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GOVERNANCE OF THE PUBLIC DEBT MANAGEMENT AGENCY IN SELECTED OECD COUNTRIES

GRZEGORZ GOLEBIOWSKI
Warsaw School of Economics
Parliament of the Republic of Poland (Sejm RP)

KAMILLA MARCHEWKA-BARTKOWIAK
Poznan University of Economics
Parliament of the Republic of Poland (Sejm RP)

ABSTRACT

In most countries public debt management is one of the fastest growing financial activities demanding great attention from the State. Therefore, there is a need for broadening public governance, as well as widening procedural solutions.

The authors have analysed the operating principles of auditing and control in public debt management institutions of several OECD countries. Research was conducted based on questionnaires and reports obtained from selected public debt management institutions and auditing organisations.

Finally, based on research on the institutional aspects of public debt management, the authors propose audit organizational models that in their view should lead to an increased effectiveness in the functioning of the public debt management agency.

Keywords: *public debt management, agency, public governance, audit, OECD*

JEL Classification Number: *H63*

Public finance management is an inseparable and indispensable condition for the good conduct and functioning of a country, especially in a market economy, which participates in a generally integrated and globalised world economy. In this regard debt management of the public sector has become an important subject, especially the government budget.

To date the existing standards concerning public debt management comprise individual solutions applied by countries all over the world. They are meant to guarantee the effective and efficient means of minimising or even finally eliminating additional burdens to the budget. Currently, the importance of the subject results in the fact that the indispensable verification and valuation elements accepted and applied in the public finance area are located in the control and auditing institution.

In the paper the authors have mainly analysed audit government debt management organization in selected OECD countries[1]. Research was conducted using a prepared questionnaire, as well as reports received from public debt management institutions, including reports from external audit offices.

Institutional arrangement of public debt management

The International Monetary Fund (IMF) and World Bank define public debt management as strategies for ensuring that the government's financing needs and payment obligations are met at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk, as well as fulfilling goals through development and maintaining an efficient and liquid Treasury securities market (IMF, the World Bank 2003, 9). In OECD publications, public debt management is defined similarly as a degree of achieving four elements of the goal: fulfilling public borrowing needs, minimising debt servicing costs, keeping risk at an acceptable level and supporting the domestic capital market (OECD 2002, 51).

In this respect, the main goals of debt management, concerning mainly the level of financing shortages in the budget planned by the government in a given year (or long term), are defined by respective government departments (Ministry of Finance, Treasury). It has to be emphasized that the level of government capability to be indebted can be limited by conditions laid down by higher (international) institutions, as is the case in the Economic and Monetary Union - EMU (budget deficit and public debt criteria included in the Maastricht Treaty and the Stability and Growth Pact). Adequate government institutions (Ministry of Finance, Treasury) can set limits (benchmark - levels of tolerance) to cost scale or risk in servicing public debt (e.g. New Zealand). However, the above goals are frequently set according to suggestions made by the public debt management institutions.

An example of the first organizational solution whose role among others is to formulate and establish debt management goals is the Belgian Strategic Committee, consisting of the following: Treasury Administrator General, representatives of the Ministry of Finance and directors of three Directorates of the public debt agency. Groups of consultants also function in such countries as Australia, France, Ireland, the United Kingdom and New Zealand (E. Currie, J-J. Deither, E. Togo, 2003, p. 49-50).

As far as market operational goals are concerned, the most common strategy and procedure is set by the management itself. This applies to the level of public debt servicing costs, as well as implementing appropriate assumptions concerning policy on different types of risks (e.g. interest risk, currency risk), which may appear in a particular period. Above all, detailed goals on the functioning of the Treasury securities market are defined.

The market characteristics of government budget financing, especially the increasing role of risk management in public portfolio instruments, imposes the necessity of providing governance. In the case of public debt servicing risk, the management institution undergoes an operation based on a multi-criteria analysis of risk factors. Monitoring the appropriate choice of risk estimation methodology, carrying out established procedures and respecting established limitation, as well as know-how on how to utilize optimal solutions on the issue among the management workforce, should be the subject of comprehensive governance.

The achievement of adopted public debt management goals for a year or on a longer term basis must be dependant not only on the high level of financial reports, but on an evaluation which has to guarantee policy creditability.

