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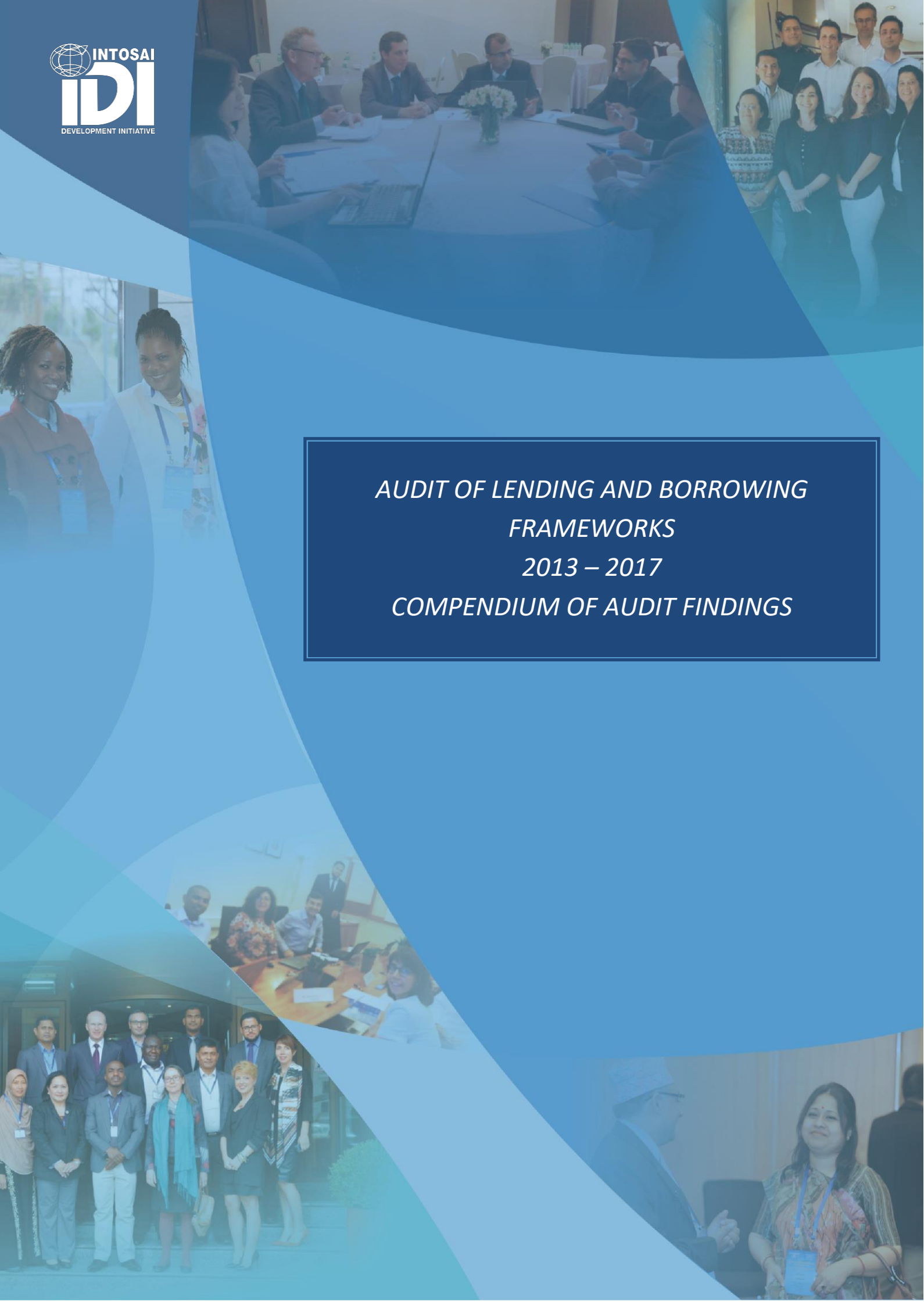

AUDIT OF LENDING AND BORROWING FRAMEWORKS

2013 – 2017

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INTRODUCTION AND CONTEXT

INTRODUCTION AND CONTEXT

OBJECTIVE OF THE COMPENDIUM

The objective of this Compendium is to present an overview of the key findings of the audits conducted during the programme on audit of lending and borrowing frameworks(ALBF). We also aim to share valuable lessons learned from the programme as well as insights gathered from the experts who were involved in the programme, members of the working group on public debt (WGPD),and participants of the programme (see list of participants in figure below).

Bangladesh	Botswana	Argentina	Georgia
Bhutan	Kenya	Brazil	
China	Zambia	Colombia	
India	Zimbabwe	Honduras	
Malaysia		Paraguay	
Maldives		Peru	
Mongolia		Mexico	
Nepal		Venezuela	
Philippines			

The data collected gives the opportunity to present information in a systemic way to enhance its overall readability and relevance.

Many of the SAIs have indicated that due to the sensitivity of the information contained in the reports, they do not wish to publish the information. For this reason an overview of the findings is used, with specific examples in cases where permission was given to publish the information; in other cases, anonymity has been preserved.

The Compendium was produced for the audit community but also the wider stakeholders who have an interest in the audit of public debt.

HOW TO READ THE COMPENDIUM

The audit findings have been structured according to key debt Management issues that an auditor looks at in auditing lending and Borrowing frameworks.

The public ISSAI in the 5000 series were used as some of the audit criteria for the audits conducted under the programme.

ISSAI 5410

Guidance for planning and conducting an audit of internal controls of public debt

ISSAI 5411

Debt performance indicators (DPI)

ISSAI 5420

Public debt management and vulnerability. Potential role for SAIs

ISSAI 5421

Guidance on definition and disclosure of public debt (Appendix)

ISSAI 5422

An exercise of reference terms to carry out performance audit of public debt

ISSAI 5430

Fiscal exposures. Implications for debt management and the role of SAIs

ISSAI 5440

Guidance for conducting a public debt audit. The use of substantive tests in financial audits

ISSAI 5450

Guidance on auditing debt information systems

Key public debt issues examined in the audits

The audit reports presented by the SAIs focused on the following principal areas of public debt management, which are elaborated in the Compendium chapters.

- Legal aspects of the public debt, contracts, and collective action clauses, including primary and secondary law.
- DMO Institutional arrangements including concepts such as segregation of duties, policies and procedure manuals, and staff capacity.
- Debt management strategies and borrowing needs, taking into consideration the existence of the necessary legal framework, the related organization, the strategy formulation and its relation to the borrowing operations.
- Borrowing operations and their relation to a borrowing plan, the negotiation procedures, and operational risk assessment.
- Debt management information systems in general, with emphasis on the operational risk factors and the correct functioning of the established tools.
- Cash flow management and scheduling of public debt contracts or issuance, with emphasis on the debt service projections and payment order, unpaid obligations of state or local governments, and poor cash management.
- Debt reporting, going into details on the publication of debt statistics, publication of incomplete data, and inconsistencies between different sources of publication.
- Risk management for the various financial instruments and the public debt portfolio, derivatives, and all instruments representing financial obligations or contingent liabilities of the government.
- Institutional architecture, laws, regulations, and fiscal mechanisms for ensuring sustainability, with the highest social and economic impact at the lowest cost and with prudent risk distribution over time.

