The Role of the State Audit Bureau in Auditing Public Debt

ديوان المحاسبة
State Audit Bureau
Since 1964 منذ عام . Kuwait الكويت

What do you know about Kuwait?

About Kuwait

Location	Middle East, bordering the Arabian Gulf, between Iraq & Saudi Arabia
Total land	17,820 sq km
Climate	Dry desert; intensely hot summers; short, cool winters
Natural Resources	Petroleum, Natural gas
Population	4.69 m. with immigrants accounting for more than 69.5%
Median age	29.4 years
Literacy	96 %
GDP	$289.7 billion
Industries	Petroleum, Petrochemicals

Main Topics

1. Introduction
2. History of the deficit in the general budget of Kuwait.
3. The legal framework and mechanisms regulating domestic and external borrowing
4. Reasons for resorting to direct borrowing and its impact on the State budget
5. The Role of the State Audit Bureau in auditing public debt.

Introduction

The nature of financing the State general budget and its relation to the general reserve

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The State’s revenues consist of:

The State general budget is financed from the collection of the oil revenues and other income, and part of that revenue is transferred to the Future Generations Fund (FGF).

Oil revenues

Sales of crude oil, natural gas, oil products, & income taxation

Non Oil revenues

Income taxation from non-oil companies, taxes and fees on properties, goods, services, trading activities, capital revenues and other fees.

- 10% of the total budget income to be transferred to the Future Generations Fund (FGF).
- The Revenues are used for Budget Financing - Public expenditure

- The budget surplus shall be added to the General Reserve Fund, whereas the deficit gap shall be covered from the general reserve fund (GRF).

Correlations between Government Accounts

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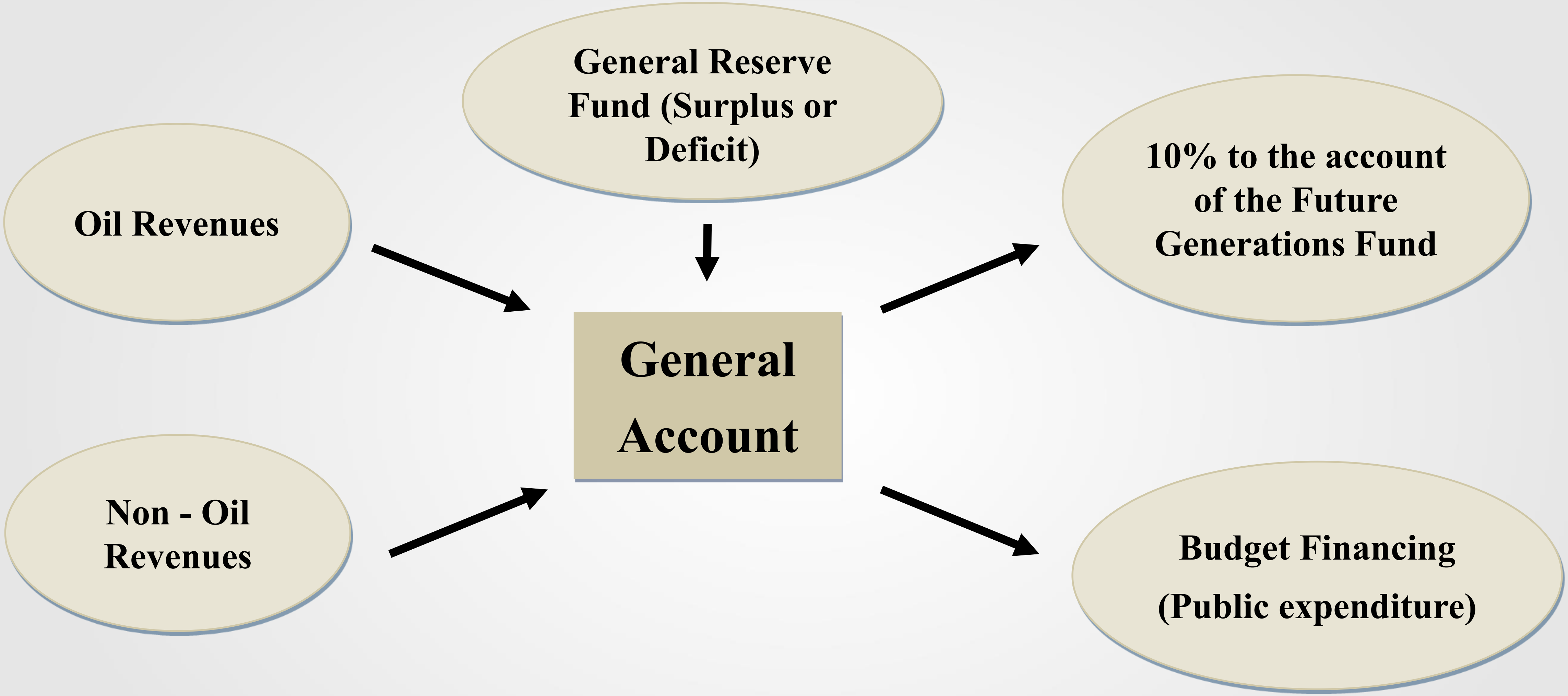
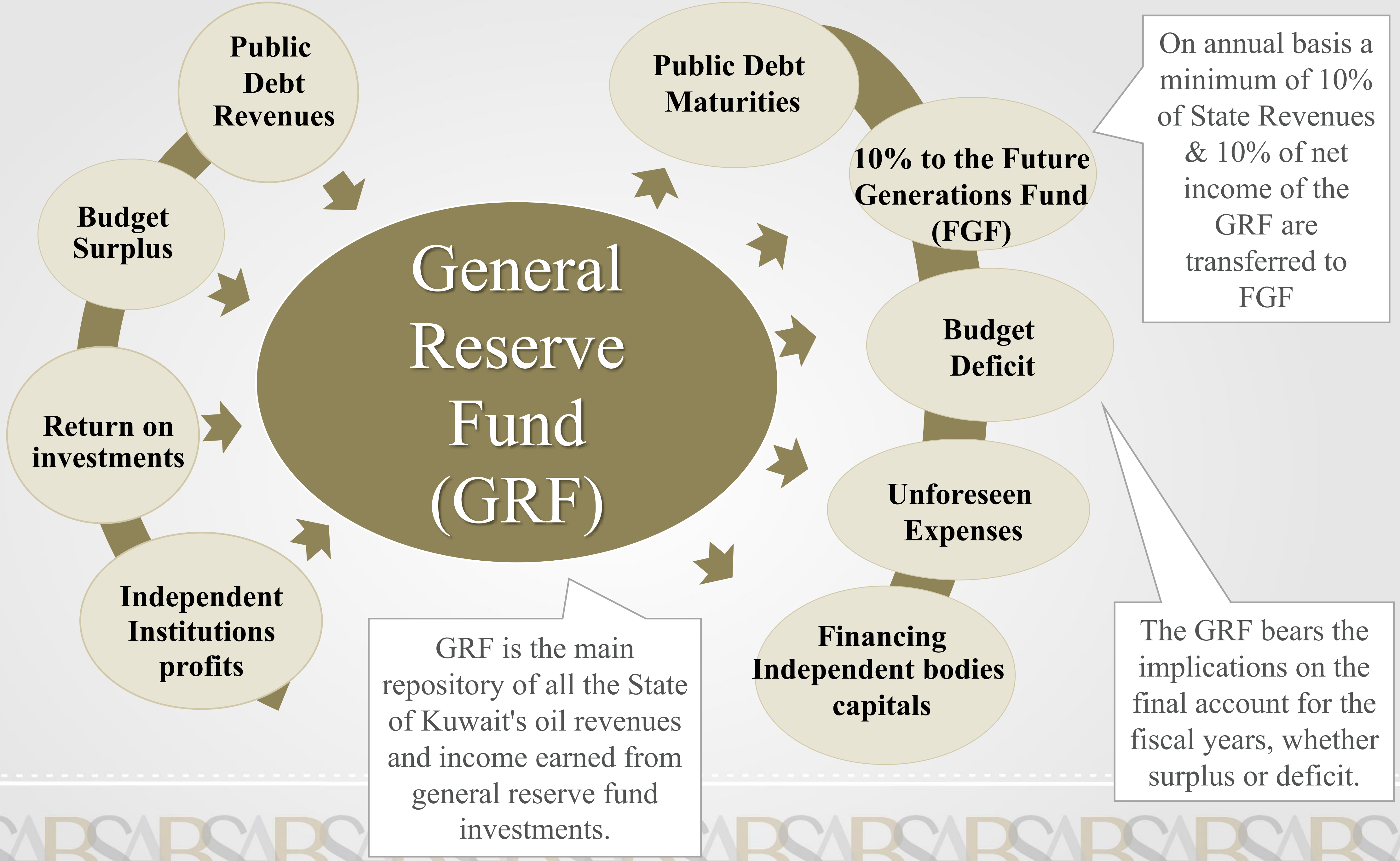
Correlations between government accounts




