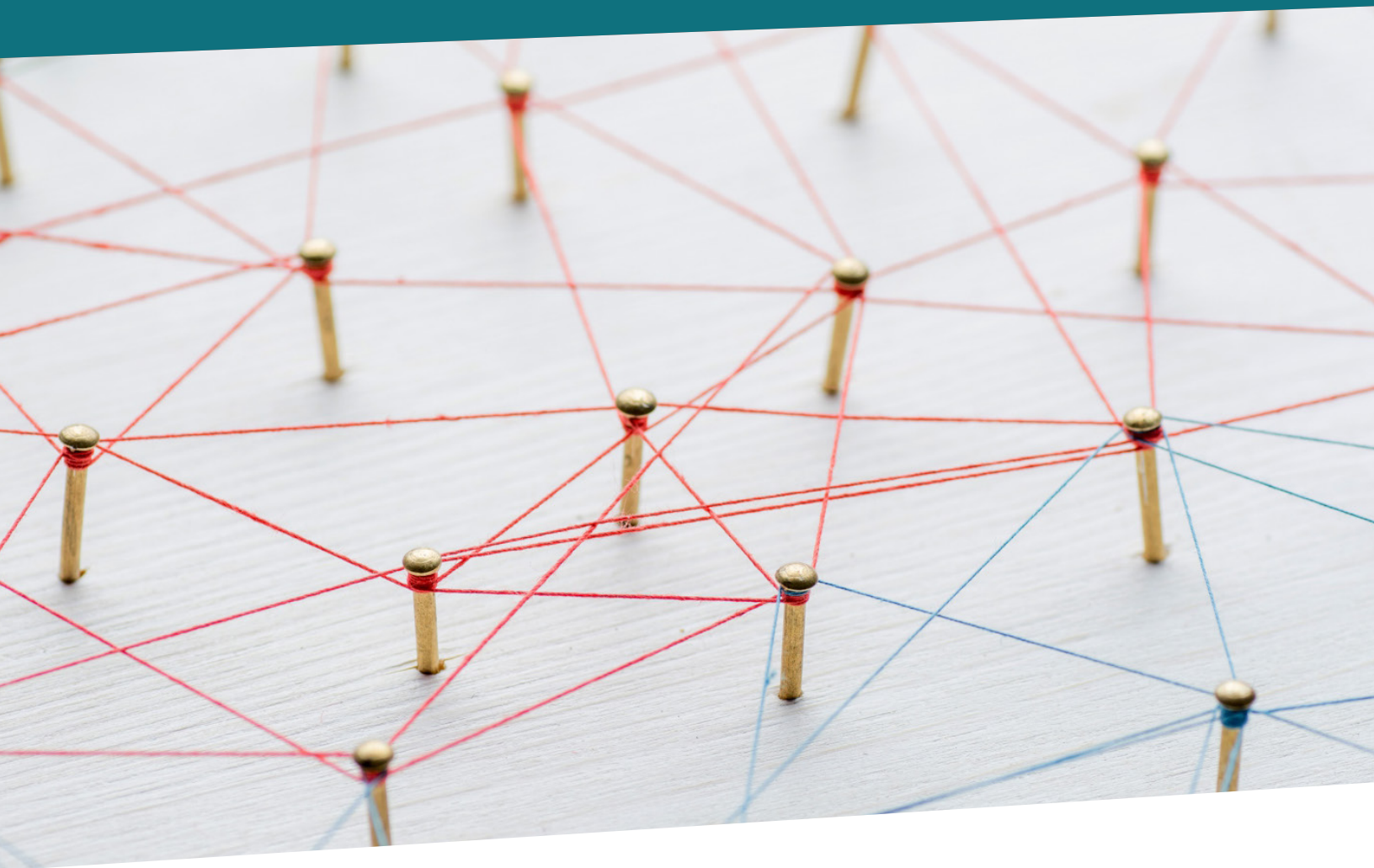


# Strengthening Budget Credibility through External Audits

A Handbook for Auditors



**United  
Nations**

Department of  
Economic and  
Social Affairs



**International  
Budget  
Partnership**

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## Chapter 2: Auditing budget credibility

Budget credibility is still an emerging concept in the field of auditing, and only in recent years has begun to be used by audit institutions as part of the audit process. This chapter looks at ways SAIs can determine whether and how to integrate budget credibility into their audit plans. In doing so, the chapter expands the concept of budget credibility for auditing purposes, introduces various approaches to auditing budget credibility, and provides an overview of relevant audit standards to guide an SAI's work on this subject.