CHAPTER 1

AUDITING THE LEGAL FRAMEWORK FOR PUBLIC DEBT MANAGEMENT

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The components of the legal framework for public debt can be grouped into the primary legislation (the constitution and laws enacted with the approval of parliament or congress),and secondary or delegated legislation (executive orders, regulations, decrees, ordinances, and so forth) determined by the executive branch of government.

Generally, there are five elements that should be covered in the legal framework of public debt management, which should be clearly and consistently defined:

- Delegation of sovereign powers by parliament to the executive
- Remit (responsibility, sphere of activity) of debt management office
- Borrowing purposes
- Debt management goals and objectives
- Debt reporting obligations

DEBT MANAGEMENT PERFORMANCE ASSESSMENT METHODOLOGY: DPI 1

The methodology includes the assessment of one dimension of Debt Performance Indicator1 relating to the existence, coverage, and content of the legal framework for authorization to borrow, undertake other DeM activities, and issue loan guarantees. The legal framework sets out the authority to issue debt instruments, and it encompasses both primary and secondary legislation.

UNCTAD PRINCIPLES OF RESPONSIBLE LENDING AND BORROWING: PRINCIPLE10

“Governments have a responsibility to put in place and implement a comprehensive legal framework that clearly defines procedures,

responsibilities and accountabilities. They should particularly put in place arrangements to ensure the proper approval and oversight of official borrowings and other forms of financing, including guarantees made by State-related entities."

"Because the taxpayers of a country will ultimately be responsible for the repayment of the sovereign's debt, their representatives in the legislature should ideally be involved in the decisions about whether and how to incur the debt."

"This may take the form of legislatively specified debt ceilings, borrowing objectives, legislative oversight of government finances, the ability to conduct post-disbursement audits of specific transactions, or any other kind of legislative intervention."

APPROACH TO AUDITING THE LEGAL FRAMEWORK FOR PUBLIC DEBT MANAGEMENT

SAIs examined if the following five elements are present in the legal framework for public debt and are explicitly, clearly and consistently defined—that is, whether

- the terms of delegation are explicit and clear, both for internal control and for due diligence purposes;
- those delegated powers exist and are adequate to allow the DMO to manage public debt properly;
- the legal framework clearly and explicitly defines the borrowing purposes, for example, to finance the budget deficit, fill short-term cash gaps, refinance maturing debt, finance investment projects approved by the legislature, finance guarantee payments in case of default, and support monetary policy objectives (for example, to drain excess liquidity from the domestic market);
- the goals are prominent, stable and robust enough to serve as an anchor for the debt management strategies; and
- clear and explicit legal reporting requirements exist to hold public debt managers accountable to senior debt officials, ministers and boards charged with governance, and to the legislature.

ALBF PROGRAMME FINDINGS RELATED TO DEMPA DIMENSION 1 AND UNCTAD PRINCIPLE 10

The main findings from the programme can be traced to two types related to maturity of the public debt management system: namely, situations where there is no legal framework; or where legislation related to public debt management is vague.

In reviewing the results of the audits it was observed that good legislation regarding pubic debt forms the building blocks for a good DMO, as it supports all the other principles related to good public debt management. SAIs that conducted the audits initially on other topics found that root causes related mainly to the legislative framework and, as a result, had to narrow the scope of their work or change the objectives of the audit.

In cases where legislation was not clear in the allocated authority, it was found that front-office, middle-office and back-office activities were uncoordinated and spread across a number of entities, creating inefficiencies in the debt management function. This impacted the availability of information to departments and specifically to the auditors.

Without an adequate legal framework the debt management strategy or borrowing plans were not developed, resulting in high borrowing costs and less optimal conditions for the countries. This goes hand in hand with lack of operational manuals and policies (institutional arrangements) on how lending and borrowing activities are to be carried out. The result is high debt levels and high exposure to certain currencies in relation to economic conditions.

In addition to elements of the above weaknesses, it was found that where legislation requires that a borrowing strategy and borrowing plans be developed, these documents did not contain key parameters such as borrowing limits and currency mix, etc. Monitoring of the strategy and plans was non-existent, resulting in outcomes different from those envisaged. Auditors noted also that this related to a lack of skills and staff trained in the public debt offices to fulfill the requirements of the strategies, and to lack of review.

The participants in the programme have also highlighted the definition of public debt as a contentious issue. The public debt definition is not consistent: some countries exclude the debt of state-owned enterprises where guarantees have been offered, whereas at present the standard position is that the guarantees should be included as part of the indirect public debt.

The accounting framework used to disclose public debt also gave rise to disagreements between the auditors and the audited authorities, as the disclosure of debt was on the cash basis, much lower than the fair value of the public debt.

OTHER APPLICATIONS OF UNCTAD PRINCIPLE 10

TRANSPARENCY

The implementation of UNCTAD Principle 10 allows for not only the evaluation of general frameworks, but also the assessment of the existence and precision of specific regulatory frameworks. For example:

"The process to obtain financing and assume obligations of sovereign and liabilities should be transparent ...". This premise prompted a recommendation for rules that would allow disclosure procedures that, while not formally regulated, would be carried out in practice by the auditee, cooperating in the achievement of more transparent debt management.

"Governments have the responsibility to establish and implement comprehensive legal frameworks that clearly define authorities, procedures and accountability...". The evaluation of this principle allows a focus not only on general regulatory frameworks (e.g. parliamentary authorization to take debt) but also on the specific frameworks applicable to each borrowing operation. By applying this principle, the auditor could evaluate the clarity and precision of the standard; in the specific case, it has made it possible to recommend the issuing of regulations that clarify undefined normative concepts.

CHAPTER 2

AUDITING ORGANIZATIONAL ARRANGEMENTS FOR PUBLIC DEBT MANAGEMENT

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AUDITING ORGANIZATIONAL ARRANGEMENTS FOR PUBLIC DEBT MANAGEMENT

To be effective, an organizational arrangement for public debt management needs to be well specified and the mandates and roles well-articulated, with a robust system of checks and balances in place.[2] A robust system of checks and balances exists, for example, when there is a clear division of responsibilities at the political level (parliament and congress, the president, the cabinet and council of ministers, the minister of finance, the internal and external control institutions and the central bank).It is good practice that the debt management objectives and strategy be established at the political level, and at the technical level (debt management unit or office) the debt strategy should be implemented.

Effective debt management by a government involves even basic functions or units: policy, regulatory, resourcing, recording, analytical, controlling, and operating (including active portfolio management). The policy, regulatory, and resourcing functions (known as the executive debt management functions) are undertaken at a very senior level, that is, board of ministers, directors, or a subset thereof, and as such might be viewed as establishing the "rules of the game" at the highest levels of government. This senior level provides direction to the whole debt management system. Once this direction has been decided upon, other government debt units or offices undertake operating functions, implementing and executing the agreed "rules of the game".

In general, the organizational arrangement should provide for the effective and efficient execution of front-, middle- and back-office functions, and adequate segregation of duties.