Public Debt Revenues
Budget Surplus
Return on investments
Independent Institutions profits
General Reserve Fund (GRF)
Public Debt Maturities
10% to the Future Generations Fund (FGF)
Budget Deficit
Unforeseen Expenses
Financing Independent bodies capitals
On annual basis a minimum of 10% of State Revenues & 10% of net income of the GRF are transferred to FGF
GRF is the main repository of all the State of Kuwait's oil revenues and income earned from general reserve fund investments.
The GRF bears the implications on the final account for the fiscal years, whether surplus or deficit.

By law, a minimum of 10% of the all State revenues as well as 10% of the net GRF income are transferred to the FGF annually & all investment income is reinvested

10% of all State Revenues

10% of the net GRF income

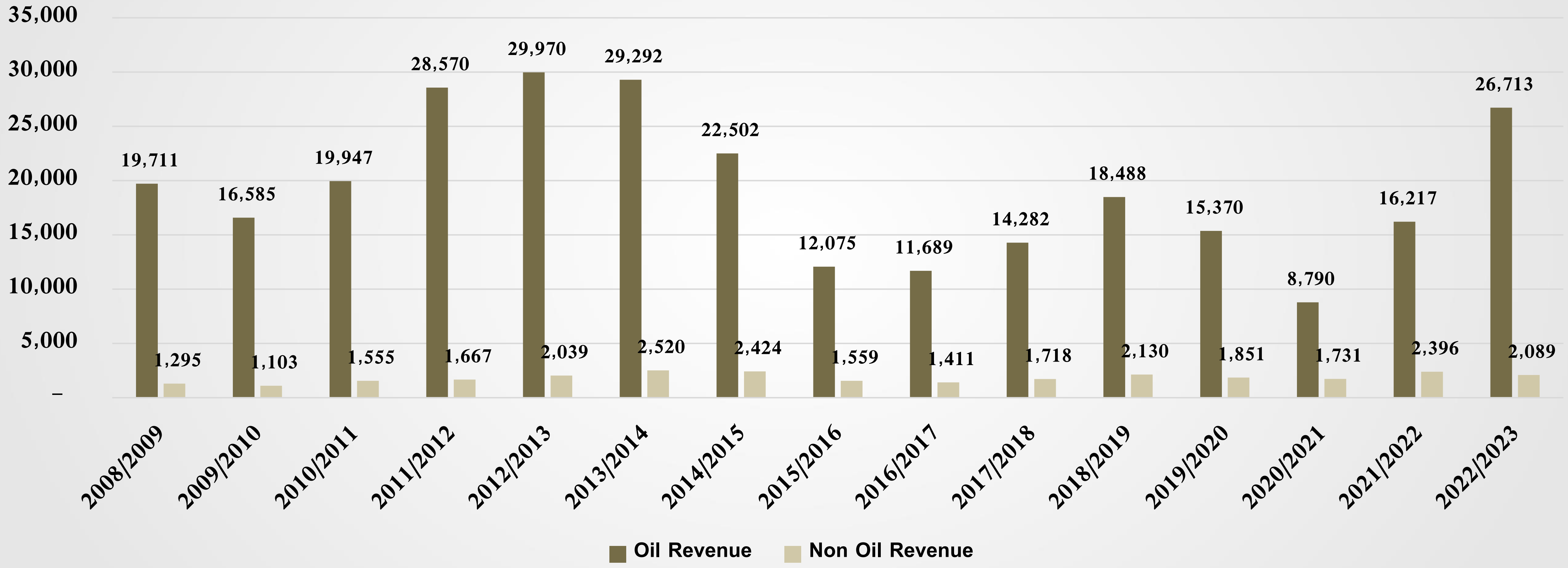
Future Generation Fund (FGF)

This percentage may NOT be reduced, and NO amounts may be deducted from the FGF

- FGF was created in 1976 by transferring 50% from the GRF at that time.
- It is the intergenerational saving platform managed by the Kuwait Investment Authority.

Oil & Non Oil Revenue

The State budget depends almost exclusively on oil revenues, which represents 90% of the State total revenues. And The chart below details actual revenues according to their source:



History of the Deficit in the General Budget of Kuwait

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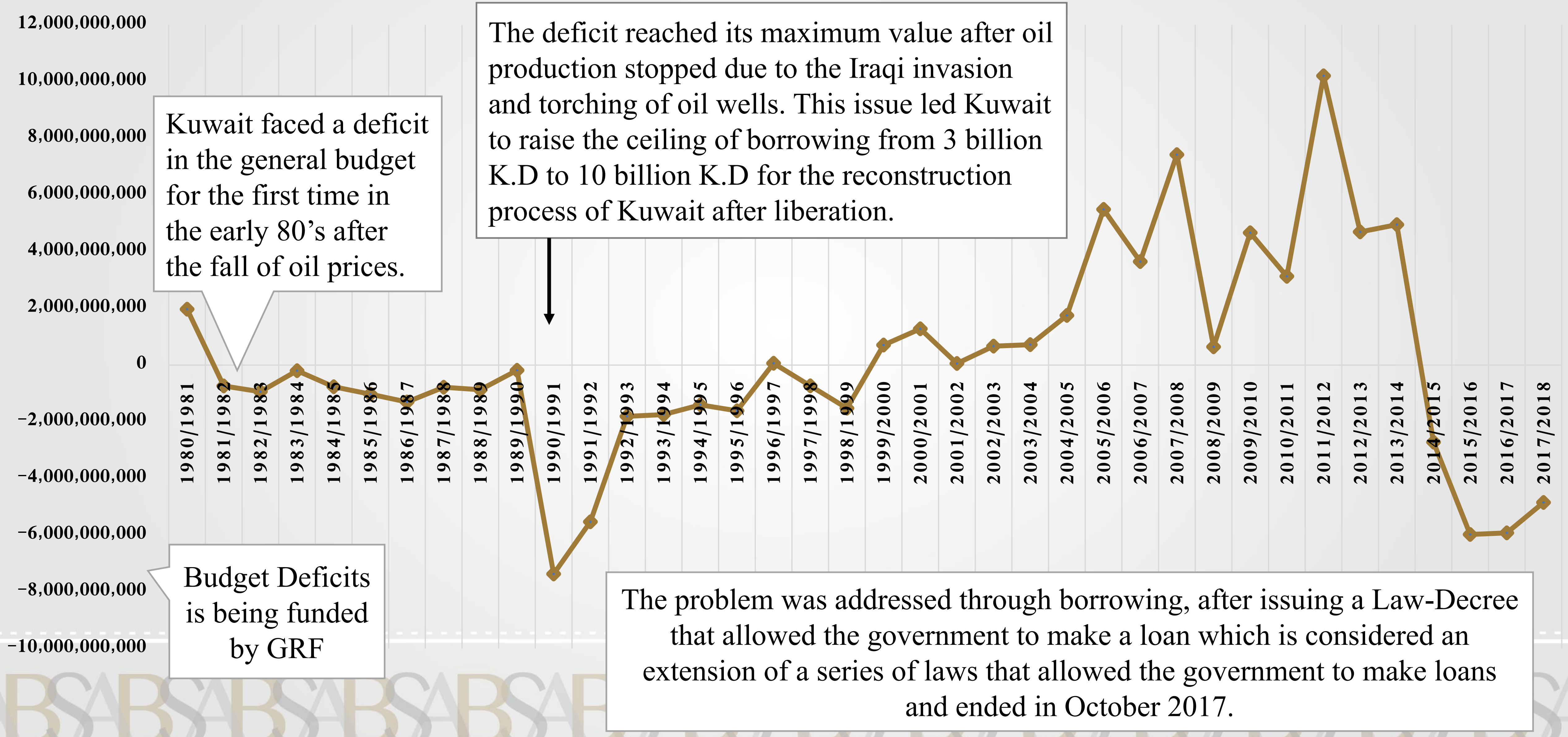
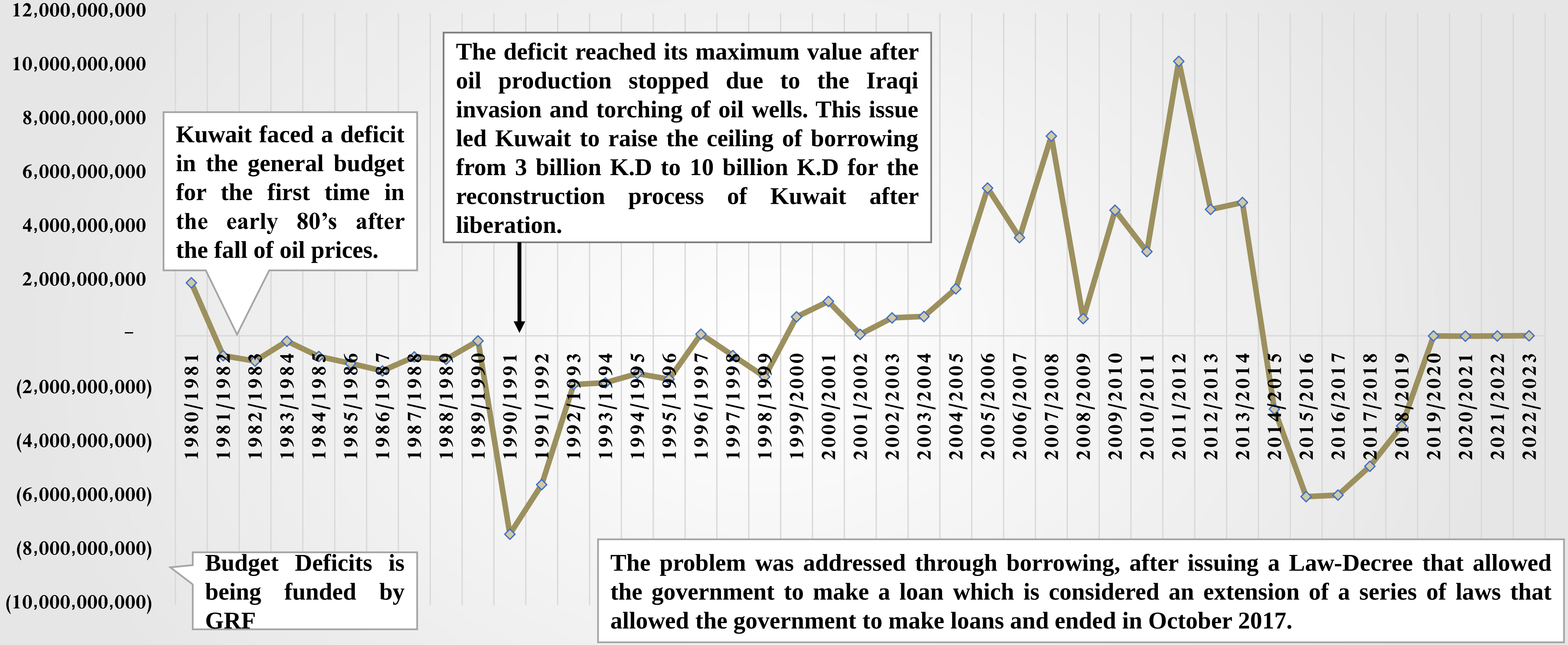
ACTUAL HISTORICAL DEFICIT OF BUDGET IMPLEMENTATION RESULTS



ACTUAL HISTORICAL DEFICIT OF BUDGET IMPLEMENTATION RESULTS



The legal framework and mechanisms regulating domestic and external borrowing

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Constitutional & Legal Framework for the issuance of Public Debt instruments

- **The constitution of the State of Kuwait**
  - **Article No. 136**

    Public Loans shall be determined by Statute.
- **Decree-Laws**
  - **Decree-Law No. 50 of 1987**

    The Law authorizes the government to hold a general loan and to borrow an amount not exceeding KWD 1,400 million within a period not exceeding 10 years from the date of the law enforcement.
  - **Decree-Law No. 13 of 1989**
  - **Decree-Law No. 7 of 1999**
  - **Decree-Law No. 3 of 2009**

    Several laws were issued to raise the borrowing ceiling to KWD 10 billion or the equivalent in foreign currency as well as extending the validity of the law period. The current law expired in October 2017.

    There are no new laws issued on borrowing, which resulted in the inability to issue new debt instruments & a decrease in the Public Debt due to maturities of some domestic debt instruments.

- **Due to the huge deficit caused by the falling of the oil prices, the government has submitted a new drafted law to raise the ceiling of borrowing to 25 billion K.D for a period of 20 years without a clear strategy.**

That issue needs monitoring & follow up from the regulatory authorities.

And here lies the role of SAB, which is guaranteed by laws.