The verification process of management should be done at a number of levels: by the government (stating the goal), in an internal operation of the public debt management institution (stating and fulfilling the goals) and through an external, independent organization (state control institution or an auditing company). From the subjective point of view it should cover action in institutional and functional control, as well as internal and external audit.

Currently, the importance of autonomy in a public debt management institution is underlined, due to participation in the financial market on an equal rights basis. Great attention is paid to issues concerning political and operational independence which would guarantee the highest degree of goal achievement and public debt management strategy in the medium and long term.

Taking into consideration tendency concerning institutional solutions in public finance, it is shown that public debt management is activated and put into force by the government. It achieves readymade internal goals and strategies through market operations.

Generally accepted formulation – public debt management institution – applies to the principles of the functioning of world institutional models. Taking into consideration the evolution and experience of different countries, three main solutions are observed (Table 1).

Table 1. Institutional models of public debt management

Type of model	Characteristics
Ministerial model	- debt management functions are situated in government ministerial department (in one or more departments) - debt management objectives indicated and realized in budgetary policy goals - possible objectives conflict
Banking model	- debt management department within central bank structure - public debt management (objectives, strategy, operations) subordinate to overriding monetary policy objectives - possible objectives conflict
Agency model	- public debt management function concentrated in one independent institution - high level of operational transparency and broad information policy - operational objectives and debt management strategy worked out and realized within agency under ministerial approval - possible principal-agency conflict

Source: Based on K. Marchewka–Bartkowiak, *Public debt management. Theory and practice in the EU countries* (Zarzadzanie dlugiem publicznym. Teoria i praktyka panstw Unii Europejskiej), PWN, Warszawa 2008, p. 139-141

A critical view of the first two models available for some time now, mainly concerns the dependence of debt management objectives and strategies on fiscal or monetary policy objectives, and has led to the fact that in practice a mixed model is commonly applied due to public debt management status and location[2]. Institutional solutions in the analysed countries are shown in table 2.

Table 2. Public debt management institutional arrangements in selected OECD countries

Location criteria	Within Finance Ministry/ Treasury	Belgium, Finland, France, Italy, The Netherlands, Slovenia, Spain, the UK, Australia, Japan, New Zealand
	Within central bank	Denmark
	Separate agency	Ireland, Germany Sweden, Hungary

Leg al status criteria	Separate legal act normalizing functional principles of independent public debt management institution (government agency, joint-stock company with government shares)	Ireland, Germany Sweden, Hungary
	Internal document stating status of a public debt management agency in ministerial structure with range of responsibilities	Belgium, France, the Netherlands the UK, Australia, New Zealand
	Separating department concentrating on public debt management function	Denmark, Finland, Italy, Slovenia , Spain, Japan
	Lack of public debt management department	Canada

Source: Based on questionnaire answers and reports from the selected countries

The least effective of all is locating the individual basic public indebtedness management function in different institutions – ministry, central bank and agency. Decentralization usually concerns tasks connected with domestic and foreign debt management, government budget cash management, assets or contingent liabilities management or issuing and settlement functions. Therefore, there is a need to stress that concentrating basic operational functions in one separate public debt management agency is currently both a requirement of international institutions (IMF, World Bank, OECD) and also a policy requirement.

Centralization of tasks connected with the management of the widely known government budget position (short term and long term obligations, domestic, foreign, current flows, contingent liabilities, forms of government investment, etc) also has an important meaning from the point of view of total government indebtedness control and auditing or even wider management of government assets and liabilities. This creates a basis for a complex analysis and evaluation of a government established strategy, as well as originally assumed and achieved objectives. The analysed aspect concerns all auditing operations, both internal and external.

As shown in table 2, the domination of the agency model is clearly seen. Locating an agency in an overriding institution (ministry, central bank), or in a different building (or city) seems to have less significance. For participants in the capital market, a distinct status for a public debt management institution is important information. It creates a basis for greater respect among investors, in as far as operational effectiveness is involved and transparency in established policy.

In seventeen of the analysed countries, ten have agencies whose function is based on distinct legal records, stating their form, scope of responsibility and hierarchy. In four cases – Ireland, Sweden, Germany and Hungary – there are institutions which are separately located, in which the first two have government agency status, and the others are public stock companies.

