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INTOSAI

Guidance on Definition and Disclosure of Public Debt

Revised version

Exposure draft

INTOSAI Professional Standards Committee

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PREAMBLE

In 1991, the Governing Board of INTOSAI established the Public Debt Committee with the following general objectives:

"To publish guidelines and other informational materials for use by Supreme Audit Institutions to encourage the proper reporting and sound management of public debt."

The Committee published studies on the definition of public debt and its disclosure which later were redrafted and approved by the XIX INCOSAI as ISSAI 5421. The Committee and later the Working Group on Public Debt have also produced other guidelines on related matters which now have become ISSAIs. These ISSAIs are part of level 4 (specific auditing guidelines) of the INTOSAI standards framework launched at the XX INCOSAI.

The Working Group on Public Debt, meeting in Vilnius in June 2011, decided to undertake the revision of the ISSAIs on public debt as part of the process of harmonization of all the INTOSAI standards. Updating the contents of the document and enhancing their coherence is the main purpose of the revision in addition to adoption of common terminology. The present text is the result of that process and has been approved.

INTRODUCTION

In many countries the levels of public indebtness and the associated cost and risks have grown significantly in recent years. Both in the short and in the long term, those levels may restrict the ability of Governments to conduct their economic and social policies as well as increase the need to raise more taxes. In this context auditing of public debt management is a most relevant part of most SAIs work although the nature and extent of the SAI's powers and responsibilities in this regard will depend on the legal and constitutional framework of the country.

As public debt is a complex and diversified subject the Working Group on Public Debt has developed specific guidelines to help SAIs perform their tasks. The present ISSAI deals with the definition and disclosure of public debt. The role of SAIs in auditing public debt, the concept and disclose of public debt as well as the medium for disclosure are the main points covered in the present document. Other aspects of public debt auditing are addressed in different ISSAIs and the Working Group on Public Debt intends to produce new guidelines on related matters.

This guidance is in the form of broad principles. These principles do not prescribe or identify definitions of public debt. Rather, they identify various elements which may constitute liabilities of public bodies and the circumstances in which it would be appropriate to consider them as part of public debt and disclose the corresponding information.

Similarly, the guidance provided in this document does not prescribe one basis of accounting or one type of report to be used for disclosing information about public debt. The Working Group on Public Debt recognizes that Governments adopt different accounting systems and that information about public debt may be disclosed in different ways: certainly through general financial statements, but also through reports on the activities of individual government agencies, reports to international financial institutions, etc.

The guidance in this document will be updated and expanded from time to time as additional work is carried out by the Working Group on Public Debt and by other standing committees of INTOSAI.

PART I: THE ROLE OF THE SAIs

The Working Group on Public Debt recognizes that the amount of public debt that may be incurred and the purposes for which related proceeds may be used are generally matters of policy determined through normal constitutional or policy making processes within of the country concerned. In addition, some of the decisions taken by governments in raising and managing public debt may well be based on policy judgments which are not readily distinguishable from purely financial considerations. In most countries, there is some limitation on the right of the SAI to examine or question policy judgments. SAIs will therefore need to exercise their own judgment when considering the nature and extent of the examinations that they can undertake and the reports that they can prepare on public debt matters within their countries.

The remainder of this document identifies a number of factors that SAIs should consider in making judgment as to the nature and extent of their examinations and reports.

In an overall sense, the Working Group on Public Debt believes that proper reporting and sound management of public debt are matters of great importance in virtually all countries represented in INTOSAI. In this respect, the Working Group on Public Debt believes that SAIs should do whatever they can, within the limits of their powers and responsibilities, to encourage the governments they audit to adopt a sound and appropriate definition of public debt and to disclose information on public debt and public debt management. In order to do that, SAIs may also wish to examine the adequacy of the accounting system used by the Government. Where Governments do not use internationally accepted accounting systems SAIs should examine to what extent the actual accounting system may limit the overall understanding of the public indebtness and its sustainability and of public debt management. As a result SAIs may find it appropriate to make recommendations on improving the accounting systems.

While the SAI may have no direct part to play in deciding the level or the purpose of public debt, the SAI may nevertheless have a role in helping to ensure that decisions with respect to public debt are based on the timely disclosure to all affected parties of complete and reliable information on the likely effects of the proposed borrowing. The SAI is also likely to be responsible for verifying whether timely publication of complete and reliable information on public debt and on the government's performance in borrowing and managing public debt is provided by the Government.