Reasons for Resorting to direct borrowing & its Impact on the State budget:

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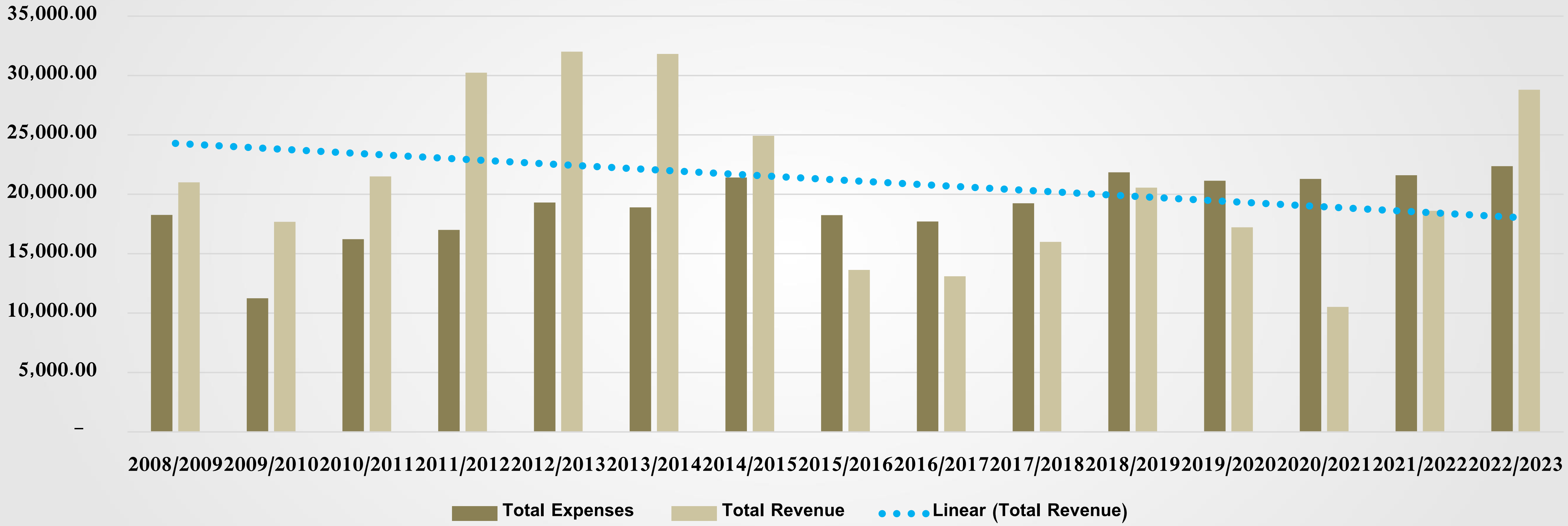
