities as well as the structure and functions of debt management to include:
 - i. consolidate the current debt management functions and build up the functions to allow for more efficient and effective management of debt
 - ii. build up the staff capacity to perform efficiently the debt management functions.

Finding 5: Absence of loan limits and regular risk analysis on states' and public enterprises' loans and on guaranteed or relent loans

Recommendations 5:

- a. The Secretary of the Department of Finance and Administration should:
 - include in the public debt legal framework the National Government's debt exposure, liability limits and how much it can guarantee on loans made by the states and their public enterprises as indicated in Finding 3
 - develop and implement operating procedure manuals or guidelines on how to conduct debt risk analysis
 - improve staff capacity to conduct a regular debt sustainability analysis include the risk analysis of debt
 - assign responsibility to staff for conducting an analysis of risks associated with the states' and the SOEs' loans.

Finding 6: Lack of available information on public debt and borrowing activities

Recommendations 6:

a. The Secretary of the Department of Finance and Administration should:

- develop and implement policies, guidelines or procedures specifying the different levels, timing and format of the various debt reporting requirements
- develop a policy specifying debt report users and frequency of circulation
- publish or issue periodic (e.g. monthly, quarterly, annual) reports on the status of FSM's total debt that included loans, guarantees, contingent liabilities, payment in arrears, debt levels and cost, debt sustainability and affordability, debt status over the year, details of any new borrowing and debt repayments and key events in the management of debt.

THE FSM STATE OF KOSRAE
OFFICE OF THE PUBLIC AUDITOR

Name of audit: *Performance Audit on the Public Debt, Kosrae State Government*

Publishing Details: Stoney S Taulung, Public Auditor
ksauditor@mail.fm



FSM STATE OF
KOSRAE

AUDIT OBJECTIVE:

To determine:

1. whether there is a legal and policy framework that governs public debt management strategy
2. evaluate the effectiveness of the public debt management strategy
3. evaluate whether existing database for public debt is complete and reliable to provide financial information for effectiveness borrowing plan.

AUDIT SCOPE:

The scope of the audit covered FSM National and state policies, regulation, laws and activities toward public debt management from 2009 to 2012. Activities included are that of actual debt management through to the current public debt management structure.

AUDIT FINDINGS AND CONCLUSIONS:

Based on the audit objectives we found that:

1. the organisational structure for public debt management is not clearly defined in the state law
2. an evaluation of the debt management operation indicates that the absence of a strategic plan on borrowing and repayments may affect the state budgetary process
3. public debt administration and data security fail to establish a complete documentation of each loan resulting in incomplete submissions of loan and re-lending agreements.

AUDIT RECOMMENDATIONS:

To improve the weaknesses identified, we recommend the following actions:

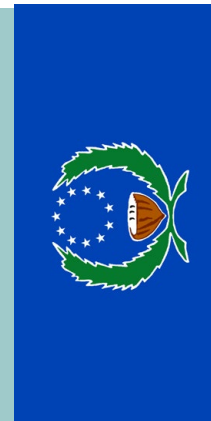
1. Amend the Kosrae State Code to include a specific institutional framework with a clear mandate to create an effective and efficient public debt management strategy.
2. Strengthen the accountability framework for debt management by public disclosure of audit reviews of debt management operations. This means that regular audit reviews are necessary.
3. Give capacity building in government debt management a high priority to develop an appropriate and accurate debt recording and reporting system for timely transactions. Consider creating a Debt Management Unit to monitor, maintain and evaluate the effectiveness and efficiency of debt management.



THE FSM STATE OF POHNPEI
OFFICE OF THE PUBLIC AUDITOR

Name of audit: *Performance audit on Public Debt*

Publishing details: <http://www.pohnpeimet.fm/opsa.htm>



FSM STATE OF POHNPEI

AUDIT OBJECTIVE:

The overall objective of this performance audit was to assess whether public debt management in Pohnpei State Government (PSG) and its Component Units (CU) is effective and efficient to achieve long-term sustainability and financial stability.

The sub-objectives of the audit were to:

- a. evaluate the effectiveness of the legal framework and the organisational structure in managing public debt
- b. determine the efficiency of debt servicing in PSG and its CU.

AUDIT SCOPE:

The scope of our audit covered the fiscal year ended 30 September 2012. We also reviewed the preliminary balances of the long-term liabilities and notes payable for the year ended 30 September, 2013.

AUDIT FINDINGS AND CONCLUSIONS:

Public debt management in the Pohnpei State Government and its Component Units needs improving in the following areas to be effective and achieve efficiency, long-term sustainability and financial stability.

