



## OFFICE OF THE NATIONAL PUBLIC AUDITOR

### Press Release No. 2014-08

## ONPA Releases New Audit on Public Debt Management, FSM National Government - - FY 2012

The Office of the National Public Auditor (ONPA) announces the release of Audit Report No. 2014-08, *Audit of the Public Debt Management for the National Government of the Federated States of Micronesia as of the fiscal year 2012*. A digital copy of the report is available for public viewing online at <http://www.fsmopa.fm> and printed copies are available at the ONPA's offices in Palikir, Pohnpei and on Weno, Chuuk. The audit was conducted by ONPA as part of a cooperative audit initiative undertaken by the Pacific Association of Supreme Audit Institutions (PASAI) with the support of Asian Development Bank (ADB) and INTOSAI Development Initiative (IDI). Furthermore, it was conducted pursuant to Title 55 of the FSM Code, Chapter 5 and in accordance with the Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States.

The objective of the audit was to assess the adequacy of the 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.

Based on the audit, the ONPA concludes that the National Government's legal and institutional framework lacked the permanent and necessary provisions to implement adequately the system of debt management. It is 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. The ONPA also found that the institutional framework needs further strengthening prior to deployment of debt management system. Similar to the legal framework, the institutional functions related to debt management were scattered and performed by different departments and offices without proper coordination to ensure an adequate debt management. Lastly, the ONPA found that the State Governments and their public enterprises could generate risks to the National Government not only in consequence of guaranteed loans but also by the risks of undisciplined borrowing and unsustainable manner of borrowings. However, there has been no limit on such borrowings and analysis of the related risks.

The audit disclosed the following findings;

1. \$21 million of the FSM's external debt was spent for failed or partly successful projects.
2. \$13 million in Trust Account/Sinking Fund not regularly assessed whether sufficient for the repayment of the associated loans with outstanding balance of \$31 million;
3. Legal framework was limited and lacked provisions to enable the implementation of a sound debt management system;
4. Limited organizational functions resulted in inadequate implementation of an effective debt management system;
5. Absence of loan limit and regular risk analysis on the States' and public enterprises' loans and on guaranteed and/ or relent loans; and,
6. Lack of available information on public debt and borrowing activities.

The details of the findings including the related recommendations are presented in the audit report. Its contents were discussed with the officials from the concerned departments/offices mainly the Department of Finance & Administration. During the exit conference with the department's officials, they indicated their agreement with the findings and recommendations. However, the DoF&A management officials chose not to provide any written Management Responses therefore; the final audit report was issued without the usual Management Response.

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