SAIs have the necessity to check whether macroeconomic sensitivity analysis on the debt service is properly carried out by the Government or government bodies responsible for it. Different scenario, in particular potential interest rates shocks, should be simulated and presented in budgetary documents, in order to make the general public aware of the potential impact on the debt service of a change in the macroeconomic environment. In addition, SAIs should be able to comment on these scenarios and in particular assess their credibility. This role of SAIs seems of importance in the current context of low borrowing costs for most developed countries.

The examination of matters related to public debt may present SAIs with unique problems due to the technical complexity of the subject. This may require, for example, the engagement of individuals with specialized knowledge or expertise not available presently within all SAIs. Although outputs of this Working Group should assist SAIs, they may nevertheless be required to provide specialized training to existing staff or perhaps hire additional staff with the necessary new skills.

In summary, there are a number of possible ways for SAIs to play a role with respect to the definition and disclosure of public debt:

- Auditing disclosed debt information: On the information disclosed by the Governments the SAIs perform their audit work. Where the information is part of the general financial statements this 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: In addition, the SAI may undertake independent analyses based on the quantitative and qualitative information disclosed, namely by means of performance audits, to foster better management of the public debt 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 the SAIs may find some aspects of the definition and disclosure of public debt that could be improved. The SAI may then wish to formulate recommendations on the adequate time, medium and contents for the disclosure of information on public debt and its management. Where disclosure is incomplete, the SAI may wish to identify additional elements of debt or aspects of debt management that should be disclosed or additional information about the disclosed items. Also where the disclosed information is not reliable the SAI may recommend specific improvements to be introduced in the process of gathering and disclosing the data and other qualitative information. The SAI should follow the implementation of these recommendations.

Additional information with respect to the role of SAIs in examining and reporting on the definition and disclosure of public debt is set out in Part IV of this document that deals with the medium for disclosure.

PART II: GENERAL GUIDANCE ON DEFINITION

The Working Group on Public Debt recognizes that information about public debt may be reported in a wide variety of documents produced by different entities and for various purposes: central or local government and its agencies (budgets, financial statements, accounts, reports on the activities and on the performance of public agencies, namely the debt management office and the budget office), central bank (accounts, reports and bulletins), public entities (national and international statistics), etc. As a pure semantic exercise, the definition of public debt may be of little consequence. However, the use of an appropriate definition in the compilation of the various types of documents referred to above is of considerable practical importance since their reliability depends to a large extent on the soundness of the definitions used in preparing them. The main requirements for a sound definition include:

- Precision to avoid ambiguity and doubt or dispute about the inclusion or exclusion of particular elements of debt;
- Clarity to make the documents readily understandable by users;
- Consistency from year to year, with other statistics or accounting records within a particular country and, where relevant, between countries;
- Appropriateness for the purpose. The criteria for inclusion of particular elements should be based on their relevance to the objectives that the documents are designed to satisfy;
- Comprehensiveness to ensure that all the relevant particular elements of debt are brought within the scope of the definition.

The primary consideration is that the contents of the documents where information on public debt is disclosed are appropriate to the purpose for which they are prepared and used and this depends upon the correct choice of a definition of public debt. Such documents may be prepared and used for a wide variety of purposes, including those summarized below:

- Of particular importance are the government documents used in the budget approval process and in the rendering of accountability, such as that of the executive to the legislature for the exercise of borrowing powers, the use of related proceeds and the payment of debt servicing.
- Various documents prepared and used in the management or published by a public body having borrowing programs, namely the debt management office where such a centralized agency exists.
- Documents used in the formulation and monitoring of:
    - general economic policy, because of the effect of public borrowing on the use of resources;
    - monetary policy, because of the effect of public borrowing on the money supply;

    - fiscal policy, because of the need to balance the sharing of financial burdens between existing and future taxpayers, and to ensure that the future cost of servicing and repaying outstanding debt will be sustainable;
    - exchange rates and balance of payments policies if external public debt is a significant part of a country's total external debt, the division of total public debt between domestic and foreign currencies and between internal and external creditors may influence exchange rate and balance of payments policies.
- Documents used for a variety of international purposes. Some may fulfill obligations of membership in bodies such as the IMF, the Word Bank, the OECD or the European Union and should be compiled in accordance with the rules of the bodies concerned, including definitions of public debt. Some of these documents may concern statistic rather than accounting information on public debt. They may also deal with external debt only either private or public or both.