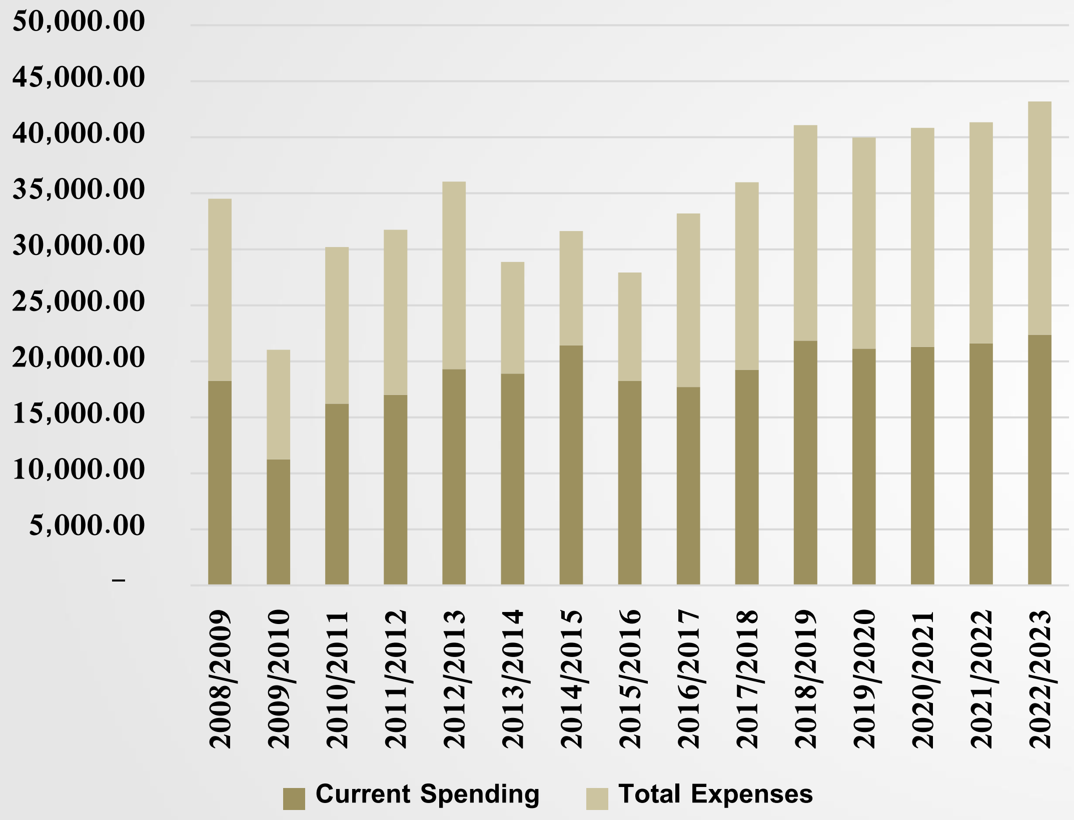
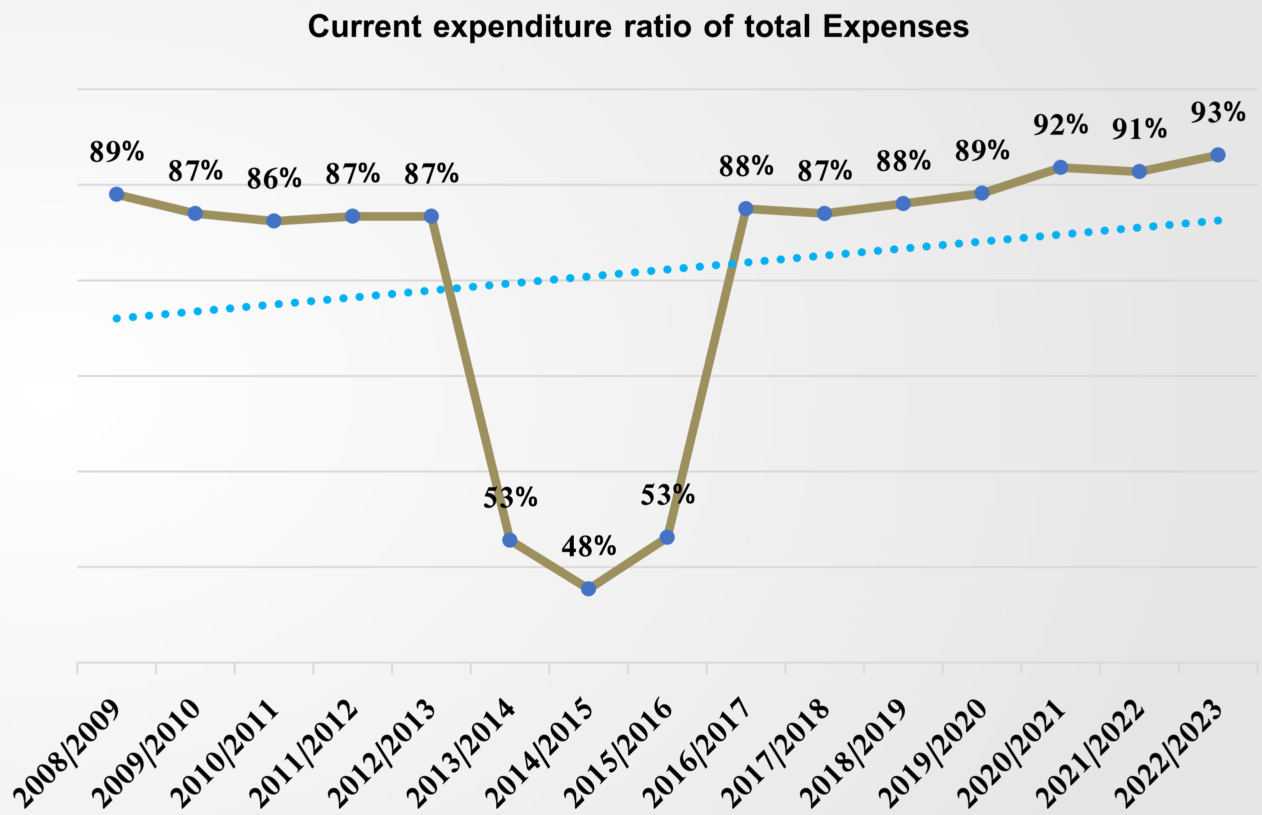
1. The decline in total revenues and the deficits since the fiscal year 2013/ 2014.