### 2.1. Auditing credibility – taking a standard or broader perspective

Chapter 1 identified budget credibility as one of the goals of a sound budget process and PFM

system. Auditors are well-positioned to assess whether and how effectively governments are achieving this goal. But, audit work can also shine a light on the impact of the lack of budget credibility and on what poses risks to the credibility of government budgets. In essence, audits can assess budget credibility along the standard definition or they can take a broader view and look into the factors that affect the credibility of public funds.

As described in section 1.1, the standard definition of a credible budget is one that is executed according to the plan approved by the legislature at aggregate and detailed allocations. The focus is on short-term procedural rules and regulations and on budget deviations from the approved budget – on the reliability of the budget. (Box 2.1)

#### Box 2.1. The standard definition of budget credibility for auditing purposes

A **budget is credible when** (in at least two of the last three years):

- Actual *revenue* is collected according to the approved budget, within 97-106 percent of the plan, and variance in revenue composition is within 5 percent of the plan.
- Actual *expenditure at the aggregate level* does not deviate beyond 5 percent of the approved budget, and
- Actual *expenditure at the compositional or sectoral allocation level* does not deviate beyond 5 percent of the approved budget allocations; in the case of contingency funds, expenditure should not deviate beyond 3 percent.

Source: PEFA, 2016. Framework for assessing public financial management, 2nd edition. p. 14-18. [https://www.pefa.org/sites/pefa/files/resources/downloads/PEFA%202016\\_latest%20version\\_with%20links%20%28%29.pdf](https://www.pefa.org/sites/pefa/files/resources/downloads/PEFA%202016_latest%20version_with%20links%20%28%29.pdf)

A *broader view* of budget credibility not only focuses on the reliability of the budget but also on the *performance* of the budget. It reflects a shift from activity-based to output-based auditing, which assesses the performance of public spending. This understanding of budget credibility calls for using performance audit tools and /or integrated auditing, which incorporate different audit practices (e.g., financial, compliance, and performance; compliance and performance). In addition to budget deviations, auditors would consider:

- i. the premises on which the budget is formulated,
- ii. the fragmentation or integrality of the budget (i.e., the volume of resources and spending outside the budget),
- iii. compliance with PFM rules and processes, and
- iv. the performance of public spending for the delivery of public goods and services.

## Box 2.2. A broader view of budget credibility for auditing purposes

A **budget is credible when it:** (criteria are not exhaustive)

- Complies with public financial management rules and processes.
- Is effectively formulated and executed.
- Is formulated according to realistic and reliable macroeconomic projections and forecasts.
- Reflects government public finance and policy priorities and plans.
- Is comprehensive and integral.
- Supports fiscal sustainability and fiscal health.
- Ensures efficient processes and transactions for the effective delivery of services and the achievement of policy objectives.
- Is aligned to expected outcome and goals (i.e., benchmarking)

How broadly to consider the various aspects of budget credibility has implications in terms of audit methodology, particularly on the identification of the audit objective and the conditions to establish credibility. Two ways

of considering budget credibility for auditing purposes are presented in Table 2.1, one applies the standard definition and the other considers a more expansive understanding of the concept. These can be linked to different audit tools.

**Table 2.1. Auditing via the standard vs broader view of budget credibility**

Auditing by standard definition	Auditing with a broader view
<p><u>Focus:</u> budget predictability/reliability and execution (i.e., any deviations from the budget approved by the legislature).</p> <ul style="list-style-type: none"> <li>• Could consider reliability/execution for expenditures and revenues at both an aggregate and compositional level.</li> </ul> <p><u>Type of audit:</u> Financial audit (FA) and/or compliance audit (CA).</p> <p><u>Scope:</u> Single unit or aggregated (e.g., for all of the government through the audit of year-end accounts).</p>	<p><u>Focus:</u> determinants of budget credibility and performance and outcomes (impacts of deviations).</p> <ul style="list-style-type: none"> <li>• Could inquire into the determinants (e.g., PFM processes and institutions, governance) through a risk-based approach.</li> <li>• Could consider specific dimensions of budget performance related to credibility: e.g., transparency, information/reporting systems (including performance indicators).</li> </ul> <p><u>Type of audit:</u> Compliance audit (CA) and performance audit (PA), or mixed audits with PA elements.</p> <p><u>Scope:</u> Across government, single units, or aggregated /systems.</p>

The broader view of budget credibility can be operationalized through a risk-based approach, identifying how different factors can either create or mitigate risks in terms of unexpected or unjustified deviations (of either aggregate expenditure, revenue, or spending composition)

from approved budgets. SAIs can assess and weigh the risk of the different factors to prioritize and identify areas to be audited and then develop audit objectives and questions. On risks, see Annex 2.1 at the end of this chapter and Chapters 3 and 6.

