



**MONGOLIAN NATIONAL AUDIT OFFICE**

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**AUDIT REPORT OF PUBLIC DEBT REPORTING**



**Control over bookkeeping and utilization of foreign loan is weak**

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<p><b><u>Report prepared by:</u></b></p> <p><b>Performance Audit Office of the Mongolian National Audit Office</b></p> <p>Director: D.Ganbileg</p> <p>Audit manager: Kh.Bayarmaa</p> <p>Analyst: P.Tsenguun Sh.Enkhtaivan</p> <p><b>December 2010</b></p> <p><i>This report is available on the website of the Mongolian National Audit Office.</i> <a href="http://www.mnao.mn">www.mnao.mn</a></p> <p>If you have any clarifications or inquiry regarding the audit report and conclusion, please contact as at telephone number 261885 and fax number 323266</p> <p><b>ADDRESS:</b></p> <p>Mongolian National Audit Office 210642 Chingeltei district, Government building IV, Baga toiruu-6, Ulaanbaatar-46 Mongolia</p>	<b>List of abbreviations</b>	2
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## LIST OF ABBREVIATIONS

<b>ADB</b>	Asian Development Bank
<b>ADRSCC</b>	Agency for Debt Recovery of Savings and Credit Cooperation
<b>DFCD</b>	Development Financing and Cooperation Department
<b>DFI</b>	Department of Finance and Investment
<b>DFT</b>	Division of Finance and Treasury
<b>DHCD</b>	Department of Housing and Community Development
<b>DRT</b>	Department of Road Transport
<b>GCD</b>	Government Communications Department
<b>GCFS</b>	Government Consolidated Financial Statements
<b>GPOC</b>	Government Property Ownership Commission
<b>HPS</b>	Hydroelectric Power Station
<b>IFAD</b>	International Fund for Agricultural Development
<b>IMF</b>	International Monetary Fund
<b>LOMCFLGA</b>	Law of Mongolia on Coordination of Foreign Loans and Grant Aid
<b>MNAO</b>	Mongolian National Audit Office
<b>MOECS</b>	Ministry of Education, Culture and Science
<b>MOFALI</b>	Ministry of Food, Agriculture and Light Industry
<b>MOH</b>	Ministry of Health
<b>MOJIA</b>	Ministry of Justice and Internal Affairs
<b>MOMRE</b>	Ministry of Mineral Resources and Energy
<b>MONET</b>	Ministry of Nature, Environment and Tourism
<b>MoRTCUD</b>	Ministry of Road, Transportation, Construction and Urban Development
<b>NSC</b>	National Statistics Committee
<b>PIU</b>	Project Implementing Unit
<b>PMC</b>	Project Management Committee
<b>RIPFGFL</b>	Regulation on Implementation of Projects Funded by Government's Foreign Loan
<b>SCAOFLGA</b>	State Central Administrative Organization in charge of Foreign Loans and Grant Aid
<b>SCAOPI</b>	State Central Administrative Organization on Project Implementation
<b>SCC</b>	Savings and Credit Cooperative
<b>SPC</b>	State Property Committee
<b>TD</b>	Treasury Department
<b>UBHN</b>	Ulaanbaatar Heating Network
<b>USUG</b>	USUG – The Water Supply and Sewerage Authority of UB city



**Mongolian National  
Audit Office  
Highlights**

Report of MNAO -PAD/2010/08-PA

### **Why MNAO Did This Study**

The current audit has been conducted according to the plan of rendering product, work and services to the Auditor General of Mongolia in 2010 in framework of the powers of the MNAO as described in the Law on State Audit.

MNAO has prepared this report to assist Parliament in identifying and addressing government debt reporting management system.

The Government of Mongolia disbursed large amount of loans in 2009 from the Donor Countries and International financial institutions. Amount of foreign loan taken in 2009 increased drastically due to economic crises.

This report (1) describes internal control structure of the public debt management reporting system, and (2) defines that debt report meet needs of local and international users.

We analyzed the implementation of functions and the organizational structure of the debt management units, implementation of foreign loan projects, had taken survey from Economic and Budget Standing Committee members and International Financial Organizations, interviewed MOF officials and project units.

### **MNAO Recommendations**

To eliminate the overlapping of functions of the DFCD and the TD and to restructure their organization pursuant to international standards on implementing the management of foreign and domestic debts, receivables and cash-flows;

To conduct research on the changing legal environment which regulates the management of the State and Government debt, cash-flows and reserves, in conformity with current tendencies, and to have appropriate decisions adopted according to relevant regulations;

For more information or inquiry regarding the audit report and conclusion, please contact us at telephone number 261885 and fax number 323266,

## **PUBLIC DEBT REPORTING**

### **What MNAO Found**

The strategic targets of operations and description of functions of the Development Finance and Cooperation Department and of the Treasury Department were defined and functions other than cooperation and grant, but related to foreign loan overlap considerably.

