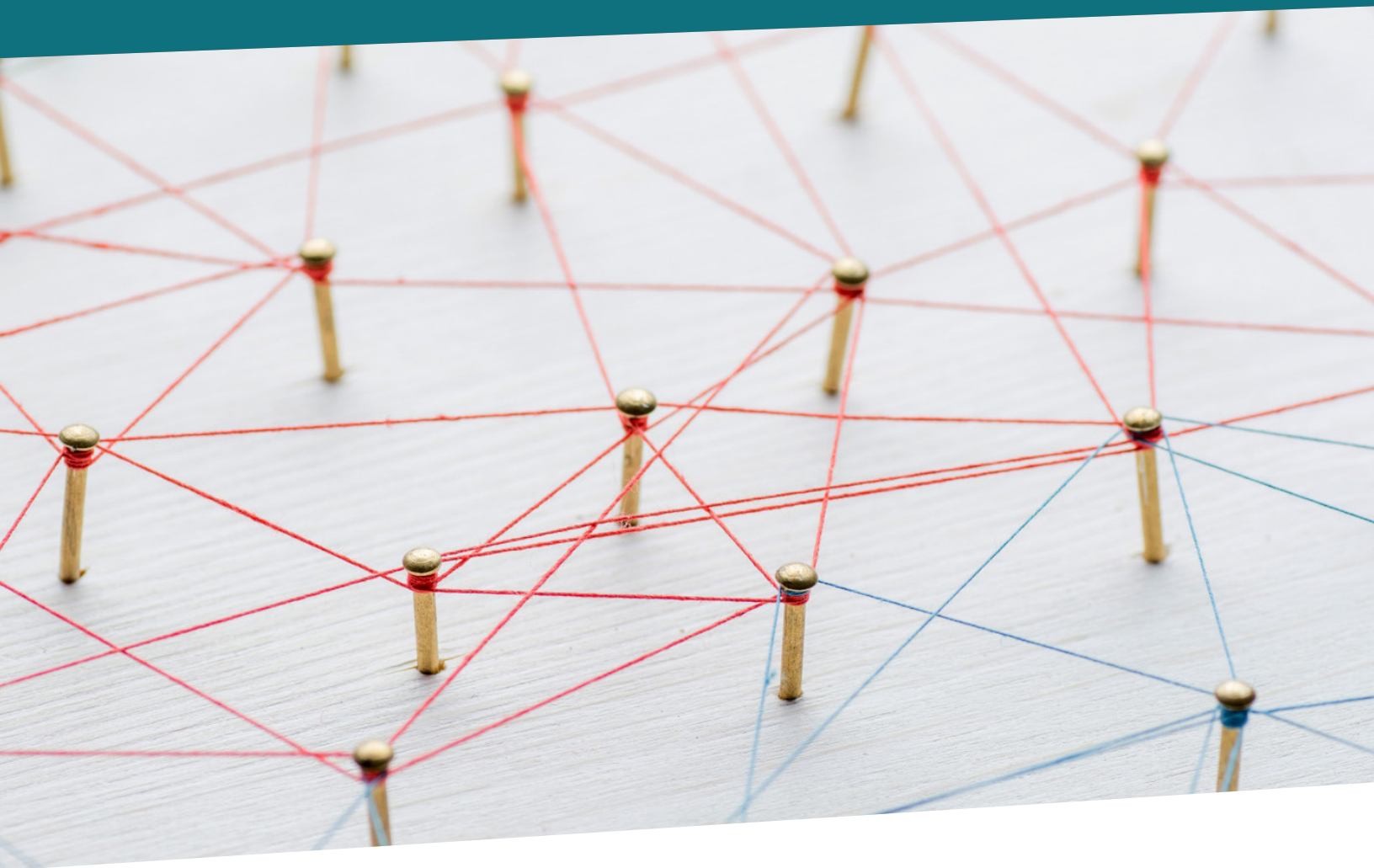


Strengthening Budget Credibility through External Audits

A Handbook for Auditors



**United
Nations**

Department of
Economic and
Social Affairs



**International
Budget
Partnership**

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The Department of Economic and Social Affairs of the United Nations Secretariat is a vital interface between global policies in the economic, social and environmental spheres of sustainable development and national action.

The Department works in three main interlinked areas:

- i. It compiles, generates and analyses a wide range of economic, social and environmental data and information on which States Members of the United Nations draw to review common problems and to take stock of policy options;
- ii. It facilitates the negotiations of Member States in many intergovernmental bodies on joint courses of action to address ongoing or emerging global challenges; and
- iii. It advises interested Governments on the ways and means of translating policy frameworks developed in United Nations conferences and summits into programmes at the country level and, through technical assistance, helps build national capacities.

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The International Budget Partnership partners globally with budget analysts, community organizers, and advocates working to advance public budget systems that work for people, not special interests. Together, we generate data, advocate for reform, and build the skills and knowledge of people so that everyone can have a voice in budget decisions that impact their lives.

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Lead coordinators: Aránzazu Guillán Montero (UNDESA/DPIDG), Claire Schouten (IBP)

Editor: Debby Friedman

Layout: Damilola Ogundipe, Segun Adeniyi

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Chapter 6: Assessing budget credibility risks at the program/entity level

In examining budget credibility risks at the program and entity level, this chapter guides auditors to identify and analyze how such risks emerge, how they are managed by the responsible officials, and how they can be mitigated through audit recommendations. The chapter emphasizes the planning phase of the audit because the focus on budget credibility risks should be clear from the beginning of the audit and throughout the entire audit process. A summary reference guide on selecting criteria for a budget credibility audit and an auditor's self-checklist are appended to this chapter (Annex 6.1 and 6.2).

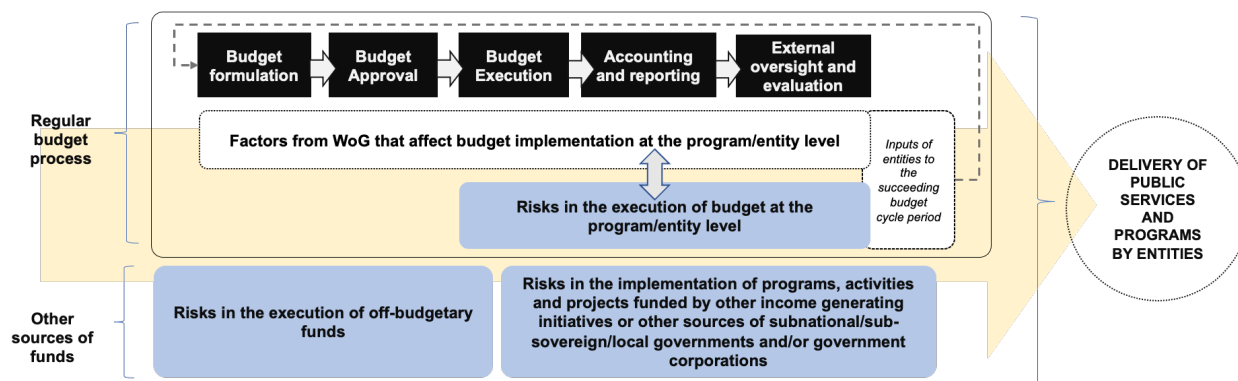
6.1 Focus on budget credibility risks at program/entity level

SAls regularly conduct audits of budget execution at the program/entity level as part of their audit

plans.¹²⁹ Auditors are encouraged to review their current audit practices, mandate, and country governance context and consider performing assessments of credibility risks at the program/entity level. In addition to the usual activities surrounding budget execution at the program/entity level, auditors are also encouraged to look into off-budgetary financing and other practices where funding comes from outside the regular budget process (e.g., income generation of local governments and government corporations, intergovernmental fiscal transfers/national tax allocation to subnational/local governments). The areas covered in this chapter are illustrated in Figure .6.1.

¹²⁹ Audits of the government's budgets and year-end accounts, which are carried out on a regular, cyclical time schedule, are the principal focus of Chapter 5.

Figure 6.1. Scope of topics covered in chapter 6



Source: Chapter authors. SAI Philippines

Budget execution and implementation at the program/entity level may be affected by risks at the whole-of-government level.¹³⁰ For some issues evaluated at the program/entity level, SAIs are uncovering root causes that emanate from risks at the whole-of-government level. (For example, see Box 6.1.) feedback, via the mandatory reporting from programs and entities on their budget implementation, informs

Thus, risks at both levels (whole-of-government and program/entity) are interrelated and may

not be mutually exclusive from one another. For example, feedback from programs and entities (e.g., via mandatory reports on their budget implementation) informs budget preparation for the next fiscal year at the whole-of-government level. Similarly, as noted by SAIs in their audits, issues related to the generation and management of performance information from the program/entity level may also contribute to the preparation and forecasting of the budget for the whole-of-government.