Denmark is a specific case where transferral of tasks concerning government indebtedness management in 1991 from the ministry of finance to the central bank took place on recommendations from the government auditors. They demanded the change taking into consideration the necessity of strict coordination between currency reserve management and government foreign debt. Apart from this, attention was paid to the benefits of specialized personnel, as well as well organized market operations conducted by the central bank. Currently, emphasis is clearly laid on the meaning of a formal coordinating principle between debt management and monetary policy in Denmark, as well as a high degree of transparency in conducted policy, based on high volume, evident and frequent information, detailed reporting and operations in control and audit (Debt Management Office of Denmarks Nationalbank, 2008).

To sum up, it may be stated that the public debt management agency has become a modern worldwide standard government institution. Its separation, in many cases has forced the introduction of distinct, more adequate internal and external audit procedures.

Table 3. Functioning period of auditing in public debt management in selected countries

Country	Formation period of public debt management audit	Formation period of public debt management agency
Belgium	Since 2001	Since 1998
Finland	Since beginning of 20th century (from foundation of Treasury)	-
France	External audit since 2000	Since 2001
Germany	From establishment of Federal Republic of Germany	Since 2000
The Netherlands	Since 1841	Since 1841
Hungary	External audit since 1990, internal audit since 2001	Since 2001
Ireland	Since 1990	Since 1990
Italy	Since 1994	-
Slovenia	Formally since 1999, practically since 2001	-
Sweden	More than 50 years	Since 1789, after reforms in 1998
UK	Since 1998 for internal and external audit	Since 1998
Australia	Since 1901	Since 1999
Canada	More than 120 years	-
New Zealand	Since 1988	Since 1988

Source: Based on questionnaire answers from the chosen countries

The results of specifications in the above table show that there is a convergence between the period of introducing the agency model in public debt management and that of introducing the auditing function in most of the selected countries. Other additional verificational operations, apart from the task of rationalizing a particular institution's operations, have to confirm the basis of its independence.

Public debt management control and audit definition

Control is a set of activities that comprises the following:

- fixing compulsory status (delimitation – how it should be);
- fixing the real status (execution – performing the activities);
- comparing executions with delimitations established earlier in order to check how they are suited and explaining reasons leading to differences between the two.

Control is distinguished by depriving it of all decision regarding formulation as well as implementation. Control comprises research, settlement, confrontation, formulating applications and evaluation.

Audit is to some degree a new term. It is often treated as the control of financial statements. According to Webster's New World Dictionary, audit (auditing) is, in accordance to law, the most frequent periodical research and verification of financial statements and data in order to check their regularity (Webster's New World Dictionary, 1988, p. 89). The word "auditing" is derived from a Latin word "auditor", which means listener. Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations conducted by a group of experts. It is done in accordance to a stated pattern, directives and standards. It verifies book-keeping and documents. The aim is to prove whether documents show a true and clear picture of a company's financial situation and points out conceivable shortcomings. Auditing has existed since the nineteenth century.

Initially, auditing only had an external capacity. External audit is generally defined as the type of auditing that is conducted by an independent organization which has no relationship with the management of the entity being audited, and therefore with no conflict of interests.

The economic development of companies on the market – higher level of organization, increasing management complications, as well as specialized technical operations has led to the introduction of internal audit, i.e. employing fulltime auditors in an organization. The first internal audit units were introduced after the second world war, and internal audits generally concentrated on matters concerning book-keeping. Thereafter, it began to cover issues dealing with the functioning of organizations. In this case internal audit offered assurance and consulting services. Audit helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes. Internal audit was first introduced by private companies, and then became popular among the public sector (G. Golebiowski, 2003, p. 134).

In this paper auditing and control are considered in terms of a specific public finance area, namely debt management. Centralization of public debt management functions is currently a target model for an institutional solution, allowing an improved effectiveness in achieving targeted problems. However, many countries still find it very difficult to concentrate the function of managing government budget indebtedness. There is always either a political or an organizational aspect. The only exception regarding the achievement of the above principle is decentralization of control and auditing functions, where there is clear indication of the division into internal and external.

The emerging meaning of auditing operations in public debt management can be observed in publications of international institutions, as well as guidance and analysis based on the experience of many countries in the world.

Public debt management functions were developed through the experiences of selected OECD countries in the 1990s. The most important functions cover two types of areas, as shown in table 3.