DEBT MANAGEMENT PERFORMANCE ASSESSMENT METHODOLOGY: DPI2 AND 13

The methodology includes two debt management performance indicators[3] (DPIs), namely:

1. The managerial structure at DPI2, which has two dimensions to be assessed:

- How effective the managerial structure is for central government borrowings and debt-related transactions and whether it includes a clear division between the political and execution levels.
- The effectiveness of the managerial structure for preparation

and issuance of central government loan guarantees.

2. The segregation of duties, staff capacity, and business continuity at DPI 13, which has two dimensions to be assessed:

- Segregation of duties for some key functions, as well as the presence of a risk monitoring and compliance function.
- Staff capacity and human resource management.

2 2012 IDI and WGPD Guide for Auditing Public Debt Management
3 http://documents.worldbank.org/curated/en/305821468190742099/pdf/96671-WP-DEMPA-2015-Box391446B-PUBLIC.pdf

UNCTAD PRINCIPLES OF RESPONSIBLE LENDING AND BORROWING: PRINCIPLE 13

Principle 13, "Adequate Management and Monitoring",[4] states:

"Many countries have suffered from undisciplined practices with respect to the incurrence of debt obligations by sovereign and other public sector borrowers. In the absence of a centralized approval and monitoring process, loans can be contracted without regard to the country's overall debt sustainability. As a result, the application of the proceeds of such loans may remain opaque and the terms—both legal and financial—of such borrowings may be inconsistent and ill-advised."

"The establishment of an efficient debt management office (DMO) can address many of these concerns. DMOs exist in many countries, both developed and developing, and technical assistance is available from international financial institutions to help countries in the establishment of a DMO. ADMO should be involved in both the pre- and post-disbursement aspects of any credit for which the State or one of its instrumentalities will be liable. DMO should have sound processes in place to develop an effective medium–term debt strategy (including procedures to review the strategy periodically, to monitor emerging risks, to monitor interest costs, to take into account other liabilities that could impact on the government budgetary position, to monitor performance and to report clearly and transparently the outcome of the strategy)."

APPROACH TO AUDITING PUBLIC DEBT IN RELATION TO DEMPA AND UNCTAD PRINCIPLES

SAIs should determine if the organizational arrangements of public debt management are efficient and create adequate segregation of duties. In general, the organizational arrangements should provide for the effective and efficient execution of front-, middle- and back-office functions. SAIs should obtain the procedures, handbook and the specific organizational chart that identifies each of the units and their respective roles and responsibilities.

4 http://unctad.org/en/PublicationsLibrary/gdsddf2012misc1_en.pdf

In order to develop criteria to assess specific organizational arrangements in their respective countries, auditors can use the ISSAI publications produced by the Working Group of Public Debt, the best practices described in the World Bank publications on debt management, and the IMF Public Sector Debt Statistics - Guide for Compilers and Users, May2011. For example, in the IMF publication Table 6.3 defines an effective debt management arrangement as one involving seven basic functions: policy, regulatory, resourcing, recording, analytical, controlling, and operating (including active portfolio management), as mentioned earlier.

Using as criteria these seven basic functions, the auditors will examine whether:

- the organisational framework is well articulated and practical and ensures a fair and transparent public debt management; and
- the organisational arrangements for public debt management are efficient and promote an effective system of checks and balances.

ISSAI APPLICABLE TO THE AUDIT OF INSTITUTIONAL ARRANGEMENTS

ISSAI 5410[5] "Guidance for Planning and Conducting an Audit of Internal Controls of Public Debt" requires the auditor to define the scope of debt audits by using the five components of a system of internal control: control environment; risk assessment; control activities; information and communication; and monitoring.

ALBF PROGRAMME FINDINGS ON INSTITUTIONAL ARRANGEMENTS

The findings related to institutional arrangements raised by the SAIs who conducted audits on this subject matter related to three root causes: lack of segregation, lack of suitably qualified staff, and absence of policies and procedures manuals.

Lack of segregation of duties

The auditors found a lack of segregation of duties in the recommended front, middle and back office arrangements. This resulted in a lack of transparency in reporting, lack of quality control, and lack of efficiency arrangements in the operations of the DMO. The informal nature of the arrangements resulted in lack of accountability in the functioning of the DMO. Specifically, when the DMO is housed internally in the ministry of finance, staff often perform DMO functions in addition to their normal responsibilities.

5 http://issai.org/media/13076/issai_5410_e.pdf

As a result, the auditors were not able to verify reported information and the required authority for transactions that took place related to debt issue and servicing. On the other hand, decentralized functions of front, middle and back offices, often vested across a number of entities, resulted in lack of coordination between the DMO functions. Where officers were appointed to various positions, their job descriptions did not speak to DMO functions and vaguely described their roles in terms unrelated to functions required to be performed by an officer in the DMO.

Lack of qualified staff

In response to some of the findings raised by auditors, accounting officers and heads of departments cited lack of qualified staff in the DMO as main reasons for the findings. Specifically, debt analysis (middle office), recording, accounting (back office) and reporting (back office) were found to have problems of staff capacity. Another department where skills shortages were found was IT, specifically skills needed to maintain and administer the software used for accounting and reporting of public debt (DMFAS), for which good knowledge of Oracle is needed.

Absence of policies and procedures

Absence of policies and procedures manuals was found to result in inconsistent practices for borrowing and on-lending and in less than optimal conditions for the government. During borrowing negotiations it was found that no risk assessment policies were in place; the decision regarding optimal borrowing conditions was primarily based on past experience and the decision was vested in one authority. This was because operational procedures were not documented and standardized, magnified by unclear job descriptions and unclear organograms; as a result, in the objectives of the DMO were not realized. In addition, the absence of clear objectives and strategy caused problems in taking decisions during the negotiation stage (front office).

Application of ISSAI 5410. Previous assessment. Internal Control of Public Debt Activities.

In a performance audit of borrowing activities, the preliminary survey revealed a clear delineation of roles and responsibilities in an organizational structure approved by the competent authority. The registration functions are in charge of an area that hierarchically depends on the Ministry of Economy and Finance. Public Debt registration is done through a system (e.g. DMFAS 6.1). For this purpose, there is a System Coordination responsible for maintaining and updating the system. The control and supervision functions and their corresponding interaction with the financial information system (IFMIS).The personnel who perform the tasks and changes to the system were trained in different instances (especially when the change occurred to in a more updated version) and the positions of directors and coordinators are occupied by "career" personnel who were trained and updated in the office itself.

With regard to the lack of policies and procedures, in its annual reports for the financial period the SAI recommended, inter alia, the creation of procedural manuals. The recommendation was taken into account and implemented as of fiscal year 2015, obtained formal approval and was distributed through the intra net to all staff.

CHAPTER 3

AUDITING THE DETERMINATION OF PUBLIC BORROWING NEEDS

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AUDITING THE DETERMINATION OF PUBLIC BORROWING NEEDS

Determining how much to borrow is part of the planning cycle of debt management. There are four main factors that public debt managers need to know to obtain are liable estimate of borrowing needs in the coming period, say one year: debt coming due within a year plus next year's estimated budget deficit plus an estimate of the contingencies, such as defaults of guaranteed loans, that would be triggered next year plus an estimate of net financial assets, including accumulation of cash balances, that would be acquired within a year.

In this way, governments should be able to borrow sufficient funds to finance budget deficits, rollover debt, and certain contingencies that could happen in the short term, say one or two years.