Box 6.1. Risk factors from the whole-of-government level can affect program implementation

In their annual opinion on the General State of Accounts, **SAI Portugal** includes recommendations to the parliament or to the government to overcome shortcomings of budgetary management, treasury, national debt, and state assets, as well as the organization and operation of services. These deficiencies are closely linked to budget credibility risks and some of them arise from the functioning of the budget programs. In fact, one recent example of a relevant audit finding at the program level is the non-compliance with budget limits of the Basic and Secondary Education and Health programs of the Portuguese government. The SAI found that this has been a recurring situation and reveals “structural problems in the budget forecasting process, whose approach needs to be more realistic, and represents a risk to budget credibility as a whole.”

Source: SAI Portugal

¹³⁰ Thus, this chapter is closely related to Chapter 3 on the assessment of credibility risks for the whole-of-government.

Execution of the budget and use of funds at the program or entity level

Understanding how funds are disbursed to and used at the program or entity level will help the auditor pinpoint potential risks for budget credibility.

Budget execution

Budget execution refers to the process through which financial resources are made available to an entity, which is mandated to direct, plan on,

and control the use of those resources in order to achieve the purpose and goals identified in the approved budgets. This process has several parameters, such as adhering to legal and administrative requirements as well as compliance with program descriptions based on relevant laws, rules, and regulations. In many budget systems around the world, budget execution is when the entities prepare their financial plan and individually execute their annual plan and targets based on the approved budget from the whole-of-government level.

The common budget execution activities followed by governments regarding program/entity level expenditure are summarized in Table 6.1.

Table 6.1: How the budget is released to, spent, and reported on by a program/entity

Activity	Stakeholders	Description
Budget programming/determination – i.e., preparing the final summary plan of how monies will be distributed amongst the ministries	Ministry of Finance or Budget Inter-agencies/committee National cabinet in charge of budget development and coordination	Budget determination/programming at the entity/program level usually takes place once the overall economic targets, expenditure levels, revenue projection, and financing plan have been determined by the Ministry of Finance or Budget, the inter-agencies/committee, or the national cabinet in charge of budget development and coordination. (See Box 6.2 for examples.) The MoF, Department/Ministry of the Budget or other equivalent government institution prepares the budget program based on the appropriations approved by the legislative body and the entities' plans, financial and physical targets, and schedules for the year. ¹³¹ This process kicks off the budget execution phase in the final months of the year prior to the subject fiscal year. In cases where the legislative body has not approved the budget before the subject fiscal year starts, the government may be allowed to spend on the basis of " <i>vote on account</i> " ¹³² where it can obtain an advance on the money needed for the next financial year ¹³³ that should be enough to last for a few months until the new financial year starts. ¹³⁴

¹³¹ In most countries, the MoF is responsible for formulating and implementing the core financial functions of the government which, among others, include budget formulation, macroeconomic forecasting, long-term fiscal projections, and tax policy. See [The Evolving Functions and Organization of Finance Ministries](#); by Richard Allen, Yasemin Hurcan, Peter Murphy, Maximilien Queyranne, and Sami Yläoutinen; IMF Working Paper WP/15/232; November 2015. In other countries, the budget formulation, and implementation functions are the responsibility of a separate ministry or department of budget: [Guidelines for Public Expenditure Management—Section 3—Budget Preparation](#) (imf.org).

¹³² Guidelines for Public Expenditure Management—Section 4—Budget Execution <https://www.imf.org/external/pubs/ft/extend/guide4.htm>

¹³³ Votes on account - MPs' Guide to Procedure - UK Parliament.

¹³⁴ "Vote on account" is practiced in the United Kingdom and India.

¹³⁵ IMF, 2016. Expenditure Control: Key Features, Stages, and Actors

Activity	Stakeholders	Description
Allotment release / obligation authorization	Program/entity Ministry of Finance Line ministries, agencies, main spending units	<p>Upon submission of the entities' budget execution documents outlining their financial plans and performance targets for the year, the allocation of appropriations or release of funds through cash limits, funds transfers, etc. will take place.</p> <p>The MoF releases the designated appropriations to the line ministries (either quarterly or monthly). In turn, line ministries allot their apportioned appropriations to their subordinate spending units¹³⁵ and authorize the agencies to enter into obligations against their respective budgets.</p>
Obligation of expenses for the purchase of goods and services and other processes	Program/entity	<p>Thereafter, spending entities enter into the commitment stage or obligation that the government will pay for, as the programs, activities, and projects of the entities are implemented. Spending entities incur obligations when they enter into contracts with the suppliers of goods and services; these are subject to rules and regulations (particularly during the procurement process) of their respective governments. Spending entities undertake procurement and other processes before they "obligate" funds.</p>
Disbursement/ payment of obligation	Line ministries, other spending agencies, or Ministry of Finance	<p>Depending on the country's PFM process, authorization for payments on entities' commitments will be made by officials of line ministries, other spending agencies, or even the MoF.¹³⁶</p>
Accountability reporting	Program/entity	<p>The management of the entity reviews the performance of the programs/projects and submits required accountability reports to appropriate oversight and/or monitoring authorities. (See Box 6.3) accountability reports to appropriate oversight and/or monitoring authorities. (See Box 6.3)</p>

¹³⁶ Ibid

Box 6.2. Examples of budget programming

The draft state budget laws of **Morocco, Romania, and the Philippines** are accompanied by a report on the macroeconomic situation for the budget year, on which the draft budget is prepared, including the projection for the next few years. From that, budget ceilings for each program or entity are determined and disseminated through the issuance of budget circulars and calendars by the Ministry of Finance or equivalent institutions.

In **Australia**, entity budgets are published in the “Portfolio Budget Statement” in the month of May every year to inform parliament of the proposed allocation of resources to government outcomes by entities within the relevant portfolio.

Sources: UNDESA/IBP 2022 SAI survey and chapter authors; <https://www.finance.gov.au/government/federal-budget/budget-process>

Spending entities pay funds from the government’s treasury to settle obligations they incurred for the delivery of goods and services to citizens. (To expedite the payment process, the budget department in some countries, including the

Philippines, have introduced a checkless and cashless disbursement mechanism whereby entities/agencies settle the payment of goods and services they procured through bank-to-bank transactions in lieu of checks and cash advances.)

Box 6.3. An example of regulations on the financial management of an entity’s budget

In **South Africa**, Treasury Regulation 2.1.3 provides for the accounting officer (of an entity/department) to execute duties related to the department’s effective financial management, including the exercise of sound budgetary control practices, the operation of internal controls, and the timely production of financial reports. The same regulation also makes the chief financial officer of an entity/department responsible for submitting final documents to their Public Finance/Budget Office.

Off-budgetary financing and expenditures

The three principles of universality, unity, and specificity for the fulfillment of budget functions guide governments to prepare budgets such that the expenditures financed by taxes/levies and all revenues collected (universality) are indicated in the budget document; all planned expenditures and revenues to be collected are presented to guide authorities to decide on the approval of the budget (unity); and expenditures and revenues are specified separately in required detail (specificity).¹³⁷

Despite efforts to come up with a budget that fulfills these standards, budget institutions often encounter difficulties when consolidating other forms of expenditures that threaten the functioning and credibility of the budget. These are referred to as off-budgetary expenditures,

“items below the line” and “back-door” expenditures. Off-budget funds are entity monies authorized by law and deposited in the governmental depository banks used for expenditures that are not part of the budget or mentioned in the budget document.¹³⁸ With this common set-up of off-budgetary funds, the expenditures or budget information tend to hide the actual extent of government spending, borrowings, debt, and interest burden.¹³⁹ (See Chapter 3.)

Auditors may use the same guidance and references in this chapter when assessing credibility risks in the utilization of funds from off-budgetary financing, considering the impact of these operations on public debt and contingent liabilities (namely those arising from guarantees).

Box 6.4. SAI India: Flagging off-budgetary financing and the need for its transparency

In January 2021, in a presentation to the Indian Finance Commission, the Comptroller and Auditor General pointed out that the central government’s deficit figures might be considerably higher than those reported in their government’s budget. **SAI India** suggested a policy framework for off-budget financing that should include transparency on the amount, rationale, and purpose of funding.

