

Auditing Government Debt Management in Exceptional Circumstances

Jonna Carlson

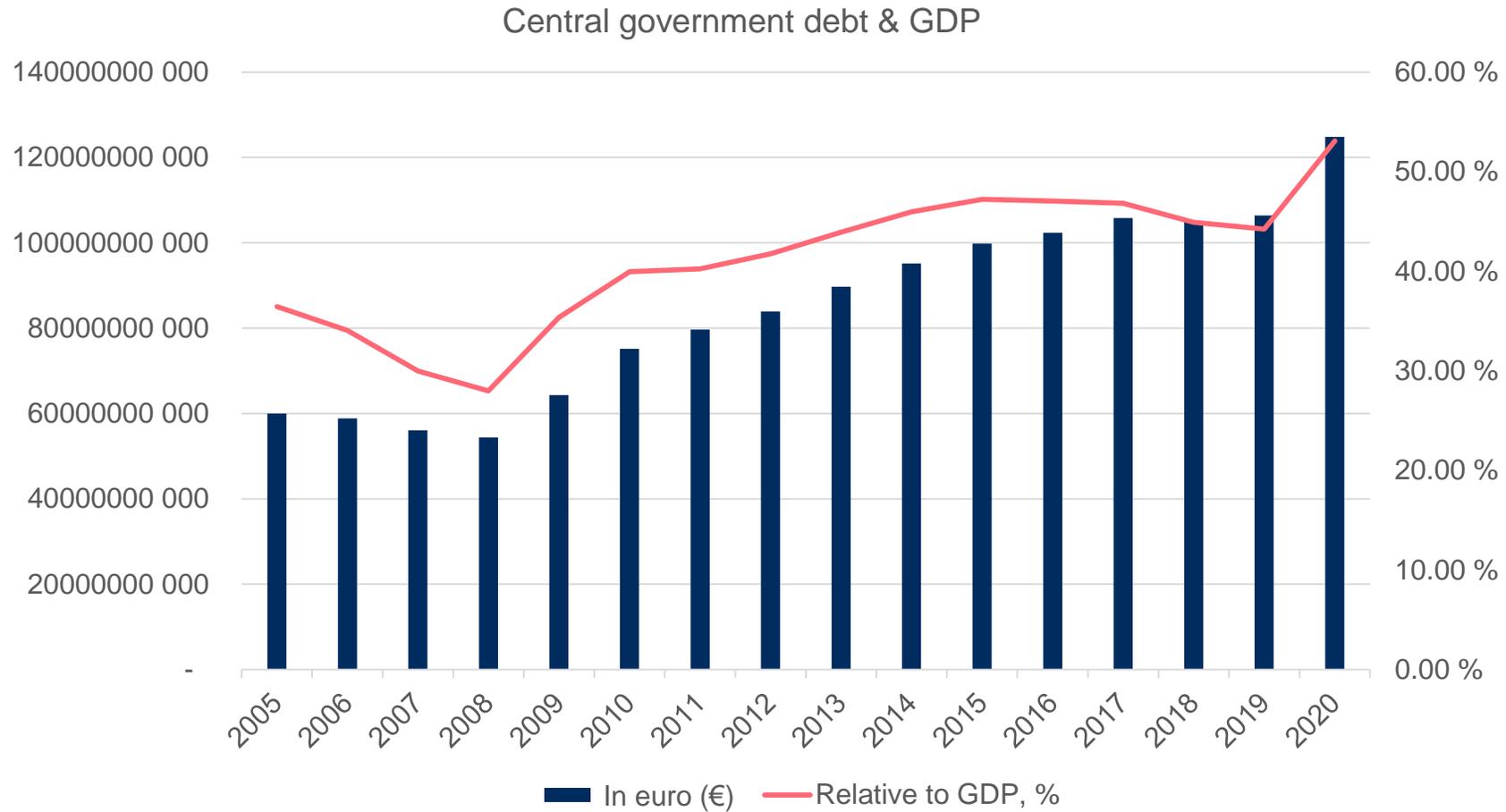
National Audit Office of Finland



Government debt in Finland (2020)

- In 2008, the state owed just over EUR 50 billion, while in 2016 the debt exceeded EUR 100 billion.
- Central government budget debt was EUR 105.3 billion at the end of 2019, which meant an increase of EUR 1,4 billion from 2018.
- In the 2020 budget, net borrowing was estimated at EUR 2 billion and total budget debt was estimated at EUR 108.8 billion.
- There were seven supplementary budgets for the year 2020, and it was estimated that the net borrowing of the central government budget would be around EUR 19.6 billion in 2020 and government debt was estimated at around EUR 126 billion at the end of the year.

