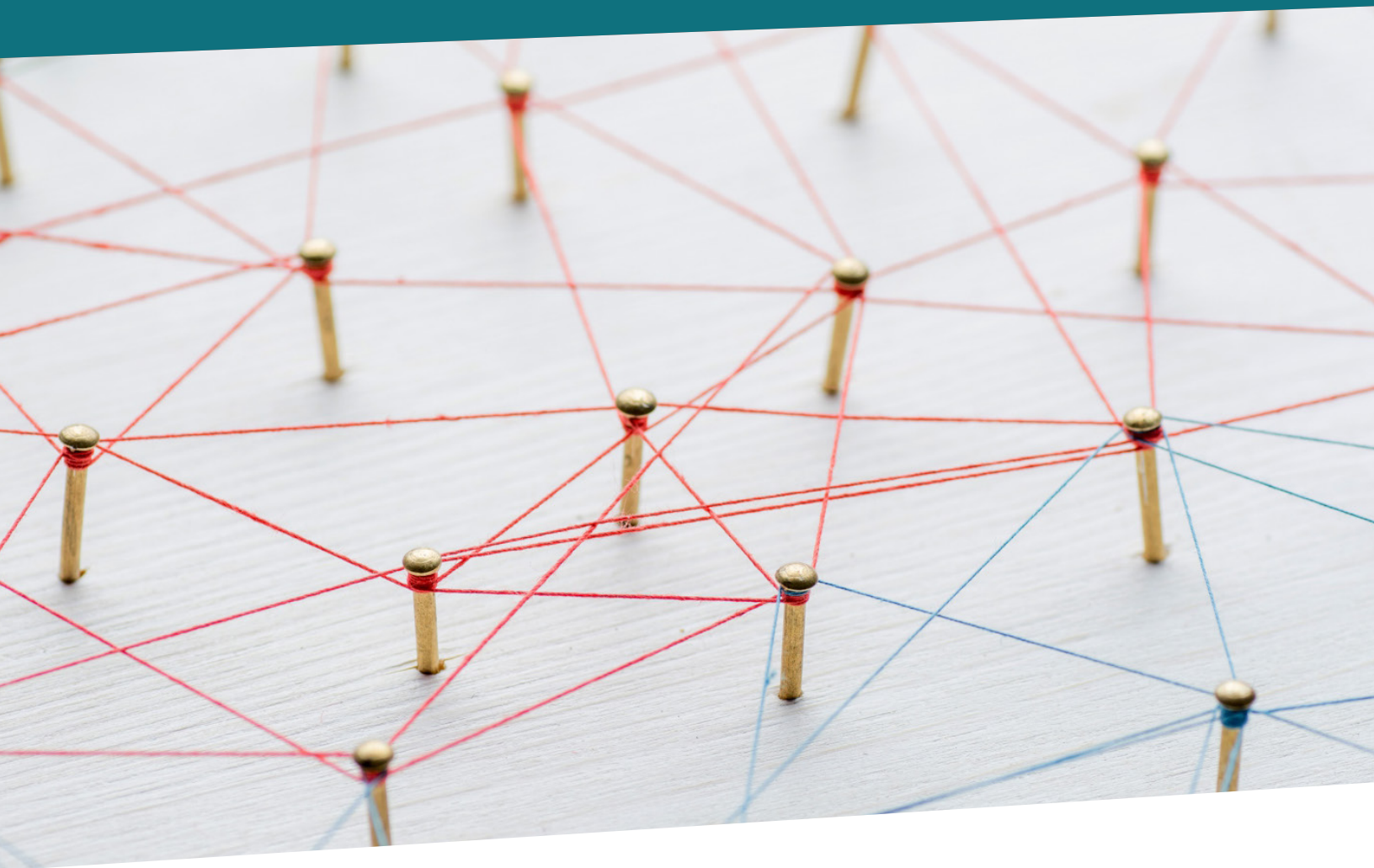


Strengthening Budget Credibility through External Audits

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.

IBP

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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Websites: <https://publicadministration.un.org>; <https://internationalbudget.org>

Introduction

The budget is one of the most important public documents produced by a government, expressing its priorities and commitments. It is the place where a government proposes how much revenue it plans to raise and how it plans to use these funds to meet the nation's competing needs, from bolstering security to improving healthcare to alleviating poverty. Given its wide-ranging implications for a nation's citizens, the budget should be the subject of widespread scrutiny and debate.¹

National budgets are meant to provide a roadmap to the effective delivery of public services and to the achievement of long-term national objectives such as the Sustainable Development Goals (SDGs). When the government implements its revenue and spending plans as approved by the legislature, its budget is considered "credible."² But when that is not the case and budgets are not credible, trust in public institutions diminishes, the integrity of public funds is jeopardized, and the risk of corruption rises. In recognition of the importance of budget credibility for effective, accountable, and transparent institutions, a dedicated indicator – 16.6.1 – is included in the global framework of indicators to monitor progress on the SDGs at the global level.³

Recent research indicates national budgets veering off course is a widespread and significant problem and impedes progress on key social and economic priorities. Several factors contribute to budget credibility challenges. In addition to technical issues - such as faulty revenue forecasting, weak procurement systems, or inadequate policies to control the shifting of funds - the role of external financing as well as political and institutional considerations are relevant in many countries.