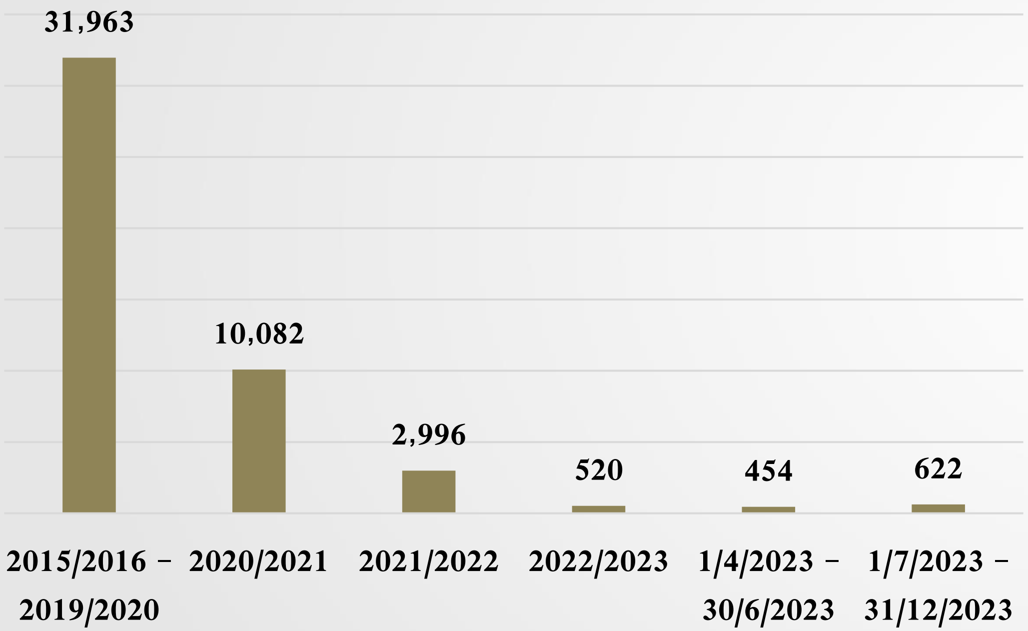
2. Increase in current expenditure (allowances given to staff, goods, services, benefits, grants, social amenities, spending, & other remittance)