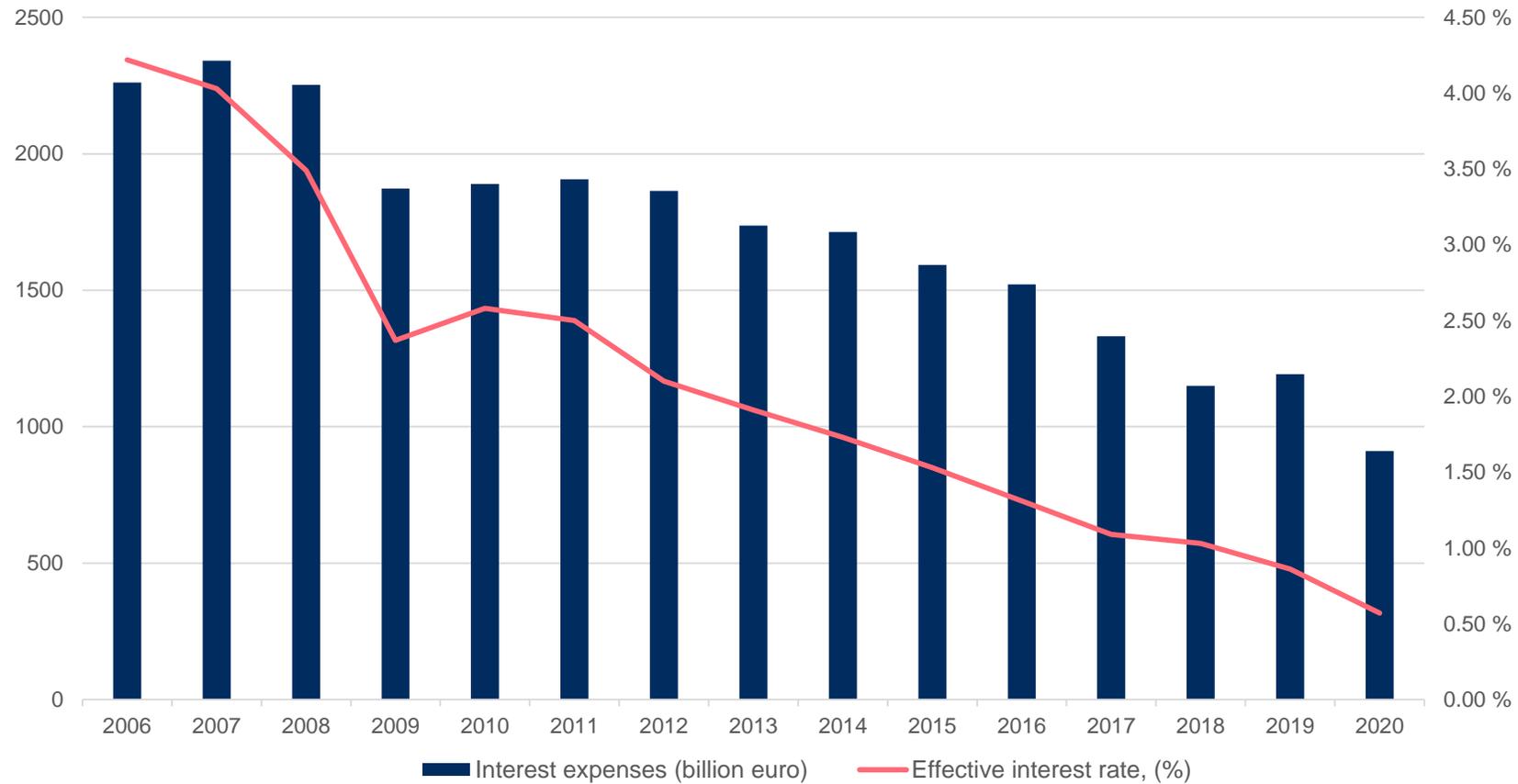
Central Government Debt in Finland



Interest rate strategy

- Central government debt has grown significantly in absolute terms and in relative to the size of the national economy over the past ten years.
- However, despite the increase in the stock of debt, interest payments on central government debt have not increased during the period of examination.
- Statistically, the results of central government debt management appear to be very successful, because although the national debt has increased, the cost of borrowing has fallen downwards.
- The interest rate risk strategy selected by Finland has been able to take advantage of the decrease in the general interest rate, and this is reflected in the low interest costs of central government debt.

