Handbook on strengthening budget credibility through external audits

Results of a survey to INTOSAI members

A joint initiative with the International Budget Partnership (IBP)

Overview

- Survey was distributed through INTOSAI to its members in Feb. 2022
- By end of April, 38 responses received
- 32% of respondents from EUROSAI, 18% from OLACEFS and AFROSAI
- 46% of respondents from Westminster-type of SAI
- Despite limited sample, some relevant findings to inform the handbook

*Map shows responses by country.*
Mandate does not constrain SAIs in auditing credibility

- Over 80% of respondents reported their SAI has a mandate to audit issues related to budget credibility

*Percentage of respondents with SAI mandate to audit issues related to budget credibility

Auditing the performance of the PFM system

*Number of respondents that reported their SAI conducted any audits to assess the performance of the PFM system in the last ten years

*Percentage of respondents that perform audits on aspect(s) of the PFM system, by elements of the PFM/budget system
Key findings

- Most respondents reported to have audited the performance of the PFM system in the last ten years, but these audits focus on specific components (80% focus on budget execution followed by 74% on accounting and reporting).
- Most SAIs in the sample do not assess economic modeling nor macroeconomic forecasting assumptions, but some do (e.g., Indonesia).
- Some SAIs in the survey assess the performance of the PFM system in forming an audit opinion on the government financial statements or conduct performance audits on specific aspects of the PFM system.
- SAIs reported illustrative examples of significant impacts of their audits of the performance of the PFM system.

Consolidated budget execution reports are regularly audited

- 39% of SAIs in the survey operate in a legal framework that requires the government to regularly publish consolidated reports on budget execution after the fiscal year.
- Most surveyed SAIs (53%) regularly audit the end-year accounts.
- 29% also conduct other regular audits of the budget.
- Most surveyed SAIs (66%) report that data on budget execution is regularly published in the end-year accounts; however, 18% consider the information to be insufficient.

*Whether the legal framework in respective country requires the government to regularly publish consolidated reports on budget execution
Focus of regular audits of budget execution

<table>
<thead>
<tr>
<th>Aspect</th>
<th>End-year accounts</th>
<th>Other recurring audits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting and Reporting</td>
<td>92%</td>
<td>60%</td>
</tr>
<tr>
<td>Budget Execution</td>
<td>84%</td>
<td>71%</td>
</tr>
<tr>
<td>Budget Evaluation</td>
<td>45%</td>
<td>37%</td>
</tr>
<tr>
<td>Budget Approval</td>
<td>39%</td>
<td>34%</td>
</tr>
<tr>
<td>Budget Preparation</td>
<td>29%</td>
<td>26%</td>
</tr>
<tr>
<td>Policy Design</td>
<td>18%</td>
<td>14%</td>
</tr>
</tbody>
</table>

*Aspects of the budget audited by SAIs in end-year accounts

*Aspects of the budget audited by SAIs in other recurring audits of the budget

Auditing budget deviations in regular audits of budget execution

- Most surveyed SAIs (57%) audit budget deviations when auditing end-year accounts

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes, when auditing the end-year accounts</td>
<td>57%</td>
</tr>
<tr>
<td>Yes, when auditing the end-year accounts and in other recurring audits of the budget</td>
<td>27%</td>
</tr>
<tr>
<td>Yes, in other recurring audits of the budget</td>
<td>5%</td>
</tr>
<tr>
<td>No, the SAI does not audit budget deviations</td>
<td>11%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>

*SAIs auditing budget deviations in recurring audits or end-year audits.
Most SAIs in the survey operate under a legal framework that requires the government to regularly publish consolidated reports on budget execution. While most surveyed SAIs report that data on budget execution is regularly published in the end-year accounts, this information is sometimes considered to be insufficient by the SAI. Most respondents report regularly (mostly yearly) auditing the end-year accounts. Most surveyed SAIs audit budget deviations when auditing the end-year accounts, and some carry out this work when auditing end-year accounts as well as other recurring audits of the budget. Most surveyed SAIs report focusing on budget execution and reporting/auditing in both their audits of end-year accounts and other recurring audits of the budget. However, very few SAIs audit budget policy design.