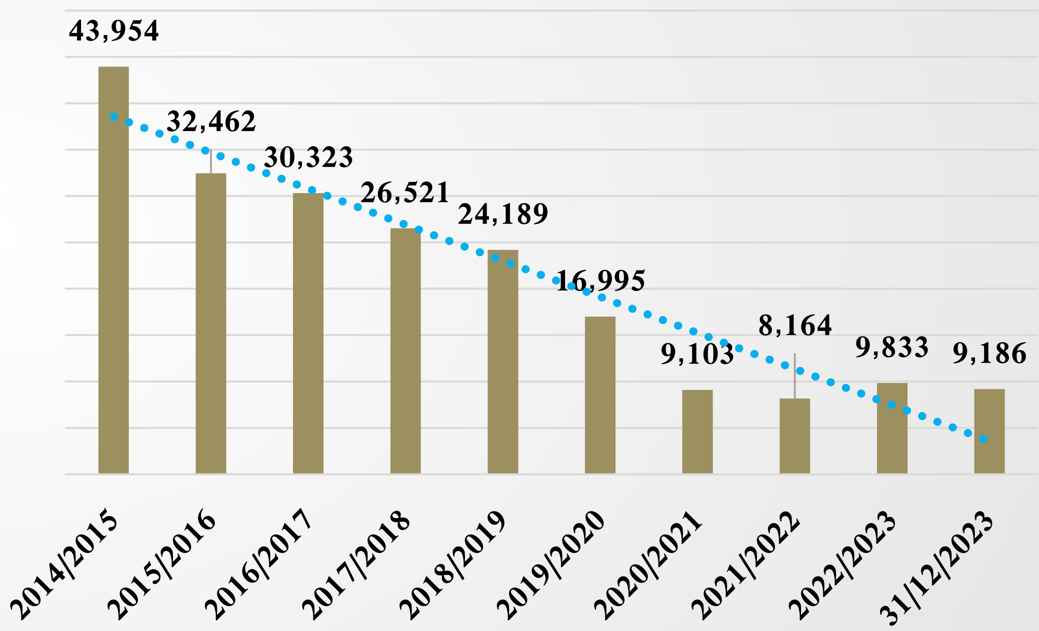


3.Deterioration of the general reserve fund, as it bears the implications on the final account for the fiscal years, whether surplus or deficit .

Withdrawals from general reserve fund



Net value for the General Reserve fund assets



Impact of resorting to direct borrowing on the State budget

1. Adding financial resources to finance Development Plans

2. Adding financial resources to finance current expenditure.

3. The interests of the public debts may lead to further deficits.

4. Lack of financial flexibility as it may not be able to borrow more when crisis occur

5. A burden on the GRF as it will bear the cost of borrowing & repayment of public debt liabilities with its interest.

6. Borrowing may lead to failure to proceed with financial reforms & continue to increase expenses under the deficit.

The Role of the State Audit Bureau in Auditing Public Debt

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THE ROLE OF THE STATE AUDIT BUREAU IN AUDITING PUBLIC DEBT

SAB submitted to the National Assembly a study on the current status of the State's finances with recommendations that are aimed to address the most significant risks & imbalances.

SAB issues periodical reports every 6 months- regarding the issuance of Government bonds. These reports were prepared in accordance to the guidelines provided by INTOSAI for the Audit of Public Debt instruments

SAB has published a report on "Issues of High-risk", including the subject of Public Debt.

SAB has published a report on "Financial Sustainability" including the subject of Public Debt.

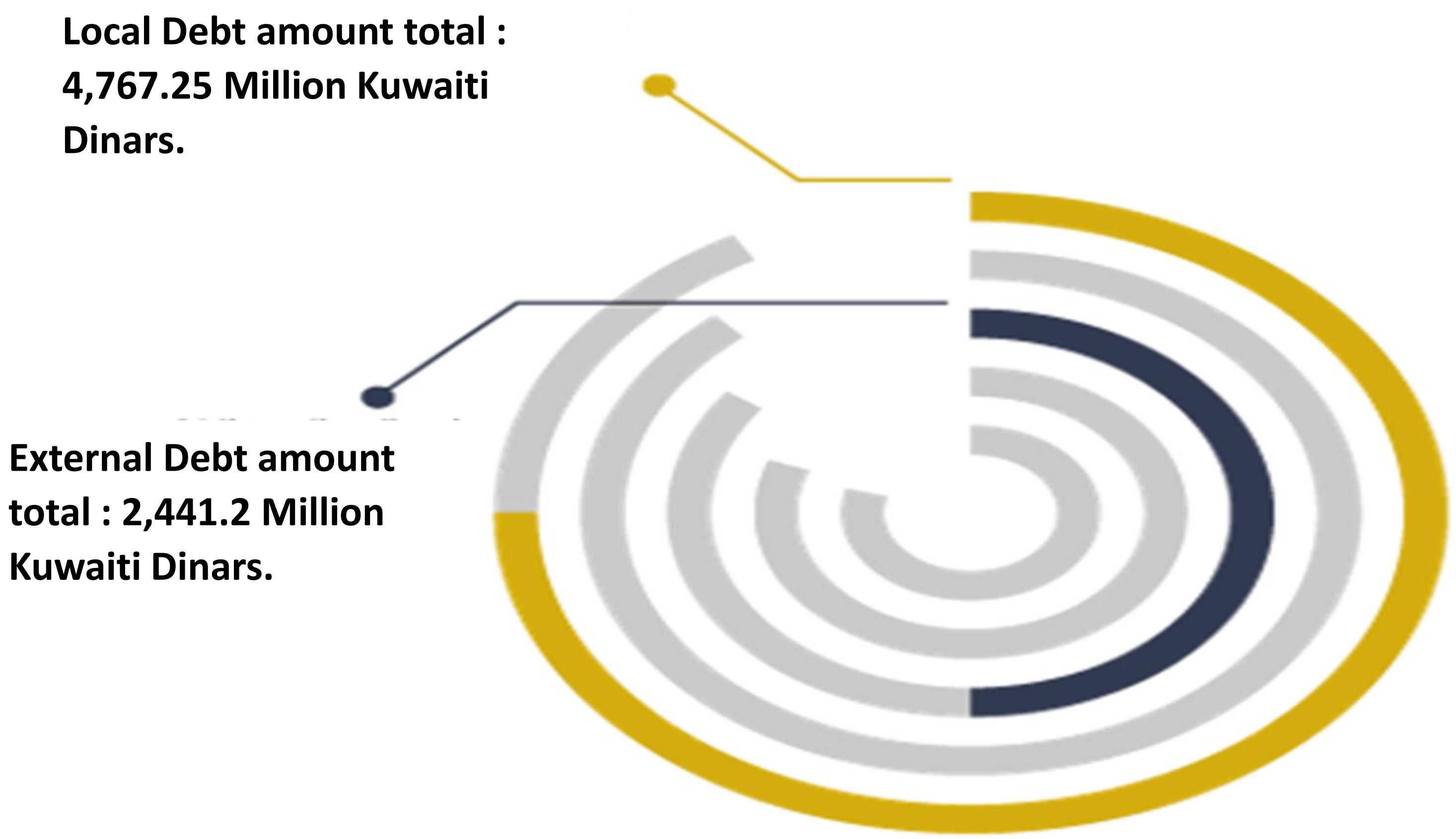
SAB has published the Citizen Report & it included the subject of Public Debt.