Compared against the functions of DMD and DFCD, the DMD under the TD performs the tasks of the back office or the accounting and payments, the DFCD performs the tasks of the front office or getting and on-lending loans, whereas the tasks of the middle office or risk management, which is the main task, are not included.

According to the joint IMF/ WB analysis on debt sustainability, it was assessed that although the debt sustainability ratios will be increasing considerably in the coming 2 years due to increased amount of external loan taken due to the economic crises, the distress of Mongolia's foreign debt has low risk level. The Government debt sustainability indicator has been calculated taking the Government debt solely on the basis of the foreign loan.

According to the basic functions, the DFCD and the Debt management division under the TD of the MOF submit the reports on foreign and domestic debt, loans on-lent domestically from resources of foreign loans, loans disbursed with condition to repay the budget funds, to the Financial accounting department, and have them integrated with the consolidated financial statements of the Government. However, it is incomplete to classify the debt in the consolidated financial statements of the Government solely by the term.

The survey on "Information about public debt", which was taken from members of the State Ikh Khural Standing Committee on Budget, resulted necessary to provide the additional information on public debt from one source on a regular basis.

Also, we had taken the survey from the international institutions and results of this survey indicate that the internal organization of operations needs to be improved.

The "Regulation on issuance of discounted government bond and conduction of its calculations" approved by the Government in 1996. However, the regulation does not state in what operation and how the bond will be utilized.

The fact that 99 percent of the Government bond refers to short and mid-term shows that this can have an effect on the Government's liquidity in the mid-term.

## **Audit Objective, Scope and Methodology**

The current audit has been conducted according to the plan of rendering product, work and services to the Auditor General of Mongolia in 2010 in framework of the powers of the Mongolian National Audit Office as described in the Law on State Audit.

### **Audit objective**

The objective of the audit is to ensure effectiveness of the public debt management reporting system and introduce the result to relevant institutions and officials. Under the above objective, the audit has been conducted in the direction stated below:

- ✓ Whether Debt reporting system has enough internal control structure
- ✓ Whether debt reports meet needs of local and international users

### **Scope**

The audit scope covered the Development Finance and Cooperation Department and Debt Management Division of the Treasury Department of the Ministry of Finance, and some institutions, entities, projects and programs which received on-lending loans by period 2009.

### **Methodology**

According to the state audit standards, methodological advice on implementing those standards, regulation on approval of the performance audit report, manual of performance audit, and plan and program approved by the Auditor General of Mongolia, the following methodologies have been used:

- Compared public debt reports with international standards and domestic standards;
- Reviewed debt reports and loan agreements;
- Analyzed the implementation of functions and the organizational structure of the Development Finance and Cooperation Department and Debt Management Division of the Treasury Department of the Ministry of Finance;
- Analyzed the implementation of the projects and programs funded by the foreign loan;
- Reconciled selected loans and to analyze the utilization of loans and implementation of procedures;
- Analyzed the unpaid outstanding balances of loans, to study the reasons for not being repaid, to get related clarifications and explanations;
- Analyze the way how bonds were issued and disbursed according to the State Ikh Khural resolution.