Confounding the problem, when budget deviations do occur, often they are not properly accounted for. Many countries either do not provide explanations or provide too few essential details.⁴ Repeated budget deviations in the absence

¹Joel Friedman, 2006. A Guide to Tax Work for NGOs. International Budget Partnership (IBP).

²See Chapter 1, section 1.1, and Chapter 2, section 2.1, on the standard definition of budget credibility

³Indicator 16.6.1 measures primary government expenditures as a proportion of the originally approved budgets (by sector, budget codes, or similar). See <https://unstats.un.org/sdgs/metadata/files/Metadata-16-06-01.pdf>

⁴Jason Lakin and Guillermo Herrera, 2019. "Explain that to us: how governments report on and justify budget deviations" IBP, <https://internationalbudget.org/publications/how-governments-report-and-justify-budget-deviations/>

of adequate justifications further undermine confidence in the ability of a government to make realistic plans and adhere to commitments.⁵

Given their essential role in auditing government finances, Supreme Audit Institutions (SAIs) are uniquely positioned to assess budget deviations, point to their consequences, and record any justifications. However, the literature on public financial management (PFM) is sparse on how SAIs contribute to understanding and assessing budget credibility. This handbook aims to fill this gap by offering a practical overview of existing audit work related to budget credibility in different regions among various SAI models and by providing specific guidance and practical examples to support SAIs to further advance these efforts.

The importance of auditing budget credibility

SAIs have an important role to play in strengthening the implementation of the SDGs and ensuring that a country's budget is on track. Checking and reporting on the legality and accuracy of public accounts, as well as the credibility of budgets, can be instrumental in governments delivering on their sustainable development promises. Audits can improve budget credibility in several ways:

- **Audits help assess the fulfillment of international commitments and standards**

and improve public financial management (PFM) systems. As reflected in SDG16 and existing international budget standards, governments have made commitments related to the credibility of their budgets. These commitments entail taking action at the national level, including enacting legislation, defining responsibilities, and strengthening PFM systems. Because these actions occur at the national level, it is within SAIs' mandate to assess governments on these issues.

- **Audits help to identify and examine the causes and impacts of budget credibility problems.** Government budgets significantly affect people's lives, especially those most in need. Budget deviations can have an adverse impact on achieving long-term policy and national objectives and on the quality of service delivery. Citizens have an expectation that governments will deliver on their commitments. Audits can help determine why breaches of contract occur, whether the reasons are justified, and discern the differential impacts that these deviations may have on different groups and /or across policy areas.
- **Audit recommendations can lead to improvements in the budget process and in the execution of budget resources at both the aggregate and the sectoral levels.** Budget deviations – both at aggregate levels of spending and in the composition of spending – happen for a variety of reasons. An audit report, as the summary of an independent and

⁵Jason Lakin, 2018. "Assessing the quality of reasons in government budget documents" IBP, <https://internationalbudget.org/publications/assessing-reasons-in-government-budget-documents/>

⁶This activity has been particularly significant in the context of the pandemic, given the volume of public resources mobilized through relief packages and recovery plans. For examples of SAI oversight responses during this period, see IBP, 2021. Managing COVID funds. The accountability gap, Washington DC, IBP, May, at <https://internationalbudget.org/covid/> and UN-INTOSAI, 2021. Working during and after the pandemic: building on the experience of SAIs for strengthening effective institutions and achieving sustainable societies, 25th UN-INTOSAI Symposium, June 2021, at https://www.intosai.org/fileadmin/downloads/news_centre/events/un_int_symposia/reports_un_int_symp/en/EN_25_Symp_2021_report.pdf

evidence-based assessment, can shed light on what is creating budget credibility risks, and include recommendations for governments to address them. The implementation of these recommendations is crucial for improving budget execution and credibility.

- **Audit reports can raise awareness of budget credibility both within and outside government** and convey how it affects the achievement of national goals and policies, service delivery, and the performance of the PFM system. Audit reports – which should be made publicly available – can also highlight the strengths and challenges of governments and specific public entities in enhancing budget credibility.

Current status of audit work on budget credibility

Budget credibility has gained increased attention in recent years but is still a new topic. More research, both across countries and through in-depth case studies, is needed to better understand its drivers so as to ensure critical and effective service delivery. More external audits – especially those that explicitly address credibility issues and disseminate findings to government entities, parliaments, experts, the media, civil society, and the general public – will bring increased attention to the credibility of government budgets. This can help assess ongoing government action and encourage course correction, as needed.