Effective Cost of Central Government Debt



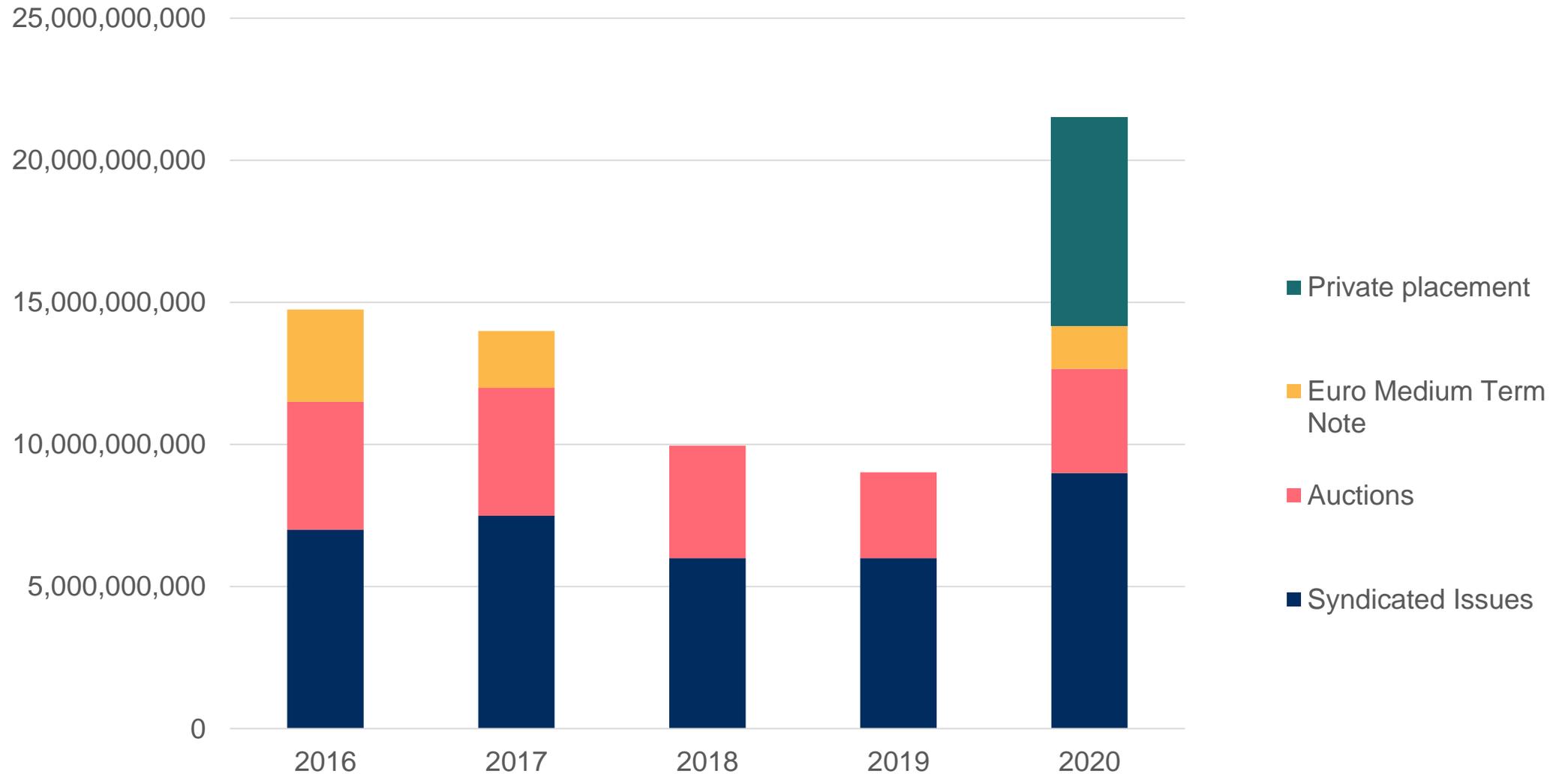
Risk management of Government Debt

- The main objective of public debt management is to ensure that the government's financing needs and its payment obligations are met at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk.
- Debt management is first and foremost risk management and as government debt increases, so do the risks. Therefore...
- It is important to audit how successful the chosen debt management strategy has been - both in "normal times" and in the exceptional situation in 2020.

Audit of debt management & debt management strategy under uncertain circumstances

- The COVID-19 pandemic has caused significant disruption in the financial markets and great uncertainty in a situation where there has been a great need for funding for countries.
- Potential problems in the implementation of the debt management strategy and the steering based on it can potentially materialize in the form of large-scale financial losses.
- And despite the changed situation, debt management still needs to prepare for an increase in general interest rates or Finland's risk premium in the medium to long term.