In summary, the scope of documents on public debt and the nature or type of liabilities shown will vary based on the differing purposes for which they are prepared. Different definitions of public debt will be used for different purposes, and there are many instances of variations in scope between the resulting types of reports. For example, reports produced for macroeconomic analysis could cover the whole of the public sector and all its liabilities and commitments, explicit or implicit, whereas the scope of reports used to demonstrate accountability of particular bodies of public administration, for instance a local authority, might be much narrower (they will cover only the commitments and liabilities incurred by that specific body). While each SAI will need to exercise its own judgment on the appropriate contents of reports on public debt produced for particular purposes, those used to assist in the formulation and monitoring of general economic and fiscal policies should normally cover all elements. In particular, SAIs should be aware that the existence of various contingencies and commitments such as those described in items 9 through 17 below may well affect the ability of public sector entities to meet future cash requirements.

In addition, the scope of documents might be quite different as between unitary and federal states. All documents should disclose clearly their intended scope and the definitions used.

The Working Group on Public Debt has not attempted to develop one or more definitions of public debt. Rather, the Working Group on Public Debt has identified various elements of public debt which could be considered as well as various types of public bodies whose debt should be included in a definition of public debt. Depending on the purpose for which a report is prepared, an appropriate definition of public debt might include the following:

- Liabilities or other commitments incurred directly by public bodies such as:
    - a central government, or a federal government, depending on the manner of political organization in the country;
    - state, provincial, municipal, regional and other local governments or authorities;

- owned and controlled public corporations and enterprises; and
- other entities that are considered to be of a public or quasi-public nature.

- Both national (federal) and sub-national debt is part of the public debt. However, in practice most of the SAIs has a role in auditing public debt at the national and at provincial/sub-national level. Recognition of this distinction within the standard would provide a better comprehension of the "public sector" debt, as well as an acknowledgement that SAIs' have the mandate to audit public debt both and national and sub-national levels. This distinction is important because:

a) Composition of sub-national debt does not always mirror national debt, especially since in many countries sub-national governments do not have as wide a constitutional mandate as national governments to access different lenders- both internationally and in domestic market.

b) For auditors, it's useful to recognize this difference as this also determines the audit scope. For example, in case on lent loans, while the debt office (at national level) is responsible for recording debt information , and for repayments to the foreign lender, it cannot be held responsible for utilization of loan proceeds since those are governed through a separate agreement between the federal government and the sub-lent tier of the government. Once the auditor recognizes the ownership and responsibility of this kind of debt (same debt but different government tiers having different responsibilities) it's easy to scope the audit.

- Liabilities or other commitments incurred by public bodies on behalf of private corporations or other entities, such as debt assumed by a public body following bailouts, defaults or other failures of a private corporation.

The appropriate treatment of liabilities and other commitments of those central banks that are not considered public bodies will depend on the precise status of the banks and their relationship with the public sector.

As summarized below, the various elements of liabilities and other commitments incurred by the above mentioned public bodies may be through of as lying on a spectrum that extends from direct borrowing through a range of other direct financial obligations to various contingencies , both either explicit or implicit . These commitments may or may not be recorded as liabilities in financial statements. However, they may have a significant effect on future taxes and borrowing needs and, therefore, future demands on the country's economic resources. These commitments might include the following:

1. Securities. These include traditional borrowings from creditors, including those within government, under formal agreements which normally specify the amount borrowed, the interest rate charged or discount required, the guarantees to be given (if any), and the period over which repayment is to be made. For purposes of this document, securities include those executed for the short, medium and long term.

