



Debt Audit Report

Debt Management Unit (DMU), Ministry of
Finance and Corporate Governance

**Office of the Director of Audit
Antigua and Barbuda**

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Executive Summary

This report provides an analysis and evaluation of the operations of the Debt Management Unit (DMU), Ministry of Finance and Corporate Governance. The method of analysis includes interviews with key personnel within the DMU, examination of pertinent documents, and cross referencing with the Treasury Department records.

The primary objectives of debt management is to provide the best avenue to increase liquidity for the Treasury Department, maintain a balance between cost and stability, develop and maintain an effectively functioning domestic capital market. Public borrowing can be an effective tool for generating economic development and distributing fairly the debt burden between current and future generations of taxpayers. However, public borrowing and debt entail significant risks if they were not managed properly. The audit objectives were to determine if:

- borrowing needs were accurate and complete,
- loan guarantee risks were assessed, mitigated and monitored,
- debt service obligations were paid accurately, completely and on time in accordance with debt arrangements and
- debt service obligations are accurate and the information is published.

The findings indicated that there were no comprehensive public debt law. The Government of Antigua and Barbuda is financing most of its goods and service payments through arrears. Guarantee fees were not charged in accordance with the government guarantees policy and the cost of investment positions (shares) held in companies were unknown as at the date of this report. Additional findings include:

- there were no plans for business continuity and disaster recovery for the DMU,
- public debt information were not fairly presented in the Annual Accounts. A breakdown of investments, arrears of interest and principal and other liabilities were not clearly outlined in the Annual Accounts. It should be pointed out that

the aforementioned, namely the presentation of the arrears of interest and investment in the Annual Accounts are not the responsibility of the Debt Unit.

However, it was noted that there is an annual borrowing plan to provide for the government cash requirements.

There is adequate separation of duties related to borrowing – authorization, recording, and ownership of assets and loan documents. Loan documents are scanned and stored offsite as backup and there is a documented risk assessment for each loan guarantee. Finally, there is an accurate and complete schedule of future payment obligations prepared from borrowing agreements by the Debt Unit.

From the review of the documents, it is quite clear that the Government of Antigua and Barbuda relies on overdraft facilities to bridge the gap in terms of funding its day to day operations. Overdraft facilities fall outside of the remit of the DMU and no audit was done in this area.

As a result of our findings, it is recommended that:

- A comprehensive public debt law needs to be enacted to govern the affairs of the Government.
- Guarantee fees should be charged as prescribed by the cabinet decision of 2012 to mitigate budget/credit risk.
- A business and disaster recovery plan be added to the DMU procedures manual.

INTRODUCTION

The Debt Management Unit (DMU) is responsible for debt recording and reporting, processing, analysing and preparing debt payment preparation and issuing securities on the Regional Government Securities Market (RGSM). The DMU however works along with other public officers such as the Financial Secretary, Accountant General, Budget Director and the Coordinator of the Development Planning Unit in the debt management process.

The Debt Management Unit is presently comprise of six (6) officers. The Debt Manager carries out the front office functions whereas the other officers carry out middle and back office duties.

This is the first performance audit of the Government of Antigua and Barbuda's debt management activities conducted by the Office of the Director of Audit. Our audit report is intended to provide parliamentarians and the public with information on the economy, efficiency, and effectiveness of debt operations, and on compliance with the relevant law and regulations.

In recent years, it has been a challenge for the Government of Antigua and Barbuda (GoAB) to achieve and maintain a sustainable level of public debt. The fiscal crisis and world recession have led to a decrease in the size of the country's economy from 2009 through 2011. The latest results, however, reported by the International Monetary Fund (IMF) in May 2013 have been encouraging. In 2012, the economy grew for the first time since 2008 and the indicators of debt performance showed improvement.

The Ministry of Finance and Corporate Governance is responsible for both debt and cash management. The Ministry's debt Management Unit coordinates its activities with the Treasury Department in order to effectively provide for the GoAB's cash requirements within any particular month.

The authority for debt management activities is contained in the following acts:

- *General Loans Act 2002*
- *Development Loan Act 2002*
- *Treasury Bills Act 2005*
- *Loan Stock Authorization Act 2005*
- *Finance Administration Act 2006*

This report includes our audit findings, conclusions, and recommendations for improvement.

BACKGROUND

The following objectives for sovereign debt are drawn from the international auditing standard 5410, *Guidance for Planning and Conducting an Audit of Internal Controls of Public Debt*.