Table 3. Division of functions in public debt management

Policy formulation and planning function	Public securities market organization function
• accomplishment of established policy through target formulation, instruments adjustment, coordination of monetary policy and approbation of	• organising and managing primary market, • issuing function, i.e. organising and selecting issuing procedures,

public indebtedness, • planning, including forecasting future public borrowing needs and formulating programmes for their financing, • fiscal function, within liquidity management of government budget including future cash flows forecast, • advisory function.	• organising secondary market through expanding liquidity and dept, • administrative function (settlement and deposit).

Source: Based on L. Kalderen, *Debt Management Functions and Their Location* in: V. Sandararajan, P. Dattels, H.J. Bloomenstein, *Coordinating Public Debt and Monetary Management*, IMF, 1997, p. 79-96

The authors have emphasized the meaning and advantages of independent public debt management agencies. They also realize that their organizational and functional principles should be based more on financially motivated (salary wise) workers, who are closer to commercial operations than the public institution control function.

The principles and characteristics of the above mentioned functions of public debt management pay attention to what has been formulated by World Bank and IMF publications, where these international institutions, based on the experiences of member countries, present proposals for applying clear governance policy, including annual external audit (IMF and World Bank, 2003, p.16).

The role of auditing and control in public debt management has been emphasized by authors of World Bank publications, concluding that the above functions present one of the five conditions for the functioning of an effective agency solution (Currie, Dethier, Togo 2003, 13).

OECD formulated requirements suggest that modern public debt management, based on recent practice, should also emphasize methods and risk management controls. Auditing functions are also commonly conducted, especially within the independent sphere of the debt management institution. In this case, attention is also paid to the necessity of expanding the functions of analysed institutions with additional tasks in the following areas: recruitment and improving workforce qualifications, developing analytical and research operations, as well as creating special units dealing with new information technology (IT) (OECD, 2002, p.115).

It should be emphasized that auditing in the present institutional and operational arrangement of public debt management needs to determine one of the basic functions, as an integral part in the tasks of the researched area. Currently, a wide range of goals and functions of public debt management requires careful, penetrating, transparent and professional verification.

The fully accepted definition of public debt management internal control is derived from the Committee of Sponsoring Organizations of the Treadway Commission (COSO) standards, where internal control is defined as a process carried out by the board of directors, management and other workforce. The process is projected to attain reasonable assurance of achieving objectives in the following categories:

1. Effectiveness and efficiency of operations.
2. Creditability and reliability of financial reporting.
3. Compliance with applicable laws and regulations.

As far as the definition of internal audit of public debt management is concerned, the Institute of Internal Auditors' (IIA) definition is considered in International Standards for Professional Practice. Internal audit is an independent operation, objective, assuring and advisory, whose objective is improving the operational activities of an organization. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

In the public debt management auditing context, verifying (checking, evaluating) is emphasized, thus taking into consideration different criteria, activities of public debt management institutions aimed at assuring effective management (possibly to minimize existing risk and rationalizing control systems) and achieving planned objectives. In other words, internal audit thus understood leads to an improvement of the managing institution, increasing its operational effectiveness and efficiency and causing an indirect impact on the quality of public debt management. Internal audit does not directly apply to management methods alone.

Table 4. Defining audit and control in public debt management

Country	**Defining control**	*Defining audit*
Australia	Control an operation meant to assure effective, efficient and ethical use of public resources and promoting management of their utilization.	Audit an independent activity assuring that control exists and works
Belgium	Defined according to COSO model	Defined according to IIA
Spain	Lack of information	Audit means verifying economical management in order to check whether it is adjusted to requirements legally or traditionally established.
The Netherlands	Control a wider concept than auditing and also means estimating and managing occurring risks in Dutch State Treasury Agency – DSTA.	Audit means checking whether financial transactions are regulated and accounted for according to procedures.
Germany	Part of operational activity supplying guidelines to update management	Independent research of operational processes, taking into consideration all aspects including the control system.
Sweden	Performing control activities leading to verifying research procedures, analysing and developing control systems.	On behalf of board of directors of Swedish National Debt Office (SNDO) examines operations of activities conducted by Debt Office and assures effective management in reaching established objectives.
United Kingdom	Monitoring procedure compliance established by the Board of Directors of Debt Management Office (DMO) to assure that the operations conducted by DMO	Independent examining process of adequacy and effectiveness in functioning of internal control system in Debt Management Office and risk management process.

	lead to achieving indicated objectives.	
Italy	Definition of control not clearly specified but close to formula presented by INTOSAI.	Auditors employed by the Treasury Department verify (according to different criteria) the economy and effectiveness of public debt management, as well as accomplishing management objectives established in special government document (*General Annual Ministry Guidelines*).