Source: [The Economic Times \(indiatimes.com\) |Time for clear picture - What is off Budget financing and why everyone wants to know about it this time.](https://www.economicstimes.indiatimes.com/news/economy/finance/what-is-off-budget-financing-and-why-everyone-wants-to-know-about-it-this-time/what-is-it/slideshow/80478104.cms)

¹³⁷ OECD, 2004. OECD Journal on Budgeting, Volume 4 Issue 1, OECD Publishing, Paris, https://www.oecd-ilibrary.org/governance/oecd-journal-on-budgeting/volume-4/issue-1_budget-v4-1-en

¹³⁸ <https://www.dbm.gov.ph/wp-content/uploads/BESF/BESF2019/GLOSSARY.pdf>

¹³⁹ The Economic Times (indiatimes.com), 2021. What is off Budget financing and why everyone wants to know about it this time - What is it? <https://economicstimes.indiatimes.com/news/economy/finance/what-is-off-budget-financing-and-why-everyone-wants-to-know-about-it-this-time/what-is-it/slideshow/80478104.cms>

Funding sources and utilization of subnational/sub-sovereign/local government units and/or government corporations/state-owned enterprises (SOEs)

In many countries, increasing decentralization of governance means that enhanced responsibilities and roles are allocated to local governments. For example, some countries allocate as much as half of their national budgets to lower levels of government.¹⁴⁰ Decentralizing sectoral programs such as health, education, and social welfare, is seen as a more effective way to ensure that intended beneficiaries receive benefits as planned in these programs. (See Chapter 1) Discerning the extent that this is the case should be considered among the audit priorities of SAIs in strengthening budget credibility both at the level of program implementation or entity's spending and the whole-of-government.

Auditors responsible for auditing lower levels of government (subnational/ local) and other types of government entities (e.g., government corporations) are also encouraged to use this guidance to assess the credibility risks of those entities. Many SAIs, however, have only a limited mandate – if any – to audit the subnational level of government and government corporations. Thus, in these countries with limited oversight at the lower levels of government, the use of funds by entities might escape a sufficient level of scrutiny and accountability.

In most jurisdictions, shareholders of government

corporations or SOEs have the primary responsibility for appointing and/or approving the external auditor with only some governments relying on SAIs to audit government corporations/ SOEs to evaluate the use of public assets and finances and observance of legal regulations.¹⁴¹

Nonetheless, auditors who have the authority to investigate the spending of these institutions hold an important role in advancing budget credibility. The discussions and guidance provided in this chapter speak about the universality of looking into credibility risks whatever the funding sources, budget/fund implementation process, and level of government (entities, institutions, or ministries) providing services and delivering programs to stakeholders.

Additional factors that affect budget implementation at the program/entity level

Among the other factors that influence budget execution at the program/entity level are the translation of strategic priorities of the central government to individual entities; the adequacy and clarity of budget regulations and laws; and the feasibility of programs that are approved through legislative/congressional amendments. Varying across countries, these factors often reflect the relative powers and interests of the executive and the legislature in the planning, prioritization, and approval of programs as well as political considerations influencing the relations between both branches of government. When auditing entities and/or programs, auditors should consider

¹⁴⁰ Arturo Herrera Gutierrez, 2015. "What are we talking about when we talk about "subnational" governments?" World Bank blog. <https://blogs.worldbank.org/governance/what-are-we-talking-about-when-we-talk-about-subnational-governments>

¹⁴¹ OECD, 2022. Monitoring the Performance of State-Owned Enterprises: Good Practice Guide for Annual Aggregate Reporting. <https://www.oecd.org/corporate/ca/Monitoring-performance-state-owned-enterprises-good-practice-guide-annual-aggregate-reporting-2022.pdf>

the budgetary legal framework and the relative power and capacity of the executive and the legislature to better understand various factors

influencing the risks to budget credibility in their country.

Box 6.5. Examples of executive and legislative influence in budget preparation and program planning

Nigeria: Recent research by the International Budget Partnership (IBP) pointed to the legislature as one of the main drivers of budget credibility challenges in Nigeria. The legislature has considerable power to amend the budget and uses it to alter the budget each year. In recent years, data showed that the legislative branch contributed to underspending by introducing additional projects that could not be implemented.

Philippines: In 2011, the Executive introduced the Disbursement Acceleration Program (DAP) as a reform program aimed at expediting public spending and boosting economic growth by enabling the government to implement streamlined processes in budget execution. The DAP was not a fund, but a mechanism “to support high-impact and priority programs and projects using savings and unprogrammed funds.” Given the public and institutional concerns about the legitimacy and constitutionality of the program, audits of programs and projects funded by the DAP were conducted and the high court held hearings on the matter. In July 2014, the high court declared three schemes under the DAP unconstitutional.

Brazil: While some constitutional changes have enhanced the objectivity, transparency, and inclusiveness of budget amendments (particularly with a view to redistribution of resources to the poorest regions), the budget amendment process has also become more complex and burdensome in terms of the allocation of resources. The budget proposed by the Executive may be amended by the legislature in four different ways: through amendments by individual congressmen, state delegations, congressional committees, and rapporteurs. Political actors often leverage weaknesses in the process to forward their political and personal interests, which in turn affects the technical feasibility and successful implementation of programs and projects.

Costa Rica: The Parliament incorporates an entire chapter in the Budget Law on budget execution that establishes rules of budget under-execution and conditions for the execution of certain expenses, which affects the fulfillment of the annual goals and the efficiency and flexibility of the expense.

Sources: Nigeria: S. Atiku and J. Lakin, 2019. That’s incredible! The contours of budget credibility in Nigeria, Washington DC, IBP, <https://internationalbudget.org/wp-content/uploads/the-contours-of-budget-credibility-in-nigeria-ibp-2019.pdf>; Philippines: The Disbursement Acceleration Program | Official Gazette of the Republic of the Philippines; COA checking Palace’s spending booster program (rappler.com); Brazil and Costa Rica: Contribution of SAI Brazil and SAI Costa Rica for the development of this chapter.

Common credibility risk factors at budget execution and program implementation

The traditional budget execution system focuses on compliance, which can be achieved when there are detailed input controls to lessen or avoid budget overruns and budget deviations.¹⁴² Budget deviations (overspending and underspending of the budget) may happen because of non-compliance by entities with the spending limits defined by the budget itself or with the applicable rules and regulations.

The key risks to budget execution refer to whether deficit targets are likely to be met, and whether any budget adjustments determined at the budget preparation stage are being implemented as planned. On the expenditure side of the budget, risks refer to whether the actual budget spending is likely to be within the set budget, whether there are incidental implemented changes in spending priorities in specific areas or programs as planned, and whether any problems, such as the buildup

of payment obligations or overstatement of revenues, happen during budget execution.¹⁴³

Any analysis or assessment of budget execution and controls should also cover issues related to budget preparation, and consider both the risks of repetitive disruptive budgeting, the requirements for cash controls, and compliance controls.¹⁴⁴ These credibility risks may occur despite having budget execution systems in place that ensure that the resources used to implement policies are incorporated into the planned budget.

For auditors, the usual starting point for analyzing budget credibility risks is familiarizing themselves with the risk factors of the environment of the audited program/entity. A recent analysis of 80 audit reports from 20 countries indicated that common budget execution problems are usually related to management capacities and procedures, documentation of expenditures, estimation of costs/spending, the timing of spending, and generation, capture, and management of performance information.¹⁴⁵

Box 6.6. A note on performance-based budgeting

The lack of alignment between expenses and the government's strategic objectives poses a risk to credibility. To tackle this issue, where feasible, some countries are moving towards performance-based budgeting, which aligns expenses with the government's strategic objectives and priorities and is an important tool for improving performance guidance, including program evaluation and spending review. The performance budget, in addition to aligning expenses with the government's strategy, objectives, and priorities, constitutes an important tool to improve performance guidance, including program evaluation and spending review. (See [OECD Best Practices for Performance Budgeting](#) and Chapter 3.)

¹⁴² Asian Development Bank, 1999. Managing Government Expenditures, <https://www.adb.org/publications/managing-government-expenditure>

¹⁴³ IMF (n.d.). Guidelines for Public Expenditure Management—Section 4—Budget Execution <https://www.imf.org/external/pubs/ft/expend/guide4.htm>

¹⁴⁴ Asian Development Bank, 1999.

¹⁴⁵ A. Guillán Montero, 2021.

Additional types of execution problems that may create risks to budget credibility include weak documentation of expenditures, unjustified expenditures and their use for unplanned purposes, non-compliance to laws, rules, and regulations, and internal control deficiencies. (See Chapter 2.)

Key credibility risk factors commonly assessed by auditors on the execution of the budget at the program/entity level are described in Table 6.2 alongside a few relevant findings from SAIs.

