
Chapter 7 Auditing Debt Reporting

This chapter looks at the types of public debt reports generated, and the debt data disclosures required by public authorities and stakeholders. It also helps SAIs to identify the key considerations and criteria when auditing debt reporting under the three audit types, namely, financial, compliance, and performance audits.

7.1 What Is Public Debt Reporting?

Public debt reporting encompasses the generation of reports with different objectives. One is operational reports that are used by debt officers to validate and confirm the debt records and the other is the statistical reports which are produced to elaborate periodic bulletins or publications including stocks and flows and projections. In addition to this, the DMO produces several reports as inputs or for reconciliation with the specific debt-related accounts in the financial statements. Debt reports are also produced to support the preparation of the balance of payments, formulation of the budget, etc.

The debt reporting process requires active participation of several entities, namely, the DMOs, the creditors, the MoF (budget and treasury units) and the central bank as the fiscal agent responsible for the country's foreign exchange reserves and monetary policy.

7.2 Auditing Debt Reporting in Public Debt Management

Public debt reports differ primarily depending on the needs of targeted users. Debt reports may provide financial data or other information on debt-related operations.

With financial data that are often presented in financial statements, SAIs will aim, therefore, to determine if such data are in compliance with the criteria of completeness, reliability, accuracy and consistency with prevailing accounting standards and whether disclosure of relevant public debt information is made in a timely manner.

Also, a key objective of auditing debt reporting is to assess whether debt reports meet the requirements and standards established in domestic legislation and international agreements. Thus, SAIs 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. SAIs would determine whether 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 MoF and major institutional lenders and institutions, such as the World Bank and the IMF.

Also, the auditing should evaluate if the detailed reporting is disaggregated by debt instrument, in line with Chapter 6 of the IMF's Public Sector Debt Statistics Guide for Compilers and Users, 2013 (Table 6.2). The audit should examine the legality and consistency with established policy of all such instruments and the legitimacy of such claims. That implies that the auditing activities of the debt instruments should be held by counterparty taking into account the institutional coverage and sectorisation of the public sector, as highlighted in the IMF's Public Sector Debt Statistics Guide for Compilers and Users, 2013.

SAIs would also ascertain whether the statistical debt bulletin or its equivalent includes debt ratios, indicators and risk measures of the portfolio as well as whether loan guarantee information disaggregated by debtor, creditor, residency classification, instrument type, currency, interest rate, inter alia, is also regularly and publicly published by government. Reports to Congress or Parliament should provide an evaluation of DeM operations with complete information on outstanding public debt, debt reorganisation, loan guarantees and on-lending, if any, against the DeM objectives and strategy, with explanations on changes and deviations, and the outcome of the DeM strategy.

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

7.2.1 Financial audit of debt reporting

Public debt information on, inter alia, loans contracted by a sovereign to support government expenditures or for on-lending, government securities issued, and debt service payments are presented in government financial statements (FSs). In this case, a financial audit of debt reporting could be undertaken with the following objectives:

- To determine whether public debt information is presented completely and accurately in the FSs; and
- To determine whether public debt information in the FSs has been accurately and adequately disclosed in a fair manner, in accordance with prevailing accounting standards.

7.2.2 Compliance audit of debt reporting

A compliance audit of public debt reporting would generally determine whether debt reports meet the requirements of internal legislation and international agreements, such as the IMF, World Bank, other lenders and stakeholders.

In some countries, multilateral and bilateral lenders engage the SAI to examine if the terms and conditions of loan agreements have been complied with and this includes the reporting requirements of the lenders. In this case, the audit would address this specific audit scope by applying audit procedures that assess compliance with reporting requirements stated in each loan agreement.

When SAIs are required to examine public debt statistics produced for multilateral and bilateral lending institutions, such as the World Bank and IMF, they would 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.

If public debt information is presented by a government in periodic statements, such as bulletins of the DMO, the audit should determine whether public debt figures have been disclosed properly and are consistent with other sources of public debt information.