Source: Based on questionnaire answers from the chosen countries

The definition of audit and control of public debt management, as well as the role of both institutions in different countries is the same. There are solutions whereby in the public debt management process, internal audit and internal control co-exist. There are cases where auditing is external and control is internal (e.g. France). Until a concept of standardizing control and auditing is reached, there will be lack of differentiation between the two institutions (e.g. Ireland and New Zealand).

Internal audit of public debt management

Taking into consideration all classifications of a public debt management institution, it is observed that in the case of independent agencies (status and location), there is often a separated internal audit unit, frequently under agency management. Internal audit functions individually within the sphere of an agency, as well as in a ministry with a different dependence hierarchy.

In some countries, despite the existence of a debt management institution model, internal audit does not function within its structure (e.g. New Zealand, The Netherlands, Japan, Canada). In this case such a unit within the ministerial sphere is treated as internal audit and thus falls under it and works for the ministerial department. This type of solution should be graded as less effective. The uniformity of auditing procedures in ministerial units can cause superficial and inadequate operations in a specific financial area (especially public debt management).

In the authors' view, two solutions may be proposed. First, the establishment of individuals (civil servants) within the existing internal audit structures of the ministry, who could verify public debt management in accordance with adjusted procedures. Secondly, the most suitable solution is to create a separate internal audit unit within the public debt management agency, responsible for implementing the required procedures with their own auditing personnel.

The first proposal may be treated as acceptable on condition that a proper hierarchy is implemented. The General Internal Auditor of the public finance sector coordinating the auditing of particular units (ministerial, departmental) should be under a higher institution, for example parliament, and should not only be under the control of the ministry of finance or the treasury. Within its own authority, it should support procedural, structural and personnel solutions.

By introducing the above model, internal auditing of public debt management would be under the General Internal Auditor. In this case, given any dispute concerning auditing activities, the director general of the public debt management agency could receive the final opinion of the General Internal Auditor.

In Belgium, for example, internal audit coordination on all levels (Treasury units) is under the General Administrator of the Treasury.

One of the additional institutions of public debt management could be a separate Auditing Committee, whose role and task would be advisory and to monitor the internal control system and its evaluation. Such type of institutionsare found in the agency structures of Australia, Ireland and the United Kingdom.

Internal audit should be conducted by an independent auditor (or auditors), whose independence is as a result of International Standards. Proof of the autonomous principles of internal auditors operations must be reflected by their position in the hierarchy of a given organisation. Looking at the analysis presented earlier, the most profitable solution for conducting internal audit operations is by separating the unit within the framework of the public debt management agency, and establishing it under the General Internal Auditor. Such a solution guarantees the independence of internal auditors who should coordinate and consult about their operations with the director of the agency. The passing on of reports by auditors to the agency's director in order to respond to auditing demands and proposals, as well as their implementation should also be a requirement. However, direct rule by top management of the agency could lead to influencing the evaluation and opinion of auditors in the functioning of the whole institution.

An internal auditor is not equivalent to a chief accountant (more regarded as an external auditor). In other words an auditor can be either internal or external, each of them being responsible for a different activity. An external auditor in The Netherlands, for example, checks whether financial transactions have been settled and entered in the account according to procedures, and whether accounting records match the conducted and achieved financial activities. Apart from the above, the work of an external auditor is to evaluate the regularity of applied accounting principles. If an external auditor is not an entity operating outside the public sector, it has to be under parliamentary control.