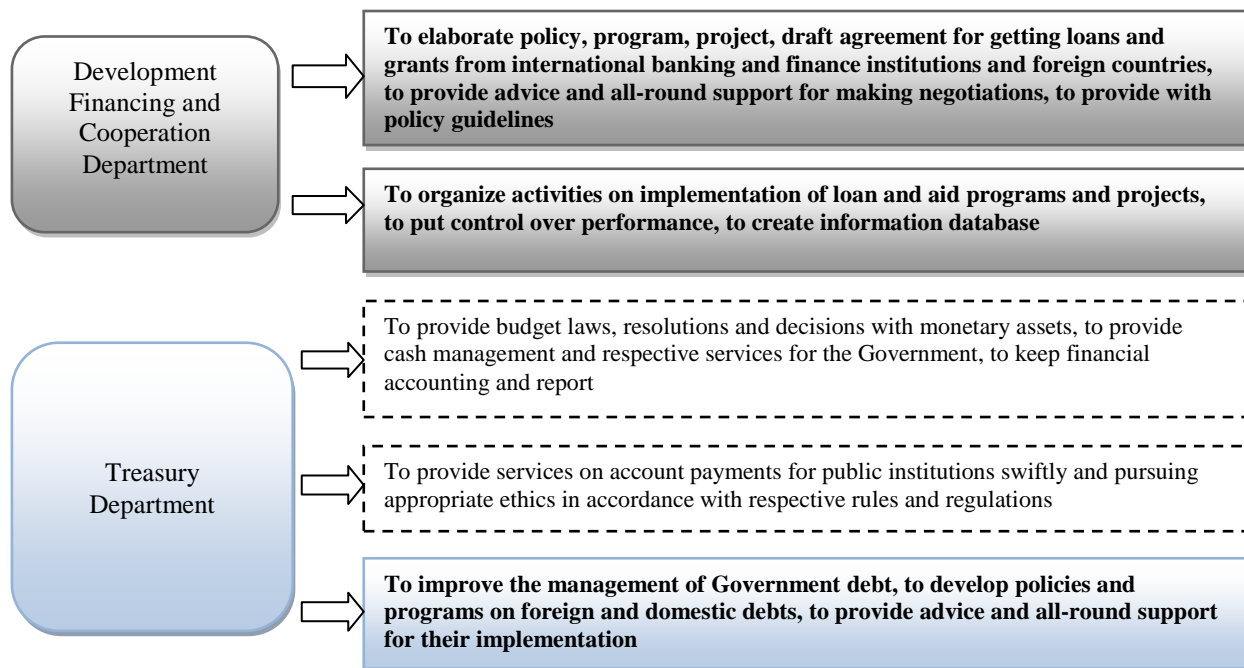
### **Audit Team**

The audit has been conducted by auditor and analyst of the third team of Mongolian National Audit Office's Performance Audit Office.

In accordance with the state audit standards and regulation on performance audit, evidences and related reports and surveys to be in support of the audit result and conclusion are attached to the working papers.

**Functions of departments and units overlapped**

- 1.1 The organizational structure of the Ministry of Finance has been renewed on the Government of Mongolia Resolution No. 46 dated 2009. In particular, the strategic targets of operations of the Development Finance and Cooperation Department and the Treasury Department, which operate in charge of foreign loan, aid and debt management, have been determined as follows:



- 1.2 The strategic targets of operations and description of functions of the Development Finance and Cooperation Department (DFCD) and of the Treasury Department (TD) were defined by the abovementioned resolution. Functions other than cooperation and grant, but related to foreign loan overlap considerably.

**Example of international practice:**

Governments of foreign countries implement the debt management through Ministry of Finance, government agencies or through the Central Bank. Please refer to the table below:

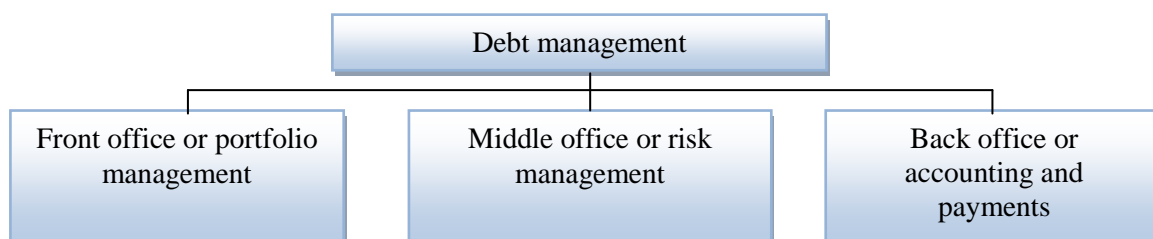
<i>Through Government agencies</i>	<i>Through Ministry of Finance or internal bureaus or agencies</i>
<i>(Report to Ministry of Finance)</i> Austria, Hungary, Ireland, Portugal	Belgium, Colombia, Canada, France, New Zealand, Bulgaria, Lithuania, Latvia, Norway
<i>(Governmental organizational structure)</i> Sweden, Australia, United Kingdom, Germany, Netherlands	

In this time of globalisation, development and economic crises, the world countries

switch to the principle of managing the debt and cash-flows in a comprehensive way and concentrating on the management into one place in order to fully implement the asset and liability management, namely getting the loan at low price and low foreign exchange risk, to disburse and on-lend the funds in an efficient manner into the right sector and to reduce the future liquidity risk.

According to the international standards, the debt management is implemented through the Treasury Department of the Ministry of Finance or government agencies and debt agencies under the structure of the Ministry of Finance.