Achieving liquidity for the Treasury Department. One of the primary responsibilities of the debt manager is to devise a mechanism in which the Treasury Department is fully cognisant of all of their obligations. This means not only ensuring that the payment dates of the existing stock of debt are spaced reasonably for payment, but also devising a mechanism in which the Treasury's cash management for short-term as well as medium term debts are outlined and adhered to.

With proper cash management that may result in a reduction of arrears on principal and interest, secondary objective for the debt management unit may be:

1. **Maintaining a balance between cost and stability.** Assuming liquidity can be achieved, a major objective is to find a balance between cost and stability, taking into account the risks associated with lowest cost. Interest rates are generally higher for bonds with longer yields to maturity, as such lowest cost can generally be obtained by issuing instruments with shorter terms to maturity. However, with that comes increased risk. The shorter the term to maturity of a debt stock, the more susceptible it is to fluctuations in interest rates, inflation, and currency movements.
2. **Developing and maintaining an effectively functioning domestic capital market.** In countries with a domestic bond market in which the government is a major debt

issuer, ensuring that the bond issuance and trading rules are fair and transparent is fundamental to encouraging both issuers and investors to use this market.

Public borrowing can be an effective tool for generating economic development and distributing fairly, the debt burden between current and future generations of taxpayers. However, public borrowing entails significant risks if they are not managed properly. An unsustainable public debt can impair the government's ability to reduce unemployment and poverty levels especially when counter-cyclical budget actions are most needed such as during an economic recession or financial crisis.

The debt management strategy of the GoAB is an integral part of its fiscal consolidation and reform programme. The key elements of the GoAB's debt management strategies are:

- maintaining a satisfactory and prudent debt structure consistent with the Government's payment capacity;
- refinancing high-cost loans and credit facilities to reduce debt servicing and to adjust the maturity profile of central government debt in a way that balances lower financing cost and risk;
- supporting the development of a well-functioning domestic and regional market;
- providing funds for the government at the lowest possible interest cost.

The Debt Management Unit within the Ministry of Finance and Corporate Governance administers the Government's debt portfolio on a day-to-day basis and is responsible for implementing the Government's borrowing strategy. The Unit is directly accountable to the Financial Secretary and the Minister of Finance and Corporate Governance.

A chronology of recent major events affecting the GoAB's debt management outcomes is in Appendix C.

AUDIT OBJECTIVES AND CRITERIA

The audit objectives related to the significant areas identified for audit were to determine whether:

Borrowing

- borrowing needs were accurately and completely determined;
- whether there is a plan to achieve equitable and low-cost borrowing at an acceptable risk;
- and whether the plan is successfully executed.

Loan Guarantees

- loan guarantee risks were assessed, mitigated, and monitored; and whether loan guarantees are accurately and completely recorded and reported;

Debt Servicing

- the debt service obligations were paid accurately, completely and on time in accordance with debt arrangements;

Reporting

- clear, accurate and complete information is published on public debt borrowing, servicing, and other activities providing full transparency and accountability for the results achieved.

The audit also examined whether business continuity and disaster recovery plans covering debt management activities were established and tested.

Audit criteria were developed for each of our audit objectives. These criteria were used to assess the Ministry's performance in the four selected areas.

Our audit criteria are listed in Appendix A.

AUDIT SCOPE AND APPROACH

This audit examined the GoAB's Debt Management Program, including the presentation of debt information in the Annual Accounts. Following a preliminary review of all related activities, four specific activities were identified for the audit.

1. Borrowing – the process for preparing an accurate and complete annual borrowing plan that provides necessary liquidity for the Treasury Department. We examined whether borrowing activities were transparent and equitable, and were implemented on a regular and predictable basis.
2. Loan guarantees – the processes for assessing risk, issuing, and monitoring loan guarantees for state-owned enterprises (SOEs), and for processing defaults. We also looked at the extent of non-guaranteed SOE liabilities and their potential impact on the Government's debt situation.
3. Servicing – the accuracy and completeness of interest and principal payments, and whether they were paid on time in accordance with debt arrangements. Internal controls over processing were verified and the safeguarding of loan agreements and other assets was confirmed.
4. Reporting – the accuracy and completeness of the GoAB's debt reporting to Parliament and the public, as well as its compliance with statutory reporting requirements including timing. As well, we assessed whether managers responsible for debt activities receive regular and timely information on performance and whether they take corrective actions as necessary.