Table 6.2. Common budget credibility risk factors at the program/entity level (and sample observations)

Common risk factors	Sample observations from SAIs on risk factors
<p>Management capacity and procedures</p> <ul style="list-style-type: none"> Inconsistencies across information systems and legal frameworks. Weak administrative procedures leading to overrun or underspending with impacts on service delivery.¹⁴⁶ 	<ul style="list-style-type: none"> Lack of regulations, facilities, and mechanisms to implement social programs contribute to deviations during execution which lead to underspending (<i>Indonesia</i>). For programs and projects with cross-sectoral beneficiaries that are implemented by multiple institutions, coordination of implementing agencies is critical to minimize the lapses in planning programs and attaining determined outputs (<i>Philippines</i>).
<p>Documentation of expenditures</p> <ul style="list-style-type: none"> Lack of integration, consolidation, and cross-referencing of all activities regarding actions taken on spending. Weak integration of the documentation into the government's financial systems. Lack of documentation (i.e., lack of reports, records, supporting evidence, etc.) 	<ul style="list-style-type: none"> Officials responsible for the implementation of a budget mixed up the classifications of budget information, which caused their budget statement to not be actual or real (<i>Egypt</i>). Budget execution is not supported fully by reliable and valid data on the beneficiaries of government programs (<i>Indonesia</i>).

¹⁴⁶ Ibid. (A. Guillán Montero, 2021.)

Common risk factors	Sample observations from SAIs on risk factors
<p>Cost estimation and spending</p> <p>Poor cost estimation:</p> <ul style="list-style-type: none"> Means budgets are inaccurate, which can impede capacity to spend Makes it impossible to check against spending to manage and prevent overruns. 	<ul style="list-style-type: none"> Finance ministry attempted to control overall expenditures by underbudgeting in education and health programs and through centralized appropriations requiring approval from the Ministry of Finance to be relocated and used. This has resulted in a larger volume of reallocations, increasing red tape, not paying expenditures in due time, and the recurring problem of arrears (<i>Portugal</i>).
<p>Timing of spending</p> <ul style="list-style-type: none"> The lapse of time between authorization and actual spending may facilitate unauthorized spending that causes deviation from the approved budget. 	<ul style="list-style-type: none"> There have been significant delays, of up to 132 working days, in processing the specific authorizations¹⁴⁷ that are issued to spending entities to incur obligations in their local government support fund, which assists the municipalities in delivering basic services to their constituents. These delays hinder the timely implementation of priority projects and programs financed by such funds, which could have benefitted people from the localities (<i>Philippines</i>).
<p>Generation, capturing, and management of performance information</p> <ul style="list-style-type: none"> Weak systems for capturing or gathering performance information affect the sufficiency and appropriateness of performance indicators and targets for government programs and projects. 	<ul style="list-style-type: none"> Distribution of funds to some social programs was not carried out in a timely manner, in the right amount, or to the intended beneficiaries. As a result, there have been deviations from the planned budget, which could undermine the program's effectiveness in meeting the targets and objectives. These issues have been caused by the lack of reliable and valid data on beneficiaries as well as an information system that is not fully optimized to support government planning and program execution (<i>Indonesia</i>).

Sources: The common risk factors on budget execution and implementation are based on the report from A. Guillán Montero 2021. The SAI examples were selected from the responses to the UNDESA/IBP survey of INTOSAI members conducted in 2022.

¹⁴⁷ In the Philippines, the special authorization is called Special Allotment Release Order (SARO).

Several of these risks may be detected simultaneously when examining budget execution of programs or by entities and may appear in combination with whole-of-government risks. The risks may overlap due to budget and program management areas that cut across the execution of the budget and implementation of programs.

6.2. Assessing budget credibility risks at the program/entity level

This section provides guidance on how budget credibility risks can be factored into audit work at the program/entity level – audit planning, performing the audit procedures/risk responses, evaluating the evidence, and forming conclusions and recommendations – and in consideration of the SAI's mandate, capacities, and resources. In assessing budget credibility risks at the program/entity level, auditors may follow the typical audit process being implemented by most SAIs and apply the relevant auditing standards, as previously presented in Chapter 2.

Planning

Planning for an audit that looks at budget credibility risks at the program/entity level is necessary at both the strategic and the audit engagement phases. These planning activities can result in the identification of critical audit areas and programs (audit topic/s) which are likely to affect budget credibility.

Strategic planning

As part of the strategic planning process, an SAI can provide clear audit instructions to its auditors on how to determine, formulate, and implement audit plans and procedures that factor in credibility risks from the beginning of the audit year. The strategic audit plan or similar top-level plan of an SAI should become the guiding document at the institutional level leading towards this direction.

Through the strategic audit approach in planning, SAIs can look at how well entities have articulated their goals and objectives that contribute to sustainable development at the national level.¹⁴⁸ Further, SAIs can examine whether entities have developed strategies for achieving objectives and whether evidence is used on results and strategic planning, allocation of public resources, monitoring, evaluation, and reporting.¹⁴⁹ One way of doing this is by detailing the number of target audits of programs and entities, as well as training needs and resources, that are required in the SAI's strategic plan, which will be supported, monitored, and implemented by the annual operational plans of the SAI. With this vertical articulation of the priorities to audit, the auditors who assess budget credibility at the program/entity level will be properly engaged on the selected audit topic/s.

SAIs may have different approaches to identifying the universe of critical areas for audit. As an example, the practice of SAI Bulgaria is presented in Box 6.7.

¹⁴⁸ INTOSAI Russia (n.d). "Strategic audit," <https://intosairussia.org/news-media/news/best-practice-cases-of-strategic-approach-to-public-auditing.html>

¹⁴⁹ Ibid.

Box 6.7. Determining research areas for a compliance audit of the budget at the entity level in Bulgaria.

Auditors identify three groups of activities based on their relation to the budget process:

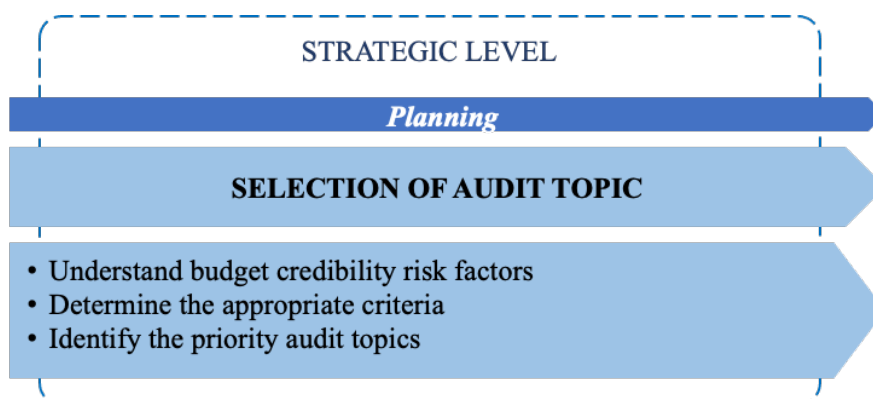
- Areas related to the implementation of the revenue part of the budget which includes processes/ sub-processes of planning, revenue administration, and implementation of the revenue part of the entity (budget procedure, implementation of tax and non-tax revenues, income from the funds of the European Union, others).
- Areas related to the implementation of the expenditure part of the budget, which relates to assuming obligations and making expenses (personnel expenses, maintenance costs, capital expenditures, public procurement expenditures, professional, training and retraining expenses, etc.).
- Areas related to the acquisition, management, and disposition of property which includes planning, lending of property, providing accommodation, purchase, and donations in favor of the state, among others.

These areas are analyzed according to two main criteria:

- Depending on the functions (powers) of the entity.
- Relations of the specific activity to the budget process (income from the activity and protection of the entity's property).

Source: SAI Bulgaria's contribution to the UNDESA/IBP SAI survey 2022.

Figure 6.2.1 Activities under Selection of Audit Topic



Selection of the audit topic

Determining the prevalence of credibility risks in critical programs and areas should be the first step in assessing these risks in program/entity-level audits. SAIs may use a risk factor matrix (see Table 6.3) to identify high-risk areas as potential audit topics for credibility risk assessments and a decision criteria matrix (see Box 6.7) to select which of these topics which will be subjected to an audit. The following discussion presents the essential steps in selecting the audit topic (i.e., understanding budget credibility factors/applying risk factors to audit planning, determining the appropriate criteria, and identifying priority audit topics) and are supported with the presentation of sample tools to facilitate these actions. SAIs have different practices in performing these steps depending on their contexts, internal procedures, audit approaches, audit tools, etc.

(i) Understand budget credibility risk factors

Knowledge of credibility risk factors (as presented in this chapter) and other relevant factors of the country/SAI context is important and valuable. Auditors must also understand which current sectoral programs and government activities are deemed critical or of high importance.

Useful criteria and questions that auditors could consider in selecting budget credibility as an audit topic are provided in Chapter 2. These include, among others, an assessment of the relevance and significance of budget credibility in the national context. A sample process for evaluating critical areas for an audit at the program/entity level is illustrated in Table 6.3.