Based on the above-mentioned factors, debt managers will know with certainty the amount of debt that comes due within a year only if their debt records are complete, accurate and kept up to date. The other three factors—budget deficits, contingencies and acquisition of net financial assets—are commonly provided by other public agencies.

Budget fiscal law generally includes legal authorization to carry out the planning of debt borrowing during a fiscal year; this authorization is necessary to give a legal formal context for all operations that debt managers will be able to conduct.

DEBT MANAGEMENT PERFORMANCE ASSESSMENT METHODOLOGY: DPI 3, 8, 9 AND 11.

Debt Performance Indicator 3 deals with the decision-making process and publication of the DeM strategy. The rationale is to ensure that the government has a robust decision-making process for strategy development, and that the strategy is published. The DeMPA recommends that to facilitate the coordination of borrowing activities there is a need for a debt management strategy to steer the process and an annual borrowing plan that sets out the borrowings during the year. The annual borrowing plan should thus be incoherence with the medium-term debt strategy.

Debt Performance Indicator 8 deals with domestic borrowing: the extent to which market-based mechanisms are used to issue debt; the preparation of an annual plan for the aggregate amount of borrowing in the domestic market, split between the whole sale and retail markets; and the publication of a borrowing calendar for wholesale securities.

Debt Performance Indicator 9 deals with external borrowing: Dimension 1 recommends a documented assessment of the most beneficial or cost-effective borrowing terms and conditions (lender or source of funds, currency, interest rate, and maturity) and a borrowing plan.

Debt Performance Indicator 11 “Cash Flow Forecasting and Cash Balance Management.” Dimension 1 deals with the effectiveness of forecasting the aggregate level of cash balances in government bank accounts:

“The principal DeM entity (or DeM entities) requires information on the aggregate level of overnight cash balances for borrowing planning, particularly for short-term instruments, and to ensure that the cash balance is in accordance with the level or range set by the government policy. The debt manager therefore requires accurate and timely forecasts of central government cashflows and the end-of-day account balances. To reduce the negative cost of carry, the government should aim at borrowing only when the funds are needed.”

UNCTAD PRINCIPLES OF RESPONSIBLE LENDING AND BORROWING

UNCTAD Principle 13 “Adequate Management and Monitoring” states the following: “Debtors are responsible for designing and implementing a debt sustainability and management strategy and for ensuring that their debt management is adequate”. The objective of this framework should be to promote an effective debt sustainability and management strategy.

UNCTAD Principle 15 “Restructuring” points out that if restructuring of sovereign debt obligations becomes unavoidable it should be undertaken by both the sovereign borrower and its creditors and should be accomplished promptly, efficiently and fairly.

APPROACH TO AUDIT OF BORROWING NEEDS IN ACCORDANCE WITH DEMPA

The audit team should obtain sufficient evidence to determine if the debt management units have complete and reliable information on debt due. An example would be an updated debt amortization schedule for all loans and debt securities.

The auditors can also assess the government’s capacity to produce and communicate promptly to debt managers the budget figures, revenues and expenses.

Also, they will assess their liability of the estimate of the amount of contingent liabilities that will be triggered in the current period. In the audit plan, it is necessary to include a set of audit procedures for examining the management of explicit contingent liabilities, that is, legal obligations based on a contract (e.g., a guarantee issued for a specific project) or a particular law (e.g., a deposit insurance scheme). As it is a legal obligation, the government has no choice but to make the payment after the occurrence of the event triggering the contingent liability.

In addition, to the extent that their mandates allow, the SAIs should make inquiries about implicit contingent liabilities that are not linked with any legal obligation.

ISSAI APPLICABLE TO THE AUDIT OF BORROWING NEEDS

ISSAI 5422[6]" Terms of Reference to Carry out Performance Audit on Public Debt" focuses on how the manager could manage the debt portfolio. The ISSAI help on six issues: conceptual considerations; normative and legal framework; terms for debt management; terms to assess debt vulnerability and sustainability; accountability; and the behavior of the actors. As in all performance audits, borrowing activities need criteria against which to be assessed. The designed borrowing plan could be one source of these.

ISSAI 5440[7] "Guidance for Conducting a Public Debt Audit—the Use of Substantive Tests in Financial Audit" allows the auditor to properly conduct basic procedures. These procedures will determine if borrowing activities that have been place in a fiscal year are in a proper accounting system, with regard to legal and registration aspects. In effect, the ISSAI describe the elements of public debt management; the application of INTOSAI Auditing Standards to public debt audits; application of substantive audit tests in public debt audits; and substantive audit tests for derivatives.

The ISSAI mentioned above are the principal standards that an audit team could use as a basis for conducting the audit.

ALBF PROGRAMME FINDINGS ON BORROWING NEEDS

During the ALBF programme, SAIs who focused on the borrowing needs of countries focused mainly on the effectiveness of the DMO operations, as well as on whether conditions of loan agreements were adhered to by the lender and the borrower and whether the necessary approval was sought for sovereign loans.

The audit results were mixed, and the findings difficult to generalize: some positives were observed during the audits as well as some negatives relating to the authority for the borrowing needs.

The auditors found that where borrowing strategies and borrowing plans were in place together with good institutional arrangements, the foreign borrowing process was very effective. Further, the conditions established as part of the negotiations were adhered to and much easier to monitor.

6 http://www.intosai.org/issai-executive-summaries/view/article/issai-5422-an-exercise-of-referen-ce-terms-to-carry-out-performance-audit-of-public-debt.html
7 http://www.intosai.org/issai-executive-summaries/view/article/issai-5440-guidance-for-conduc-ting-a-public-debt-audit-the-use-of-substantive-tests-in-finan.html

On the other hand, where the legal framework was not as comprehensive and institutional arrangements (i.e., borrowing strategies and plans; operational procedures handbooks) were not as strong, the need for emergency borrowings created a vacuum in authority and a resolution was required from members of parliament. The auditors recommended better forecasting and a more formalized nature of proceedings regarding the determining and meeting of borrowing needs in order to obtain timely approval from members of parliament.

CHAPTER 4

AUDITING PUBLIC DEBT MANAGEMENT STRATEGY

CHAPTER 4
AUDITING PUBLIC DEBT MANAGEMENT STRATEGY

The debt management strategy should cover all central government existing debt and projected borrowing, including from the central bank, with a minimum three-year scope (thus it needs to be updated annually). In particular, a DeM strategy identifies how cost and risk characteristics vary with changes in the composition of the debt portfolio.

The content of the strategy and risk indicators will vary from country to country, depending on the stage of economic development, the sources of funding, the depth of the domestic debt market, and the transactions used to manage central government debt.

The debt management strategy has a longer-term focus than a borrowing plan, and is essentially the product of a dynamic and iterative process. The objective of the DMO is to select optimal funding sources, taking account of the government's risk tolerance and the capacity and development of domestic financial market.