The audit covered the period December 31, 2012 to December 31, 2013.

In developing the audit approach, the Audit Department considered the public debt-related audit standards and guidance issued by the International Organization of Supreme Audit Institutions. The audit approach included interviews, review of documents, and physical verification of assets.

AUDIT FINDINGS AND RECOMMENDATIONS

Our audit findings are presented for each of the four debt management activities that were examined. We include recommendations for improvement where significant deficiencies were identified.

BORROWING

There is no comprehensive public debt law in Antigua and Barbuda, however, the following laws govern the affairs of the Government debt.

- The Development loan Act, 2002 allows the government to borrow up to US\$120,000,000.00 for the purpose of financing development projects in Antigua and Barbuda, debt service charges and matters incidental thereto.
- The General Loans Act, 2002 authorizes the Minister of Finance to borrow the sum of \$60,000,000.00 to finance recurrent expenditure, certain overdraft and credit facilities and contingent liabilities of the Government of Antigua and Barbuda.
- The Loan Stock Authorisation Act, 2005 authorises the Minister of Finance from time to time to borrow money in terms of this Act.

Any monies borrowed from this section shall be applied for the following purposes:-

- I. the repayment of monies granted to government by statutory corporations;
- II. the financing of projects approved in the estimates prepared in accordance with the Development Fund Act;
- III. the repayment of public debt;
- IV. the meeting of expenses incurred in raising and administering the loan;

Additionally, the Finance and Administration Act, 2006 section 47 states that:

"No money shall be raised on the credit of the Government except under the authority of an Act of Parliament or of a resolution of the House".

48. (1) The Minister may in a financial year, when authorised by a resolution of the House, for the purpose of meeting current requirements, borrow from a bank or other financial institution by means of an advance to an amount not exceeding in aggregate the sum specified in the resolution.

54. No guarantee of a financial liability shall be given by the Government unless it is-

(a) given in accordance with the provision of an Act authorising the guarantee; or

(b) authorised by a resolution of the house within ninety days.

Finally, the Treasury Bills Act 2005, authorise the Minister to borrow money by the issue of Treasury Bills.

Management highlighted to the Audit team that there is an annual borrowing plan that provides for the government's cash requirements. According to the Government of Antigua and Barbuda Debt Management Unit Procedures Manual, one of the long term goals of the government is to get its debt management in line with its fiscal policy as one of the tools of macroeconomic stabilization. This would be achieved by maintaining a prudent debt structure consistent with the government's payment capacity. The government will work to enhance its credibility by undertaking a credit rating and maintaining good relations with its creditors.

A long term strategic plan of the government is to rely less on direct borrowing from the domestic commercial banking sector for short and long term financing needs and expand its presence on the Regional Government Securities Market (RGSM), thereby widening its investor base and lowering the cost of borrowing.

Sound debt management requires an organizational structure that supports professionalism, accountability and a focus on objectives. This requires clear roles, responsibilities and supervision for the institutions involved, together with clear reporting lines. The government will work towards having an optimum debt management structure – Front, Middle and Back Office - to effectively carry out the debt management activities. This is currently still a work in progress as it was revealed that although the structure does exist in theory, the practical application has revealed bottle necks where roles and duties overlap and the reporting line is somewhat skewed.

- A review of the cash flow management over the last decade revealed that Government is financing a significant portion of its payments through arrears. This has created a challenge in which interest on principal has accumulated to a significant amount. However, over the period under review, considerable effort has been made to follow different reports by international consultants in respect to cash management. This has created a situation in which the reliance on overdrafts has been reduced and concessional financing from the World Bank and the International Monetary Fund (IMF) is one of the outcome of better cash flow management between the Treasury Department and the Debt management unit.
- The Government has also worked on the restructuring of its outstanding arrears with the Paris Club creditor countries. A deal was reached in 2010, in which a repayment plan was agreed to for the restructuring of EC\$390.0m of which EC\$275.0m was in arrears. However, the situation is still quite challenging since, the total amount of arrears is \$79,981,226.60, made up of \$11,574,263.60 in requisitions and cheques held by Treasury Department and \$68,406,863.00 of payments due for which DMU has not yet raised payment requisitions.
- The amount of arrears due to suppliers is \$11,574,263.60 and the amount related to debt payments is \$68,406,863.00

- The Government of Antigua and Barbuda has increased its borrowing through the RGSM in order to cover the cash requirements of the government.

