

INTOSAI



# ***Guidance on the Audit of Public Debt***

**Explanatory  
Memorandum on  
the Exposure Draft  
of GUID 5250**

**March 2019**

## **Request for Comments**

Recognizing the importance of quality review, the comments, inputs, and recommendations for improvement of the Exposure Draft of GUID 5250, from SAIs, bodies within the INTOSAI, as well as other stakeholders are welcome at this stage.

With the exposure period slated for 90 days, comments and recommendations to be sent to the following e-mail address: [sai.philippines2017@gmail.com](mailto:sai.philippines2017@gmail.com), copy furnished [cazelacruz2017@gmail.com](mailto:cazelacruz2017@gmail.com), are welcome until 22 August 2019.

Comments, general and specific, may be submitted using PDF or Word documents. All comments will be considered a matter of public record and may be posted on the <http://www.intosaicommunity.net/wgpd/>.

The WGPD will consider all comments received when preparing the final version of the GUID for submission to the Forum for INTOSAI Professional Pronouncements (FIPP) for approval.

The Forum for INTOSAI professional Pronouncements has approved this exposure draft on (date) (cf. section 2.1 of the due process for the IPP). The final pronouncement is expected to take effect from (month of the next Governing Board meeting when translations are expected.)

Respondents are encouraged to consider the effective date in their comments to the exposure draft.

---

### **Introduction**

This memorandum provides background to, and an explanation of, the proposed exposure draft of GUID 5250 – Guidance on the Audit of Public Debt.

### **Background**

The Forum for INTOSAI Professional Pronouncements (FIPP) launched its Strategic Development Plan for the INTOSAI Framework of Professional Pronouncements 2017-2019 (SDP-IFPP) which recognized the need to bring about guidance in support to ISSAI implementation. Of the 10 projects under Priority 2 of the SDP-IFPP, the preparation and development of Project 2.9 is designated to Working Group on Public Debt (WGPD) of the INTOSAI Knowledge Sharing Committee (KSC).

Project 2.9 on “Consolidating and aligning the audit of public debt with ISSAI 100” finds its roots on the need to reduce repetitions and redundancies in the existing public debt-related ISSAIs and ensure alignment and harmonization with ISSAI 100. The Project, which started in August 2017, seeks to come up with a subject matter specific guidance pronouncement, i.e. as a GUID. The Project is numbered and labelled by the INTOSAI IFPP as Guidance (GUID) 5250.

So that GUID 5250 can serve as the primary document or, at the least, a substantial reference for SAIs in their conduct of the audit on public debt, the WGPD embarked on an extensive process to accomplish the said objective, including:

- 1) Reviewed eight existing ISSAIs on public debt, namely, ISSAI 5410, 5411, 5420, 5421, 5422, 5430, 5440, and 5450;

- 2) Mapped the specific provisions/requirements which appeared repetitive/redundant and came up with some proposed restatements;
- 3) Mapped the specific provisions/requirements which may be retained/restated, or aligned, as applicable;
- 4) Designed the Outline Structure of the proposed GUID, which include the formulation of a framework to cover the three audit types, namely financial, performance, and compliance audits;
- 5) Summarized the mapped provisions and proposed restatements in the appropriate section of the structure;
- 6) Compared the activities per audit type, recognizing commonalities and distinctions;
- 7) Referred to latest materials and literature regarding public debt and the audit thereof; and
- 8) Created sub-task teams to particularly focus on each audit type, observing balanced representation of members from the different INTOSAI regions and considering their mandates to perform specific audit type.

The initial assessment and project proposal were developed following the Due Process governing the development and revision of Professional Pronouncements. FIPP, thru the KSC, approved the proposal in December 2017. Since then, initial drafting of the proposed GUID 5250 and revisions thereto were made, based on the review comments, to come up with a draft for exposure comment by 22 August 2019.

The initial and revised drafts of the GUID underwent four levels of quality review stages, i.e., (1) within the Sub-tasks, (2) among the Sub-tasks, (3) PSC (FAAS/PAS/CAS), and, (4) the FIPP. The comments received and the disposition thereof at each stage were consolidated in a Matrix of Review Comments and Disposition which was circulated to the Consolidation Team (Project Group) composed of the Task and Sub-task Leads for further comments. On the basis of the review comments from the FIPP on the initial draft submitted by the Project Group, the Task Lead prepared a revised draft GUID by audit phase reflecting the commonalities and differences between and among each audit type when performing financial, performance, and compliance audits of public debt and ensuring that applicable provisions in the existing public debt ISSAIs are adequately integrated, where appropriate.

### **Questions to consider**

The WGPD seeks to address the following concerns:

- 1) Does the proposed GUID meet the purpose of providing a more useful and relevant guidance material?
- 2) Are there other important public debt matters in the existing public debt ISSAIs that you consider useful and may be included in the proposed GUID? If yes, please identify and explain.
- 3) Do you agree with the definition and coverage of public debt in the proposed GUID?
- 4) Do you think the proposed GUID provide sufficient basis from which SAIs can perform financial, performance, and compliance audits of public debt?

