

**INTOSAI PUBLIC DEBT COMMITTEE
MEETING**

22 – 24 JUNE 2003

MEXICO CITY

**PROGRESS REPORT ON THE AUDITING OF
PUBLIC DEBT IN THE SOUTH PACIFIC
REGION OF INTOSAI**

1. 0 INTRODUCTION

The South Pacific Supreme Audit Institution (SPASAI) includes SAIs from the Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, New Zealand, Noumea, New South Wales, Palau, Papua New Guinea, Queensland, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu and Victoria. In total there are 17 Nations and five states who are members and observers of SPASAI. The President of SPASAI is the Head of SAI of the Cook Islands and the Secretary General is the Head of SAI of New Zealand.

While SAIs do not necessarily decide the level of debt, they do have a role in auditing and reporting public debt to Parliament. The Fiji SAI is committed to the roles identified by the INTOSAI Public Debt Committee which include:

- (i) Auditing disclosed debt information;
- (ii) Encouraging improvements in disclosure; and
- (iii) Commenting on fiscal and economic implication.

2.0 THE NEED TO CARRY OUT A PROPER AUDIT OF PUBLIC DEBT

The INTOSAI Public Debt Committee stressed in its last meeting the urgent need to carry out a proper audit of public debt. The Committee has prepared the following documents:

- (i) Guidance on the Reporting of Public Debt
- (ii) Guidance for planning and conducting an Audit of Internal Controls of Public Debt
- (iii) Public Debt Management and Fiscal Vulnerability: Potential Roles of SAIs – Canada
- (iv) Fiscal Exposures: Implications for Debt Management and the Role for SAIs – US

These documents would no doubt be valuable to SAIs to carry out a proper audit of public debt.

3.0 INFORMATION ON PUBLIC DEBT AND TRAINING CAPACITIES ON PUBLIC DEBT OF MEMBERS OF SPASAI

In order to obtain the required information for the compilation of this paper, a questionnaire was sent to all members of the SPASAI on 22 April 2003 with a deadline of 31 May 2003 to provide the required details.

In summary, SAIs were requested to provide details of government borrowings, repayment of loans, domestic loans and debt service costs for the past five years of their respective countries/states. Details were also requested for overseas loans outstanding, interest paid, loans redemptions, Treasury bills raised, net debt, public debt per capita to GDP per capita ratio. SAIs were also requested to provide details of trainings conducted on audit of public debt, trainings attended by the staffs of SAIs on audit of public debt and whether SAIs were aware of training assistance available from training agencies on audit of public debt.

The above details were requested in order to prepare a database on the level of debt of member countries. This would have enabled necessary analysis to be carried out on the level of the involvement of the SAI in the audit of public debt and whether the SAIs had the capacity to efficiently and effectively carry out audit of the public debt.

The primary objective of this exercise was to determine the level of training required by SAIs and whether SAIs were aware of training assistance available from training agencies on audit of public debt.

4.0 PUBLIC DEBT INFORMATION OF SOME OF THE MEMBERS OF SPASAI

4.1 SUMMARY OF RESPONSES TO QUESTIONNAIRE

The response to the questionnaire sent to the members of SPASAI on public debt has generally been poor. However responses received from four SAIs, New Zealand, Queensland, Noumea and Victoria are summarized below:

- (i) The SAI of Noumea (New Caledonia) has a special case because of the on-going process of autonomy which is supposed to be achieved in 15 years. Hence the SAI does not carry out audit of public debt.
- (ii) The New Zealand SAI reported that the New Zealand governments total loans decreased by \$1.690 million or 4.5% in 2002 when compared to 1998. Total loans stood at \$36,202 million as at the end of 2002. Domestic loans comprised a major portion of the total loans and amounted to 82% of the total loans outstanding as at end of 2002. This when compared to 1998 shows a 3% increase when compared

to 1998 when domestic borrowings amounted to 79% of the total loans in that year. Treasury bills amounted to 21% of total borrowings in 1998 but decreased to 15% in 2002.

Interest payments exceeded the budget in 1998(5.5%) and 2000 (1%). Overseas borrowings amounted to 21% to total debt in 1998 but decreased to 18% in 2002. Public debt amounted to 38% of the Gross Domestic Product (GDP) in 1998 but decreased to 29% in 2002. The Ratio of Debt/Capital to Gross National Product (GNP) per capita was 0.04% in 1998-2000 and decreased to 0.03 in 2001 and 2002. The net debt decreased by \$2.679 million or 10% in 2002 when compared to 1998.

The Queensland SAI reported that the State of Queensland total borrowings increased by 2% in 2002 when compared to 1998 and stood at \$21.757 billion as at the end of 2002. The State's reliance on Treasury bills reduced to 0.30% of total borrowing in 2002 compared to 5.6% in 1998. Similarly overseas loans decreased from 45% of total borrowings in 1998 to 39% in 2002. However, domestic bonds increased from 44% of total borrowings in 1998 to 60% in 2002.