**Table 2.2. Examples of audit approaches, objectives, and audit findings related to budget credibility**

<b>Audit approach</b>	<b>Audit objectives and audit methodology (in parentheses)* Examples:</b>	<b>Related audit findings linked to budget credibility Examples:</b>
Audits of the performance of the PFM system (Chapter 4)	Effectiveness of government's expenditure management system to support performance-based budgeting. (PA)	The lack of framework to measure the quality of government expenditure undermines the ability to assess how the budget contributes to the achievement of policy objectives (targets included in the medium-term national development plan).
Annual audits of year-end accounts or state budget execution (Chapter 5)	Assurance of financial statements and compliance of budget transactions with legal framework. (FA, CA)	Whole-of-government financial statements are not prepared in accordance with the applicable financial framework and the lack of compliance with existing public finance regulations creates credibility risks (e.g., indebtedness beyond the legal ceiling that undermines fiscal health).
	Whether reasonable projections for macroeconomic variables inform budget allocations. (CA, PA)	Poor or inaccurate macroeconomic forecasting creates credibility risks (e.g., deviations due to errors in revenue estimation).
Audits at budget program or entity level (Chapter 6)	Predictability – existence, completeness, and accuracy of documentation. (FA)	Incomplete, inaccurate documentation of expenditures may create overrun/underspending risks as entities do not know the volume of actual resources executed.
	Economy, efficiency, and effectiveness in an entity's preparation and execution of entities' budgets. (PA)	Inefficient planning /preparation of the entity's budget may create credibility risks as unrealistic spending targets make it difficult for entities to absorb funds and can lead to underspending.

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



## The challenge of linking budget execution and performance

Including performance aspects in addition to the financial and compliance evaluation of budget execution requires not only identifying budget deviations, but also analyzing their impact on the delivery of public services and goods. Making links between budget execution (particularly at the aggregate level) and performance at the

program or entity level is difficult. SAIs have varied experience and capacities in conducting value for money and operational audits. Multiple factors explain the performance of programs and entities. SAIs cannot possibly assess the performance of the entire universe of entities and programs annually. Still, SAIs are making an effort in this direction. For example, each year SAI Brazil selects a few programs for a performance assessment in the audit of the President's year-end accounts.

### Box 2.3. Challenges to linking budget execution to performance

Some SAIs, like **France** and **Brazil**, publish an annual report on the evaluation of public policies. This can provide an entry point to enhance the linkages between budget execution and performance. However, there are some challenges.

Brazil's Federal Court of Accounts (TCU) publishes an annual report\* of audits of public policies and programs (Relatório de Fiscalizações em Políticas e Programas de Governo, RePP) which evaluates approximately 10-15 programs every year. For example, in 2021, the analysis focused on social programs and programs of access to economic benefits in the context of COVID-19. Unfortunately, this evaluation does not usually influence the budget process, and it includes many programs that are outside the regular budget. Enhancing engagement with the legislature is critical to increasing the influence of this type of analysis on budget discussions. Another need involves strengthening the capacity of auditors on budget evaluation.

\*These reports are available at <https://sites.tcu.gov.br/relatorio-de-politicas/>

Nonetheless, while auditors may find it challenging to audit budget credibility with a focus on performance of service delivery, possible entry points for SAIs to move in this direction include:

- Audit performance at the entity level, using performance audit tools.
- Focus mainly on auditing and concluding on the "economy"<sup>58</sup> aspects of performance.
- Link budget formulation objectives and execution with the actual outcome.
- Audit critical elements related to performance such as government performance indicators.

<sup>58</sup> Economy, efficiency, and effectiveness are commonly described as the "3Es" in a performance audit

Some SAIs already do this regularly (e.g., Brazil's TCU, the UK's NAO).

- Link planning and budget execution and develop audit criteria that can be used to assess these linkages for different types of audits.
- Incorporate some automatized elements to audit effectiveness in the annual audit of budget execution.