In general, the debt management strategy should include:

- Description of the market risks being managed (currency, interest rate, and refinancing / rollover risks) and the historical context for the actual debt portfolio.
- Description of the future environment for debt management, including fiscal and debt projections, assumptions about interest and exchange rates, and constraints on portfolio choice—including those relating to market development and the implementation of monetary policy.
- Description of the analysis undertaken to support the recommended debt management strategy, clarifying the assumptions used and limitations of the analysis.
- Description of adopted strategy and its rationale, with clear indicators of projected targets

DEBT MANAGEMENT PERFORMANCE ASSESSMENT METHODOLOGY: DPI 3 DEBT MANAGEMENT STRATEGY

The methodology includes the assessment of the debt management strategy at DPI 3, with two dimensions to be assessed:

- The quality of the DeM strategy document
- The decision-making process and publication of the DeM strategy

UNCTAD PRINCIPLES OF RESPONSIBLE LENDING AND BORROWING

Principle 8 deals with ¨Agency¨ (related in part with DeMPA) and explains that all debt contract should be in line with the debt management objectives and strategy of the sovereign to ensure the public interest.

UNCTAD Principle 13,"Adequate Management and Monitoring," states the following:

"Debtors are responsible for designing and implementing a debt sustainability and management strategy and for ensuring that their debt management is adequate." The objective of UNCTAD Principles framework framework should be to promote an effective debt sustainability and management strategy.

APPROACH TO AUDITING THE BORROWING STRATEGY

The audit approach assesses to what extent the debt objectives are supported by the debt management strategy. Further, in assessing a debt strategy SAIs can evaluate the process of formulating and implementing the strategy. The key debt risk indicators will vary, depending on the country's debt portfolio and scope for managing risk. SAIs should determine the frequency of debt strategy reviews to assess whether the assumptions that support the strategy still hold in light of changed circumstances. ISSAI 5411 "Debt Indicators" and ISSAI 5422" An Exercise of Reference Terms to Carryout Performance Audit of Public Debt" could be a good framework for understanding DeM and helping auditors conduct a proper audit.

ISSAI APPLICABLE TO THE AUDIT OF THE BORROWING STRATEGY

ISSAI 5411 "Debt Indicators" points out that the SAI's role can promote best practices in public debt management, including use of inappropriate information. Auditors can see financial, vulnerability and sustainability indicators and choose the right model to run some examples.

ISSAI 5422 "Terms of Reference to Carry out Performance Audit of Public Debt" focuses on how the manager can manage the debts portfolio. The ISSAI helps on six issues: conceptual considerations; normative and legal framework; terms for debt management; terms to assess debt vulnerability and sustainability; accountability; and the behavior of the actors.

ALBF PROGRAMME FINDINGS ON BORROWING STRATEGY

Auditors selected the topic of borrowing strategy, and found that in some cases where borrowing strategies were established they were insufficient—in parameters, for example—or were not followed at all. The lack of strategy resulted in unfavorable borrowing, shortages in cash on hand, and higher borrowing costs.

In other cases, there was no requirement for a debt management strategy. The absence of this requirement meant that responsibility and accountability had not been established for the strategy's development, publication, periodic review and updating, and reporting on the outcomes.

In some cases, auditors could highlight the need for a requirement in legislation for a DeM strategy.

There were also positive examples where the borrowing strategy resulted in lower borrowing costs, and a shortening of the maturity profile of debt when debt obligations could be met before coming due.

It should be mentioned that within the framework of the program, SAIs that conducted public debt strategy reviews in some countries were able to assess whether the models and estimates used by the managers were accurate in generating the changes proposed by debt agencies.

Finally, it is important to mention that the monitoring of agency relations in public debt decision-making can be a good framework for healthy practices in the administration of sovereign indebtedness as well as in the certainty of delegation of decisions by parliament in the executive areas of government.

CHAPTER 5

AUDITING BORROWING ACTIVITIES

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The public borrowing cycle comprises several specific activities that can be examined by SAIs, such as the preparation of an annual borrowing Plan that is consistent with the country's debt strategy, and the identification of best borrowing instruments, such as concessional loans and benchmark securities.

Annual borrowing plans should incorporate the information needed to determine the borrowing needs. Governments should borrow sufficient funds to finance estimated budget deficits, rollover debt that comes due, and uncertain contingencies that could be realized in the near future. Once the total amount to borrow is determined, the debt management team must distribute it among different debt instruments—bilateral and multilateral loans, and debt securities to be issued in domestic and foreign markets. These instruments should be selected in order to achieve the objectives laid out in the debt management strategy.

DEBT MANAGEMENT PERFORMANCE ASSESSMENT METHODOLOGY: DPI 8, 9 AND 14

DPI8 Domestic borrowing

Dimension1:The extent to which market-based mechanisms are used to issue debt; the preparation of an annual plan for the aggregate amount of borrowing in the domestic market, divided between the wholesale and retail markets; and the publication of a borrowing calendar for wholesale securities.

Dimension2:The availability and quality of documented procedures for Borrowing in the domestic market and interactions with market participants.

DPI 9 External borrowing

Dimension1: Documented assessment of the most beneficial or cost-effective borrowing terms and conditions (lender or source of funds, currency, interest rate, and maturity) and a borrowing plan.

Dimension2: Availability and quality of documented procedures for external borrowings.

Dimension3: Availability and degree of involvement of legal advisers before signing of the loan contract.

DPI14 Debt and Debt-Related Records

Dimension1:Completeness and timeliness of central government's records on its debt, loan guarantees, and debt-related transactions.

UNCTAD PRINCIPLES OF RESPONSIBLE LENDING AND BORROWING

Principle10,Transparency: The process for obtaining financing and assuming sovereign debt obligations and liabilities should be transparent. Governments have a responsibility to put in place and implement a comprehensive legal framework that clearly defines procedures, responsibilities and accountabilities. They should particularly put in place arrangements to ensure the proper approval and oversight of official borrowings and other forms of financing, including guarantees made by state-related entities.

Principle12, Project Financing: In the context of project financing, sovereign borrowers have a responsibility to conduct a thorough ex ante investigation into the financial, operational, civil, social, cultural and environmental implications of the project, and its funding. Borrowers should make public the results of the project evaluation studies.

APPROACH TO AUDITING BORROWING ACTIVITIES

Auditing borrowing activities involves assessing whether the government has a documented borrowing plan aligned with public debt goals, objectives and strategy, and if sovereign debt management has adopted best practices and procedures, such as the following:

- Maintain complete and up-to-date procedure manuals for borrowing activities.
- Prepare and follow an annual borrowing plan that is regular and predictable.
- Communicate with lenders and investors on a frequent basis.
- Coordinate borrowing activities with the execution of the financial programme (cash flow).
- Adopt transparent procedures for conducting auctions and syndications in domestic and external markets.
- Determine compliance with applicable laws and regulations.
- Coordinate cash and debt management operations effectively, in order to avoid costs of over-borrowing and liquidity risks due to under-borrowing.

ALBF PROGRAMME FINDINGS ON BORROWING ACTIVITIES

The findings identified by the auditors can be categorized into three main categories: those related to the borrowing plan; to the process
Of negotiating and contracting loans; and to risk assessment.

Borrowing plan

Lack of debt strategies and undocumented borrowing plans resulted in borrowing without objectives, in a case where an emergency need for a country to borrow arose suddenly due to external shocks to the economy. The issue was magnified, as the structural and institutional arrangements were not in place to support such borrowing processes. As a result, borrowing was under less than favorable conditions. In some cases where borrowing plans and strategies were in place, the borrowing cycles were not followed.

