

## **The CAO's Experience in Auditing Public Debt**

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### **Introduction :-**

The state general budget comprises of : administrative body budget, public service entity budget and local administration units budget.

This means that the state general budget is that concerned with the public debt internal and external, not to mention, other opinions that believe that public debt includes also the deficit of economic public entities, National Investment Bank and other indebted entities (banking system - insurance and pension funds).

The public debt internal and external represents a significant importance specially regarding the remarkable development of the debt and its annual speedy elevation.

This leads to the fact that all concerned parties should exert all necessary efforts to decrease this debt not only in its numerical status since the increase in numerical value is not parallel to the increase in budget deficit, but within the economic context that the deficit should be decreased to reach at the end gross domestic outcome; in this stage we can say that we are safe.

CAO audit of public debt is divided into two parts : financial auditing and performance evaluation auditing.

### **First : Financial Auditing :-**

The CAO performs auditing of entities enlisted in state general budget ( state administrative body, public service entities, local administration). The CAO has an assigned sector entitled to audit and review Ministry of Finance accounts (expenditures and revenues), final accounts and public treasury final accounts.

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The CAO performs such audit through applying periodic documents examining program during the fiscal year and at its end after the Ministry of Finance prepares its final accounts and public treasury account.

Within the framework of document examination, a follow up is practiced on public debt whether internal or external to ensure the payment of due installments of debts (depreciation) during the year and all the procedures taken by Ministry of Finance to pay such installments in its due time referring to data available in Central Bank .

Concerning the examination of final accounts and public treasury accounts, the CAO takes into consideration-when checking disbursements and revenues of general budget-the following :-

- 1- Cash deficit :- (emerging due to the gap between expenditures and revenues).**
- 2- Primary deficit :- cash deficit – interest on public debt external and internal in the 3<sup>rd</sup> chapter.**

Both cash deficit and primary deficit show the following results :-

First phenomenon:-

The presence of cash deficit which is in relation with processing operations and the crucial liabilities on the government such as wages, subsidy and education, health and public investment expenses where there should be appropriate procedures to be taken. In order to minimize this deficit whether by decreasing expenditures or by promoting developing revenues, the CAO gives remarks on all items of expenditures and revenues.

Second phenomenon:-

The burden of serving the public debt practice pressure on state general budget. The CAO audits these debts and means of managing them and recommends to find a low cost financing in due timing .

- 3- Total deficit :-**

Due to adding net acquisition of financial assets to the cash deficit the CAO audits and verifies the state contributions in entities and companies' capital and also all available lendings to others which represent an additional burden added to budget monetary deficit also the CAO examines and ensures all generated revenues from the acquisition

of financial assets and all other receivables ( except that from privatization ) from the monetary deficit .

#### **4- Procedures of financing the total deficit in general budget :-**

The Ministry of Finance has to finance the total deficit completely in addition to financing the installments of both debts due to internal and external throughout the year .

It is note worthy that the net lending represents the real increase in public debt whether internal or external. Any installments of internal or external loans should be excluded from public debt which belongs to past years since it's considered a decrease in its balance .

The CAO should ensure that all procedures of financing the budget's total deficit and the way of payment of loans' installments is done and that the source of financing and burdens arising besides verifying the figures and comparing them with the figures of Central Bank .

#### **5- Public treasury Budget :-**

In accordance with state general law no. 53 for the year 1973 and its amendments , the state public treasury budget is prepared (in compliance) with international standards where it should reflect :

- Budget cash deficit or surplus .
- Total budget deficit or surplus.
- Sources of total deficit.

The CAO should always review the state public treasury budget to ensure that it is in compliance with international standards .

The CAO prepares reports of audit outcomes and sends them to Ministry of Finance and follows-up their replies and actions taken concerning these remarks within the annual report prepared by CAO on audit outcome and final accounts examination (audit) and public treasury accounts .

