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Role and Experience in Conducting the Audit of Government Debt

by

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD



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Introduction

Government/Public debt can be defined as the outstanding stock of recognized, direct liabilities of the government to the rest of the economy and the world, generated by government operations in the past and scheduled to be extinguished by government operations in the future or to continue as perpetual debt.

Debt management is the process of establishing and executing a strategy for managing the government's debt in order to raise the required amount of funding at the desired risk and cost level.





Background of Government Debt in Zambia

Debt management in Zambia has been challenged in previous years by high interest rates and by the additional fiscal requirements which arose as a result of the urgent need for infrastructure development and the costs of flood damage in selected provinces.





Background of Government Debt in Zambia *Cont.*

This had resulted in an increased need for debt financing. In 2005, Zambia acceded to the Completion Point of HIPC initiative and subsequently received debt relief. Debt relief provided under the HIPC has considerably reduced Zambia's external debt stock by over 70%.





Background of Government Debt in Zambia *Cont.*

Although the recent post HIPC debt sustainability analysis conducted by Government indicated that Zambia's external debt is sustainable over the next 20 years, there are concerns that the nation may fall back to the debt trap as the external debt has risen over 10 % in the post write off period.





Legal Provisions

Under the current legal framework, the most important piece of legislation is the loans and guarantees (authorization) Act CAP 366 of the laws of Zambia. This act is primarily intended to give blanket authority to the Government to borrow. The Act gives the Minister of Finance a general power to borrow and manage the debt.





Legal Provisions *Cont.*

Legally binding borrowing caps exist and they are defined and reviewed through a statutory instrument authorized by a resolution of Parliament. In the event that parliament is not sitting the Minister of Finance has the power to vary the loans cap.





Management of Public Debt

The Investment and Debt Management (IDM) Department in the Ministry of Finance and National Planning is responsible for effective monitoring and evaluation of management of Government debt stock and its involvement in the capital markets to satisfy the cash flow requirements of Government's annual work plans.





Management of Public Debt *Cont.*

It is also responsible for maintaining an up-to-date database of foreign and domestic debt and its servicing requirements.





Management of Public Debt *Cont.*

An annual report on public debt is produced. The report shows the changes and composition of the debt and debt instruments among other issues. The users of the report include parliament, government, the general public, foreign creditors and cooperating partners.





The Role of the Auditor General in the Audit of Public Debt

The mandate of the Auditor General to audit public debt is drawn from Article 121 of the Constitution of Zambia, Public Audit Act of 1980 and Public Finance Act No. 15 of 2004.





The Role of the Auditor General in the Audit of Public Debt *Cont.*

The Auditor General has no direct role to play in deciding the level or purpose of public debt management, data disclosure policies and regulatory regimes for the financial sector.





The Role of the Auditor General in the Audit of Public Debt *Cont.*

The primary responsibility for the Auditor General is to audit the publicly disclosed debt information in the Government financial statements or other documents in which the amounts of the public debt are disclosed and ensures that the amounts are measured on appropriate bases.





The Role of the Auditor General in the Audit of Public Debt *Cont.*

The Auditor General undertakes independent analysis and aims to ensure that;

- Data is disclosed to foster improved management of the debt and understanding of the current and future financial implications of the commitment.





The Role of the Auditor General in the Audit of Public Debt

- Full disclosure of complete and reliable information is made to all interested parties of Government liabilities, hence, increasing awareness through annual reports among policy makers, markets and the general public.
- Sound public debt and risk management practices are promoted.





The Role of the Auditor General in the Audit of Public Debt , cont..

- Government is encouraged to improve data disclosure and best practices approaches in dealing with risk assessment and mitigation approaches,





The Role of the Auditor General in the Audit of Public Debt *Cont.*

- Government is encouraged to put in place proper regulatory and supervisory framework for the banking industry since the industry can be a significant source of fiscal vulnerability;





The Role of the Auditor General in the Audit of Public Debt *Cont.*

- The quality of the information on fiscal exposures provided in the financial statements can be useful in assessing the sustainability of the country's long-term fiscal condition.





The Role of the Auditor General in the Audit of Public Debt *Cont.*

- Legal provisions are complied with in the management of public debt and that the legal provisions are kept up to date by regular reviews.





Experiences in the Audit of Public Debt

The following have been observed from the audits carried out on the public debt in the past six (6) years;

- Apart from setting the borrowing ceilings, the loans are not subjected to scrutiny of parliament before they are obtained. Parliament powers are exercised through more general budgetary control which are not enough.