There is separation of duties related to borrowing – authorization, recording, and custody of assets. The Minister of Finance is responsible for authorization of any transactions in regards to borrowing.

The FAA requires that the Minister of Finance, acting on the advice of Cabinet, approves all borrowing including those of State Owned Enterprises (SOE's). Then the DMU records the information in the CS-DRMS-system then monitors to make sure that the payments are being made by the Treasury Department.

The DMU is also responsible for custody of assets in regards to government borrowing.

- Loan documents are scanned and stored offsite as backup, all electronic backing up of data for the DMU is done at ECCB on a monthly basis. This is located in St. Kitts so we were unable to physically confirm that this was being done.
- The DMU in collaboration with the Eastern Caribbean Central Bank (ECCB) Debt Management Advisory Service Unit has compiled a debt portfolio review over the period 2008 - 2012. However, more frequent reports are required in order to increase transparency and accountability.

RECOMMENDATIONS

- A comprehensive public debt law should be enacted to govern the affairs of the Government.

- A further study should be conducted to determine whether other source of financing could be used other than the overdraft facilities to fund the day to day operations of the Government.
- The Government should utilise its deposits at local commercial bank to pay off its overdrafts.
- The Government should reduce domestic borrowing as our domestic debt stands at approximately EC\$1.7 billion versus \$1.2billion external.

LOAN GUARANTEES

The Guarantee of Loans Act was repealed in 2007 because the Act did not allow the DMU to have enough of a role in the granting of Government guarantees. The impact of this was the creation of a new policy that gives the DMU a participatory role in the granting of guarantees. The Guarantee policy would allow the DMU to access the financial terms and conditions to determine if they are in line with the overall department's management strategy.

The Government Guarantee Policy was adopted on the 21st February 2012. According to Cabinet decision #56, in assessing risk the Debt Management Unit will consider the following:

1. The organizations' debt service track record.
2. The sources of revenue available to the organization. For example, is the organization dependent on central government subvention or does it generate revenue from its activities?
3. Availability of audited financial statements in keeping with the Finance Administration Act.
4. Guarantee fees are not charged in accordance with the government guarantees policy. It was stated by the Debt Manager that even though it's part of the new policy that guarantee fees were not being collected, however, they should be collected as follows:

The fee structure is as follows:

- Organizations considered low risk - 0.25% of the loan amount
- Organizations considered medium risk - 0.50% of the loan amount
- Organizations considered high risk – 1.0% of the loan amount

There is a debt reserve fund held at the Antigua Commercial Bank (ACB). One payment was issued from it to the Antigua Pier Group for \$607,545.21 for the period October - December 2013.

There is separation of duties between authorization of transactions, recording of transactions, and custody of assets. The Minister of Finance is the one responsible for authorization of any transactions in regard to guarantees.

The FAA requires that the Minister of Finance, acting on the advice of Cabinet, approve all borrowing including those of State Owned Enterprises (SOE's). The Act states in section 54 that 'No guarantee of a financial liability shall be given by the Government unless it is—

- (a) given in accordance with the provisions of an Act authorising the guarantee; or
- (b) authorised by resolution of the House within ninety days.

There are no limitations on guarantees to statutory bodies; however, there are limitations on government borrowing.

As outlined in the FAA, the request for government guarantee by SOE's are made through the Ministry of Finance. After approval is granted, the DMU records the information in the CS-DRMS-system then monitors to make sure that the payments are being made.

The Statutory organization that incurs the loan has custody of the assets and the DMU gets a copy.

- Loan documents are scanned and stored which we were able to confirm, and it was reported that they were backed up offsite. All electronic data for loan documents are backed up at the Eastern Caribbean Central Bank (ECCB) in St. Kitts.
- Government guarantee defaults are honoured and paid in accordance with the agreements as there were no arrears as of 31.12.2013 in respect to government guarantees .
- As mentioned above, the only request that was made in calendar year 2013 was paid via the consolidated fund.
- The total value of government loan guarantees as at 31.12.2013 was \$131,161,819.

The total value of non-guaranteed SOE liabilities is US\$2,000,000 from the Intercommercial Trust and Merchant Bank Limited to the Antigua Barbuda Property Development Company Limited. There is one other liability namely the Energy Co-operation Agreement - PETROCARIBE between Venezuela and most of the region to purchase oil at a subsidised rate based on the price per barrel, however, a dollar value has not been tied to this agreement.