Negotiating and contracting process

Procedures for the process to be followed in borrowing activities were not documented, and where borrowing took place the process followed lacked documentation. This opened the DMOs to operational risks. Negotiation procedures were not clearly defined into staged processes specifically for the contracting of loans. The evaluation criteria for loans were also not defined, and as a result agreements were often entered into with less than optimal conditions.

Risk assessment procedures

The auditors found that risk identification, measuring, monitoring and reporting measures were not in place. Auditors also highlighted the need to train and recruit staff with adequate knowledge of risk assessments in line with the borrowing strategy. Such procedures were not documented adequately. In one instance, auditors also noted a lack of skills transfer from capacity building initiatives.

Results of the ALBF Programme related to borrowing activities

In addition to the sound practices mentioned above, applying the guidelines contained in ISSAI 5411and5411 to performance audits of borrowing activities identified the risks associated with the selected borrowing activity (debt with the Central Bank) from the indicators proposed and adapted, and allowed auditors to evaluate the dimensions of economy, effectiveness, and efficiency.

The analysis allowed us to conclude that the audited indebtedness was economic since the objective of obtaining resources at low cost was attained (in the terms ofISSAI3000,the Sovereign manages to obtain resources in both local currency and foreign currency at costs lower than those it would face from other lenders).However, there was an increase in the risk of misalignment and in liquidity risk due to the growing preponderance of non-transferable instruments denominated in foreign currency. The insufficiency of the primary result to meet the interest of the debt at the end of the period studied, as well as the deterioration of the fiscal sustainability indicators, reinforced the risk that the Sovereign would not achieve its fiscal goals and impacted the effectiveness of the financing scheme. However, given the Sovereign's limitations in accessing the external capital market and the instrument's short maturity, financing was efficient.

CHAPTER 6

AUDITING PUBLIC DEBT INFORMATION SYSTEMS

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AUDITING PUBLIC DEBT INFORMATION SYSTEMS

The public debt information system comprises the components that capture, monitor, analyze and report debt information of a country. The system is a combination of software, hardware, people and a communication system that supports data input, processing, storage and the production of outputs such as management reports on both the domestic and the external debt portfolios.

The debt management system is installed in general in MoF and/or central bank and, in the majority of cases, is integrated with other systems, for example IFMIS (integrated financial management systems).

The following are the main objectives of the specific audit:

- Obtaining effective security features in the areas of debt data processing, and safeguards to secure access to and use of public debt data.
- Reducing risks of accidental and deliberate threats, and their impact on delivery of computer related services.
- Determining effectiveness, integrity and completeness of controls within the debt management system.
- Securing value for money in the procurement/development process.
- Achieving conformity with relevant standards contained INTOSAI Guidelines for IT Audits (ISSAI 5450).

DEBT MANAGEMENT PERFORMANCE ASSESSMENT METHODOLOGY: DPI12,13 AND14

From the Debt Recording and Operational Risk Management Section of DeMPA:

DPI 12 "Debt Administration and Data Security"

Dimension3. Availability and quality of documented procedures for controlling access to the central government's debt data recording and management system and audit trail.

Dimension4. Frequency of debt recording and management system backups, and off-site, secure storage.

DPI 13“BusinessContinuityPlan”
Dimension3. Presence of an operational risk management plan, including business continuity and disaster recovery arrangements.

DPI 14 “Data and Debt Records”
Dimension 1. Completeness and timelines of central government’s records on its debt, loan guarantees, and debt-related transactions.

UNCTAD PRINCIPLES OF RESPONSIBLE LENDING AND BORROWING PRINCIPLE 13

UNCTAD Principle13, “Adequate Management and Monitoring,” states: “ Debtors are responsible for designing and implementing a debt sustainability and management strategy and for ensuring that their debt management is adequate, including at the sub-national level. Debtor countries should put in place effective monitoring systems, including at the sub-national level.”

APPROACH TO AUDITING INFORMATION SYSTEMS OFTHE DMO

Auditors would first need to acquire an understanding of the scope and characteristics of the country’s debt management system; how it is structured and managed; its applications; and how it is integrated with the debt management activities. Access to personnel and consultants’ access to the computer systems is necessary to determine the audit approach during the planning stage.

An audit of debt management information systems calls for an independent assessment of how risks are managed and mitigated to ensure the reliability of debt information.

If the audit of public debt information system is conducted as part of a financial and compliance audit, then the audit approach should be designed in a way that enables the auditor to check the design and implementation of controls and compliance with laws, regulations and directives related to the operations of the information system.

In general, the practice should be to evaluate the efficiency and effectiveness of how the information systems are used in conducting the main operational procedures such as:

- Elaboration of the annual budget for debt servicing
- Elaboration of the cash flow projections related to debt transactions
- Recording and treatment of both loans drawings and debt securities
- Recording and treatment of debt service payments

ALBF PROGRAMME FINDINGS RELATED TO INFORMATION SYSTEMS

SAIs conducting audits of the information system found certain inadequacies in recording and record keeping and the functioning of the debt management information system.

Record keeping. Auditors found that record keeping was not accurate and complete. Auditors could not verify the information disclosed in the reports for the year under review. Similarly, no records of guarantees and on-lending that have been given by the government could be provided by the entity. Auditors advised better recordkeeping and regular reconciliation of debt information. In other cases, where Excel was used to record details of debt agreements, auditors noted the efficiencies and effectiveness. A debt management and analysis system will aid in the recording and analysis of the debt agreements.

Functioning of information systems. The countries involved with the programme have different information systems for recording. In some cases, because the functions of recording are split across departments, different software is used—for example, to keep track of cashflow and to manage the public debt information. In many cases duplicate software is used and software programs may not reconcile with each other; this created doubts regarding the integrity of the information provided by the different modules. Another important finding is that in several cases the information systems are isolated or not integrated with the rest of public administration components, causing a lot of duplication of effort and increasing the risk of manual errors.

Example of Application of DPI14, ISSAI 5410and Principle 11 UNCTAD

Based on DPI14 “Information and Debt Records”, the analysis focused on the quality of the information being published as well as on the integrity of the accounting records.

BasedonISSAI5410—which states that in order to meet public debt targets, policy makers need to rely on an information system that captures and generates relevant and reliable information on sovereign debt—the regular reports on the accounts for each financial year showed that:

- The difference in functions between DMFAS and the budget and accounting system does not allow for an adequately articulated record of public indebtedness.
- There was alack of a sub-index of the e-SIDIF that identifies within each accounting account the balance of each financial instrument component of the public debt.

Based on Principle11, Dissemination of Information and Communication, since “the relevant terms and conditions of a financing agreement should be disclosed by the sovereign debtor, be universally available and easily reach able to all stakeholders, including citizens, in a manner through online media,” it was also possible to identify:

- Lack of exposure of the Intra- Public Debt in Tables and Annexes of the Investment Account, paying attention to the importance recognized in the last years of the segment corresponding to this type of indebtedness.
- Impossibility of determining the legislation applicable to the Securities of the Public Debt, mainly to the securities that were granted in different exchanges.