Table 6.3. Illustrative risk factor matrix

Critical areas for audit	Risks factors*						Total
	i	ii	iii	iv	v	vi	
Sectoral programs and responsible entities**							
Social services (e.g., health, education, social protection programs, etc.)	✓	✓	✓	-	✓	-	4
Economic services (e.g., infrastructure, agrarian reform, agriculture, communication, etc.)	✓	✓	✓	✓	✓	-	5
General public services (e.g., general administration, public order, safety, etc.)	✓	✓	✓	-	✓	-	4
Debt burden (e.g., debt service, interest payments, etc.)	✓	✓	✓	-	✓	-	4

Critical areas for audit	Risks factors*						Total
	i	ii	iii	iv	v	vi	
Defense (e.g., domestic security)	✓	✓	✓	✓	✓	-	5
Government-wide							
Procurement	✓	✓	✓	✓	✓	-	5
Payroll (salaries and wages, personnel services)	-	✓	✓	-	✓	-	3
Others	-	-	-	-	-	-	-

***Risk factors:** (i) Management capacity and procedures; (ii) Documentation of expenditures; (iii) Timing of spending; (iv) Cost estimation and spending; (v) Generation, capturing, and management of performance information; (vi) Other as identified according to country/SAI context.

**Specific programs and responsible entities can be considered in the actual assessment

In the risk factor matrix, SAIs may modify the extent of classifications as to the sectoral programs and include specific programs depending on their relevance to budget credibility. For instance, pursuant to the Philippines' Magna Carta of Women, auditors may consider gender and development (GAD) risk factors, particularly on the allocation and utilization of GAD funds per entity. For documentation, the auditors should include comments and justification of the rating per critical area.

The idea of this exercise is to help auditors understand and clarify among themselves the occurrence of credibility issues and risk factors in important audit areas of government programs and activities. The critical audit area/s which garner the highest number of risk factors will be considered high-risk and can help prioritize audit work.

(ii) Determine the appropriate criteria

Once the high-risk programs or activities have been identified, SAIs will identify the audit topic

using various criteria. SAIs will refer to their internal policies for the criteria and, depending on their flexibility, may develop their own selection criteria and procedures to choose audit topics. Aside from national laws, rules, and regulations that may require an audit of particular government programs or activities, the SAI/ auditors are expected to consider materiality (all its appropriate aspects), significance, risks, audibility, and impact, among other selection criteria. Especially in the case of programs, the auditor can also consider the commitments to standards, measures, and results adopted by auditee management, including specific targets.

In addition to reviewing priority programs for budget credibility risk, as per Table 6.3, SAIs should consider budget credibility within each of the criteria they choose to prioritize. Criteria to identify the audit topics, their respective descriptions, and their relevance to budget credibility are presented in Annex 6.1. Derived from the INTOSAI Performance Audit Standards

¹⁵⁰ INTOSAI-HDI, 2021. Performance Audit ISSAI Implementation Handbook. <https://www.idi.no/work-streams/professional-sais/work-stream-library/performance-audit-issai-implementation-handbook>.

Guideline on Selecting Performance Audit Topics,¹⁵⁰ Annex 6.1 is intended as a helpful resource to guide SAIs through this process.

identify the audit topic. One way for an SAI to determine and document their strategic audit priorities for a particular period is through a Decision Criteria Matrix, using a template and steps as illustrated in Box 6.8.

(iii) Identify the priority audit topics

After setting the criteria, SAIs may evaluate the high-risk programs/activities against them to

Box 6.8. Decision criteria matrix for determining audit topics for budget credibility

The weight for each criterion may be decided upon by the SAI or auditors, depending on the SAI context. Each program/activity will be scored against the criteria and a weighted score will be calculated accordingly. When all the programs/activities are analyzed and scored, the SAI should rank them based on their aggregated weighted score. The program/activity with the highest rank shall be considered a priority for auditing

Audit topic selection matrix template

Criteria	Weight*	Topic 1		Topic 2		Topic 3		Topic 4	
		Score	Weighted score	Score	Weighted score	Score	Weighted score	Score	Weighted score
Materiality	xx								
Possible Impact	xx								
Improvement	xx								
Legislative or public interest	xx								
Risks to SAIs	xx								
Relevance	xx								
Timeliness	xx								
Auditability	xx								
Other major worksplanned or in progress	xx								
Request for audit	xx								
Aggregate weighted score	100								
Rank									

*The SAI has the flexibility to assign points for the selected criteria depending on their context

In identifying priority audit topics at the strategic level, SAIs will consider the resources and internal capacities needed as well as the purpose and impact of their deliverables. This also guides SAIs in deciding the more practical approach to auditing credibility, whether to perform the audits with (1) an exclusive focus on the budget credibility of a program/entity; or (2) to integrate budget credibility-aligned audit objectives/questions into other general audit areas/themes; or (3) to relate findings to budget credibility. (See Chapter 2.)

Audit engagement

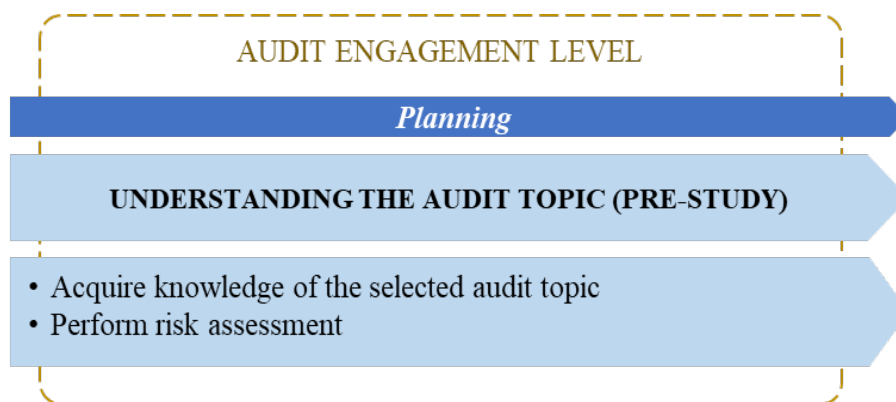
The strategic considerations become important entry points for the audit planning process. Once

the audit topic has been selected and defined, the planning at the individual audit level begins. The planning process at the individual audit level depends on acquiring solid knowledge of the work of programs or entities to be audited and understanding of the audit topic.

Understanding the audit topic / Pre-study

The pre-study includes two activities to ensure that the auditor has a sufficient understanding of the program or entity to be audited: (i) acquire knowledge of the selected audit topic, and (ii) perform risks assessment

Figure 6.2.2: Activities under Understanding the Audit Topic (Pre-Study)



Based on these two activities, the auditor should be able to assess whether the audit is realistic, attainable, and likely to be useful.

(i) Acquire knowledge of the audit topic

Auditors usually inquire about the audit results of a program or entity from prior years. In some SAIs, e.g., the Philippines, which follow a residency audit approach,¹⁵¹ auditors gain a broad practical knowledge of their assigned entities'

operations. They gather information to understand the entities' organization and operations, main programs and activities, results of previous audits, etc.

Auditors may refer to the sources of information summarized in Table 6.4 to further understand budget execution at the program/entity level in relation to the sample of credibility risk factors.

¹⁵¹ Residency audit approach means that audit teams hold office in their assigned agencies.

Table 6.4. Common sources of information on programs/entities per budget credibility risk factor*

Risk Factors	Sources of Information
Management capacity and procedures	<ul style="list-style-type: none"> • Program/project/activities details and implementing guidelines/regulations • Work plan and State budget/general appropriations act • timelines of programs • Profile of the audited program’s implementers (e.g., capacities, the mandate on the individuals or offices who carry out the work) • Information system available to managers • Organic laws or delegations setting out organizational roles and responsibilities
Documentation of expenditures	<ul style="list-style-type: none"> • Official documents authorizing government agencies to incur obligations • Procurement plans • Use of integrated FMIS, existence of paper records, receipts, and other related documents
Timing of spending	<ul style="list-style-type: none"> • Official receipt/cash notice allocation/disbursement documents • Performance and accountability reports of implementing agencies • Financial information systems
Cost estimation and spending	<ul style="list-style-type: none"> • Budget parameters • Budget proposals of program/agencies • Performance and accountability reports of implementing agencies • Budget execution reports
Generation, capturing, and management of performance information	<ul style="list-style-type: none"> • Government rules and guidelines on performance and accountability reporting • Performance and accountability reports of implementing agencies

* The auditor may obtain information from other sources based on the environment, as deemed relevant

(ii) Perform risk assessment

At the audit engagement level, auditors identify budget credibility risks that may hamper the achievement of the program or entities’ objectives. This data, as well as all the information gathered from the selection of the audit topic up to the pre-study activities, will be consolidated in the risk assessment process. (Common risk factors during

budget execution were explained earlier in this chapter.) Auditors are expected to identify specific risks and define them, as illustrated in Table 6.3.