- 1.3 Foreign countries and international institutions define the debt management structure as follows:



- 1.4 Compared against the functions stated in the organizational structure above, the Debt management division under the TD performs the tasks of the back office or the accounting and payments, the DFCD performs the tasks of the front office or getting and on-lending loans, whereas the tasks of the middle office or risk management, which is the main task, are not included in either one of the two departments. As a result, management of risk related to receiving and on-lending foreign and domestic debt was not implemented.

***Example of international practice:***

The middle office or the Risk management department of the Debt management agency of Belgium implements the following activities:

- a. Determining debt management strategies,
- b. Evaluating and putting control over the implementation of the approved strategies,
- c. Implementation of credit risk and collateral management,
- d. Calculation of debt and loan budget, control over the budget.

The “Law on public debt management” of Vietnam governs activities related to the public debt management, borrowing and use of loan, debt payment and public debt management. It is defined in the law that the public debt shall be comprised of a) government debt, b) government-guaranteed debt, and c) debt to local administration.

The “Law on regulating public finance and debt management” of Turkey governs activities related to foreign and domestic debt, borrowing and on-lending of loan, debt payment and cash management.

- 1.5 Although it was decided according to the renewed description of functions between the DFCD and TD of the Ministry of Finance (MOF), that the DFCD shall be assigned to provide reports on utilization of foreign loan and to keep the accounting, this function has been transferred back to the TD in July 2010 because the DFCD failed to implement the

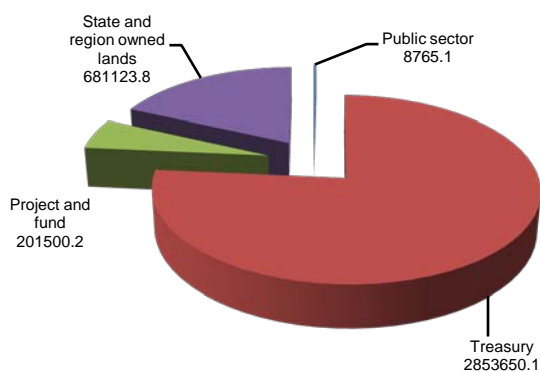
assigned task. This fact indicates the ineffectiveness of the above stated organizational structure.

- 1.6 In other words, the functions of the TD and the DFCD have been overlapped, resulting in lack of intergrated policy and management, negligence of work and in lack of control and responsibility system.

***Amount of foreign loan taken in 2009 increased drastically due to economic crises***

- 1.7 The government debt and loans funded by foreign and domestic resources are regulated by the “Law on consolidated budget of Mongolia”, “Public sector management and finance law of Mongolia”, “Securities law of Mongolia” and the “Law of Mongolia on coordination of foreign loans and grant aid” (LOMCFLGA) approved by the State Ikh Khural on June 12, 2003.

***Long-term loan in 2009 as stated in the CFSG (in million togrogs)***



1.8 76 percent of the long-term debt reflected in the consolidated financial statements of the Government (CFSG) as at year-end 2009 constitutes long-term loans taken from foreign countries and international institutions.

1.9 It is stated in the LOMCFLGA that the State Ikh Khural shall exercise the power to “determine the state policy toward foreign loan and grant aid”. Thus, indicators to calculate the state debt burden have been reflected under the clause 20 of the

Millenium development goals of Mongolia approved by the resolution number 25 of the State Ikh Khural dated 2005.

- 1.10 It is stated in the Action plan of the Government of Mongolia for 2008-2012 “to pursue a foreign loan policy that places no burden on the national economy and state budget and seek to receive grant aid rather than loan. The outstanding foreign debt and debt service indicators of the Government shall not exceed the levels set forth by the State Ikh Khural”.

***Example of international practice:***

According to the “Law on debt management” of Jordan, it is set forth that the amount of domestic debt shall not exceed 60 percent of the GDP, the amount of foreign loan shall not exceed 60 percent of the GDP, and the total debt shall not exceed 80 percent of the GDP.

It is stated in the “Law on public debt management” of Vietnam that norms for public debt and national foreign debt against GDP, norms of payment of government debts against total state budget revenues, and norms of payment of national foreign debts against total export value shall be determined by the Naitonal Assembly every 5 years.



