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Contingent Debt Management and Audit: INTOSAI [1] Member States' practice

In modern terms qualitatively new approaches should be applied to prevent a financial and economic crisis. The existence of numerous and expensive contingent liabilities substantially affect the financial solvency of a state. As a result of various factors (social, economic, legal) contingent liabilities may turn into form of direct public debt and in the case of its excessive amount bring state to default. This explains the increasing interest to the problem of understanding the value of contingent liabilities and the assessment of their impact on the structure and volume of public debt by debt managers, economic actors and public auditors.

In fact, the contingent debt issue is not new to the world economic society. Back in 1998, in her most famous research Hana Polackova Brixi offered an analytical framework for studying contingent liabilities and other fiscal risks of governments. At that time the INTOSAI Working Group on Public Debt developed guidance on measurement and identification of public debt including analytical materials of its first investigation on contingent liabilities. This work was developed in a number of subsequent investigations when reviewing the fiscal impact and risks associated with contingent liabilities by Allen Schick, Ashoka Mody, Suresh Sundaresan, Sudarshan Gooptu, Stijn Claessens, and other authors. However, there is a lack of broad comparison analysis of contingent debt management practice.

Given the significant challenges for all states, all Supreme Audit Institutions, especially in the global financial crisis, it was decided to develop the generalization of international experience and practice on contingent liabilities management and audit with regard to the biggest number of INTOSAI member states as possible and to find a better understanding of the purpose of applying this knowledge to national audits in future. In addition, we set a goal to uncover a number of problems and peculiarities that exist in different countries in the issue of the definition of "contingent debt" and its state condition. Specially designed *Questionnaire on contingent debt* was distributed among 176 INTOSAI members worldwide.

The analysis of 45 responses to the questionnaire shows that in many INTOSAI member states contingent liabilities exist in different forms and have a significant impact on the formation and execution of national budgets. At the same time, there are big differences concerning definition of term, classification, methodology of contingent debt measurement and information disclosure about it in state financial statements. The principles of dividing contingent liabilities into direct and indirect are relative agreed.

The issue concerning definition and classification of contingent debt is not commonly regulated by law. It is mainly represented by loans received under government guarantees. Contingent liabilities are often connected with high risk decision-making by separate governmental bodies because likelihood of their materialization increases with the timely allocation of funds to cover such liabilities. Only a quarter of SAIs notified about the existence of the reserve funds in case contingent debt transforms into direct public debt. Near half of responding SAI informed about inaccessibility of information concerning contingent debt for public. Moreover there is a lack of special forms of contingent debt accounting.

World financial crisis essentially stirred the economics of different countries and raised the problem of transformation of contingent liabilities into direct liabilities; though the passivity of such cases can be reduced by the corresponding supervision by the state. The practice shows that one of the reliable ways to control the level of contingent liabilities is the centralization of all data about them by one institution.

[1] International Organization of Supreme Audit Institutions

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