2. Bank loans, either long, medium or short term including credit facilities, by private and public commercial and investment institutions.
3. Loans from national public authorities (borrowings from central government made by local governments, for instance), foreign governments or international bodies.
4. On-lent loans, These are the loans which are granted to national government / Finance Ministry mostly through multilateral lending agencies / development banks/ foreign governments with the sole purpose that the national government will pass on these loans to lower tiers of government, institutions implementing development projects, especially in cases where the latter does not have direct access to such borrowings.
5. Proceeds of public savings schemes. These include amounts on deposit in savings banks operated by a government and other similar programs.
6. Issues of national currency, notes, and coins. These include banknotes and coins issued by or for a government and in circulation.
7. Accounts payable for goods and services. These include arrears payable to suppliers of goods and services.
8. Taxation repayable. This includes amounts to be returned to taxpayers where the tax payments were based on estimates and afterwards those proved to be in excess of the due amounts.
9. Liabilities under long-term leases (leases that extend beyond one year and that may be for either capital or operating purposes). These include the remaining minimum lease payments due under lease agreements.
10. Liabilities resulting from public private partnerships either direct or contingent.
11. Potential liabilities resulting from derivative financial instruments.
12. Pension liabilities and health care benefits for public employees recognized by law or contract.
13. Other implicit benefits provided by public sector entities. These include social commitments that involve implicit obligations by a government to pay future claims and future recurrent costs of public investment projects. While they may be difficult to quantify, they are almost always significant and should therefore be considered, perhaps on a best estimates basis, in any assessment of public sector debt.
14. Guarantees to third parties. These would include, where appropriate, guarantees of borrowing, both by other public sector bodies and by private or quasi-public bodies, together with guarantees for a variety of other purposes such as private foreign trade and investment, exchange rates, etc.
15. Indemnities either explicit or implicit. The latter may result from environment damage, natural disasters, bank failure beyond state insurance, default of a subnational public entity on nonguaranteed debt, etc.
16. Comfort letters or other forms of legally non-binding assurances.
17. Public insurance and reinsurance programs for a variety of purposes such as deposits, crops, floods and war risks.

18. Other implicit commitments. These are other “moral” obligations that could become actual liabilities upon fulfillment of specified conditions such as: default of a subnational government and public or private entity on nonguaranteed debt and other liabilities, cleanup of the liabilities of privatized entities, bank failure beyond state insurance, investment failure of a nonguaranteed pension fund, employment fund, or social security fund, default of the central bank, bailouts following a reversal in private capital flows, residual environmental damage, disaster relief, etc .

Some of these commitments may not be recorded as liabilities in financial statements. For information on how various elements of public debt should be accounted for the reader should refer to the INTOSAI Professional Standards Committee and the IFAC .

The valuation of liabilities or other commitments included in any definition of public debt may be applied to the total debt outstanding or to the net increase or decrease in debt during some period of time. General guidance on disclosure of public debt is provided in Part III of this document which follows.

PART III: GENERAL GUIDANCE ON DISCLOSURE

In an overall sense, regular disclosure of a country's public debt and of the principles and objectives underlying public debt management can reveal whether debt levels have been kept within the country's ability to support them and can help ensure that potential problems are visible. Moreover, such disclosure may provide the impetus to address potential problems before they become crises.

The principle of full disclosure of information on public debt shall not be seen as meaning that all information is to be given to everybody as soon as it is available. Policy and management decisions should be based on all the information that is relevant and audit work by SAIs should not be limited by lack of relevant information. On the other hand information to the public, including markets and academia, should be provided taking into consideration any possible adverse effects on the public debt management itself. This may imply a time delay for the disclosure of the information and even a limit to what is disclosed to the public. The SAIs should examine the disclosure practices to determine if the information is given to the different users according to this interpretation of the principle.

The main legal requirements concerning public borrowing are usually made public. The purposes for which borrowing is legally admissible, the maximum aggregate amount of principal (net or gross) that can be borrowed each year, the share of foreign debt that can be borrowed, etc., are often stated in documents available to the public in a large number of countries. The long term objectives and principles of debt management, such as to maximize concessional debt, to promote the development of the domestic debt market, to meet the Government cash requirements at a low cost, to promote a balanced performance of the financial markets or to minimize the direct and indirect costs over the long term for a given level of accepted risk, should be disclosed. For elements of explicit public debt above listed, other than securities and loans, any such legal requirements should also be disclosed along with a description of the main features of the programs and contracts under which the liabilities were assumed. For implicit liabilities qualitative and quantitative information should be given, once the Government has assumed them, covering the nature of the commitments and the circumstances under which payments have and will be done.