In other instances, compliance audits might be undertaken as an integral part of the audit of FSs, considering that debt accounts and transactions are presented in the FSs of the MoF or the treasury. An SAI might find it efficient to embed an audit strategy, an audit plan and audit procedures required for compliance audit into those required for the audit of FSs.

SAIs could consider the following audit objectives in a compliance audit of debt reporting:

- To determine whether debt reports are compliant with the requirements of a sovereign's laws, rules and regulations; and
- To determine whether the reporting requirements in loan agreements have been met.

7.2.3 Performance audit of debt reporting

A performance audit of debt reporting can assess the reporting practices that enable the DMO to prepare the reports in a timely manner; determine the efficiency with which debt reports are rendered to meet the needs of the members of Congress or Parliament, the executive staff at the MoF, and major institutional lenders and institutions, such as the World Bank and the IMF, and other users of the report; and determine whether debt reports assist debt managers in the formulation and monitoring of economic, fiscal and/or monetary policies. Such audits could also assess whether DMOs provide debt reports on the evaluation of DeM operations against DeM objectives and strategy, and how the results are reported.

The following are audit objectives which can be considered in a performance audit of debt reporting:

- To assess the reporting practices that enable the DMO to prepare the reports in a timely manner; and
- To determine the efficiency of debt reporting to meet the needs of the members of Congress or Parliament, the executive staff at the MoF and major institutional lenders and institutions, such as the World Bank and the IMF, and other users of the report.

7.3 Representative Audit Questions on Public Debt Reporting

The following audit questions may be asked to address some performance audit objectives:

Audit objective: To assess the reporting practices that enable the DMO to prepare the reports in a timely manner

- 1) What are the statutory and contractual reporting requirements of your government?
- 2) How well has your government met those statutory and contractual reporting requirements in terms of timeliness?
- 3) Who is responsible for preparing and submitting debt data to the IMF and World Bank (for example, for the Debtor Reporting System)?
- 4) How are these debt data prepared, and when are they submitted? How is information collected?
- 5) Are there rules under which public sector entities have to provide information about their debt obligations?
- 6) What is the process and who is responsible for preparing a debt statistical bulletin or equivalent debt report? How frequently is this debt information published? Is it publicly available? If so, how, and in what format?

- 7) What other debt reports are produced by the government or central bank? If so, how, and in what format?
- 8) What is the time period or lag from the debt reporting period to the time when reliable debt reports are produced? What validation measures are used to ensure the accuracy of these reports?
- 9) Who is responsible for signing off on or authorising the release of these reports?

Audit objective: To determine whether debt reports meet the needs of the members of Congress or Parliament, the executive staff at the MoF and major institutional lenders and institutions, such as the World Bank and the IMF, and other users of the report

- 1) Is there a government entity and mechanism in place for ensuring that the total public sector data are collected, monitored and reported?
- 2) How well has your government met statutory and contractual reporting requirements in terms of timeliness, completeness, reliability, accuracy and consistency of data presented or published?
- 3) Are contingent liabilities included in debt reports?
- 4) Does the debt statistics bulletin include on-lending?
- 5) Does the debt statistical bulletin or equivalent include the following?
 - a. Information on central government debt stocks (by creditor, residency classification, instrument, currency, interest-rate basis and residual maturity)
 - b. Debt flows (principal and interest payments)
 - c. Debt ratios or indicators (or both)
 - d. Basic risk measures of the debt portfolio
- 6) Are information or data commonly requested or required by the Congress or Parliament, MoF, major lenders and institutions and other users incorporated in the report?
- 7) Have debt reports been utilised by their intended users?
- 8) Have debt reports been the bases for decision-making by their intended users?
- 9) Are the primary users of debt reports satisfied with them?

7.4 Audit Criteria for Debt Reporting

The DeMPA tool includes the assessment of the following two dimensions of DPI-4 on Debt Reporting and Evaluation:

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

UNCTAD Principle 11 on disclosure and publication states, ‘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 standardised reporting requirements and is relevant to their debt situation. Governments should respond openly to requests for related information from relevant parties. Legal restrictions to disclosing information should be based on evident public interest and to be used reasonably’.