1.11 The Government's foreign debt sustainability indicators are shown in the table below:

INDICES	2004	2005	2006	2007	2008	2009	2010 <sup>1</sup>
<b>Foreign debt sustainability indicators</b>							
<i>thresholds</i>							
Debt / GDP	86.1%	<b>63.4%</b>	51.9%	48.4%	33.7%	43.1%	40.1%
<b>PV debt / GDP</b>	<b>(40%)</b>	<b>52.1%</b>	<b>39.7%</b>	<b>31.7%</b>	<b>40.0%</b>	<b>24.0%</b>	<b>27.5%</b>
Debt / Export	159.1%	<b>126.1%</b>	90.6%	82.6%	68.3%	95.2%	103.0%
<b>PV debt / Export</b>	<b>(150%)</b>	<b>96.2%</b>	<b>79.0%</b>	<b>55.3%</b>	<b>68.2%</b>	<b>48.7%</b>	<b>70.7%</b>
Debt/ Budget revenue	267.9%	192.2%	121.7%	122.6%	102.8%	132.3%	143.1%
<b>PV debt / budget revenue</b>	<b>( 250%)</b>	<b>162.1%</b>	<b>120.4%</b>	<b>74.3%</b>	<b>101.3%</b>	<b>73.3%</b>	<b>98.3%</b>
Total debt payment / Export	( 20%)	10.1%	3.6%	2.9%	3.7%	2.4%	4.5%
Total debt payment / Budget revenue	(30%)	17.0%	5.5%	4.0%	5.4%	3.6%	6.3%
Total debt payment /Budget expenditures	( 25%)	14.9%	6.1%	4.3%	5.0%	2.9%	5.3%
Loan utilization / Budget revenue		25.0%	13.1%	7.7%	13.9%	4.5%	20.4%

(Information source: Ministry of Finance)

- 1.12 According to the joint IMF/ WB analysis on debt sustainability, it was assessed that although the debt sustainability ratios will be increasing considerably in the coming 2 years due to increased amount of external loan taken due to the economic crises, the distress of Mongolia's foreign debt has low risk level.
- 1.13 The Government debt sustainability indicator in the comments and explanations of the consolidated financial statements of the Government as at year-end 2009 has been calculated taking the Government debt solely on the basis of the foreign loan.

**Example of international practice:**

The international practice shows that the debt distress indicators are calculated at the country's level considering government debt, regional administration debt and debt of foreign loan taken in the banking and private sectors.

- 1.14 In the framework of the powers of the Government as stated in the clause 11.1.1 of LOMCFLGA, a "Mid-term (2007-2009) strategy for government debt" has been approved by the order number 144 of the Minister of Finance dated 2007. However, the mid-term strategic plan for foreign loans and grant aid to be provided after the year 2010 has not been elaborated. According to the LOMCFLGA and the general description of the department functions, the DFCD should "elaborate the state policy toward foreign loans and grant aid and have it approved". However, the DFCD does not have it approved by the State Ikh Khural, which hinders the implementation and assessment of this task.

**Example of international practice:**

According to the "Public debt management act" of Thailand, the National Assembly shall exercise the following powers:

<sup>1</sup> Calculations cover the period of the first half-year of 2010.

1. To determine the loan growth, purpose and direction of loan utilization and to set forth the country's debt safety level for a period of 5 years;
2. To determine, in accordance with the state budget calculations, the government debt payment and the structure of the loan to be taken in that particular year;
3. To determine the basic directions of the investments to be funded by the government loan and the projects to be implemented;
4. To control and regulate the public debt management, loan utilization and distribution, and the debt repayment.

Moreover, the act states that the Ministry of Finance is entitled to take loans for the following purposes:

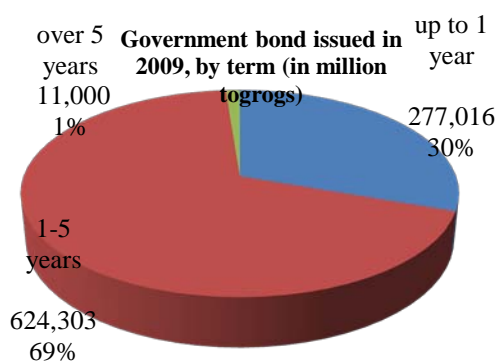
- a. To financing budget in the case of deficit or where the expenditure exceeds the revenue;
- b. To provide economic and social development;
- c. To restructure public debt;
- d. To on-lend to other government agencies.

***Legal environment for regulation of Government bond issuance not developed***

- 1.15 54 percent of the short-term debt stated in the consolidated financial statements of the Government as at year-end 2009 account for short-term securities (government securities) registered in the Treasury.
- 1.16 The activities on government securities are regulated by the "Securities law of Mongolia" and the "Regulation on issuance of discounted government bond and conduction of its calculations" approved by the Government resolution number 246 dated 1996 in conformity with the former.
- 1.17 The "Regulation on issuance of discounted government bond and conduction of its calculations" approved by the Government resolution number 246 dated 1996 governs activities related to the type, term, calculation and accounting of the government bond. However, the regulation does not state in what operation and how the bond will be utilized.