Debt resulting from securities and loans is an important part of public debt, for which the IMF and the World Bank recommend the development of a medium term management strategy. The reason is to ensure that the government prepares a strategy based on the long term public debt management objectives and principles and set within the context of the government’s fiscal policy and budget framework. The content of the strategy will vary from country to country, depending on the stage of development, the sources of funding and the transactions used to manage the debt but it will specify an appropriate composition of the debt portfolio over the medium term, the financing program and ranges for key risk indicators such as:

- Total debt service under different scenarios, particularly sensitivity to interest rate and exchange rates
- Maturity profile of the debt under different scenarios
- Strategic benchmarks such as the following:
    - Share of foreign currency to domestic debt
    - Currency composition of foreign currency debt
    - Minimum average maturity of the debt
    - Maximum share of debt that is allowed to fall due during one and two budget years
    - Maximum share of short-term to long-term debt
    - Maximum share of floating rate to fixed rate debt
    - Minimum average time to interest rate re-fixing

For countries that have limited access to market-based debt instruments and rely mainly on external official concessional finance, all of these risk-based parameters may not be equally relevant. In such cases, the most relevant parameters to containing the risks to the debt portfolio will probably be meeting of the concessionality requirements, currency composition, amount of debt that must be refinanced over a particular time, and monitoring of debt sustainability.

Details on the public debt management strategy should be disclosed, including the annual remit of the debt management office, but particular attention should be paid to the timing of such disclosure since part of this information is of a sensitive nature and its disclosure may adversely affect the markets and the negotiation conditions of the Government.

In addition to these general considerations, there are also a number of more specific types of information that SAIs should take into account when reviewing and commenting on the adequacy of disclosure of public debt. These types of information are summarized below under the categories of reporting elements used in Part II of this document.

This information should be presented separately for each public body and in aggregated and consolidated form for relevant parts or all the public sector depending on the purpose of the document within which it is shown. In all cases, consideration might be given to disclosing both total cumulative public debt as of the end of the reporting period and new debt incurred during the period. Public debt should not normally be reduced by related assets such as gold and foreign currency holdings or sinking funds (Incase of governmental public debt in Egypt, the Domestic debt is reduced by governmental deposits in banks). In some cases it may be appropriate for these to be taken into account if they are freely available for the redemption of debt, but not if they are retained for other purposes.

- Securities, loans, proceed of public saving schemes and derivative financial instruments (items 1, 2, 3, 4 and 10).

- The total amount due, showing separately the gross amount borrowed and the portion thereof represented by borrowing of agencies included in the entity.
- Amounts held by foreigners, where possible. This disclosure is important because the outflow of interest and principal to other countries may limit the growth of the debtor's economy. The Working Group on Public Debt recognizes that where public debt is issued through marketable securities, the nationality of holders may not be known.
- Amounts denominated in foreign currencies and the exchange rates used in its valuation. Debt denominates in foreign currencies may be more volatile than debt denominated in the country's own currency because of the effects of changes in exchange rates.
- New liabilities. For liabilities incurred during the period, disclosure would include the types of lenders, the terms of the issues and loan agreements, and perhaps future disbursements.
- Types and terms of instruments. For types of instruments, issued debt would be broken down between various major classifications such as bills, notes and bonds. For terms of instruments, the disclosure would set out information respecting maturities, callable features and the like. Other useful information on maturities could be the consolidated amounts due in the short, medium, and long term, and the long-term or average maturity of amounts outstanding.
- Measurement bases. Both the bases of measurement and any changes since the prior report would be disclosed. The use of different measurement bases can produce significantly different results. For example, depending on the type of bond issue, the market value of bonds can fluctuate widely with changes in interest rates. Different methods of amortizing premiums and discounts can affect significantly the amount of disclosed debt service costs, and debt values may be restated if being retired prior to maturity.
- Principal repayments. Disclosure would include the amounts of principal repayments during the reporting period, the means used to finance these repayments, and the effects on related sinking fund balances.
- Debt service costs. This disclosure would include interest payments and other administrative and commission costs paid during the reporting period.
- Restructured debt. Disclosure would include the results of any public debt renegotiations that occurred during the period, together with the terms and conditions of the renegotiated debt.
- The use of funds. When funds are borrowed for specific projects, details would be shown with respect to the purpose and expected benefits of the projects. Where possible, information would also be provided on expected revenue sources and cash flows to finance the debt and the expected life of the project.
- Actual levels versus estimates. Disclosure should include an appropriate comparison between the forecasts and the actual levels of total debt,

principal repayments, service costs, and interest rates. Explanation for any significant deviation, where possible, should also be given.