Identifying the root causes of budget credibility risks enables auditors to gain a deeper understanding of them and to explore a set of more focused audit responses. This helps auditors to make more insightful recommendations to

the entities regarding the risks and controls to prevent them. Auditors can use various tools for the identification and analysis of root causes to supplement their initial analysis of the potential causes of risks (e.g., 5Whys, Ishikawa diagram, and problem tree analysis).¹⁵² See also Box 7.1 in Chapter 7.

The identification of specific government accounts and activities allows auditors to assess whether some control procedures have been performed by the entity in relation to their requirements for internal control of budget execution.

Also, an important element of risk assessment is the identification of responses to address each of the risks identified. Generally, auditing is one way to respond to risks. Integrating the theme of budget credibility in an audit, auditors should ensure that risk responses effectively address the risks, as the choice of audit procedures will depend on the risk assessment or problem analysis. Risk assessment also guides auditors in the formulation of audit objectives, scope, and audit questions particularly on the theme of

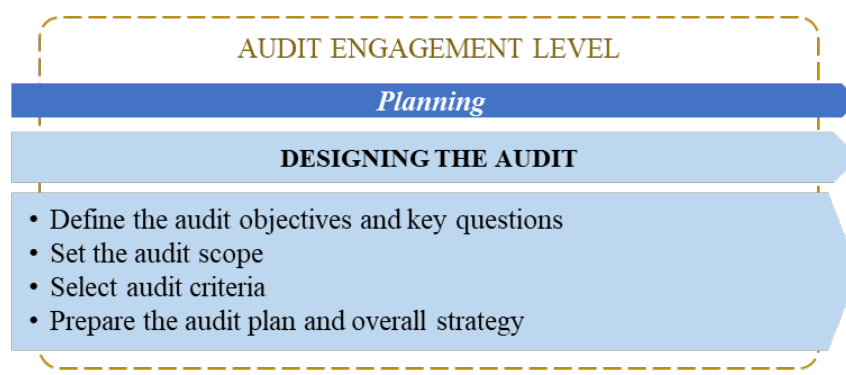
budget credibility.

Possible risks and illustrative examples, as well as audit objectives and specific audit questions related to each risk factor are presented in Table 6.5.

Designing the audit

A well-designed audit that examines budget credibility risks relies on thoughtfully selected objectives, questions, and criteria which should be informed by the planning and pre-study activities and clearly documented. Credibility risks can be the exclusive focus of a standalone audit or integrated into a larger/regular audit scope. Designing the audit involves formulating clear and relevant audit objectives, key questions, and the identification of audit criteria, among other elements that would be supported by the documentation of the audit plans and strategy.

Figure 6.2.3 Activities under Designing the Audit



¹⁵² The Canadian Audit and Accountability Foundation prescribes the use of root cause analysis tools for performance audits in their discussion paper on “Better Integrating Root Cause Analysis into Public Sector Auditing.” <https://www.caaf-fcar.ca/images/pdfs/research-publications/RootCauseAnalysisEN.pdf>

(i) Defining the audit objectives and key questions

Defining the audit objectives and the scope of the audit is closely related to the SAI's decision on audit approach. Auditors are encouraged to formulate specific audit objectives and questions that relate to budget credibility for all audits, not only for those that focus on budget credibility risks or integrate this angle. If an audit does not include specific budget credibility-related objectives or questions, auditors should ensure that the audit objectives are flexible enough to relate the prospective findings with budget credibility, as needed, during drafting of conclusions. (See examples in Table 6.5.)

To integrate the concept of budget credibility, auditors start from the identified risks and determine the appropriate objectives and/or questions. Auditors may break down the audit objectives into specific audit questions to ensure the audit objectives sufficiently cover the identified risks (Table 6.5). The formulation of specific audit questions guides auditors in the data collection process and with the analysis of the information in the next stages of the audit process. Early in the process, the auditor can determine whether the selected audit questions are likely to result in constructive recommendations.

Table 6.5. Examples of audit questions to assess budget credibility risks at the program level

Risk factor	Specific Risk	Risk statement	Audit objective*	Specific audit questions	Budget credibility – integration into the audit
Management capacity and procedures	Inconsistencies across information systems.	Deficient internal control systems of the entity do not provide accurate targets nor/or identification of program beneficiaries, which may result in budget overrun or underspending.	(CA) To ascertain whether the program beneficiaries were selected in accordance with the prescribed qualifications/criteria.	1. Are there established criteria for the identification of beneficiaries? 2. Is the selection/targeting process based on the established criteria?	Broad view of budget credibility: assessment of internal control systems, as enforcing/protecting the credibility of the audited program.
			PA) To determine the extent to which the program achieved its goals and objectives. To determine whether program funds were utilized for the intended purpose (distributed to intended beneficiaries)	1. Was the total budget for the program spent in accordance with the program objectives? What are the causes of deviations, if any? 2. Are there any control mechanisms in place to ensure that a. Targeted program beneficiaries are accurately and completely captured in the system? b. Only qualified beneficiaries are recipients of the program?	Could be exclusive audit focus or integrated into another audit.

Risk factor	Specific Risk	Risk statement	Audit objective*	Specific audit questions	Budget credibility – integration into the audit
Documentation of expenditures	Poor cost estimation and spending	The expenditures incurred by the entity may not be related to the purpose of the program.	(FA) To determine whether the recorded program expenditures are supported with the appropriate documentation.	<p>Are recorded program expenditures:</p> <ol style="list-style-type: none"> 1. Supported with valid documentation (occurrence)? 2. At the appropriate/correct amounts (accuracy)? 3. In the proper accounting period (cut-off)? 4. Under the appropriate account (classification)? 	<p>In line with the standard definition of budget credibility: audit is focused on the reliability of program expenditures.</p> <p>Could be integrated into another audit or relate the audit findings with budget credibility. (Chapter 2)</p>
Timing of spending	Unauthorized spending	Program expenditures may be incurred beyond the authorized period / budget period which: (a) facilitate unauthorized spending by the entity, or (b) affect efficient service delivery.	[CA/FA/PA] To determine whether the budget allotted for the program is spent/used within the budget period.	<ol style="list-style-type: none"> 1. Are the reported expenditures incurred within the reporting period/budget period? Are there expenditures incurred beyond the budget period? 2. What are the factors/reasons that contributed to the untimely spending? 3. How has the delayed utilization of program funds affected service delivery/program objectives? 	<p>Could be either standard (timing of spending) or broad view of budget credibility (factors affecting the timely spending).</p> <p>Could be exclusive audit focus or integrated into another audit</p>

*CA=compliance audit; FA=financial audit; PA=performance audit

(ii) Set the audit scope

Defining the audit scope sets the boundaries of the audit. As discussed earlier, the SAI should decide on the approach or strategy, either to conduct an audit with an exclusive focus on budget credibility at the entity/program level or to integrate an assessment of credibility risks within an audit at the program/entity level. In either case, auditors should be able to narrow down the audit scope to focus on significant credibility risks that relate to the audit objectives.

To decide the scope of the audit, auditors consider the time period of the program or entity's operations to be covered and the geographical location (locale of the entity) to be covered in the audit.

(iii) Select audit criteria¹⁵⁴

In auditing programs and entities, auditors first look at and evaluate domestic laws, rules, and regulations to identify the appropriate audit criteria to support their audit procedures. These criteria are the most relevant since they provide sets of guidelines and important information on the public sector governance framework and the specific characteristics of budget management in the country's context. The auditor can also consider the standards, measures, and performance commitments adopted by the program management or entity, including specific targets.

Auditors may also identify relevant audit criteria to assess credibility risks of budget execution at the program/entity level in international standards and good practices.¹⁵⁵

(iv) Prepare the audit plan and overall strategy

Auditors should refer to their internal guidelines on preparing the audit plan, the audit program, the audit design matrix, etc., according to the type of audit to be conducted. However, in preparing these audit documents, auditors should make sure the focus on budget credibility or the integration of a budget credibility perspective is clearly reflected in those plans and documents (e.g., providing budget credibility-focused audit objectives or questions in the audit programs). These audit plans provide auditors with guidance as they move into conducting the audit, but can also be adjusted and refined as needed considering the emerging outcomes throughout the audit process.