Legal framework and organisational structure

1. There is a lack of coordination between the levels of government regarding loan statuses.
2. The records and information on loan details are limited.
3. Written procedures in applying for a loan were not available.



Debt servicing

1. There was an over-projection of operating revenues during the 2012 financial year, which resulted in a significant variance between the revenue budget levels and actual revenue levels amount to US\$4.5 million.
2. There was a budget shortfall for loan repayments in Pohnpei Utilities Corporation's budget, which result in withholding Pohnpei State Government's revenue shares. As of 15 October 2013, PUC owes Pohnpei State Government US\$326,033 for loan repayments.

AUDIT RECOMMENDATIONS:

Legal framework and organisational structure

1. Pohnpei State Officials need to communicate for better coordination between the FSM National, States and Component Units levels in terms of status of loans, record keeping and regular reporting. In addition to the mandatory reporting of the annual audited statements, quarterly reporting on the status of loans must be disseminated and coordinated at all levels. The monitoring and oversight on the loan projects must be enhanced.
2. It is also necessary to improve reporting of the loan activities by the Component Units to the key officials of the state government. Improved reporting will assist in the monitoring and oversight on the loan projects. The State Government should also require the submission of more detailed quarterly reports for better understanding of public debt issues.
3. Pohnpei State Officials should prepare a Comprehensive Procedures Manual that details a step-by-step process on how the Pohnpei State Government can apply for a loan. The written procedures for FSM requirements in applying for a loan must be incorporated into this manual.
4. Management should define the roles and responsibilities of staff responsible for public debt management. If necessary, dedicated staff should be allocated for this work.

Debt servicing

The following measures should be implemented to improve the preparation of budget estimates of PUC:

1. Implement rigorous measures to improve revenue collection to reduce the level of bad debts. Efforts should also be made to collect arrears and past years' accounts.
2. Continue to monitor actual revenue versus estimates and consider adjusting budget levels to reasonable and attainable levels.
3. Consider the cash availability of the projected revenues to ensure that cash is available to pay for planned expenditures, including the debt servicing.

The following measures are recommended to improve the efficiency of debt servicing in the Pohnpei State Government and its Component Unit — PUC:

1. Prioritise or reschedule the annual loan repayments, if possible, to allow the PUC to find alternative revenue sources to pay the loan. Otherwise, the state may consider assuming the relevant PUC outstanding loan.
2. Require accurate loan repayment schedules to be developed by responsible management staff.
3. The State Government should improve coordination, monitoring and oversight of PUC and improve the reporting system by requiring reports on a regular basis from PUC to the State Government. Regular reporting will enable the State Government to be informed and to prepare appropriate actions about loan status, funding and debt servicing matters.

FIJI ISLANDS
OFFICE OF THE AUDITOR-GENERAL

Excellence in Public Sector Auditing

Name of audit: *Performance Audit Report on Public Debt Management*

Publishing details: <http://www.oag.gov.fj/>



FIJI

AUDIT OBJECTIVE:

To assess whether public debt management is effective and efficient to achieve long- term sustainability and financial stability. In particular, the following two sub-objectives were the focus of the audit:

1. to ascertain whether the government borrowings are done in an economical and sustainable way and whether contingent liabilities are properly considered when the estimates are formulated during the budget preparation
2. to establish whether the public debt and contingent liability are properly recorded and reported.

AUDIT SCOPE:

The audit approach was a result-oriented performance audit in accordance to International Standards of Supreme Audit Institutions. The audit reviewed the past four years (2010 to 2013). If necessary, data before 2010 was analysed to determine the cause and effect that led to the relevant recommendation.

AUDIT FINDINGS AND CONCLUSION:

The determination of Fiji's Government's borrowing needs and whether appropriate consideration is placed on contingent liability in the budget process:

1. The continuous growth of government debt is a direct result of the increasing fiscal deficits (government expenditure exceeding revenue) for the past five years. Debt and Cash Flow Management Unit within the Ministry of Finance has minimum influence in the consideration of new loans approved by Cabinet during the budget process. The external borrowing is increasing because there is no cap stated in the debt policy. The majority of loans usually secured by government in one fiscal year is to repay previous debts, which increase the total debt level for government.
2. Contingent liability is not budgeted for unless a government guarantee has been 'called'. The potential impact of contingent liability on the whole economy has not been fully considered in the budget process.

Is a reporting system in place that provides complete, accurate and timely reports on the Fiji's Government's public debt?