The CAO highlights most significant remarks on public debt internal and external which shows most remarkable remarks and

recommendations and then submits them to the People's Assembly in due constitutional time by the end of November each year .

## **Second: Performance Evaluation Field :-**

The Sector of Public Debt , Loans and Grants affiliated to The Central Department of Plan Implementation Follow- Up and Performance Evaluation , follows up and evaluates Egypt's external debt and internal public debt aiming at analyzing their volume and structure besides measuring their burdens on Egyptian economy to fulfill its commitment.

## **Egypt's External Debt Evaluation and Follow - Up :-**

### **1- Measuring Egypt's External Debt Volume and Structure:**

That debt volume and structure are measured via its components which are :

- ❖ Government debts.
- ❖ Guaranteed debts whether from the government or public sector commercial banks .
- ❖ Private sector unguaranteed debts whether from the government or public sector commercial banks, the procedures of that kind of debts are made through other banks not through public sector commercial banks.

### **2- Evaluating the Impact of External Debt and its Burden on Economic Performance :**

#### **2-1 External Debt Indicators:**

The impact of external debt on economic performance is measured through the following indicators:

- ❖ The ratio of external debt to total GDP according to market current prices.
- ❖ The ratio of external debt to exported goods and services receipts.
- ❖ The ratio of external debt to exported goods & services receipts.
- ❖ The ratio of external debt to foreign currency reserves.
- ❖ Average external debt per capita.

#### **2-2 External Debt Burden Service Indicators:-**

The impact of external debt burden service on economic performance is measured through the following indicators:

- ❖ The ratio of external debt services to total GDP according to market current prices.

- ❖ The ratio of external debt services to exported goods receipts.
- ❖ The ratio of external debt services to exported goods & services receipts.
- ❖ The ratio of external debt services to current receipts of foreign currency.
- ❖ The ratio of external debt services to net international cash reserves receipts.
- ❖ Average external debt services per capita.

### **2-3 External Governmental Debt Burden Service Indicators :-**

The impact of external governmental debt burden service is measured through the following indicators:

- ❖ The ratio of external governmental debt services to used total accounts in state budget final accounts .
- ❖ The ratio of external governmental debt services to total available revenues in state budget final accounts .
- ❖ The ratio of external governmental debt services to total deficit in state budget final accounts .

### **Evaluation and Follow Up of Internal Public Debt in Egypt:**

The Sector of Public Debt, Loans and Grants affiliated to The Central Department of Plan Implementation Follow- Up and Performance Evaluation , follows- up and evaluates internal public debt and its financial burdens using some economic indicators.

#### **1- Internal Public Debt:**

Internal public debt consists of 3 main items that are:

- ❖ Government internal debt.
- ❖ Economic public authorities internal debt.
- ❖ Internal debt due to National Investment Bank.

#### **2- Most Important Economic Indicators Used in Internal Public Debt Follow- Up and Evaluation :**

- 2-1 The ratio of internal public debt balance grow up in relation to average interest due on government.
- 2-2 The ratio of net internal public debt to total GDP according to market current prices.
- 2-3 The ratio of net internal public debt balance grow up in relation to economic growth average and total GDP growth .

- 2-4 Average of net internal public debt per capita in relation to total GDP per capita according to market current prices ( average annual income).

**3- Most Important Indicators Used in Internal Public Debt Follow-Up and Evaluation :**

- 3-1 The ratio of internal public debt paid burden to total GDP according to market current prices.
- 3-2 Average of internal public debt paid burden per capita in relation to total GDP per capita according to market current prices.
- 3-3 The ratio of internal public debt paid burden of total government internal debt to total available revenues and expenses and state budget final accounts total deficit.
- 3-4 The ratio of internal public debt paid burden of total employees wages and salaries in state public budget final accounts.
- 3-5 The ratio of internal debt paid burden of economic public authorities to total revenues , expenses and accumulated deficit in its final accounts..
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