- The value of SOE contingent liabilities related to litigation and potential compensation and indemnities were not presented for this audit. However, in 2010, the last audited Public accounts figures garnered from the Attorney General's office revealed EC\$2.49 million dollars from twelve (12) pending litigations.
- The total government's contingent liabilities are not recorded by the Treasury Department.

Recommendations

- Guarantee fees should be charged as prescribed by the cabinet decision of 2012 to mitigate budget/credit risk.
- SOE contingent liabilities should be recorded and reported by the Treasury Department.

DEBT SERVICING

A schedule of future payment obligations is reasonably prepared from borrowing agreements. Examination of the files kept on behalf of the lender shows the amount that is to be paid and the due date of the payment. It shows the date when the first payment is due and the amount that is to be paid. However, not all the files had an actual amortization schedule, but most of the information could be ascertained from examining the files. The following loans are examples of the manner in which the payment schedule is set out:

Date of Agreement	Financial Institution	Amount	Purpose	Interest Rate	Repayment Schedule
19/11/04	ABI Bank Limited	US\$14,295,000	Not stated	9%	Quarterly for Ten years.
21/12/11	ABI Bank Limited	EC\$174,300,000	Consolidation of several loans	Cabinet resolution exemption of interest for, exemption of corporation tax for the duration of the loan.	Monthly for twenty years.
31/3/11	Antigua Commercial Bank	EC\$58,831,017	Consolidation/restructuring of several loans	8%	Monthly
30/6/11	Bank Of Nova Scotia	EC\$18,672,557	Consolidation of several loans	9.75%	Monthly for five years
18/4/08	Caribbean	EC\$22,000,000	To facilitate fiscal	10%	Monthly for ten years

	Union Bank		deficit		the first year interest only.
31/3/11	Caribbean Union Bank	EC\$33,500,000	To facilitate fiscal Deficit	10.5%	Monthly for twenty years first year interest only.
30/4/12	ECAB	\$101,458,667.63	Refinancing of existing loans	8%	Monthly for twenty five years
21/8/09	El Fondo De Dessarollo Nacional	US\$50,000,000	Not stated	2.6%	Biannually twenty years four years grace period.
14/3/05	Export- Import Bank of China	\$65,000,000 YUAN	Mount Saint John Project	2%	Biannually twenty years five years grace period.
15/4/11	Export-Import Bank of China	\$210,000,000 YUAN	New Terminal V.C Bird	2%	Biannually twenty years five years grace period.
26/6/08	Export-Import Bank of China	\$300,000,000	New Power Plant	2%	Biannually twenty years five years grace period.
17/11/04	Bank of China	\$25,000,000	Sir Viv Cricket Stadium	Interest free	Monthly for ten years ten years grace period.
24/9/04	The Government of the Republic of Trinidad and Tobago	\$5,700,000	To purchase preference shares in LIAT	Interest Free	Biannually for ten years, five years grace period.

Annual payment commitments are known and subsequently recorded. A report was provided by the Debt Management Unit showing the scheduled payments by the government on the external and domestic market for 2013. The report is strictly numerical in nature and list all the lenders, the principal amount due, Interest due, arrears for both principal and interest and total balances both in local as well as foreign currency. It was reported by the borrowing project auditor that there was estimated principal repayments of \$135.9m and interest payments of \$115.4m for the period under review. This was to be serviced through revenue and the following:

- IMF Standby Arrangement \$94,5000,000.00
- Caribbean Development Bank (CDB) Policy Base Loan \$27,000,000.00

A standby arrangement was entered into between the government and the IMF in 2010 for a period of three years for US\$124,000,000.00, from that arrangement approximately EC\$99,225,000.00 was disbursed in 2013.

The government received EC\$27,000,000 from the Caribbean Development Bank (CDB) which was based on an agreement entered into with the CDB in 2009. The CDB Policy Loan is based on an agreement reached in 2009 to assist Antigua and Barbuda over the period 2010-2014 with the following goals in mind:

- a) Create the basis for achieving sustainable growth by supporting efforts to improve macroeconomic and stabilise the fiscal and debt situation through the provision of a policy based loan and related Technical Assistance (TA); and by supporting the restructuring of key productive sectors.
- b) Promote social development and social protection by supporting efforts to reduce poverty, improve human resource development and expand the delivery of social services;
- c) Assist the Government in overcoming some of the infrastructural deficiencies through the financing of technical studies and capital investment projects;
- d) Improve and enhance the efficiency and effectiveness of the public sector by providing TA to undertake public sector reform studies, strengthen various public sector institutions and promote good governance;
- e) Enhance sustainable development by encouraging environmental protection and supporting the development of disaster risk reduction policies, including climate change.