***Example of international practice:***

The laws on debt management and laws on public finance and debt management of foreign countries defined the Government bonds and securities as facilities to implement the government debt management and provided regulation of these activities. For instance: "Law on public debt management" of Vietnam, Thailand and Jordan and "Law on regulating public finance and debt management" of Turkey.



1.18 69 percent of Government bond issued in 2009 account for mid-term bonds, 30 percent are short-term and 1 percent refers to a long-term bond.

1.19 The fact that 99 percent of the Government bond refers to short- (up to 1 year) and mid-term (1-5 years) shows that this can have an impact on the Government's liquidity in the mid-term.

## ***Conclusion***

Based on the evidences collected in the process of the auditing the following conclusion is drawn:

1. Defining of direction, targets and distribution of functions between the departments and units is irrational due to lack of legal environment for regulating the organization and operations.
2. Legal environment for implementing integrated management of the Government cash-flow and reserve has not yet been formulated, integrated policy on coordinating foreign loans and grant aid is lacking.
3. The calculation of the debt sustainability indicators in the consolidated financial statements of the Government was based solely on the government's foreign debt, which is misleading with respect to determining future risks.

## ***Recommendation***

Based on the audit result and conclusion, we provide advice to the Prime Minister of Mongolia S.Batbold and the Minister of Finance S.Bayartsogt to implement the following measures:

1. To eliminate the overlapping of functions of the DFCD and the TD and to restructure their organization pursuant to international standards on implementing the management of foreign and domestic debts, receivables and cash-flows;
2. To systematize the country's debt distress survey and reporting in conformity with international standards;
3. To conduct research on changing the legal environment which regulates the management of the State and Government debt, cash-flows and reserves, in conformity with current tendencies, and to have appropriate decisions adopted according to relevant regulations;



are not delivered on time and on a regular basis. This leads to a conclusion that the internal organization of operations needs to be improved.

***Regulations which were approved in order to observe the law not followed***

- 2.10 In the framework of implementation of the LOMCFLGA, “Regulation on bookkeeping of foreign loans and grant aid, establishment and use of database” was approved by the resolution number 447 of the Minister of Finance dated 2006, and “Regulation on implementing projects funded by the government foreign loan” was approved by the resolution number 120 dated 2007, and both are currently being observed.
- 2.11 The participating institutions in the implementation of projects funded by foreign loan, namely SCAOFLGA, SCAOPI, PMC and PIU, do not implement the clause 2.2 of the “Regulation on bookkeeping of foreign loans and grant aid, establishment and use of database”. The fact that the DFCD of the Ministry of Finance had amended the appendix information and delivered it to the SCAOPI by an official letter indicates that the reporting procedure is not conducted in an established order. For instance,
- All project foreseers did not submit the quarterly reports, the MOF, MOH, MONET, Governor administration office of Erdenet city and the NSC did not submit the annual reports for the year 2009 to the DFCD of the MOF at all,
  - MOMRE, MoRTCUD, MOFALI, MOJIA and MOECS submitted the reports 10-37 business days behind.
- 2.12 Moreover, the information of the reports submitted in such way do not conform to the indicators of reporting stipulated in the agreements concluded with the project funders (World Bank, ADB), and thereby cause problems in implementing them. Although a proposal on requirements to be observed commonly on a number of projects has been elaborated and delivered by the MOF at the meeting with the managements of the PIU in December 2009, the PIU has delivered comments explaining that, as of today the requirements are still not observed.
- 2.13 Because the Information, control-analysis and evaluation department of the MOECS failed to control, analyze and assess projects implemented in its sector, and because the PIU for the “Establishment of controlling system of air pollution in Ulaanbaatar city” project has not been established, and the project coordinator failed to submit the operations report, the MONET did not possess any information.

***Truth and fairness of information and reports on loan utilization is inadequate and unsubstantial***

- 2.14 Although an intergrated database of debts and loans has been created, the officers of the DFCD and of the Debt management division of the TD of the MOF which function in charge of foreign loans and grant aid lack stability, knowledge, experience, capability to be responsible for a given work, continuity in public service. This results in an inadequate control over the bookkeeping, truth and fairness of the reports and surveys, utilization of loans and security of debt.
- 2.15 For instance, in the report on utilization of foreign loan in 2010, the plan and performance of loan projects were provided in different classifications. Respectively, rectifications were made during the auditing.