Table 5. Number of internal audit employees in a public debt management institution

	Number of employees	**Comments**
Belgium	Three	Possibility of expanding function to risk management operations could lead to increase in number of auditors.
Finland	Three One and deputy	Employed in financial department and responsible for control process. Responsible for transferring reports to Managing Director
France	Three auditors	-
The Netherlands	Four – five	Employed for two to three months carrying out regular control
Germany	Two	-
Sweden	Two	-
United Kingdom	Three	-
Italy	Approximately twenty	Employed in whole department (seven directors). New procedure will require at least two government representatives

		working full time.
Slovenia	Three	-
Hungary	One	-
Canada	Five	Unit also employs contract workers

Source: Based on questionnaire answers from the chosen countries

As seen in table 5, the number of auditors in each country ranges from one (Hungary) to twenty (Italy), while in the case of internal audit in the public debt management agency the average number of personnel is two to three. Within internal audit, additional external auditors (contract personnel) may be employed, e.g. Canada and the Netherlands. It is worth pointing out that in the opinion of the SIGMA (*Support for Improvement in Governance and Management*) experts the European Commission recommends that there should be at least two internal auditors in all auditing units of an institution.

Internal auditors should have access to control reports in individual units and to external audit reports. Reports from a conducted audit are usually directed to the management of the public debt management institution (e.g. Finland – Director General of the Treasury, Sweden – Agency Board, Canada – Senior Management in the Department of Finance). However, in accordance with the proposed solutions in the study, reports from operations of the internal audit agency must be summarised in an annual report and passed over to the General Internal Auditor, who is responsible for auditing in all government units, for information and verification.

Internal audit reports of public debt management in most countries are not officially published (table 6). However, there are exceptions (such as the Swedish or the New Zealand agencies), where they are public document or a part of a summarised auditing report published by the ministry.

Table 6. Information policy regarding public debt management auditing

Belgium	Internal audit reports directly passed over to General Administrator of Treasury Administration, responsible for conducting auditing. Reports are presented to higher auditing institution (Team of Auditors) and published
Denmark	External audit reports published
Finland	Reports are secret and for internal use only
France	Reports published by team of auditors
Spain	Reports not published
The Netherlands	Reports prepared by ministerial auditors not published.
Ireland	Internal audit reports are secret. Opinion of external auditor enclosed in official annual report of agency
Germany	Public debt management auditing reports not published
Sweden	Internal audit reports treated as official documents and published by agency
United Kingdom	External audit reports part of annually published DMO Report and Accounts agency Internal audit reports used by auditing agencies and committees, whose members are representatives of external audit institute and auditing units of Treasury.
Italy	Report of the team of auditors is not published. Only the statistical

	appendixes to the report are annually available on the Treasury website
Slovenia	Internal audit reports not published. Reports of external audit team given for public notice
Hungary	Reports published
Australia	External audit reports published
Japan	External audit reports published
Canada	Both internal and external audit reports have official capacity.
New Zealand	General Controller and Auditor reports published annually. Auditing report has an official capacity.

Source: Based on questionnaire answers from the chosen countries

However, internal audit reports should not be published. Their nature differs from that of the external audit reports. A report of an internal auditor is an operational document which helps to raise the standard of efficiency in a management unit. The main recipient is management. In their report, internal auditors assure the manager of a unit (in contrast to external auditors, who certify for external recipients, e.g. parliament, the functioning of public debt management) of the proper operation of specific processes or inform on transgressions and then propose relevant recommendations. Therefore, attention is often paid to the important advisory function which is conducted by the internal auditor. According to international standards and IIA definition, their operations are to increase added value.

External audit of public debt management

External audit is differently located and organized in the selected countries. In general, there is a focus on controlling the finances and activities of the administration and public property, especially government budget control. In other words, the frequent objective of external audit (control) is, on the one hand, to assure that operations are transparent and legal, and on the other hand, that evaluation or management operations allow the achievement of prescribed objectives in an economical and productive way. It is a combination of financial auditing and performance auditing. Financial auditing deals with a creditability study of financial reports through checking their conformity with accounting principles, the conformity of records in accounting books with accounting evidence. Financial auditing analyses the financial aspects known as corporate governance, i.e. efficiency in the internal control function and risk management process. Performance auditing applies to the evaluation of respecting the principles of propriety and savings in spending and obtaining the best effect within the available resources.