- During the period under review, \$129,107,000 was raised on the Regional Securities Market which was in excess of the projected amount needed for 2013. However, it was stated that all was not to be disbursed during the period but was part of their short, medium and long term borrowing plan.
- Payment liabilities are recognized and recorded once funds are disbursed as reported by the Debt Manager and not just when payment becomes due. From examination of the various documents it appears to be so.
- There is arrears of principal of \$46,173,413 and interest payable of \$22,233,450. Payments are not made on time in accordance with agreements largely because of inadequate cash flow.
- The total cost of bank overdrafts for 2012 was not calculated as at the date of this report.
- The interest cost for calculating the interest to revenue indicator includes interest payable and accrued for the year.

Debt service records were provided showing payments made for the period under review. The following is a sample taken of payment request by the DMU and its payment via Freebalance.

Lending Institution	Principal	Interest	DMU Total	Freebalance
European Investment Bank	\$8,950.45 EUR	\$600.59	Nil	EC\$36,818.31
Export-Import Bank of China	\$922,790.00	\$252,486.00	\$1,175,276.00	EC\$1,179,134.60
European Investment Bank	\$26,211.64	\$3,626.46	Nil	EC\$114,930.88
European Investment Bank	\$384,367.55 EUR	Nil	\$1,357,115.00	EC\$1,402,480.31
Atradius Dutch State Business	\$88,037.61 EUR	Nil	Nil	EC\$440,188.05
UK-ECGD	\$9,918.88LB		Nil	EC\$41,886.74
UK-ECGD	\$119,715.00	\$226.00	\$119,941.00	EC\$123,088.31

This exercise revealed that there were payments made on the various loans in the governments portfolio that was not accounted for by the DMU. When asked about the procedure we were informed that the DMU has to wait to receive a physical receipt from the Treasury Department in order to update their records. In light of this, we recommend that the DMU be given access to the Financial Management System (Freebalance - view only access) from which on a monthly basis they can view the reports then update their records.

There is separation of duties between preparation of payment requests, approval of transactions, recording of transactions and payment. The preparation of payment requests are facilitated by the DMU in regard to External loans. A minute is prepared and sent to the Financial Secretary, who then signs it then it is forwarded to the Treasury Department for payment. The Minister of Finance is the one responsible for authorization of any transactions in regards to borrowing by the Government of Antigua and Barbuda. The DMU shares a joint calendar with the Treasury Department that shows when all payments become due including payments for T-bills and Bonds. The FAA requires that the Minister of Finance, acting on the advice of Cabinet, approve all borrowing including those of State Owned Enterprises (SOE's). Then the DMU records the information in the CS-DRMS-system then monitors to make sure that the payments are being made by the Treasury Department.

The DMU is also responsible for custody of assets in regard to government borrowing.

The cost of investment positions (shares) held in companies is unknown according to the Debt manager. Shares are held in the following companies, however, a dollar value has not been determined.

- Antigua Pier Group (APG) - 93%, however, a dollar value has not been determined.
- Eastern Caribbean Amalgamated Bank (ECAB). According to the ECAB agreement the initial investment was 60,000 common shares valued at \$6,000,000.00, the government was to divest themselves of 15% of the common shares within three years of the agreement which was ratified with a promissory note dated July 8, 2010

executed between the Bank of Antigua and the Government of Antigua and Barbuda. In addition, the Government was to subscribe to convertible, redeemable Non-cumulative Preference shares in the amount of \$42,419,387 from which they were to receive dividends of 3.5% of par value. Also, they would be first in line in case there is any dissolution or liquidation.

- Leeward Island Air Transport (LIAT). 30% of shares. Dollar value has not been determined.
- West Indies Oil Company (WIOC). 25% of shares. Dollar value not determined.
- State Insurance Company - 100%. dollar value not determined.

The cost of these investments is not publicly reported. The FAA requires a Statement of Investment to be included in the Annual Accounts of the Government of Antigua and Barbuda. However, the recording of these transactions are not included in the Public accounts of Antigua and Barbuda.