SAIs are aware of budget credibility problems – 74 percent of 27 respondents to a 2021 SAI survey identified it as a significant problem in their countries⁷ – and many address related issues in their work (82 percent of respondents in the same survey).⁸ In several countries, SAIs already produce a variety of audit reports that help understand budget credibility in specific government entities and programs and the extent and causes of budget deviations. SAIs' work in this area also helps analyze wider trends in PFM systems that create risks to budget credibility.

However, SAIs do not systematically conduct comprehensive assessments of budget credibility, particularly at the aggregate level. While audits often identify common factors associated with budget credibility risks, they do not necessarily link them with aggregate budget deviations. Also, some audits merely identify overruns or under-expenditures without additional analysis to understand their impact on the achievement of policy objectives and development outcomes.⁹

Several things may explain these findings:

1. a limited understanding of what budget credibility means for an SAI and how it can be operationalized for auditors;
2. lack of awareness on how the traditional work of an SAI supports budget evaluation, and what it means to conduct a budget credibility assessment;
3. the absence of audit standards on budget credibility assessments;
4. inadequacy of or lack of access to relevant budget information in a timely manner; and

⁷This 2021 survey (27 respondents) was conducted for an earlier report (see footnote 7) and the year before the 2022 UNDESA/IBP SAI survey (38 respondents) which provided yet additional key information for this handbook.

⁸Aránzazu Guillán Montero, 2021. Upholding commitments. How supreme audit institutions can strengthen budget credibility through external audits, Washington DC, IBP. (<https://www.internationalbudget.org/wp-content/uploads/sai-budget-credibility-march-2021.pdf>)

5. the different timing and processes of diverse audit practices (given budget credibility issues cut across different types of audits) make it difficult to combine audit information into an assessment of budget credibility at the national level.

Generally, SAIs identify they have the mandate to audit budget credibility, according to a 2022 survey of INTOSAI members.¹⁰ However, the choice of whether and how to incorporate budget credibility into the annual audit plan will be influenced by the SAI's particular mandate, institutional structures, priorities, and resources.

Acknowledging the differences among SAI circumstances, this handbook explores different approaches to auditing budget credibility and draws on SAIs' experience in different countries. Each approach has implications on audit methodology, including the type of audit practice, the definition of audit objectives, criteria, and specific audit tools to be used.

Outline of the handbook

This handbook is intended to support SAIs in identifying whether and how an audit related to budget credibility is relevant and manageable in their respective context. To that end, the handbook presents an array of approaches and examples that can serve as a reference for auditors and help advance efforts to strengthen SAIs' contribution to budget credibility.

The first two chapters present the conceptual and analytical framework of the handbook:

- **Chapter 1** introduces the concept of budget credibility in the context of the wider public financial management (PFM) system and highlights relevant international standards and tools.
- **Chapter 2** operationalizes the concept of budget credibility from an SAI perspective and identifies relevant dimensions that can help delimit the scope of the concept for auditors, considering differences across countries. The chapter reflects on the strategic considerations for selecting budget credibility as an audit topic and provides an overview of audit standards and processes to audit budget credibility. Annex 2.1 provides examples of credibility-related issues and risks examined by SAIs.

The next several chapters cover different approaches SAIs may follow to audit budget credibility and draw on the experiences of SAIs from different regions to help auditors understand what the work entails:

- **Chapter 3** provides guidance on how to identify and assess budget credibility risks across the budget cycle at the whole-of-government level. Annex 3.1 offers questions to probe budget credibility risks at the whole-of-government level.
- **Chapter 4** focuses on SAIs' experience in

⁹Ibid.

¹⁰Eighty-two percent of the 38 SAIs responding to the 2022 UNDESA/IBP survey indicated they had the mandate to audit budget credibility.

auditing the performance of the PFM system. These audits rely on a performance and/or compliance approach. Annex 4.1 and Annex 4.2 offer examples of the RIAS (risk, impact, auditability, significance) method and an audit design matrix, respectively, for planning an assessment of the PFM system's performance.

- **Chapter 5** provides guidance on auditing the state budget or year-end accounts on a regular basis. These recurring audits apply a financial and compliance focus to the annual budget cycle. They can include analysis at the program and entity level and, in a few examples, can also incorporate performance elements. Annex 5.1 provides a sample audit planning matrix, a useful tool when organizing an audit examining budget credibility.
- **Chapter 6** examines auditing of budget credibility risks at the entity or program level. These audits are of the performance, financial, and/or compliance type and are conducted

separately from the audits of the execution of the state budget. Annex 6.1 suggests selection criteria for auditing budget credibility and Annex 6.2 provides a self-checklist to guide auditors assessing budget credibility risks at the program/entity level.

The concluding chapter complements the analysis presented in the previous chapters by focusing on a specific and crucial phase of the audit process:

- **Chapter 7** focuses on the monitoring and follow-up to audit recommendations, illustrating different ways SAIs can work with stakeholders to encourage public entities to implement redress measures that will meaningfully strengthen budget credibility. This chapter also emphasizes the essential aspects of a strong audit report to make this happen. Annex 7.1 suggests ways to integrate budget credibility into the audit process while enhancing stakeholder engagement.

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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