Table 7. External audit institutions and their range of operation

Country	*Institution*	**Audit range**
Belgium	Court of Auditors	Responsible for control of legality and regularity of public finance management and suitability with government budget
Denmark	National Auditing Office	Financial auditing
Finland	State Audit Office	Responsible for control of legality and regularity of public finance management and suitability to government budget,

		divided into two units of financial and performance auditing
France	Group of Auditors	Based on banking approach to analysis of risk exposure
Spain	Lack of external audit	-
The Netherlands	Group of Auditors	-
Ireland	Government General Controller and Auditor	Responsible for verification of legality of transactions, internal financial control monitoring system and evaluation of performance
Germany	Deloitte & Touche Auditing Company	-
Sweden	National Auditing Organisation	Consists of two departments: financial and performance auditing
United Kingdom	National Office of Auditors (NOA)	Responsible for financial auditing and legality
Italy	Group of Auditors	Responsible for verification of debt management in accordance with fixed limits and law
Slovenia	Auditors' Group of the Republic of Slovenia	Responsible for legality and performance control of public fund management
Hungary	National Office of Auditors (Állami Számvevőszék, ÁSZ**)**	Audit usually carried out with budget realisation auditing although public debt management also often under control. Additionally, external audit carried out by auditing company.
Australia	Australian National Office of Auditors (ANAO)	Financial audit (financial reports) and performance
Japan	National Office of Auditors	-
Canada	Auditor General Canada	Financial reports auditing
New Zealand	KPMG Auditing Company – contract with General Office of Control and Auditing	Financial auditing

Source: Based on questionnaire answers from the chosen countries

The role of an external auditor is to approve and certify operations of a given unit within an established area, mainly financial. Just as in private companies operating in the market, public sector entities, including the public debt management agency, an external auditor has to approve the regularity of preparing accounts and financial reports, their harmony with accounting regulations and financial law, as well as the effectiveness of internal financial control, which is a fundamental objective.

Accepting principles stating that the role of external audit is the same or similar with the role played by professional auditors in the case of companies has its basis in practice. In Germany and New Zealand, which are among the selected countries, the external audit function is conducted by the same companies which certify private company operations. The same applies to Hungary, where in the case of the public debt management agency, external audit is additionally carried out by a selected auditing company operating on the market. In Australia for example, it is PricewaterhouseCoopers.

In comparing the definition of the role of internal and external audit a thesis may be established, namely that there are common areas within the scope of their interest. Furthermore, between the two areas, there should be some sort of understanding in how the two operate – a flow of information, such that their common concern, in this case effectiveness in public resources management, could yield the best results. As far as the flow of information is concerned, the authors have in mind such operations that would allow the effective coverage of areas under auditing and eliminating duplication where possible. The above proposals mainly appliy to cooperation on an operational level between an external auditor, who audits a unit for a short period and an internal auditor, who makes decisions throughout the year. At the same time, the internal auditor is required to work according to an annual report, but interrelated with long term plans.

There is a need for the clear indication of internal and external audit areas of operation and a precise indication of principles of cooperation, where these are not explicitly stated. It will definitely be simpler if they are concrete arrangements made more specifically in the field of internal audit operations. The organizational location of an internal auditor in an institution which deals with a number of areas, often very different from each other, working out an individual approach to specific problems is more difficult and therefore does not provide a common ground to close cooperation with the external auditor. Treating the public debt management as a specific process, in comparison to other areas of a ministry's work, such type of tasks for qualified auditors should be there to perform the duties. This can be achieved, on the one hand through an increase in the number of personnel in an internal audit unit, supporting the team of auditors analysing public debt management, or as the authors recommend separating public debt management from the ministerial structure and locating it in another separate organizational unit, e.g. an agency where a new internal audit unit could be established. Such an organizational structure would be effectiveness in the work of internal auditors, as well as improve the coordination of an internal and external audit operations (see figure 1).