CHAPTER 7

AUDITING DEBT SERVICE ACTIVITIES

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AUDITING DEBT SERVICE ACTIVITIES

Public debt servicing activities are the financial operations related to principal, interest, commission and, possibly, late interest payments. Debt service operations can take the form of cash payments, the creation of an arrear, a rescheduling of principal payments, a partial or complete prepayment of principal, debt forgiveness, or a debt swap.

Paying on time the correct amounts specified in public debt agreements is the main objective of debt servicing activities. Acritical component of an effective debt service operation is a secure, up-to-date and complete debt database. This tool is essential to risk analyses, such as the detection of large servicing payments in the near future, irrespective of the original maturity of the debt instruments. A complete, up-to-date debt database is necessary to produce accurate debt-service schedules for policymakers in the ministry of finance and the legislature.

DEBT MANAGEMENT PERFORMANCE ASSESSMENT METHODOLOGY: DPI 6, 8, 11, 12 AND 14

DPI6 Coordination with Fiscal Policy
Dimension1. Support of fiscal policy makers through the provision of accurate and timely forecasts of total central government debt service under different scenarios.

DPI8 Domestic Borrowing
Dimension1.Theextent to which market-based mechanisms are used to issue debt; the preparation of an annual plan for the aggregate amount of borrowing in the domestic market, divided between the wholesale and retail markets; and the publication of a borrowing calendar for wholesale securities.

DPI11 Cash Flow Forecasting and Cash Balance Management
Dimension 1. Effectiveness of forecasting the aggregate level of cash balances in government bank accounts.

DPI14 Debt and Debt-Related Records
Dimension1. Completeness and timeliness of central government's records on its debt, loan guarantees and debt-related transactions.

DPI12 Debt Administration and Data Security

Dimension1. Availability and quality of documented procedures for the processing of debt-related payments and receivables.

Dimension 2. Availability and quality of documented procedures for debt and transaction data recording and validation, as well as storage of agreements and debt administration records.

UNCTAD PRINCIPLES OF RESPONSIBLE LENDING AND BORROWING PRINCIPLES 9 AND13

Principle 9 Binding Agreements. A sovereign debt contract is a binding obligation and should be honored. Exceptional cases nonetheless can arise. A state of economic necessity can prevent the borrower's full and / or timely repayment. Also, a competent judicial authority may rule that circumstances giving rise to legal defense have occurred. When, due to the state of economic necessity of the borrower, changes to the original contractual conditions of the loan are unavoidable, Principles 7 and 15 should be followed.

Principle13 Adequate Management and Monitoring. Debtors should design and implement a debt sustainability and management strategy and to ensure that their debt management is adequate. Debtor countries have a responsibility to put in place effective monitoring systems, including at the sub-national level, that also capture contingent liabilities. An audit institution should conduct independent, objective, professional, timely and periodic audits of their debt portfolios to assess quantitatively and qualitatively the recently incurred obligations. The findings of such audits should be publicized to ensure transparency and accountability in debt management. Audits should also be undertaken at subnational levels.

APPROACH TO AUDITING DEBT SERVICING ACTIVITIES

After assessing risks in the planning stage, the audit team can determine the audit approach that responds to the risks identified. A compliance audit can be conducted to examine the controls of the debt service activities, while a financial audit would focus on the accuracy, consistency and completeness of data. A performance audit can be conducted to assess the economy, efficiency and effectiveness of the debt servicing activities.

Some possible audit objectives can be as follows:

- To ascertain whether the public debt data base is complete and accurate to provide reliable financial information.
- To determine whether the debt service schedule is adhered to and duly authorized by the DMU.
- To determine whether repayments are made to the debtor as per the loan agreement.
- To examine whether the debt information provided by the DMU(s) for debt restructuring was complete and appropriate.

- To examine if the exchange and interest rates are updated periodically in the system.
- To examine if the guarantees and the on-lending operations are also registered[8] in the system.

ALBF PROGRAMME FINDINGS ON DEBT SERVICEACTIVITIES

The findings identified by the auditors can be categorized into three main categories, related to the debt service projections and payment order, to unpaid obligations from state or local governments, and to poor cash management.

Debt service projections

The auditors found that lack of good records and updating of the necessary variables is causing discrepancies between the payment schedule and the payment order. In another case, debt repayments were not included in the fiscal budget, resulting in a shortage of cash and in short-term borrowing to cover long-term debt.

State government payments

The auditors found that incorrect recording and monitoring of the general government liabilities are causing problems (arrears) due to non-payment of the local governments' obligations. The provisions of the law in the specific country require only that state governments deduct the interest payments from grants to local governments. As a result, the debts of the states have been increasing over the years.

Poor cash management

The auditors found that the non-existence of a sinking fund to finance debt payments when they become due resulted in borrowing to finance debt payments and exposed the country to default risks. The sinking fund was supposed to finance the current debt from the revenue and taxes collected during the period.

8-Suggested to use ISSAI 5422 – An exercise of reference terms to conduct a Performance Audit of public debt,Section 4.4 – Recording,Control and Monitoring.

CHAPTER 8

AUDITING DEBT REPORTING

CHAPTER 8

AUDITING DEBT REPORTING[9]

Regular disclosure of audited public debt activities allows legislators, taxpayers, creditors, and other interested parties to assess compliance with debt legislation and determine if debt levels are sustainable. When the audited debt figures are produced in a timely manner, public debt management can be improved, and there is a better chance of addressing potential problems before debt levels become unsustainable and avoid risky debt decisions that can exacerbate an economic, fiscal or financial crisis.

Debt management units or offices produce many reports with debt information in order to fulfill reporting obligations and support several managerial functions. The frequency and contents of debt reports would vary with objectives and target audience. Also, the scope of these reports would vary to meet the needs of users. For example, reports produced for macroeconomic analysis could well cover the whole of the public sector, whereas the scope of reports used to demonstrate the accountability of particular public administration bodies might be much narrower.

ISSAI 5421 Guidance on Definition and Disclosure of Public Debt provides an illustrative model of public debt reports disclosure.

DEBT MANAGEMENT PERFORMANCE ASSESSMENT METHODOLOGY: DPI4

The methodology includes the assessment of two dimensions of DPI-4o on debt reporting and evaluation relating to:

- Quality and timeliness of the publication of a debt statistical bulletin (or its equivalent) covering central government debt, loan guarantees, and debt-related operations.
- The presentation and content of an annual evaluation report to the parliament or congress on DeM activities and general performance.

9- 2012 IDI and WGPD Guide for Auditing Public Debt Management

UNCTAD PRINCIPLES OF RESPONSIBLE LENDING AND BORROWING: PRINCIPLES 11 AND 12

Principle11 Disclosure

"Relevant terms and conditions of a financing agreement should be disclosed by the sovereign borrower, be universally available, and be freely accessible in a timely manner through online means to all stakeholders, including citizens."

"Sovereign debtors have a responsibility to disclose complete and accurate information on their economic and financial situation that conforms to standardized reporting requirements and is relevant to their situation."

"The material terms (financial and legal) of a sovereign's outstanding debt issuances should at least be made publicly available in the official language(s) of the country."

"Debtors should make public disclosure of their financial and economic situation, providing among others the following information: (i) accurate and timely fiscal data; (ii) level and composition of external and domestic sovereign debt including maturity, currency, and forms of indexation and covenants;(iii) external accounts; (iv) the use of derivative instruments and their actual market value;(v) amortization schedules, and (vi) details of any kind of implicit and explicit sovereign guarantees."