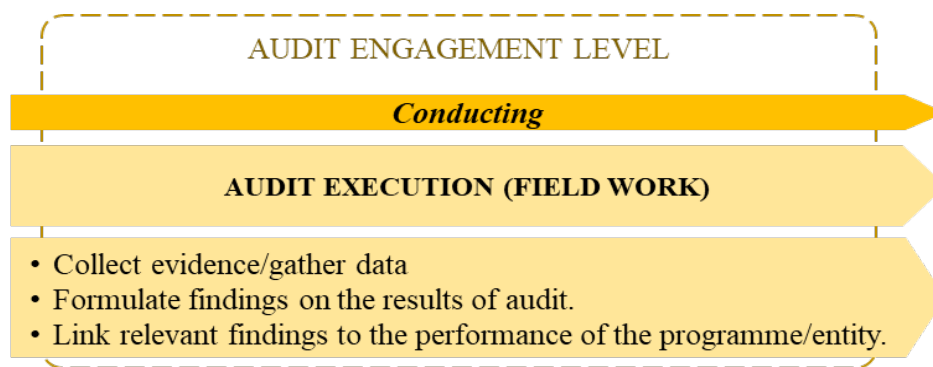
Conducting the audit

Conducting the audit refers to the activities needed to execute all the audit elements that have been planned by the auditors. In this phase, the auditors should obtain sufficient and appropriate audit evidence to establish the audit findings, draw relevant conclusions in response to the audit objectives and questions, and issue recommendations. These activities involve consultation/communication with the audited entity and effective data collection and gathering of evidence. It is critical that auditors analyze and evaluate the data and evidence taking into account budget credibility as reflected in the audit objectives and questions. When conducting the audit, auditors should follow the audit plan (which should be adjusted if necessary) and carry out the audit in accordance with the audit standards adopted by the SAI.

¹⁵⁴ Note that the "selection criteria" presented in Box 6.7 refer to the steps at the strategic level in deciding what to audit from the numerous programs, projects, and activities while "audit criteria" are the benchmarks used to evaluate the subject matter (audited programs), ISSAI 100/27.

¹⁵⁵ Many of these best practices and standards are discussed in Chapter 1.

Figure 6.2.4 Activities under Audit Execution



Audit execution (fieldwork)

(i) Collect evidence

Collect sufficient and appropriate evidence. Well-crafted audit objectives and audit procedures allow auditors to efficiently collect information and data that becomes evidence to support the analysis of budget credibility. Auditors should be alert to potential problems or weaknesses in the information and data they gather, as this can affect the reliability, validity, sufficiency, and relevance of the evidence. Exercising sound professional judgment is particularly necessary to assess whether the quantity and quality of evidence will allow for adequate conclusions or whether alternative sources of evidence need to be considered.

(ii) Formulate findings on the results of the audit.

Audit findings are the result of the comparison between the audit criteria (“what should be”) and the condition (“what is”), the identification of the cause of any deviation from the criteria (“why is there a deviation from the criteria”), the effect of such a deviation (what are the consequences”), and an assessment of the available evidence.¹⁵⁶ In auditing budget credibility risks of a program or entity, auditors follow their adopted audit standards and practices for the documentation and analysis of audit findings. A sample illustration of an actual audit finding is offered in Table 6.6. (Chapter 7 addresses audit findings as well.)

¹⁵⁶ INTOSAI-IDI, 2021. Performance Audit ISSAI Implementation Handbook.

Table 6.6. Example of an audit finding at the program level related to budget credibility

Risk factors	Specific risks	Audit objective [PA=performance audit; CA=compliance audit; FA=financial audit]	Actual SAI findings associated with the risk factors and specific risks
Management capacity and procedure	Inconsistencies across information systems	PA] To determine the extent to which the program has achieved its goals and objectives. [PA] To determine whether program funds were utilized for the intended purpose (distributed to intended beneficiaries).	“The distribution of some government assistance programs is not fully carried out in a timely manner, in the right amount, [nor]to the intended recipients. Deviations from the intended plan as stated in the budget documents
Timing of spending	Unauthorized spending and delayed spending	[CA/FA/PA] To determine whether the budget allotted for the program has been spent/used within the budget period.	[will] undermine the effectiveness of the assistance programs.”

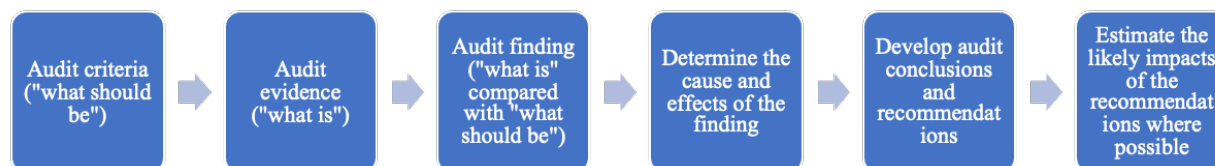
(iii) Link relevant findings to the performance of the audited entity.

When conducting audits related to budget credibility, auditors are encouraged to link their findings of budget deviations to the performance of the program/entity being audited. The auditor’s process of analyzing evidence, developing findings, and producing recommendations is a critical tool for addressing the areas where

programs/entities demonstrate poor practice and, thus, where budget credibility is weak. The ASOSAI Performance Auditing Guidelines suggest a tailored process for linking evidence, findings, and recommendations.¹⁵⁷ Auditors may adopt this process for audits on budget credibility to inform budget users, entities, and responsible parties about potential opportunities for improvement. (See Figure 6.3.)

¹⁵⁷ ASOSAI, 2000. ASOSAI Performance Auditing Guidelines. <https://www.eurosai.org/en/databases/products/ASOSAI-Performance-Auditing-Guidelines/>

Figure 6.3 Generic process for linking evidence, findings, and recommendations



Source: Adopted from the ASOSAI Performance Audit manual.

Reporting and follow-up

Audits that examine budget credibility risks at the program/entity level should observe the reporting requirements established by the respective SAI, based on their legal framework and institutional arrangements. The aim of issuing audit reports, audit recommendations, and follow-up on recommendations is to provide entities and budget users the opportunity to improve budget and program management. Chapter 7 provides examples and practical information.

6.3. Challenges and lessons learned

Audits of the budget at the program/entity level have always covered risks and important elements of budget execution, but few SAIs have linked budget credibility and related concepts to actual audit findings, conclusions, and recommendations. The study and discussions in the development of this handbook anticipated

significant challenges but also lessons that would inform auditors on how to take this work forward.

Key challenges in assessing budget credibility risks at the program/entity level

a) Mandate and independence of the SAI. SAIs with a limited mandate and independence may find it challenging to include budget credibility audits in their work, as doing so normally would require constitutional amendments or support from stakeholders to examine the budget credibility of certain programs and entities. The challenges on mandate and independence have an overarching effect on other organizational aspects of an SAI, such as justifying resources and capacities for new theme-specific audits, setting audit focus/scope, and access to data, among others.

b) Resources and capacities of the SAI. SAIs that are not familiar with the concept of budget credibility may find it challenging to maximize their current human resources and institutional

knowledge of the subject matter, as well as to develop the audit strategies and tools to conduct the audits. The skills of auditors also affect the extent and quality of the audit they perform on the implementation of budget laws and regulations across the SAI. SAIs should consider capacity building on audits of budget credibility and emphasize the importance of relying on policies and regulations as audit criteria to minimize varied interpretations.

c) Determination of the audit focus (exclusive or integrated budget credibility audits). SAIs usually face the challenge of having too many programs and entities to audit in their portfolio. This may make it even more difficult for auditors to determine whether to focus an audit exclusively on budget credibility or to integrate a budget credibility perspective into another audit. This challenge could be addressed with clear audit instructions from the appropriate audit authority and/or by raising awareness of the value of incorporating budget credibility into audits with senior management of the SAI.

d) Access to and quality of information and data. Auditing at the program/entity level requires specific, timely, and reliable information and data. The challenge of having access to an entity's information and data relates to the mandate and independence of an SAI and the transparency policies and framework of the respective country. SAIs that plan to conduct budget credibility audits at the program/entity level should ensure that they have access to information and data in a format that can be easily collected and analyzed. Furthermore, since the quality of information and data from the entities cannot always be assured, auditors should perform methodologically sound audit procedures and corroboration activities to arrive at high-quality and reliable audit findings and recommendations.

e) Changing political priorities. As audit priorities emanate from the SAI's strategic audit plans, which are based on annual national priorities and long-term plans, a changing political landscape in countries may also represent a challenge. Conducting budget credibility audits may not be a priority area under a specific administration. In these circumstances, an SAI could advocate enhancing budget credibility as a good practice of budget execution among public entities.