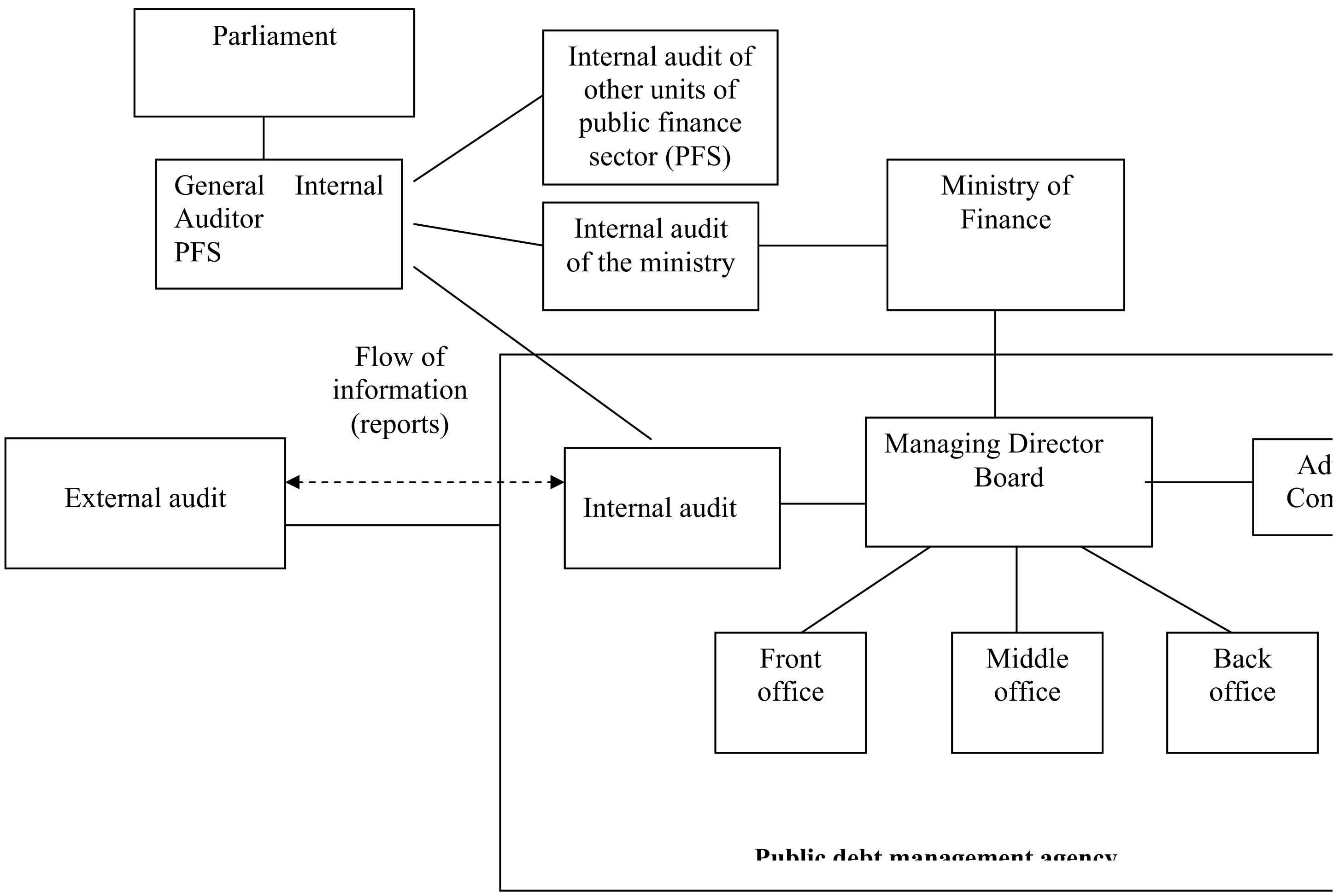
As in Germany, New Zealand and Hungary, it is worthwhile considering the idea, in as far as a public debt management agency is concerned, an auditing firm operating on the market could be chosen as the external auditor. Making use of auditors outside the public sector structure has a substantial advantage.

Conclusion

As the authors have shown, in many countries public debt management governance (auditing and control) is still treated in different ways and with various approaches, on both the definition point of view as well as location in the structure and hierarchy of government institution networks and procedures in general. The differences are a result of many factors, with the most important of all being the application of institutional and functional solutions in public debt management.

In support of the agency model of public debt management, the authors also presented the auditing and control relation and location operations modelwhich, according to them, should lead to more effective solutions in this respect. This would guarantee the most adequate operation adjusted to a specific area namely government budget indebtedness management.

Figure 1. Proposed relationship and hierarchy of public debt management auditing



Notes

1. Analyzed countries: Belgium, Denmark, Finland, France, Spain, The Netherlands, Ireland, Germany, Sweden, United Kingdom, Italy, Slovenia, Hungary, Australia, Japan, Canada, New Zealand

2. See: G. Wheeler, *Sound Practice in the Government Debt Management*, The World Bank, Washington 2004, p. 50-57 or P. Anderson, *Should public debt be managed by a separate agency?* in: *Government Debt Management: New Trends and Challenges*, ed. by M. Willians, P. Brione, Central Banking Publications, London 2006, p. 79-92

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