SAB holds training sessions for its auditors & also participates in conferences about the Public Debt.

THE REPORT ON “ISSUES OF HIGH-RISK” HAS PROVIDED THE FOLLOWING:

- It was considered by SAB as one of the high-risk issues, especially in light of the huge continued decline in oil prices and dependence almost entirely on oil revenues and also entail many risks to the public finances of the state and national borrowing.

Payment of the deficit in the State budget through the issuance of government bonds



CITIZEN’S REPORT

SAB issued the Citizen Report 2018, Aiming to raise awareness about SAB role in the protection of public funds.

It also warned of the risks of expanding in borrowing through public debt instruments specially with the decline in oil prices and the continuing deficit in the state budget, pointing out that this may lead to the accumulation of debt, depletion of the state's general reserves, depletion of liquidity without the development of the state, and the risk of reducing the credit rating.

THE MOST PROMINENT REMARKS & RECOMMENDATIONS OF SAB WITH RESPECT TO THE GENERAL BUDGET OF THE STATE SINCE THE BEGINNING OF THE FINANCIAL ABUNDANCE:

1. The State has failed to take advantage of the favorable financial conditions of the previous years in order to make substantial changes to the capital expenditures. This resulted in weakening the developmental role of the State budget.
2. The considerable burdens of the government sector salaries continue to increase.
3. The State continues to rely on oil as a single source of income, while having a weak and non-diversified non-oil revenue base, which results in further structural problems to the budget.
4. The financial management of the State needs to improve the methodologies employed in developing the general budget and monitoring its execution.

KEY RECOMMENDATIONS INCLUDED IN THE REPORTS OF GOVERNMENT BONDS ISSUANCE

1- Consider the risk of expanding the borrowing operations –both at the national and international levels- and strive to avoid any negative impact on the State's finance.

2- Borrowing shall not be considered as a long-term solution for paying off the budget deficits; economic reforms shall be undertaken to address such shortfalls.

3- It is necessary to maintain the high credit rating of the State of Kuwait and consider the risks of potential downgrade in the future, together with the negative impacts that may arise from the accumulation of debts and the accompanying interests.

4-The State must embrace a wide range of applicable legislative, economic, and financial reforms. Such reforms shall be compatible with the needs of the society, and aimed at diversifying the national income resources.

5- One of the most significant legislations to be reformed is Law No. 106 regarding the reserves of future generations fund, so that borrowing shall not be intended to finance the Future Generations Fund (FGF). The Law shall allow for not deducting in the case of reaching real national budget deficit, and deductions shall be linked to the excess profits rather than a percentage of the revenues.

6- Upon enacting any legislation concerning the debt ceiling of the State, it is necessary to define a ceiling with specific percentage of the Gross Domestic Product (GDP) that shall not be exceeded, as is the case with the borrowing legislation of some developed countries, which is usually recognized as an indicator for monitoring national economies.

7- It is imperative to reform the general finances of the State, where the State's budget shall encompass all revenues and expenditures, including public debt services and their other related expenses.

8- The borrowed funds shall be directed towards funding the capital projects that are included in Kuwait's development plan; the interests of these loans shall be added to the costs of the projects in order to assess how efficiently funds are being utilized.

9- It is necessary to utilize un-exploitative cash surpluses of some government entities in funding domestic debt issues, thereby reducing debt service rates.

10- It is necessary to complement the staffing structure of the Debt Management Department with highly qualified personnel. The roles of such cadres shall be clearly defined and activated.

Key Financial Indices, according to INTOSAI's Guidance

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GROSS PUBLIC DEBT TO GROSS DOMESTIC PRODUCT (GDP)

	Balance of PD (million KD)	GDP	Percentage
2021/2022	1,873.2	38,795.9	4.8%
2022/2023	1,633.2	41,177.3	4%

COSTS OF PUBLIC DEBT SERVICES TO THE GROSS DOMESTIC PRODUCT (GDP)

2021/2022	PD service cost 100.4
Percentage 0.26%	Actual GDP 38,795.9

2022/2023	Balance of PD 79.2
Percentage 0.19%	GDP 41,177.3

Thank you

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