‘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’.

In line with the above-mentioned guidelines and indicators, a debt statistical bulletin (or its equivalent) covering domestic and external central government debt, loan guarantees, and debt-related operations is essential for ensuring transparency of the debt portfolio and of outstanding loan guarantees. It is vital information to the investors in the central government debt securities.

This bulletin could be in the form of either regular DMO or central bank publications or as statistical tables produced by a bureau of statistics. The bulletin should be published at least annually (preferably quarterly or semi-annually) and provide information on central government debt stocks (by creditor, residency classification, instrument, currency, interest rate basis, original and residual maturity); debt flows (principal and interest payments); debt ratios and indicators; and basic risk measures of the debt portfolio.

Loan guarantees should also be distinguished by type of loan (for example, creditor, residency classification, instrument, currency, interest rate basis, original and residual maturity), clarifying how much has already been amortised. Some basic risk measures should be provided, including ratios of guaranteed debt to GDP, guaranteed loans in foreign currency to total guaranteed debt and the proportion of the guarantees triggered over the past five years, amongst others.

On the other hand, the country should be accountable for its DeM operations to the Parliament or Congress and to the country’s citizens by providing frequent reports on DeM and debt-related operations and making these reports publicly available. This approach promotes transparency in DeM operations and good governance through greater accountability for the substantial responsibilities delegated to DeM entities.

In addition to providing full information about public debt outstanding, accountability is strengthened by submitting a detailed annual report to Parliament or Congress with an evaluation of the DeM operations—including borrowing, liability management operations such as debt exchanges, and on-lending—and then publishing the report on the government’s website. The rationale for this is to ensure that DeM operations have been carried out in accordance with any objectives that have been set by the legislature and with the DeM strategy that was approved by the executive.

The report should include enough information to enable the Parliament or Congress to evaluate how successful the DeM operations—including new borrowings and debt-related transactions—have been in meeting the DeM objectives. If there is a DMO, it prepares this report and sends it to the legislature; if there is no DMO, the DeM entities prepare this report jointly and submit it to the Parliament or Congress. In both instances, the report should be published on the entities’ websites.

7.5 Sources of Evidence in Auditing Debt Reports for Public Debt Management

SAIs should obtain sufficient evidence to determine if the DMO has complete and reliable statistics in line with international and national standards. In general, the following should be the requested documentation:

- Financial statements and related documents;
- Loan, guarantee and subsidiary agreements and related documents;
- DeM strategy;
- Most recent publication of the stocks and flows of the external and domestic debt of the central government;
- Most recent debt statistical bulletin or its equivalent;
- Annual evaluation reports;
- Other reports (for example, the budgetary implementation report), which include details of DeM activities;
- All the reports provided to international agencies (World Bank, IMF, regional organisations, etc.); and
- Reports on projects financed by external or domestic borrowings.

7.6 Illustrations of Audit Findings on Debt Reporting

SAIs conducting audits on the debt reporting found problems in the (1) publication of debt statistics; (2) publication of incomplete data; and (3) inconsistencies in debt information and data.

1) Non-publication of debt statistics

The SAIs found that publication of frequent debt statistics and reporting was not done in spite of laws requiring frequent reporting. The SAIs 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. SAIs identified that lack of capacity and the necessary skills in the middle office as root causes to the problem. Furthermore, contract covenants were rarely published.

2) Incomplete data in debt reports

The SAIs observed that an important group of cases periodically produce statistical data; however, the data produced were not useful or relevant for the purpose of decision-making. Details lacking included the sources of debt, recorded intra public debt, domestic debt, as well as the recording or disclosure of debt related to guarantees. More critical statistics that were found to be lacking included totals such as total debt of the State, increases to the debt, and interest and principal repayments.

3) Inconsistencies in debt information and data

The SAIs found that there are several cases in which the publications are being elaborated by different sources, causing inconsistencies amongst the information that different DMO units have at their disposal. SAIs identified that the lack of reconciliation between different departments and systems are the causes of the problems.