Principle 12. "In the context of project financing, sovereign borrowers have a responsibility to conduct a thorough ex ante investigation into the financial, operational, civil, social, cultural and environmental implications of the project and its funding. Borrowers should make public the results of the project evaluation studies."

APPROACH TO AUDITING DEBT REPORTING

The key objectives of auditing debt reporting are to assess whether debt reports meet the requirements and standards established in domestic legislation and international agreements/standards.

Thus, auditors would design audit procedures to determine whether:

- The government regularly publishes information on the stock and composition of its debt, including currency, maturity, residency classification and interest rate structure, as well as the costs of servicing its debt.
- Data on debt stocks and flows are disseminated in a manner consistent with national and international reporting standards and if debt reports meet the needs of the members of congress or parliament, the executive staff at the ministry of finance, and major institutional lenders and institutions, such as the World Bank and the IMF.

- Government officials disclose relevant public debt information in a timely manner in accordance with prevailing accounting standards and if information is in compliance with criteria of completeness, reliability, accurateness and consistency.

The audit scope and objective of an audit of debt reporting would vary depending on the type of debt report/s to be examined:

- If the public debt information is presented in government financial statements, the external auditor should determine whether public debt figures have been disclosed in a fair manner.
- If public debt information is presented by government in periodic statements, such as bulletins of the debt management office, the auditors should determine whether public debt figures have been disclosed properly and the figures are consistent with other sources of public debt information.
- If the external auditor is required to examine public debt statistics produced for multilateral and bilateral lending institutions such as the World Bank and IMF, they should design audit procedures to determine if the public debt statistics meet the disclosure guidelines that have been agreed upon by the country with each lending institution.
- In some countries, multilateral and bilateral lenders engage the SAI to examine if loan proceeds for specific projects were applied in accordance with the terms and conditions of loan agreements. In this case, auditors should address this specific audit scope by applying audit procedures that assess compliance with reporting requirements stated in each loan agreement.

APPLICABLE ISSAI

ISSAI5421 [10] "Guidance on Definition and Disclosure of Public Debt

provides an illustrative model of public debt reports disclosure.

ISSAI5411 [11] "Debt Indicators ¨points out that the SAI's role might

Promote best practices in public debt management policies. Those include obtaining appropriate information and looking for those indicators that have to be considered in this analysis. Auditors may see financial, vulnerability and sustainability indicators and choose the appropriate model to run some examples. If the debt management office(DMO) runs information and publishes it at the right time, the audit team will be able to see it and follow up. After completing the procedures the team can compare the evidence provided by the DMO with the DMO's published information to see how transparent the DMO has been.

ISSAI5440 [12] "Guidance for Conducting a Public Debt Audit: The Use

Of Substantive Tests in Financial Audit" allows the auditor to properly conduct basic procedures. These procedures will determine if debt activities have been published. Also, government officials must disclose relevant public debt information in a timely manner in accordance with best practices of transparency.

10- http://www.issai.org/media(390,1033)/ISSAI_5421E.pdf
11- http://www.intosai.org/issai-executive-summaries/view/article/issai-5411-debt-indicators.html
12- http://www.intosai.org/issai-executive-summaries/view/article/issai-5440-guidance-for-conducting-a-public-debt-audit-the-use-of-substantive-tests-in-finan.html

ALBF PROGRAMME FINDINGS ON DEBT REPORTING

SAIs conducting audits of debt reporting found problems in the Publication of debt statistics and found that data published were incomplete. SAIs also found inconsistencies between different sources of publication.

Publication of debt statistics

The auditors found that publication of debt statistics and reporting were not frequent despite, in some cases, a law requiring frequent reporting. The auditors highlighted the need for frequent reporting to inform decision making in line with the borrowing strategy and borrowing plan. Frequent errors in recorded data also existed; auditors identified a lack of capacity and necessary skills in the middle office as a root cause of the problem. Furthermore, contract agreements were rarely published.

Publication of incomplete data

The auditors found in an important group of cases that statistical data were produced periodically, but the data were not useful for the purpose of decision-making. For example, the data lacked details of the sources of debt; intra- public debt was not recorded at all; and domestic debt as well as debt related to guarantees were not recorded or disclosed. Furthermore, certain more critical statistics lacked totals, such as total debt of the state, increases to the debt, interest and principal repayments.

Inconsistencies between different sources

The auditors found that several cases in which the publications were elaborated by different sources, causing inconsistencies in the in- formation different DMO departments had at their disposal. Auditors identified the lack of reconciliation between different departments and systems as the cause of the problems.

Application example: Evaluation of Principle 11 UNCTAD. Disclosure.

The application of this principle made it possible to recommend the elimination of data considered “preliminary” and the implementation of mechanisms to ensure complete information about the holdings of public debt instruments, constructively contributing to greater transparency and accuracy in the disclosure of the information.

In addition, the principle establishes that“ legal restrictions on disclosure should be based on an obvious public interest and be used in a reasonable manner,” reaffirming the SAI’s ability to obtain information necessary for the proper perfor- mance of the control.

CHAPTER 9

LESSONS LEARNED

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Some key lessons learned are explained by this chapter in general terms, taking into consideration the experiences gained during the programme activities, the completion of the e-learning course, the elaboration of the audit reports, the additional analysis of the most important findings, and the conclusions raised after the Q&A meetings. The main conclusions and recommendations are set out below.

• Taking into consideration the importance of the public debt management activities in developing countries, it would be worthwhile to promote the control of public debt in a multi-year sovereign debt control plan, including financial, compliance and performance audits, in the annual public debt audit program.

•Inclusion of training activities concerning specific public debt subject matters at both the national and regional levels would increase the value and benefits of audits and studies on this matter, so that the recommendations made to the governmental bodies and the legislature could be prudently and institutionally considered.

•Be aware of, understand and audit all the mechanisms under development by governments for funding budget deficits, as well as those Treasury needs that determine the long-, medium- and short-term evolution of the debt.

•Understand that the link between sustainable sovereign indebtedness, fiscal solvency, and control of contingencies allows for evaluation of sovereign borrowing from the perspective of a modern and updated approach in SAIs.

•Expand the operational areas to plan and conduct audits by applying public-debt-specific methodologies, with a view to obtaining findings that could help governments to manage their debts in an effective and efficient way.

•It would be necessary to cover the debt strategy formulation and execution as well as public finance sustainability, as they are indispensable to sustainable development.

•The improvement and update of guides, the ISSAI, and virtual spaces for dialogue, technical cooperation, and consultation of technical and theoretical reference documents would be key for the further application of the new techniques disseminated through the Programme.

• The evaluation and coverage of new concepts such as debt management strategy formulation and implementation, contingent liabilities, transparency, PPP (public – private partnership), derivatives, etc. would be key to conducting substantive audits.

- Reinforce the programme community through mutual technical cooperation, for example by disseminating a control approach based on measuring the performance of sovereign indebtedness and fiscal control in high schools (universities in particular).
- Finally, promote the exchange of up-to-date information and control experiences among SAIs, thereby generating mutual gains in the prevention of debt crises in the countries.