Public debt as percentage of GDP amounted to 21.3% in 1998 but decreased to 17.4% in 2002. The Ratio of Debt/Capital to Gross National Product (GNP) per capita was 0.21 in 1998 but decreased to 0.17 in 2002. The Net Debt stood at \$19.430 billion in 1998 and increased to \$20.853 billion in 2002; an increase of \$1.423 billion or 7%.

The Victoria SAI reported that the State of Victoria had cumulative domestic borrowings of \$1.127 million in 1998 which decreased by 58% to \$472.8 million in 2002. The Net Debt decreased by \$7.9 million or 88% in 2002 when compared to 1998. The public debt as a percentage of GDP was 8% in 1998 but decreased to 3.7% in 2002.

- (iii) Except for the SAI of Queensland, other SAIs have not conducted any training on the audit of public debt neither did their staffs attend any similar training. SAIs are also not aware of any training assistance available from training agencies on audit of public debt.

4.2 THE FIJI PUBLIC DEBT SITUATION AND THE ROLE OF THE FIJI SAI

The public debt situation of Fiji has deteriorated substantially over the past four years. The figures for the financial year ended 31 December 2002 are still being finalized by the Ministry of Finance and will be available for auditing to the Fiji SAI by 30 June 2003.

The total debt of Fiji stood at \$1.686 billion in 2001. The gross deficit for the year was financed from overseas loans (\$10,247 million) and domestic loans (\$228,001 million).

Domestic bonds amounted to 78% of total borrowings in 1998 and decreased slightly to 77% in 2001. Similarly overseas loans to total borrowings were 19% in 1998 and decreased by 7% to 12 % in 2001. However, Treasury bills were 3% of total borrowings in 1998 and increased to 10% in 2001. The increase of 7% reflects governments shift to Treasury bills compared to overseas loans. A large portion of the government's borrowings is from the local superannuation authority, the Fiji National Provident Fund.

The government's net debt in 1998 was \$927.5 million in 1998 and increased to \$1.453 billion in 2001; and increase of \$525.2 million or 57%. The public debt as a percentage of GDP was 68% in 1998 and increased by 12% to 80% in 2001. The Ratio of Debt/Capital to Gross National Product (GNP) per capita was 0.53% in 1998 and decreased to 0.51 in 2001. In addition, the Debt Per Capita increased by \$416(25%) from \$1,638 in 1998 to \$2,054 in 2001.

The Economic, Financial and Infrastructure Services Group of the Fiji SAI is responsible for audit of the National Accounts of Fiji. Five graduates are directly involved in the audit and are assisted by a Director and the Auditor General to finalize the audit of the various accounts and appendices forming part of the accounts.

The audit procedure involves the use of test programs covering Compliance and Direct Substantive Tests have been formulated by the SAI for use by the staffs. Third party confirmations are also obtained from relevant authorities and interested parties.

The staffs of the Fiji SAI have not received any specialized training in the audit of public debt locally or overseas. The Fiji SAI looks toward to INTOSAI through the Public Debt Committee for the provision of training to its staffs.

5.0 THE NEED FOR TRAINING OF MEMBERS OF SPASAI ON AUDIT OF PUBLIC DEBT

It is obvious from the information provided above, that the debt levels of most of the member countries are increasing and becoming more complex. Hence SAIs who are responsible for the audit and reporting of the information on public debt need to be fully equipped in terms of resources and the availability of suitable resource personnel to carry out the audit and reporting of this information.

It is most likely that the SAIs of the island nations are ill equipped and lack appropriate training for carrying out an efficient and effective audit of public debt although the debt levels are increasing due to poor management of funds, political instability, high poverty levels and increasing populations.

The Regional Institutional Strengthening Committee (RISC) of SPASAI has proposed that training on public debt should be considered after Performance Audit training scheduled for completion in early 2004.

5.0 RECOMMENDATIONS

1. The Committee is requested to consider taking appropriate action to identify the training needs of the members of SPASAI. RISC of SPASAI may be contacted for assistance in this regard. The level of debt and its complexity can be considered in determining the degree of training to be provided to each SAI.
2. The Committee is also requested to encourage the members of the SPASAI to use the guides and documents it has developed in the audit of public debt.

6.0 CONCLUSION

This report identifies the need for members of SPASAI to be properly trained in the audit of public debt so that members of public and other stakeholders are duly informed of debt situation of the respective countries and how the deficiencies and shortcomings can be best addressed.

An active involvement of the INTOSAI Public Debt Committee is essential so that members of SPASAI are properly trained to tackle existing and emerging public debt issues. This will also enhance accountability, good governance and transparency by governments of the respective member countries.