1. The public debt reporting needs to be required under the law and the current debt reporting system lacks consistency in the reporting of debt maturity. A debt management information system that is in place was not put to its optimal use. There were also some inconsistencies in the reporting of some debt maturities and the Annual Debt Report was not consistently applied for the past three years.
2. The reporting of contingent liability lacks defined timelines and there were inconsistent amounts reflected in the contingent liability reports. There were also inconsistent amounts of contingent liabilities reported. The supply of relevant information required from government-guaranteed entities was not forthcoming. The Ministry of Finance does not require audited financial statements from government guaranteed entities.

GENERAL AUDIT RECOMMENDATION:

1. The government's fiscal deficits need to be reduced to lower the national debt level. DCFMU needs to be more regularly involved in the budget process so that the national debt level is considered consistently across all aspects of the budget process where borrowing is needed. The debt policy should consider a borrowing cap for overseas loans to stimulate domestic financial market growth as stated in the debt policy. DCFMU should promote a surplus budget to be incorporated slowly into the budget process so that the government avoids accumulating debt for debt repayments.
2. The budget process should consider the contingent liability in one fiscal year and also consider the overall impact it might provide if added together with the government debt.
3. The reporting requirements for public debt are legally required or mandated in the *Financial Management Act 2004*. The debt management software should be upgraded to maximise its full worth. DCFMU should ensure that the content of the debt reports and contingent liability reports are consistent across years.
4. Reporting timeliness needs to be introduced for DCFMU reporting contingent liabilities. Contingent liability reports also need to be consistent in their content and the amount reported. The supply of relevant information from government-guaranteed entities should be regulated.



GUAM
OFFICE OF PUBLIC ACCOUNTABILITY

Name of audit: *Government of Guam Public Debt*

Publishing details: <http://www.opaguam.org>



GUAM

AUDIT OBJECTIVE:

The audit objectives were to determine the growth and magnitude of the Government of Guam's (GovGuam's) indebtedness and whether GovGuam has a formal debt management strategy.

AUDIT SCOPE:

This report presents the results of our audit of the GovGuam's public debt from 1 October 2007 (FY2008) to 30 September 2012 (FY2012) and unaudited figures for 30 September 2013 (FY2013).

AUDIT FINDINGS AND CONCLUSION:

1. Public indebtedness increased 54% and the debt ceiling has been raised three times.
2. Debt service payments almost doubled.
3. No formal strategy is in place to manage public debt.

AUDIT RECOMMENDATIONS:

We recommend the GEDA Administrator develop and adopt a formal debt management strategy that is to be updated annually. The strategy should use guidelines and best practices established by organisations such as the IMF, World Bank, INTOSAI Working Group on Public Debt, GFOA and it should:

1. consider the government's current financial condition and also its long-term fiscal outlook, including a comprehensive understanding of the magnitude and nature of potential draws on future budgetary resources
2. identify the timing, amount, type, purpose and duration of debt issuances
3. determine the total debt service under different scenarios, such as sensitivity to credit ratings (investment grade) and interest rates
4. establish strategic benchmarks such as debt indicators and investment grades.



REPUBLIC OF MARSHALL ISLANDS
OFFICE OF THE AUDITOR-GENERAL

Name of audit: *Cooperative Performance Audit on Public Debt*

Publishing details: <http://www.rmioag.com/index.php>



REPUBLIC OF
MARSHALL ISLANDS

AUDIT OBJECTIVE:

The audit objectives were to:

1. evaluate the effectiveness of the legal framework of public debt management
2. ascertain the effectiveness of the debt management.

AUDIT SCOPE:

The audit primarily focused y on the Ministry of Finance because it is the government institution delegated to handle public debt functions within the Republic of the Marshall Islands. The date range for this audit spanned the fiscal year of 2012.

AUDIT FINDINGS & CONCLUSION:

1. There is a weak legal process and framework governing the management of public debt.
2. There is no debt management strategy.
3. There is no debt management unit.
4. The Standard Operating Procedures manual does not address public debt.

AUDIT RECOMMENDATIONS:

Based on our evaluation, improvements are needed for the government to set long-term targets and indicators to achieve the principles of an outdated *Borrowing Act* (1985). In particular, the audit recommendations are:

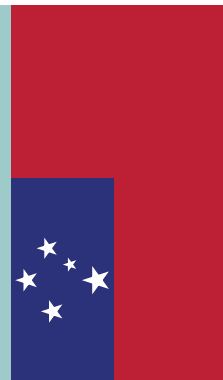
1. The Ministry of Finance should establish a clear definition of borrowing purposes and also consider Nitijela approval on the fiscal responsibility legislation as recommended by the ADB to replace the *Borrowing Act* of 1985.
2. We recommend that the Ministry of Finance develop a medium-term debt management strategy that would afford the government a clear view of how it can restore debt sustainability, define its debt management objectives, set risk management strategies and reduce costs.
3. We recommend that the Ministry of Finance establish a separate debt management unit with the overall responsibility over public debts management.
4. We recommend that the Ministry of Finance tighten the Standard Operating Procedures Manual for borrowing to ensure that a loan has been assessed and that proper oversight has been maintained, and to ensure the Standard Operating Procedures include borrowing purposes and processes.