Sector	Project name	As at June 2010 /in togrogs/	
		Plan	Performance
<b>Agriculture</b>	4069᠒ ᠠ G-Index based livestock insurance		137,795,695.73
<b>Finance</b>	4069᠒ ᠠ G-Index based livestock insurance	164,541,355.52	

<b>Transportation</b>	200465112-Development of regional transport infrastructure	24,384,530.80	
<b>Road loan</b>	200465112- Development of regional transport infrastructure		213,916,550.93
<b>Transportation</b>	Ì Î Í -7-Communication control and information network		3,188,666,875.48
	Ì Î Í -7- Communication control and information network	7,648,926,247.72	

2.16 Moreover, according to the budget performance report 2009, the sectors of projects provided in the list of projects funded by foreign loan (performance of utilization of foreign loan) do not conform to the project description, and thus provide fallacious information about the project which is being implemented in a particular sector. For instance,

“Urban development project” was classified in the financial sector, whereas projects related with economic developments such as “Capacity building for economic management project”, “Development of the national statistical system project” and “Capacity building on corporate governance project” were classified in other sector, and “Communication control and information network project” implemented at the MOJIA was classified in the transport sector.

2.17 Furthermore, the DFCD of the MOF has stated in the report on utilization of foreign loan that loan worth USD 100,000 was disbursed in the framework of the “Development of the national statistical system project” as at the Q3 2010, whereas in reality this value stood at USD 25,521.

2.18 In order to correct some errors which have occurred, when the receivables of on-lent loan were booked anew in the consolidated financial statements of the Government in 2002-2003, rectifications were made by the Debt management division in 2008 by adding 155.3 billion togrogs to 49 entities and deducting 206.5 billion togrogs from 21 entities. In 2010, the Internal auditing department of the MOF conducted auditing to these rectifications and provided appropriate recommendations.

***Loans with no sources of payments have been registered under the name of a public sector institution***

2.19 The following receivables are registered on the name of public sector institutions in the accounting records of the Government receivables.

<b>Funders</b>	<b>Year</b>	<b>Purpose of loan</b>	<b>Initial loan (million credit line)</b>	<b>Name of organization</b>	<b>Outstanding amount as at 2009 (in billion togrogs)</b>
<b>ADB</b>	1993	Renovation of the industrial sector policy and structure	21.7	Ministry of Finance	31.9
<b>WB</b>	1991	Improvement of macro-economic management system	3.7	National Statistical Committee	10.7
<b>WB</b>	1997	Development of legal environment for restructuring the banking and manufacture sectors	1.5	MOJIA	1.8

2.20 Of the one part, the Ministry of Finance did not conclude on-lending agreements with the institutions stated in the table above, of the other part, the given loan debt is not reflected in the bookings of a particular institution.

- 2.21 The above-stated institutions are fully funded by government budget, thus have no source of payment for the loans. This is related with failure to thoroughly study the receivables when they were first reflected in the registration of on-lent loans in 2002-2003.
- 2.22 Also, “MON-3-Expansion and modernization of public communication system project” was implemented on a discounted loan worth USD 5.3 million of Korea’s Economic Development Cooperation Fund, Korea in 2001-2003. When the State Property Committee (SPC) inquired information from the MOF to book the project assets into the state property, the following answer was received by an official letter with reference number 5-7b/1417 dated 2007, stating that “on-lending agreement was not concluded, because the Government Communications Department (GCD) is an institution which is financed by the state budget, and therefore the Government of Mongolia will be responsible for the loan principal and interest payments”. Nevertheless, the GCD has registered a receivable of 8.6 billion togrogs. It is linked with the internal work organization of the Treasury department of the MOF.
- 2.23 An amount of 55.3 billion togrogs is registered to be taken from the Department of Energy for the purposes of developing the technical and economic justification for the Egiin gol hydro-electric power station (HPS) and building the Taishir HPS. The receivables of the agreement concluded between the Energy Authority and the Shanghai’s corporation on Durguny HPS in 2001, are not registered at the MOF.

### ***Conclusion***

Based on the evidences collected in the process of the auditing the following conclusion is drawn:

1. The regulation which is currently observed to increase the implementation, utilization and efficiency of projects funded by foreign loans and to improve the control does not conform to today’s environment.
2. The control which is put over the truth and fairness of the bookkeeping, reports and surveys on foreign loan, utilization of loan and guaranteeing of debt, and the evaluation of project results and efficiency, are inadequate.

