ROLE OF THE SAI PAKISTAN IN PUBLIC DEBT MANAGEMENT

Lal Muhammad Khan
Director General, SAI Pakistan

Article 166 of the Islamic Republic of Pakistan's Constitution deals with public Debt within such limits that the Parliament may set. Article 167 deals with the provincial borrowing which has been amended vide Article 167(4) with the provision for the provinces to directly raise domestic Debt cumulatively up to 0.85% of the national GDP. The individual ceiling for each province is fixed according to its share in the National Finance Commission formula.

In pursuance of Article 166, Fiscal Responsibility and Debt Limitation Act, 2005 was promulgated. Section 3(3) of the instant Act provided Principles of sound fiscal and Debt management with certain limitations like;

i. To limit the federal fiscal deficit, excluding foreign grants to four per cent of the GDP during three years, beginning from the Fiscal year 2017-18 and maintaining it at a maximum of 3.5 % of the GDP.

ii. To ensure that within two financial years, beginning from the F.Y 2016-17, the total Debt shall be reduced to 60% of the GDP

iii. To ensure that within five years, from F.Y 2018-19, the total public Debt shall be reduced by 0.5% every year and from 2023-24 and up to 2032-33 a reduction of 0.75% every year to reduce the total public Debt to 50% of the GDP

iv. From there onward it will be maintained at the same or lesser rate.

Despite, the legal framework and fiscal limitations, Public Debt and its liabilities amount to approximately Rs 44 trillion with Debt to GDP ratio of 106% are becoming an alarming situation across the country. Being an essential organ of the accountability cycle, the SAI Pakistan has a pivotal role in Public Debt Management.

Debt need assessment is the starting point of raising the public Debt which needs to be assessed by SAI, to ascertain whether;

i. The need assessment for raising Debt has been done accurately and professionally

ii. It meets the borrowing requirements of the government

iii. The lowest possible cost has been ensured for the borrowing

iv. Due to prudence and diligence have been observed while borrowing

v. Risk assessment for Debt portfolio adequately carried out

vi. Authorization of the legislature with Finance Ministry at national and the Finance department at the sub-national level was available for raising the Debt

vii. The objectives for raising Debts were clearly outlined and a proper Debt management strategy developed

viii. Annual reports are presented to the respective legislatures about the Debt management

xi. Primary legislation was supplemented by delegated legislation (rules & regulations) for effective Debt management

x. The Debt servicing is carried out according to the Debt repayment schedule

The auditing process will begin with the review of financial statements, loan agreements, recent publications of stocks and flows, Debt statistical bulletins, annual evaluation reports, reports provided to international organizations and reports on the physical and financial progress of contracted projects.

Debt servicing is as essential as Debt in itself, which needs efficient management by the Ministry of Finance's Debt office. It pertains to all repayment activities of the principal and payment of interest, commission, commitment fees, service charges and other fees, and, possibly, late interest payments.

The SAI has to see whether the payments were made on time in the correct amounts and whether the related transactions were recorded accurately and completely. To ascertain from available record whether the public Debt database is complete and accurate, to check the Debt service process adhered to the relevant laws and agreements and repayments made according to agreements.

Debt reporting is another milestone in inefficient Debt management with objectives to present Debt information completely and accurately, fairly disclosed according to prevalent accounting standards.

Ministry of Finance Debt management unit has a key role in Debt management, which a robust Debt Management Information system must support. An ideal Debt Management Information System must have security features in data processing and access safeguards, walled against accidents and threats, effective and in conformity with required standards. Auditors have to check the design and implementation of controls and compliance with laws and departmental SOPs for its operation.SAI has to report to the Finance on inadequacies in recording and record-keeping, deficiencies in the Debt Management Information System and overall internal control environments with plausible recommendations for effective and efficient Debt Management.