## 2.2. Budget credibility across different contexts

Differences in the institutional and governance contexts and characteristics of PFM systems across countries may have a differentiated effect on the credibility of government budgets. For example, countries with high levels of debt and a constrained fiscal space may set fiscal targets that result in systematic underspending.<sup>59</sup> In some countries, the de-facto prevalence of the executive branch over the legislature in the approval and amendment of the budget may undermine credibility and affect citizens' trust in the budget process. And in other countries, amendments to the national budget by the legislature add to credibility challenges (see bullet "g" below and Chapter 6, Box 6.5).

Auditors should be knowledgeable of the wider country context and how these factors interplay with the SAI mandate and capacity. Relevant factors to consider include:

- a. External shocks and the macroeconomic and financial environment of the country.** What is the country's level of debt, financial obligations, and overall financial health? How dependent is the country on foreign aid or commodities? Additionally, national health crises, high energy prices, inflation, or other shocks will affect the credibility of budgets. (Boxes 1.5 and 1.7)
- b. The nature of the budget system and approach to budgeting, and any particularities (formal or informal) of the budget process.** Does the country rely on cash-based accounting or accrual-based accounting? Does the country rely on line-item budgeting or performance-based budgeting? Are there specific stages in the budget process unique to this country?
- c. The country's expenditure controls and fiscal rules.** These shape the country's PFM system and familiarity with them is essential for understanding how resources are designed to flow and who is responsible for various stages of the budget execution process.
- d. Ongoing or planned budget reform,** such as any movement toward performance-based budgeting, or changes in the budget legal framework.
- e. Technical factors that affect the performance of the PFM system** such as the existence of integrated information systems.
- f. Institutional characteristics related to the budget process** such as the existence or not of an Independent Fiscal Institution

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<sup>59</sup> Input from the General Comptroller of Costa Rica at the UNDESA-IBP Technical Meeting for the development of this handbook, (May 26-28, 2021).

(IFI) with the mandate to assess publicly and independently fiscal policies, plans, and performance against fiscal objectives (e.g., fiscal sustainability).<sup>60</sup> Some SAIs (e.g., SAI France, Finland, Lithuania) play this role in their respective countries.

- g. The role of parliament as well as the relationship between the SAI and parliament.**  
Does the parliament have the power to amend the budget? Is there a parliamentary budget office? What are the legislative capacities for effective budget oversight? For example, countries vary in the extent to which the

parliament can change the budget after it is submitted for legislative consideration. In many countries, the legislature can change the composition of the expenditure or revenue plans but not the global total.<sup>61</sup>

- h. Relevant characteristics of public administration and the center of government**  
such as the links between planning and budgeting, the soundness of monitoring and evaluation systems, the independence of the civil service, and the strength of internal control functions, among others.

**Table 2.3. Relevant factors of country variation that may affect budget credibility**

Wider country economic and governance context	PFM/Budget system	Institutional factors related to budgeting	Public administration and center of government
<ul style="list-style-type: none"> <li>• Macroeconomic constraints.</li> <li>• Fiscal space and health.</li> <li>• Level of public debt.</li> <li>• Level of foreign aid, if applicable.</li> <li>• Commodity exporters.</li> <li>• Countries in special situations (e.g., fragile states).</li> </ul>	<ul style="list-style-type: none"> <li>• Approach to budgeting and nature of the budget and accounting system (e.g., cash vs. accrual, line-item vs. program)</li> <li>• Planned or ongoing budget reforms (e.g., legal and regulatory framework, for improving performance).</li> </ul>	<ul style="list-style-type: none"> <li>• Distribution of budgeting powers between the executive and the legislature, and amendment powers of the legislature.</li> <li>• Legislative limits (e.g., on deficit).</li> <li>• Legislative capacity for budget oversight.</li> </ul>	<ul style="list-style-type: none"> <li>• Nature of planning processes (e.g., short, medium, long-term).</li> <li>• Linkages between budget and planning.</li> <li>• Soundness of monitoring and evaluation systems.</li> <li>• Internal control functions.</li> </ul>

<sup>60</sup> The institutional form, level of independence, and nature of the work conducted vary significantly across IFIs. For further information on IFIs, see IMF's dataset at <https://www.imf.org/en/Data/Fiscal/fiscal-council-dataset>

<sup>61</sup> IMF, (n.d.). Guidelines for public expenditure management, section 3: Budget Preparation." Available at <https://www.imf.org/external/pubs/ft/expend/guide3.htm>