  - Risk assessment. Information would be provided to describe potential vulnerabilities to fluctuations in interest rates, currency values, or other factors that affect repayment costs. Debt pegged to floating interest rates would be disclosed, for example. Information would also be provided with respect to actions taken in derivatives markets, such as interest rate and currency swap agreements, in order to limit such vulnerabilities. Actual costs/benefits incurred during the reporting period and the notional amounts and potential costs/benefits at the end of the reporting period should be disclosed by type of derivative instrument. Because activities in derivatives markets may be highly complex and technical in nature, care should be taken to ensure that the information provided can be easily read and understood by individuals who may not have specialized and technical knowledge of derivatives products.
  - Legal requirements and restrictions. All significant legal requirements and restrictions would be appropriately disclosed. The information provided should be sufficient to demonstrate that all such requirements have been satisfied. In considering what to disclose, a number of sources could be considered appropriate, including constitutional and other legal limits on the amount of public debt or debt service costs; limits on the uses of proceeds of borrowed funds; regulations specifying who may borrow on behalf of a public body; laws outlining the public bodies which are responsible for public debt incurred by others; and requirements regarding the currency in which public debt may be held or the lenders who are to be used.
  - If liabilities were incurred by one public body on behalf of another, disclosure would be limited to the amount of debt, the types of instruments and the use of the proceeds. All other information would be provided by the entity that received the borrowed funds.

- National currency notes and coins (item 5).

Information would include banknotes and coins issued by the public body and in circulation as of the reporting date, and whether they are backed by retention of separately earmarked holdings of monetary assets. Generally speaking, currency is issued by a country's central bank and the relationship between a central bank and its government may vary from one country to another. Full details regarding this relationship should be obtained and analyzed by SAIs in order to determine whether it would be appropriate to consolidate a central bank with its government for financial reporting purposes.

- Accounts payable for goods and services; liabilities under long-term leases; and pension liabilities and health care benefits in respect of public employees (items 6, 8 and 11).
  - These types of liabilities are often recordered in the accounts and reported on the financial position statement or balance sheet of the public body to

which they relate. For long-term leases and pension and health care benefits, additional information can be provided in footnotes to the statement.

  - For leases, this information would include the operating and capital components of the liability and minimum annual payments for each of the next five years. The liabilities for pension and health care benefits are determined by actuaries. Details with respect to the actuarial approach followed and significant assumptions used would be summarized and reported in the footnotes. Sensitivity analyses, setting out the extent to which the recorded liabilities would vary if actuarial assumptions were to change, would also be desirable.

- Taxation repayable (item 7).

The amounts of taxes repaid during the reporting period and the expected amounts to be repaid in the future years should be disclosed by type of tax.

- Liabilities under public private partnerships (item 9).

Information should be broken down by project and include amounts paid during the reporting and prior period and expected to be paid till the end of the project. For contingent liabilities a description should be given of the conditions under which they will become actual costs.

- Other benefits provided by public sector entities (item 12).

Disclosure would include the long-term fiscal effects of public pension programs as currently defined and other similar long range commitments of public resources. A brief description of the programs and their sources of financing would be provided as well as actuarial and economic assumptions used, as appropriate, in determining best estimates of costs and benefits.

- Guarantees, comfort letters, and other legally non-binding forms of assurances (item 13 and 15).

  - Disclosure with respect to guarantees can include a description of the policies and/or the programs that underlie the guarantees; the maximum exposure to the public body that issued the guarantee, including responsibilities for principal repayment and interest costs, premiums or fees charged and received and exchange rate risks, if applicable (subdivided

into domestic and foreign currency denominated responsibilities); amounts paid during the period to honor guarantees; default experience in prior periods; and, where possible, forecasts of amounts that are likely to default in future periods.
    - With respect to comfort letters and other similar instruments, disclosure can include a description of the nature and extent of the assurances; the policies and/or programs that underlie them; amounts paid under them during the reporting period; and, if possible to forecast, amounts that are likely to be paid in subsequent periods. The exchange rates used in the valuation of these liabilities would also be disclosed.

- Indemnities (item 14).

Disclosure would include a description of the terms and conditions of indemnity agreements in force; the conditions under which amounts are payable; the amounts paid under the agreements during the reporting and prior periods; and, if possible to forecast, amounts that will likely be payable in future periods.

- Insurance and reinsurance programs (item 16).

    - Disclosure would include a description of the major features of each significant program, its funding, trend information on claims paid and premiums received, and estimates of future losses.
    - If a fund is maintained, details regarding the value of the fund and its adequacy to cover losses would also be provided.

- Other implicit commitments (item 17).

The nature of each significant commitment or type of commitment would be summarized and provided as well as the reasons for the Government having assumed them as public liabilities. Actual and expected costs should be disclosed.