SAMOA
GOVERNMENT OF SAMOA AUDIT OFFICE

Name of audit: *Performance Audit on Public Debt Management – Ministry of Finance*

Publishing details: <http://www.audit.gov.ws/>



SAMOA

AUDIT OBJECTIVES:

We conducted a preliminary review of the public debt management processes within the Government of Samoa and focused primarily on debt servicing activities. In particular, we assessed whether the database CS-DRMS, which records the debt servicing transactions, is complete, accurate and consistent to provide reliable financial information.

AUDIT SCOPE:

The audit scope concentrated mainly on external debt servicing activities of the Debt Management Unit (DMU) within the Ministry of Finance and reviewed all government loans as at 30 June 2013.

AUDIT FINDINGS & CONCLUSION:

1. External loan repayments are sometimes delayed.
2. The functionality of the CS-DRMS is underutilised.
3. There is a lack of regular reviews of the information entered in the CS-DRMS.
4. One source of exchange rate and proper forecasting should be used.

AUDIT RECOMMENDATIONS:

The audit identified that the debt servicing activities carried out by DMU can be improved and the following recommendations are made:

1. Reinforce the importance of coordination between key parties involved in the repayments process, namely Central Bank of Samoa (CBS) and the Ministry of Finance (MOF). In addition, there are no written procedures and manuals on government debt servicing processes.
2. Fully utilise the functions of the CS-DRMS, which provides a comprehensive repository to record, monitor and analyse all external and domestic debt.
3. Conducting a regular review of data input into the CS-DRMS.
4. Only used the CBS exchange rates for forecasting debt service and converting actual transactions into Samoan Tala.

5. Appendices

A1 List of references & guidelines used during this program

SOURCE (AUTHOR)	REFERENCES, GUIDELINES AND/OR WEBSITE DETAILS
INTOSAI Working Group on Public Debt (WGPD) website http://www.wgpd.org.mx/	2012 Guide for Auditing Public Debt Management – The INTOSAI Development Initiative and Working Group on Public Debt
International Standards of Supreme Audit Institutions (ISSAIs) http://www.issai.org/	<p>ISSAI 5422 An exercise of Reference Terms to Carry out Performance Audit of Public Debt</p> <p>ISSAI 5410 Guidance for planning & conducting an Audit of Internal Controls of PD</p> <p>ISSAI 5411 Debt Indicators</p> <p>ISSAI 5420 Public Debt management & Fiscal Vulnerability-Potential Roles of the SAIs</p> <p>ISSAI 5421 Guidance on Definition and Disclosure of Public Debt</p> <p>ISSAI 5440 Guidance for Conducting a Public Debt Audit – The Use of Substantive Tests in Financial Audits</p> <p>ISSAI 5430 Fiscal Exposures: Implications for Debt Management and the Role for SAIs</p>
International Monetary Fund www.imf.org www.imf.org/external/standards	<ul style="list-style-type: none"> • IMF/World Bank <i>Guidelines for Public Debt Management (2003)</i> • Public Sector Debt Statistics: Guide for Compilers and Users (2013) • Article IV Surveillance Consultations
Commonwealth Secretariat www.cdrms.co.uk	Debt recording and Management Systems (CS-DRMS)
www.pefa.org	<p>Public Expenditure and Financial Accountability (PEFA)</p> <p>Produced an assessment framework which includes aspects of public debt management. In particular, Indicator 17 “Recording and management of cash balances, debt and guarantees” and “Quality of debt data recording and reporting”, P1-17”Systems for contracting loans and issuance of guarantees”</p>
World Bank http://www.worldbank.org/ida/papers/CPIACriteria2011final.pdf www.imf.org www.worldbank.org	<ul style="list-style-type: none"> • Country Policy and Institution Assessment (CPIA) criteria (“Debt Policy and management”) • IMF/World Bank <i>Guidelines for Public Debt Management (2003)</i> • World Bank Debt Reporting System

A2 List of subject matter experts and consultants

PASAI/IDI acknowledge the contribution and input from the following experts:

NAME OF EXPERT & POSITION	ORGANISATION / CAPACITY OF PARTICIPATION
Dr Raymond Prasad Economic Advisor	Pacific Island Forum Secretariat <i>Subject Matter Expert attended the joint planning meeting</i>
Ron Hackett PFM Advisor	Pacific Financial Technical Assistance Centre (PFTAC)/IMF <i>Subject Matter Expert attended the joint planning meeting</i>
Hayden Everett Financial Sector Specialist (Public Finance)	Asia Development Bank (ADB), Pacific Department <i>Contribution to concept note/preliminary study</i>
Claire Kelly Performance Audit Advisor	Asia Development Bank (ADB) <i>Contribution to concept note/preliminary study/ongoing support</i>

A3 Evaluation Questionnaires – Planning & Reporting joint meetings

A3.1 CPA –Public Debt – Planning Meeting Evaluation Form

To help us improve the quality of future PASAI Cooperative Audits we would appreciate your honest feedback.

Please circle the response that best reflects your evaluation of this Planning Meeting:

1. The material covered gave me a better understanding of the audit topic – Public Debt - for this cooperative Performance Auditing	Excellent	Good	Fair	Poor
2. Did you have enough time and guidance to properly research the audit topic – Public Debt - before attending the Planning meeting?	Too much	Just right	Not enough	
3. The subject matter experts knowledge and presentations were	Excellent	Good	Fair	Poor
4. The PASAI presentations & materials provided were	Excellent	Good	Fair	Poor
5. The IDI presentations were	Excellent	Good	Fair	Poor
6. The amount of material covered was	Too much	Just right	Not enough	
7. The duration of the meeting was	Too much	Just right	Not enough	
8. Was your interest held?	Definitely	Mostly	Often	Not really
9. Would you recommend this training to others?	Definitely	Mostly	Often	Not really

- Was this training useful for you to complete the next stage of this cooperative performance audit –Fieldwork or Data collection/analyses?

- What would you recommend changing about the planning meeting?

- Other comments, observations, suggestions or feedback.

A3.2 CPA –Public Debt – Reporting Meeting Evaluation Form

Name of participant: _____

SAI... _____

Listed in the table (overleaf) are the key learning objectives for both joint meetings of the 5th Cooperative Performance Audit program.

In Column **A** please rate your level of knowledge for each item BEFORE this program

In Column **B** please rate your level of knowledge for each item AFTER this program

This questionnaire will be used to evaluate this program and to plan future cooperative audits.

In the interests of achieving the best results it is important that you attempt to answer the following honestly and openly.

Rating scale	1. Not applicable (did not attend meeting)
	2. Little or no knowledge in this area
	3. Basic level of knowledge in this area
	4. Moderate level of knowledge in this area
	5. High level of knowledge in this area

Audit area	A performance auditor should be able to	Column A BEFORE the program my level of knowledge was	Column B AFTER the program my level of knowledge is
PLANNING PHASE - Joint Planning meeting held July 2013		ISSAI 3000/3100	
Overview	Understand the audit process and steps involved in conducting a performance audit		
Preliminary Study	Understand the need for a preliminary study /survey to be conducted		
Audit topic	Understand the audit topic in relation to Public Debt Management		
Audit Objective	Understand how to determine the audit objective		
Audit Scope	Understand how to determine the audit scope		
Audit criteria	Understand how to determine the audit criteria and know the characteristics of a suitable criteria (i.e.: reliable, objective, useful.etc..)		
Audit criteria -source	Understand where to obtain sources of audit criteria (i.e.: laws, professional standards etc)		
Audit plan	Understand how to develop an audit matrix or audit plan		
EXECUTION PHASE ** THE OVERVIEW OF THE AUDIT PROCESS WAS DISCUSSED IN THE PLANNING PHASE. HOWEVER, THE EXECUTION PHASE WAS CONDUCTED IN EACH JURISDICTION			
Audit Evidence <i>(there was a session during the planning meeting)</i>	Understand the importance of audit evidence and the different types		
REPORTING PHASE – Joint Reporting meeting held March 2014		ISSAI 3000/3100	
Form and content of an audit report	Understand what should be contained in an audit report		
Attributes of a performance audit report	Understand what are the attributes of a good performance audit report		
Quality assurance/ control	Understand the benefits and importance of conducting peer reviews		

Thank you for your cooperation!

A4 List of Correspondence sent to Heads of SAI

Planning Meeting 22–26 July 2013, Nadi FIJI

March 2013	Letter to Heads of SAI to invite participation
April 2013	PASAI's Preliminary Study was sent to all Heads of SAI
1 July 2013	PASAI Frequently Asked Questions FAQ letter was sent out
November 2013	In-country support provided to FSM Pohnpei, National, and Kosrae

Reporting Meeting 17–22 March 2014, COOK ISLANDS

9 January 2014	Letter to Heads of SAI to invite participation
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