Wider country economic and governance context	PFM/Budget system	Institutional factors related to budgeting	Public administration and center of government
<ul style="list-style-type: none"> <li>Fiscal transparency.</li> <li>Corruption risks.</li> </ul>	<ul style="list-style-type: none"> <li>Technical elements that affect the performance of the budget systems (e.g., integrated information system).</li> <li>Fragmentation of the budget.</li> <li>Off-budget accounts and extra-budgetary funds.</li> </ul>	<ul style="list-style-type: none"> <li>Existence of parliamentary budget office.</li> <li>Existence and competencies of Independent Fiscal Institution (IFI).</li> <li>Distribution of budget powers within the executive.</li> </ul>	<ul style="list-style-type: none"> <li>Independence of civil service.</li> <li>Linkages between internal and external oversight.</li> <li>Availability and quality of performance information.</li> </ul>

### Supreme Audit Institution

- Independence.
- Scope of powers and competencies in relation to SAI model (judicial/court, board/collegiate, Westminster).
- Special roles played by the SAI in some countries (e.g., IFI).
- SAI capacity (e.g., analytical) and resources.

## Additional contextual considerations

Several additional dimensions are relevant to operationalize the concept of budget credibility for auditing purposes and to determine whether budget credibility is significant in an SAI's national context. These include:

- The interplay between quantitative budget deviations and contextual factors.** While the 5 percent deviation threshold set by international standards provides a relevant

reference point, deviations below this threshold may represent a challenge for budget credibility in some contexts while higher deviations may not represent a problem in others.

- The role of various actors in the budget process and PFM.** Budget credibility risks and deviations can be influenced by different actors, not only the executive. For example, as noted earlier, in countries where the legislative branch has budget amendment powers, parliaments can be a driver of budget deviations. In decentralized or

federal countries, sub-national and/or local governments may contribute to deviations from the approved budgets (e.g., due to low implementation capacity). And, in some cases, delays in the release of funds by development partners may also play a part in budget credibility.

- **Informal budget processes and their impact on budget credibility, legitimacy, and accountability.** In certain contexts, informal processes may undermine formal budget institutions. For example, the executive may circumvent the budget approval and oversight roles of the legislature by relying on executive decrees to amend the budget. There are also credibility challenges related to extra-budgetary or out-of-budget funds (e.g., in the context of emergencies), to the fragmentation of budgets (e.g., different sources of revenue, donor funding with parallel systems), and to special funds (e.g., social security trust funds). Therefore, the definition of credibility would need to consider what is and what is not included in the budget per se.
- **Risks that emerge during budget execution.** Deviations from authorized spending may not surpass the 5 percent threshold, but become a significant problem during budget execution, for example through mandatory spending cuts or the approval of supplementary budgets. Some drivers of credibility risks may relate to the macroeconomic situation of a country (see Box 1.5 on inflation) and/or to political considerations.

- **Fiscal and budgetary outcomes.** The budget is an instrument for the achievement of national objectives and the effective delivery of policies. Therefore, budget credibility relates not only to the quantitative deviations from the authorized budget but from the intended results or policy goals to be achieved with the execution of budget resources, as well as their impact on the effective delivery of public services.

Each of these dimensions has implications for auditing. For example, by being outside the regular budget process, off-budget funds are by definition less transparent and tend to escape oversight. Therefore, SAIs face challenges with timely access to relevant information related to the execution of these funds. Oversight by SAIs and other stakeholders would benefit from improving the transparency of off-budget resources. Also, auditors could consider the full spectrum of funds and resources at different levels of government, as well as the role of different stakeholders that raise and execute resources with a public purpose. However, the mandate of an SAI may restrict its capacity to investigate some of these budget credibility risks. For example, budget credibility problems may be related to the weak implementation capacity of local governments, but an SAI's mandate is often limited to the national level and to transfers of national resources to subnational governments.

## 2.3. Selection of budget credibility as an audit topic

How an audit topic is chosen varies across SAIs in terms of who is responsible for topic selection, or whether the planning process in the SAI is annual or multi-year, among other factors. However, some common considerations will normally inform the SAI's choice of audit topics to be included in an annual or multi-annual audit plan: (a) its mandate, (b) the legal and regulatory framework, (c) the resources and capacities available, and (d) an analysis of the SAI's environment, including some form of risk analysis.<sup>62</sup>

An SAI may consider budget credibility as a possible theme in upcoming audits. An interest in strengthening budget credibility at the national level – for example, as part of ongoing budget reforms or as a result of a PFM assessment (e.g., PEFA) – can contribute to prioritizing budget credibility among the strategic objectives of an SAI. Or budget credibility can be used as a common thread by an SAI to link audits that address several dimensions of budget credibility and can be conducted in a certain period of time (multi-annual SAI audit planning).<sup>63</sup>

In any case, an initial step for an SAI to consider including budget credibility among its strategic priorities is to assess whether it is relevant and significant in the national context.