Exposure Draft proposes slight changes to the risks encountered in public debt management. The more significant change is the consolidation of all the risks presented in ISSAIs 5410,

5411, and 5440 as well as in the IMF Revised Guidelines for Public Debt Management as shown in the table below:

GUID 5250	IMF Revised Guidelines for Public Debt Management	ISSAI 5410	ISSAI 5411	ISSAI 5440
Operational risk	Operational risk	Operation risk		Operational risk
Credit risk	Credit risk		Credit risk	Credit risk
Market risk	Market risk		Market risk	Market risk
Exchange rate risk/ Currency risk	Exchange rate risk			Currency risk
Interest rate risk/ Refixing risk*	Interest rate risk			Interest rate risk
Liquidity risk	Liquidity risk			Liquidity risk
Refinancing risk/ Rollover risk**	Refinancing risk			Rollover risk
Settlement risk	Settlement risk			
Fraud risk		Fraud risk		
Reputation risk			Reputation risk	

\* Refixing risk is another term used for interest rate risk.

\*\* Rollover risk is another term used for refinancing risk.

- 5) Do you think it is appropriate to consider in the proposed GUID the currency risk and exchange rate risk as the same, based on the following definitions?

“Currency risk – the risk of loss from an adverse movement in exchange rates between the time of issuance and the time of repaying. For example, the issuance of large amounts of foreign currency denominated or foreign exchange indexed public debt securities can leave debtor vulnerable to volatile debt service costs;” (ISSAI 5440, p. 21)

“Exchange Rate Risk -- Refers to the risk of increases in the cost of the debt arising from changes in exchange rates. Debt denominated in or indexed to foreign currencies adds volatility to debt servicing costs as measured in domestic currency owing to exchange rate movements. Measures of exchange rate risk include the share of domestic currency debt in total debt, and the ratio of short term external debt to international reserves” (IMF Revised Guidelines on Public Debt Management, p. 12)

- 6) In the definition of public debt management under ISSAI 5440, we deleted the last sentence *“It should encompass the main financial obligations over which the governments, central, regional, and local, exercises control”* considering that the definition applies to all levels of government. This definition conforms to the definition of IMF. Do you think this is appropriate?
- 7) Do you think it is appropriate to consider and discuss extensively the following roles as discussed in the Introduction portion of the proposed GUID? *(These roles were taken from ISSAIs 5410, 5411, and 5440)*

a. *With respect to the definition and disclosure of public debt:*

- Auditing disclosed debt information: SAIs perform their audit work based on the information disclosed by the auditee/s. Where the information is part of the general financial statements, audit work is mainly of a financial and compliance nature and most SAIs fulfill this primary role. Other types of disclosed information on public debt, including statistical information, may also be audited by SAIs.
- Commenting on the fiscal and economic implications: SAIs may undertake independent analyses based on the quantitative and qualitative information disclosed, namely by means of performance audits, to foster better management of the PD and to improve the understanding of the current and future implications of public commitments and of fiscal sustainability.
- Encouraging improvements in definition and disclosure: While performing their audits, SAIs may find some aspects of the definition and disclosure of public debt that could be improved. A SAI may formulate recommendations on the appropriate timing, means, and contents for the disclosure of information on public debt and its management. Where disclosure is incomplete, a SAI may identify additional elements of debt or aspects of debt management that should be disclosed. Where the disclosed information is not reliable, a SAI may recommend specific improvements in the process of gathering and disclosing the data and other qualitative information. A SAI should follow-up the implementation of these recommendations.

b. *To promote sound public debt and risk management practices*

- Through financial and performance audits, SAIs may encourage the adoption of sound and robust public debt strategies and proper risk management practices.
- SAIs help improve understanding of exposures reported in financial report and could also encourage practices to ensure that fiscal authorities are aware of the impact economic shocks could have on their government balance sheet and on public debt charges.
- SAIs may encourage sound reporting practices for fiscal exposures, including those not captured by conventional financial and budget reports.
- SAIs may encourage the governments to focus more on monitoring of vulnerabilities, and to give high priority to risk management, production and publication of quality financial information.

c. *To encourage improved data disclosure and best practices approaches*

- SAIs, within the limits of their authority, scope and conduct of audits, should encourage their government to produce credible, timely and reliable information relative to the public debt and other economic data to assess fiscal vulnerabilities. More specifically, SAIs may encourage governments to publish leading indicators on the size of the external debt, public debt structure (maturity, duration, fixed-floating ratio and currency composition) and detailed reporting on reserve assets (including liquidity level and foreign exchange position) and capital movements.

- SAls may encourage the auditee to adopt best practices for dealing with risks, and for improving the understanding and use of risk assessment techniques, risk mitigation approaches, and risk management approaches.
- d. *To promote the need for a proper regulatory and supervisory framework for the banking industry*
- Through performance audits, SAls may encourage auditee to introduce better supervisory and regulatory functions in the financial sector. SAls could promote the need for national banking regulators and supervisors to carefully consider the adoption of principles, practices and guidelines being developed and to respond positively to compliance assessment reports.