One of the most troublesome issues in public debt disclosure is how to make it understandable, and thus relevant to the reasonably informed and interested, but not expert, reader. In considering the adequacy of disclosure, SAIs should look for and encourage the use of generally accepted ways of bringing these huge numbers to life for those readers and in particular for the affected taxpayers. There are a number of what might be called “simple indicators” of a government’s overall financial condition that could be considered in this regard such as:

- Debt to GDP. This is the percentage of a government's debt to the country's GDP. If this percentage increases year after year, it means that debt is growing faster than the economy, which could lead to burdensome and perhaps unaffordable debt loads. Both the level of the government's gross indebtedness and that amount net of borrowing between public entities can be useful indicators.

- Interest to domestic budgetary revenue. This is the percentage of interest costs on borrowed funds to government revenues. It is somewhat analogous to a percentage frequently used by mortgage lenders in determining whether or not an individual can afford to carry increased debt.

Indicators such as those outlined above should help interested individuals understand more clearly the significance of their government's debts and how their government compares with other levels of government within the country and with governments in other countries. In many cases public debt is in a significant part of a country's foreign debt and the sustainability of a country's debt can also be is analyzed by means of specific indicators. The interested reader is referred to ISSAI 5411 Debt Indicators and its Appendix.

It is appropriate to note that indicators need to be exactly defined when used and their informative value and limitations explained. And it should be stressed that in any international comparison, indicators may be rooted in different basic concepts which may stand in the way of straightforward comparison.

Useful information that helps people understand debt levels and what caused them is a budget-to-actual scorecard, comparing forecast deficit and debt levels with results achieved. It would also be useful if the total indebtedness could be analyzed to distinguish between debt incurred to finance revenue producing capital assets and that incurred to finance current account deficits; and if the latter could be further analyzed to distinguish between cyclical deficits, attributable to the national economy operating below normal capacity, and structural deficits, reflecting a continuing imbalance between expenditure and revenue.

PART IV: THE MEDIUM FOR DISCLOSURE

As explained throughout this document, financial information about public debt may be reported in a wide variety of documents: certainly through general financial statements, but also through reports on the activities of individual government agencies, reports to international financial institutions, etc. Other public documents could also be used, including budgets, central bank and debt management office bulletins, and a variety of other reports to legislatures.

It would be helpful to disclose planned and actual public debt periodically as part of the ongoing budget decision making and accountability process. Opportunities may also exist in the government's normal fiscal policymaking and reporting cycle for reporting the elements of planned and actual debt. For example, planned levels of debt could be disclosed in the budget, with the actual levels realized periodically reported during the year as appropriate. In addition, a year-end accounting of debt could be provided, possibly through audited general purpose financial statements and possibly through other types of centrally provided reports. Attachment A to this document provides a simplified illustration of what an overall reporting framework for public debt might look like.

As explained in Part I of this document, SAIs have many opportunities to examine and report on issues related to the definition and disclosure of public debt. The extent of SAIs' concern with the form and content of documents on public debt will vary according to the purposes for which they are produced and used. This variation is examined in items set out below and with which this document concludes.

- Reports produced by governments to assist in the formulation and execution of their economic, monetary and fiscal policies. These reports may not be subject to formal verification by SAIs. However, if they are submitted to the legislature to support budget proposals, the SAI might wish to review the data to determine whether it was compiled on an appropriate basis and whether information is presented in an understandable and consistent manner.
- Forecasts of annual changes that are expected to result from budget proposals or other public policies. This information may not be subject to direct verification either, but the audit of subsequent actual results might provide the SAI with an opportunity to comment on the bases used to prepare the forecasts. If those were used to support the budget or any public policy it is crucial that they are prepared on sound bases.
- Forecasts of the long-term impact on public finances of the future costs of servicing and repaying outstanding debt. Although not subject to direct verification, SAIs might consider and comment on the apparent relevance and understandability of the reports if they are submitted to the legislature.
- Reports on results, both with respect to changes in debt and with respect to debt outstanding, to help ensure appropriate accountability of public bodies with borrowing powers. These "after-the-fact" reports are likely to be subject to formal

audit by SAIs, which provides an opportunity to examine and comment on both the reasonableness of the bases on which the reports have been compiled and their general understandability and relevance.

- Returns to international bodies. These returns are to be compiled in accordance with rules prescribed by the bodies, which may also govern the possible involvement of SAIs.