Government Long Term Funding – New Issuances Structure 2016-2020

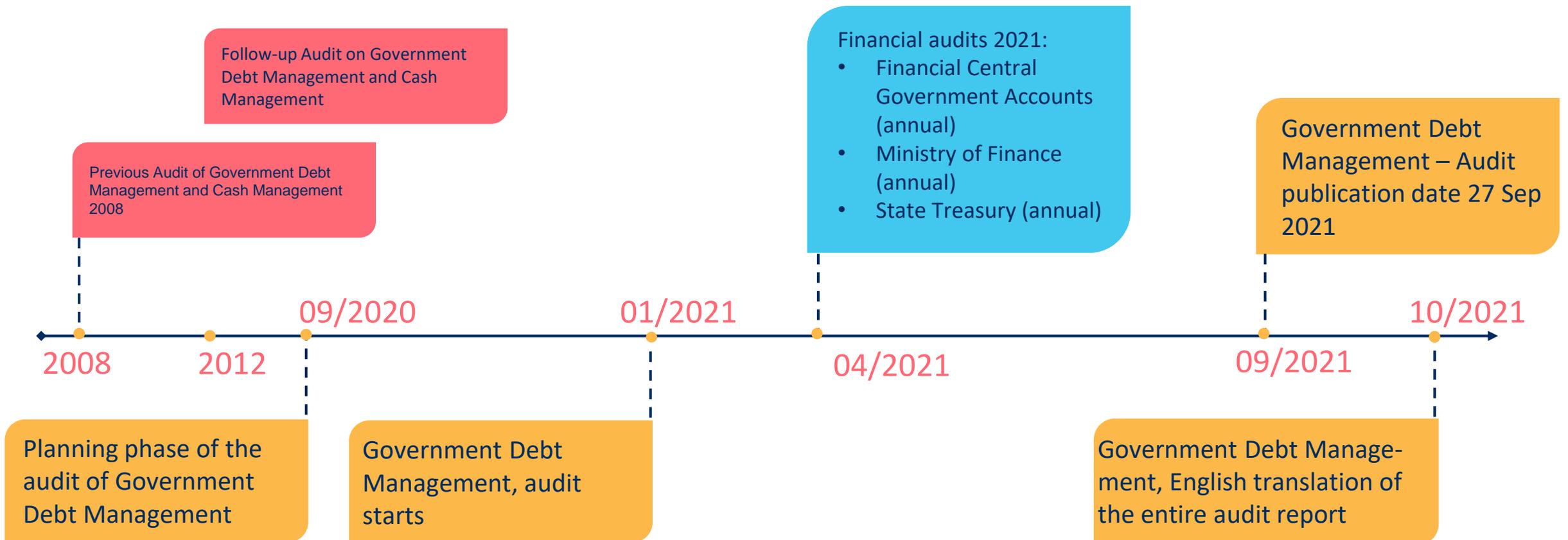


Audit standards and criteria

- Audits comply with the international ISSAI auditing standards established by INTOSAI.
- GUID 5250 Guidance on the Audit of Public Debt
- Audit of Public Debt Management: A Handbook for Supreme Audit Institutions, IDI
- Public Debt Management Guidelines prepared by International Monetary Fund and World Bank experts (IMF 2014).
- According to the above guidelines, it is useful for debt management auditors to pay attention to **debt management objectives, process transparency and accountability, institutional structures, debt management strategy, risk management and the role of debt management actors as promoters of efficient markets.**
- Laws, rules and regulations, instructions

Audit schedule

- Financial audits every year
- Risk analysis of the subject matter, yearly updates



Audit purpose and objective

- The purpose of the audit is to assess central government debt management and conditions for operational performance.
- Ensure that the GDM and conditions for operational performance are appropriate.
- The objective of the audit is to determine whether the selected debt management strategy is effective and...
- Whether the implementation of debt management operations and risk management have been properly implemented

Multidisciplinary Audit



Audit questions:

- I. Has the chosen government debt management strategy been implemented effectively?
- I. Are the debt management arrangements appropriate?
- I. Has the risk management related to government debt management been implemented appropriately?

Audit scope/limitations

- The audit concerns government debt management and **does not examine government indebtedness as a policy issue.**
- In addition, the audit does not assess the chosen debt management strategy, but the implementation of the strategy.
- [?] However, it is possible that as part of auditing risk management we shall explore alternative debt management strategies (as DM is prepared to operate in differing financial scenarios)
- The audit is not an information system inspection.
- In addition, the treasury management of the State is only examined in terms of what is relevant to the audit issue, i.e. from the point of view of the investment of cash resources and the management of the funds.
- The audit does not produce primary data, i.e. no attempt is made to recalculate interest rate risk models, for example.

Preliminary findings:

1. Reporting needs to be transparent.

Financial statements should give true and fair view of the government debt in all times.

2. Budgetary procedures and budget structure needs to be adjusted.

3. Risk management is the core business of the Treasury.

Thank



You!