Audits at budget program and entity levels

- Most SAIs (46%) perform specific audits both at budget program and entity levels
- Also, 48% of respondents report conducting audits at budget program and/or entity levels on an ad-hoc basis and 42% regularly

*Percentage of surveyed SAI that perform specific audits at budget program and/or budget entity level*
Analysis of budget deviations in performance/mixed audits at program/ entity level

<table>
<thead>
<tr>
<th># of SAIs</th>
<th>Percentage</th>
<th>(N=37, 1 N/A)</th>
</tr>
</thead>
<tbody>
<tr>
<td>An explanation on the eventual differences between original and actual revenues and expenditures at entity level</td>
<td>26</td>
<td>70%</td>
</tr>
<tr>
<td>An explanation on the eventual differences between original and actual revenues and expenditures at program level</td>
<td>21</td>
<td>57%</td>
</tr>
<tr>
<td>An explanation on the eventual differences between original and actual programs at entity level</td>
<td>18</td>
<td>49%</td>
</tr>
<tr>
<td>An explanation on the eventual differences between original and actual public goods and services at program level</td>
<td>18</td>
<td>49%</td>
</tr>
<tr>
<td>Other/No response</td>
<td>16</td>
<td>16%</td>
</tr>
</tbody>
</table>

* SAIs analyzing the following aspects during a performance and/or mixed audit (including performance elements) at budget program and/or entity level

- 70% of surveyed SAIs report analyzing the explanation on the eventual differences between original and actual revenues and expenditures at entity level, and 57% at program level

Key findings

- Most surveyed SAIs conduct regular audits at the budget program and entity levels
- The selection of entities to be audited usually follows a specific methodology but such methodology is not always public
- In these audits, surveyed SAIs identify the eventual differences between originally approved and actual revenues and expenditures, but very few investigate the difference between the intended and actual goods and services provided
Monitoring and follow-up to audit recommendations

- 92% of respondents reported their SAI follows up on audit recommendations in general, and 76% on the recommendations of the audit report on the execution of the annual state budget
- 61% of surveyed SAIs do not use electronic systems for monitoring the implementation of audit recommendations
- It is more common for surveyed SAIs to engage with civil society during the audit planning phase (38%), while only 9% of respondents do it during follow-up

Key findings

- Most SAIs in the survey do not use any specific criteria to classify or prioritize recommendations
- In most countries surveyed, the legal framework does not require auditees to prepare a specific plan to redress findings and implement audit recommendations
- Most SAIs in the survey still do not leverage ICTs to monitor the implementation of audit recommendations
- Most respondents do not engage with civil society during the audit process in audits related to the budget, and the level of collaboration with Parliaments on the report of the annual state execution varies
## Challenges to auditing budget credibility

<table>
<thead>
<tr>
<th>External</th>
<th>Internal</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Inadequate internal controls in public administration</td>
<td>- Scarcity of SAI resources</td>
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<tr>
<td>- Limited access to information</td>
<td>- Lack of PFM expertise</td>
</tr>
<tr>
<td>- Lack of synergies among key PFM stakeholders</td>
<td>- Siloed organization and working methods of SAIs</td>
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<td>- Multiple (potentially conflicting) objectives of the PFM system</td>
<td>- Lack of customized regional assessment frameworks</td>
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## Possible solutions

- Work with political entities to change policy in order to enhance effectiveness and accountability
- Improve coordination across entities, including through data/information exchange
- Strengthen internal control mechanisms
- Enhance staff professional development
- Increase resources, including staff
- Invest in new and updated technology
- Adjusting frameworks and approaches
Some final words

- SAIs across regions do not audit budget credibility as such (although some audits identify budget deviations), but rely on different audit practices to examine various aspects related to the budget or the public financial management system.

- Examples of these audits show their value for understanding budget deviations and their causes and impacts, as well as other factors that may affect budget credibility.

- SAIs identify the need for further guidance and for enhancing their expertise on budget analysis, as well as for leveraging technologies to strengthen their capacities in this area.

- While SAIs have improved monitoring and follow-up to audit recommendations in the last years, these gains have not always been reflected in audits related to government budgets.