Experiences in the Audit of Public Debt *Cont.*

- Lack of effective high-level coordination. Decision-making is fragmented and operations are divided between the MOFNP and Bank of Zambia. In general, other ministries have in the past assumed the role of contracting debt without the knowledge of the finance ministry. This has led to each entity performing tasks that institutions are not mandated with resulting in, misplacing documentation on disbursements, partial absence of follow up on audits and some inconsistency in data, etc.





Experiences in the Audit of Public Debt *Cont.*

- The power to vary the loans cap by the minister in the event that parliament is not sitting creates loop holes.
- The internal debt information is inaccurate as the data is kept in various institutions is captured in spreadsheets. Plans are however under way to acquire an internationally acceptable database.





Experiences in the Audit of Public Debt *Cont.*

- Lack of a central depository of original loan agreements. This lack of readily available information on physical loan agreements hinders access to debt records.





Experiences in the Audit of Public Debt *Cont.*

- According to the provisions of laws the Minister responsible for finance is required as soon as practicable after any agreement has been concluded with the international institution to lay a copy of the agreement before the National Assembly. There is no evidence that copies of the agreements with international lending institutions have ever been laid before the National Assembly.





Experiences in the Audit of Public Debt *Cont.*

- Although the Constitution of Zambia stipulates that the Attorney General shall, among others, draw and peruse agreements to which the Government is a party, the majority of loan agreements entered into by GRZ and lending institutions have in the past not been referred to the Attorney General's chambers for scrutiny and advise before execution.





Experiences in the Audit of Public Debt *Cont.*

- The debt management strategy, which guide officers in Investment and Debt Management Department in their daily operations of managing, monitoring, evaluating and reporting the performance of the public debt portfolio was only implemented in January 2009.





Experiences in the Audit of Public Debt *Cont.*

- The audit of contingent debt has been affected by lack of a complete data base, failure to produce a reports and lack of a comprehensive policy on management of contingent liabilities.

However the debt management office is in the process of compiling a data base and preparing a policy on contingent debt.





Challenges Encountered

The following are some of the challenges which have been encountered during the audits;

- Lack of requisite audit skills, expertise, and access to specialized knowledge. Special knowledge in the fields of economics and business management are indispensable for auditing of public debt. Auditors should professionally be at par with the staff of the institutions involved in debt management.





Challenges Encountered *cont.*

- High staff turnover has frustrated the efforts by the office to train the officers in public debt audit.
- Poor record keeping has made it very difficult to carry out audits comprehensively.





Challenges Encountered *cont.*

- Delayed or failure to respond to queries by the Ministry of Finance and National planning. This has however improved in the recent past.
- Failure to implement audit recommendations tend to frustrate the auditors efforts.





Lessons Learnt

- Apart from the obligation to express an annual opinion on the public debt position the office intends to carry out performance audits of public debt and debt management as a key objective. This could include examining the impacts of budgetary decisions, identifying and assessing risks and reporting on their potential implications. This will increase the impact of the audit reports.





Lessons Learnt *cont.*

- The Office will in future take an active role in ensuring that debt policy and debt management systems are well designed by fully participating in the preparation and review processes.





Way Forward

a) Legislations

Currently the legislation is being reviewed to address the following among others;

- Inclusion of a provision requiring that the Minister responsible for finance should obtain the approval and authorization of National Assembly on the loan and guarantees terms.





Way Forward *cont.*

- provision requiring debt managers' strict adherence to the terms and conditions of the loan and guarantees.
- Provision for the establishment of a central depository of original loan agreements.
- Setting limits to the indicators such as: Public debt/Gross Domestic Product (PD/GDP), Interest Paid / Gross Domestic Product (IP/GDP), Interest Paid/Tax Revenue (IP/TR)





Way Forward *cont.*

b) Debt Management Office

Continued Strengthening of the institutional framework. This is to ensure the accuracy and comprehensiveness of debt transaction records, and punctual payments on outstanding and carry out risk analysis of the debt.





Way Forward *cont.*

c) Office of the Auditor General

- Training of auditors involved in the audit of public debt.
- Efforts to ensure that professional staff are retained should be enhanced.
- Use of external experts to fill the skills gap should be encouraged.
- Encourage joint audits with other developed Audit Supreme Audit Institutions.





CONCLUSION

It is hoped that our involvement in the INTOSAI Public debt Working Group, INTOSAI development Initiative organized course on public debt and other international forums such as UNCTAD debt management conference will go a long way in building capacity in the Office.





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Thank You

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