### ***Recommendation***

Based on the audit result and conclusion, we provide advice to the Minister of Finance S.Bayartsogt to implement the following measures:

1. To assess the programs and projects implemented through the foreign loans and grant aid, to calculate the outcomes, to renew relevant rules and regulations and to provide with integrated policies.

## OPINION OF RESPECTIVE INSTITUTION

Unofficial translation

State CABINET SECRETARIAT OF THE GOVERNMENT OF MONGOLIA

Emblem

Date: December 13, 2010

Ref: HEG/2288

Ulaanbaatar-12

Tel: 260817

Fax: 976-11-310011

To: Radnaa Ch.

Auditor General of Mongolia

Subject: Submission of opinion

I have been introduced to the draft performance audit report delivered by an official letter number 891 dated November 24, 2010, addressed to the Minister of Mongolia, Chairman of the Cabinet Secretariat of the Government of Mongolia.

Hereby, I agree with the conclusion drawn in the draft report of performance audit which was conducted by your institution in the framework of work plan for the year 2010, on the basis of the opinion of the State Ikh Khural Standing Committee on Budget.

Thus, I consider it necessary to specifically introduce the audit conclusion and materials to the President of Mongolia, Chairman of the State Ikh Khural and the Prime Minister, to have it discussed by and have conclusions and measures to be implemented in future decided by the National Security Council of Mongolia, if need be.

Sincerely yours,

Minister of Mongolia,  
Chairman of the Cabinet Secretariat  
of the Government of Mongolia  
/ seal affixed /

/ duly signed /

Ch. Khurelbaatar





МОНГОЛ УЛСЫН  
ЕРӨНХИЙ АУДИТОРЫН ТУШААЛ

2011 оны 5 сарын 27 өдөр

Дугаар 54

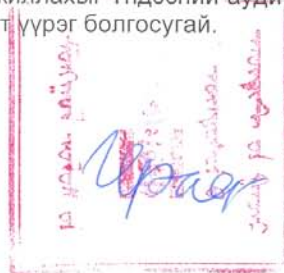
Улаанбаатар хот

Аудитын тайланг баталгаажуулах тухай

"Төрийн аудитын тухай хууль"-ийн 13.4.5, "Гүйцэтгэлийн шалгалтын журам"-ын 23.2, "Гүйцэтгэлийн аудитын тайланг хянан баталгаажуулах журам"-ын 4.2-т заасныг үндэслэн ТУШААХ нь:

1. "Улсын өрийн тайлагнал"-д хийсэн аудитын тайланг баталсугай.
2. Аудитын тайланг Улсын Их Хурлын Төсвийн болон Эдийн засгийн Байнгын хороод, Сангийн яаманд хүргүүлсүгэй.
3. Аудитаар өгсөн зөвлөмжийг хэрэгжүүлэх арга хэмжээ авч, үр дүнг 2011 оны 12 дугаар сарын 1-ний дотор Үндэсний аудитын газарт ирүүлэхийг Сангийн сайдад зөвлөсүгэй.
4. Аудитын тайланд тусгагдсан зөвлөмжийн хэрэгжилтэд хяналт тавьж, үр дүнг Удирдлагын зөвлөлд танилцуулж ажиллахыг Үндэсний аудитын газрын Гүйцэтгэлийн аудитын газрын захирал Д.Ганбилэгт үүрэг болгосугай.

МОНГОЛ УЛСЫН  
ЕРӨНХИЙ АУДИТОР



Ч.РАДНАА

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State

Emblem

DECREE OF THE AUDITOR GENERAL OF MONGOLIA

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Date: May 27, 2011

Ref: 54

Ulaanbaatar city

Subject: Approval of audit report

Based on the clauses 13.4.5 of the “Law on State Audit”, 23.2 of the “Regulation on performance audit”, 4.2 of the “Regulation on approval of performance audit report”, it is to DECREE:

One. To approve the report on audit conducted on the “Public debt management reporting system”.

Two. To deliver the audit report to the State Ikh Khural Standing Committees on Budget and Economy, to the Cabinet Secretariat of the Government of Mongolia and to the Ministry of Finance.

Three. To advise the Minister of Finance to take appropriate measures on implementing the recommendations provided by the audit and to submit the report on results of the measures to the Mongolian National Audit Office by December 01, 2011.

Four. To assign D.Ganbileg, the Director of Performance Audit Office of the Mongolian National Audit Office, to put control over the elimination of breaches stated in the audit report and implementation of recommendations and payment penalties, and to report the results to the Management Board.

AUDITOR GENERAL  
OF MONGOLIA  
/ seal affixed /

CH. RADNAA

670149  
*Decree*