Disaster Recovery

Presently, there are no plans for business continuity and disaster recovery for the DMU. There are no written procedures for disaster recovery and business continuity specific to the DMU. Therefore, there is no alternative and suitable recovery site for relocating the DMU in the event of a disaster.

- The BCP and DRP have not been tested. Recommendations arising from the test results were not implemented

Recommendations

- The DMU should be granted access to the freebalance system so timely recording of all payments can be made.

- A business and disaster recovery plan should be added to the DMU procedures manual.

REPORTING

Public debt information is not fairly presented in the Annual Accounts – that is, investments, principal, interest, arrears of interest and principal, other liabilities. However, the presentation of the last public accounts prepared by the Treasury Department now includes the principal, interest and interest on arrears figures.

The Finance Administration Act (FAA) requirement to produce the Annual Accounts within six (6) months is not being met, this raises issues of transparency and accountability for debt information.

The unfunded liabilities for social security and the government employee pension are not reported in the Annual Accounts.

Loan guarantees are not accurately and completely disclosed in the Annual Accounts. The last audited accounts of 2010 revealed a figure of \$395,030,000.00, however, the figure recorded by the DMU as of December, 2013 was \$131,161,819.00. In my opinion the disparity in the figures indicate that loan guarantees are not accurately and completely disclosed in the annual accounts.

Contingent liabilities related to litigation and potential compensation and indemnities (including non-guaranteed SOE debt/liabilities) are not accurately disclosed in the Annual Accounts. The last audited accounts revealed that no figures were presented by the Treasury Department, however, figures garnered from the Attorney General's office revealed \$2.49 million dollars of twelve (12) pending litigations, and DMU stated that there was US\$2.0 million non guaranteed SOE liability which the government was tracking.

Government investments in private enterprises are not accurately disclosed in the Annual Accounts, no information was presented by the Treasury Department in this regard in 2010 and

information derived in 2013 from the DMU mentioned above in the Debt servicing section revealed there was no dollar value determined in regards to government investments.

Public reporting of debt information does meet statutory and contractual reporting requirements of the government. Prospectuses and quarterly fiscal reviews are prepared and published on the RGSM website.

The debt information reported publicly through the quarterly fiscal review is presented in the preceding quarter.

- The first quarter 2013 fiscal register was released July 3, 2013.
- The second quarter 2013 register had not been released at October 9, 2013.

Recommendations

- Reports in regard to debt management continue to be accurate, timely and helpful to all interesting parties.
- There should be accurate reports in the annual accounts in regard to all areas of debt management including contingent liabilities, loan guarantees and government investment in private enterprises.

AUDIT CONCLUSIONS

Our overall conclusion is that the debt management programme is working with reasonable proficiency to provide the necessary information so that the Treasury Department can meet its short and medium term liquidity obligations. Our conclusions based on the areas audited are outlined below.

Borrowing

We concluded that:

- A comprehensive public debt law needs to be enacted to govern the affairs of the Government.
- A further study should be conducted to determine whether other source of financing could be used other than the overdrafts facilities to fund the day to day operations of the Government.
- The Government should utilise its deposits at local commercial bank to pay off its overdrafts.
- Reduce domestic borrowing as our domestic debt stands at approximately EC\$1.7 billion versus \$1.2billion external.

Loan Guarantees

We concluded that:

- Guarantee fees should be charged as prescribed by the cabinet decision of 2012 to mitigate budget/credit risk.
- SOE contingent liabilities should be recorded and reported by the Treasury Department.

Servicing

We concluded that:

- A schedule of future payment obligations is reasonably prepared from borrowing agreements.
- Government is servicing its debts through arrears because of its cash flow problems
- Access should be granted to the DMU of the freebalance system so timely recording of all payments can be made.
- A business and disaster recovery plan be added to the DMU procedures manual.

Reporting

We concluded that:

- Reports in regard to debt management continue to be accurate, timely and helpful to all interesting parties.
- Accurate reports in the annual accounts in regard to all areas of debt management including contingent liabilities, loan guarantees and government investment in private enterprises is required.

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Director of Audit

APPENDIX A – Audit Criteria

The following audit criteria were used as standards against which we assessed the Ministry's performance in four significant areas of operation. The results of this work allowed us to conclude against our audit objectives.