Lessons learned from SAI experience

a) Importance of budget credibility-related findings. Audit findings related to budget credibility at the entity level are easily appreciated by the parliament, the media, and the general public because they are all stakeholders of the programs that entities implement. For instance, in the Philippines, Parliament highlights the importance of the SAI's role in ensuring budgets are utilized in an efficient and effective manner and properly accounted for.

b) Advocating the institutionalization of audits of budget credibility at the program/entity level within the SAI. Institutional-level support from top management contributes to the quality of audits, including on budget credibility. Many SAIs follow a vertical approach in their audit planning process. This means that setting audit priorities for a particular year is usually based on the SAI's top management advice and instructions. Prioritizing the inclusion of budget credibility risk assessments at the top would facilitate incorporating budget credibility as an area to be examined in audit work.

c) Readiness of information technology (IT) infrastructure of SAIs and digitization of governments. The pandemic pushed SAIs to strengthen their IT infrastructure to address the demands of their oversight work. The readiness of SAI's IT resources will allow auditors to collect evidence (digitized) from the entities they audit, and to process and analyze them in a remote work set-up. SAIs should perform constant data back-ups and ensure flexibility to enable auditors to do their work despite changing work arrangements.

d) Effective communication and engagement of stakeholders. In this type of audit, auditors benefit from constant communication with the audited entities. Understanding the stakeholders and their roles, as well as their expectations and responsibilities would make it easier to conduct the program/entity level audits of the budget as planned. In SAIs with a robust practice of engaging stakeholders, particularly civil society organizations (CSOs), auditors may also consider involving these groups in the relevant audit activities of the audit process. The inputs and contributions from CSOs may be helpful in gathering relevant documents and information, particularly on audits that focus on program

implementation, as many CSOs work directly in the communities and perform monitoring of government programs. For example, in Argentina, after their audit showed public funds allocated to controlling the debilitating illness, Chagas, were insufficient and not spent as planned, the SAI successfully joined forces with the CSO, Asociación Civil por la Igualdad y la Justicia (ACIJ), to raise awareness of the issue. (See more on this collaboration and many others in Chapter 7.)

e) Maximize SAI resources. For one, as introduced in this handbook, an assessment of budget credibility risks at the program/entity level may be integrated into an audit whose main objective might be different. Regardless, auditors should maximize and customize the available audit tools to ensure they can support their assessment of budget credibility. Audits of specific sector programs may require technical expertise that may be outside the collective capacity of the team. SAIs should encourage the strengthening of technical capacities within the organization (e.g., data analytics of bigger datasets, technical reviews of contracts by civil engineers, etc.) to support auditors in their work on budget credibility.

Annexes

ANNEX 6.1. Selection criteria for budget credibility audits

Criteria ³		Factor (generic) ⁴	Budget credibility aligned questions
1	Materiality	<ul style="list-style-type: none"> Is the topic important to the government/the public/the audited entity (national priority) and does it involve a critical area? 	<ul style="list-style-type: none"> Is the government program/activity financially and operationally significant to the government, the public, or the audited entity?
2	Possible impact	<ul style="list-style-type: none"> Will the topic have a powerful effect on enhancing the economy, efficiency, and effectiveness of government undertakings? 	<ul style="list-style-type: none"> Will the topic have a positive effect on the planning and spending capacities and arrangements of government entities? Will the audit lead to the achievement of the set goals and priorities in government programs, activities, and projects?
3	Improvement	<ul style="list-style-type: none"> Will the audit lead to improvements in government? 	<ul style="list-style-type: none"> Will the audit evaluate significant governance aspects of government entities in relation to budget execution? Will the audit provide advice/recommendations to ensure that there will be fewer or no deviations in government entities' budgets?
4	Legislative or public interest	<ul style="list-style-type: none"> Will the topic address a legal concern or otherwise be to the advantage of the community? 	<ul style="list-style-type: none"> Will the audit cover budget aspects and considerations involving the legislature? Is the topic responsive to the interest of the general public pertaining to the allocation and use of the budget?
5	Risks to SAIs	<ul style="list-style-type: none"> Will the topic present risk/s (strategic or reputational) to the SAI? 	<ul style="list-style-type: none"> Does the SAI have the technical expertise to undertake the audit of budget credibility for this government program/activity?
6	Relevance	<ul style="list-style-type: none"> Does the topic have some bearing on, or importance for, real-world issues, present-day events, or the current state of society? 	<ul style="list-style-type: none"> Will the audit of budget credibility for this government program/activity provide bearing information regarding the country/public/world's concern, example SDGs?
7	Timeliness	<ul style="list-style-type: none"> Is this the right or appropriate time to audit the topic? 	<ul style="list-style-type: none"> What current issue/s or concern/s will the audit of this government program/entity resolve? Is there another program/activity that is of urgent concern for an audit?
8	Auditability	<ul style="list-style-type: none"> Can the topic be audited? Is it practical to audit? Does it fall within the legal mandate of the SAI? Does audit evidence exist and is it accessible by the audit team in a format that can be easily collected and analyzed? 	
9	Other major works planned or in progress	<ul style="list-style-type: none"> Is there work being planned or done on the topic? 	<ul style="list-style-type: none"> Will the audit of this program/activity be supplemental or congruent with work that is currently being implemented or planned?
10	Request for audit	<ul style="list-style-type: none"> Have any special requests been made for audits to be done? 	

³The INTOSAI PAS Guideline on selecting PA topics presents 15 criteria. Out of the 15, ten were used and aligned with the budget credibility lens.

⁴Adopted from INTOSAI PAS Guideline on selecting PA topics. Retrieved from: PAS Guideline 1 Selecting Performance Audit Topics - 2013 - AFROSAI-E

ANNEX 6.2. Self-checklist for assessment of budget credibility risks at program/entity level

This checklist provides basic guidance for auditors to verify the activities performed and their compliance with the recommended direction. It may be used for monitoring purposes during the audit or for quality assurance after the audit process. To keep it relevant to the audit environment, the list can be enhanced or modified depending on the SAI context and the recommendations of the SAI's audit authorities. It can also be integrated with the SAI's quality control checklist/s to ensure that the activities comply with applicable audit standards.

ANNEX 6.2. Self-checklist for assessment of budget credibility risks at program/entity level							
Entity audited		:					
Program/Project/Activity/Accounts Audited		:					
Period covered		:					
Auditor/Names of Audit Team Members		:					
Activities / Questions			Yes	No	NA	Remarks	Audit WP Reference
Mandate and independence of the SAI to conduct budget credibility audit							
1	The SAI is free from direction and interference in the selection of audit issues, planning, conduct, reporting, and follow-up of their audits (ISSAI 10:3).						
2	There is a law that provides the SAI with unrestricted right of access to records, documents, and information (ISSAI 1:10).						
3	The SAI has the right to decide which information it needs for its audits (ISSAI 1:10).						
4	The SAI staff have the right of access to the premises of audited bodies in order to do the fieldwork the SAI deems necessary. (ISSAI 1:10).						
Selecting audit topic							
5	Budget credibility audits are included in the SAI's strategic audit plan for the year.						
6	In case the SAI does not specify the budget credibility area as a priority theme in its audit plan, there are specific sectoral/office audit instructions from appropriate officials within the SAI.						
7	The SAI has undergone the process of understanding the risk factors for critical areas for audit (sectoral programs and government-wide activities).						
8	The SAI determined the selection criteria in determining the audit topic.						

ANNEX 6.2. Self-checklist for assessment of budget credibility risks at program/entity level							
Planning							
9	The auditor performed a pre-study for the selected audit topic.						
10	The auditor determined whether to conduct a risk assessment on budget credibility separately/integrated with the general audit of the program/entity.						
11	The auditor conducted a risk assessment for the selected topic based on the budget credibility risk factors.						
12	The auditor identified a budget credibility-aligned risk response to the risk identified.						
13	The auditor determined the audit approach (exclusive audit focus; integrated with another audit; relating the findings with budget credibility).						
14	The auditor defined distinct audit objective/s and questions for assessing budget credibility risks.						
15	The auditor defined the scope of the audit based on the selected budget credibility approach.						
16	The auditor identified budget credibility-related criteria.						
17	The auditor specified budget credibility in preparing the audit plan and overall strategy.						
Conducting							
18	The auditor collected and analyzed budget-related evidence against the identified audit criteria.						
19	The auditor formulated audit findings and related their elements (criteria, condition, cause, and effect) to budget credibility.						
20	The auditor developed audit conclusions and recommendations based on audit findings on budget credibility.						
21	The auditor linked the analysis of deviation/discrepancy with performance and estimated the impacts of the recommendation where possible.						

Strengthening Budget Credibility through External Audits: A Handbook for Auditors

Supreme Audit Institutions (SAIs) have an important role to play in strengthening the implementation of sustainable development promises and ensuring that their country's budget is on track. Drawing on SAI's experience, the handbook explores different approaches to auditing that can contribute to improving budget credibility.

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