Borrowing

- Cash and debt management operations are coordinated
- Overnight, short-, medium-, and long-term net cash requirements are accurately and completely determined and documented
- There is a documented borrowing plan to meet cash requirements
- Borrowing plans are reviewed and approved before implementation
- The borrowing plan is implemented on a regular, predictable, and transparent basis
- Borrowers are treated equitably in both domestic and external markets
- There is separation of duties between authorization of transactions, recording of transactions, and custody of assets

Loan Guarantees

- There is a documented risk assessment for all loan guarantees
- Loan guarantees are approved and issued in compliance with applicable regulations/policy and guidance
- Budgeting/credit risk is mitigated by applying and collecting loan guarantee fees
- Loan guarantees are accurately and completely recorded and updated
- There is separation of duties between authorization of transactions, recording of transactions, and custody of assets
- Default risk is monitored and the effective operation of related controls is verified
- Other non-guaranteed SOE liabilities are known and monitored
- Loan guarantee default payments are made on time, as required

Servicing

- There is an accurate and complete schedule of future payment obligations prepared from borrowing agreements
- Annual payment commitments are known/recorded

- There is separation of duties between preparation of payment requests, approval of transactions, recording of transactions, and payment
- Payments are made on time in accordance with loan agreements
- Debt servicing records are up-to-date, accurate, and complete

Reporting

- Public reporting of debt information meets all statutory and contractual reporting requirements of the government
- Public debt information is fairly presented in the Annual Accounts
- Public debt reporting of liabilities and payments is timely and meets government reporting deadlines (including the Annual Accounts)
- Loan guarantees are accurately and completely disclosed/reported in the Annual Accounts
- Contingent liabilities related to litigation and potential compensation and indemnities (including non-guaranteed SOE debt/liabilities) are disclosed in the Annual Accounts
- Government investments in private enterprises are disclosed in the Annual Accounts
- There is annual reporting on borrowing, loan guarantees, and debt servicing
- Management compares results achieved to expectations and takes corrective action as necessary
- IMF, World Bank, and donor reporting requirements are met

APPENDIX B – Recent Major Events Affecting Debt Management Outcomes

Internal Events	Date	External Events
GoAB debt strategy approved	2009	Fiscal crisis and recession lead to drops in tourism and GDP
Debt Management Unit established and Debt Manager appointed	↓	Bank of Antigua collapses
National Debt Coordinating Committee established		
Government Guarantee Policy approved	2010	
Debt restructuring programme – 36-month IMF stand-by arrangement (EC\$318 m.) and 36-month CDB policy-based loan (EC\$81 m.) obtained	↓	
National Economic and Social Transformation (NEST) Program established		
DMU procedures manual issued	2011	ABI Bank (ABIB) collapses
Prospectus issued for RGSM securities	↓	
EU-funded <i>Strengthening Revenue Administration and Public Financial Management</i> project begins		
APUA and SJDC debt defaults occur	2012	
Social Security Amendment Act withdrawn	↓	
Oversight Committee created for State-Owned Enterprises (SOEs)	2013	ABIB recapitalization bond \$250 m. issued
Pension Modernization Commission reports	↓	
Debt restructuring programme completed	2014	

APPENDIX C

Office of the Hon. Minister
Ministry of Finance, the Economy
& Public Administration
Government Office Complex
Parliament Drive
St. John's
Antigua



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GOVERNMENT OF ANTIGUA AND BARBUDA

Ref: FIN 31/93

20 December 2013

Mrs. Denise Armstrong
Assistant General Manager
Antigua Commercial Bank
High and Temple Street
St. John's
Antigua

Dear Mrs. Armstrong,

APG Bond Debt Service Reserve Account

We are aware that the next interest payment on the APG Bond becomes due on 02 January 2014 for the period 01 October- 31 December 2013. I received a letter from Antigua Pier Group (APG) indicating that the Principal and Interest due is \$627,545.21 and their Escrow account now has a balance of US\$92,740.02, as at 18 December 2013. This means that they will not be able to meet the debt service payment that has now become due.

As guarantor, we would like to request that the bank take \$607,545.21 to facilitate the Bond payment from the Debt Service Reserve Account, to meet the payments due on 02 January 2014. We have instructed APG to ensure that the funds they collect be used to replenish the account so that the agreement for the Bond would not be breached.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Whitford Harris Jr.', written over a dotted line.

Whitford Harris Jr.
Financial Secretary
Ministry of Finance, The Economy & Public Administration

Cc: Mrs. Nadia Spencer-Henry, Debt Manager