### Box 2.4. Questions for SAIs to consider when deciding whether or how to prioritize budget credibility

- Is the budget perceived as credible in the country?
- Is the PFM system performing according to international standards?
- What do aggregate indicators on the credibility of the budget indicate for the country (e.g., PEFA)?
- Has the government prioritized SDG 16.6.1 in its SDG implementation plans/national development plans?
- What might be the sources of budget deviations at the national level?
- Do government entities provide enough information on the rationale for budget deviations? Are budget deviations transparent?
- What are the impacts of budget deviations on the quality of service delivery?
- Are there indicators that budget deviations exist on the revenue/expenditure side and/or in spending composition?
- Are there indicators that budget deviations are relevant at entity or program levels?

<sup>62</sup> See Chapters 3 and 6 on risk analysis.

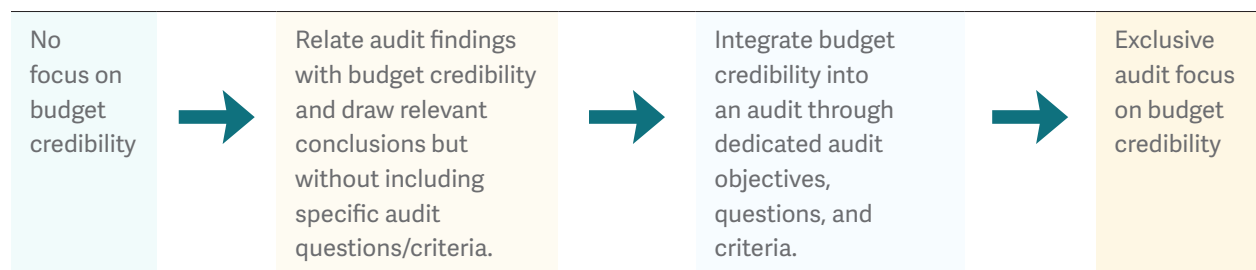
<sup>63</sup> See Chapter 4 for an example from Indonesia

Organizational considerations also inform an SAI’s decision to focus on budget credibility as an audit topic, including:

- a. The mandate of the SAI on PFM/budget issues.
- b. The significance of budget credibility for the SAI and the mobilization of internal support for conducting this work.
- c. Existence of regional frameworks and technical guidance to inform and guide this type of work.
- d. Expertise and capacity of audit teams on PFM matters, including through mobilizing support from external experts.

- e. Access to timely information and data to analyze and use as supporting evidence.
- f. Availability of resources to examine the issue.

If an SAI explicitly signals an interest to include budget credibility in its audit plan, this strategic priority may be reflected in different ways. While some audits may focus exclusively on budget credibility, others may integrate a budget credibility angle as part of an audit on another related topic. Rather than exclusive, these approaches could be seen as incremental, or part of a continuum ranging from not focusing on budget credibility to exclusively focusing on budget credibility:



**Figure 2.1. Range of ways to approach budget credibility in an audit**

Source: A. Guillán Montero, 2023.

An exclusive and explicit focus on budget credibility in an SAI’s audit plan will be more demanding in terms of resources and skillsets and might be better suited for an SAI with experience in budget auditing. In this case, audit work could focus more on the aggregate or whole-of-government level. Examples of possible audit objectives, questions, and criteria are presented in Annex 6.1.

Integrating a budget credibility perspective into other audits can be a less demanding option for an SAI with less experience in budget auditing (beyond providing assurance on the

financial statements of government entities), as SAIs currently audit many issues that relate to budget credibility. Thus, even if an SAI does not prioritize an exclusive focus on budget credibility, the credibility of government budgets can be a relevant consideration to be integrated when conducting other audits related to the budget and PFM system, and/or auditing particular entities or programs. Examples of possible audit questions to integrate budget credibility are provided in Chapters 5, 6, and Annex 6.1.

## Box 2.5. Ghana: Considering budget credibility in audits of the public accounts

**SAI Ghana** directly refers to budget credibility in some of its public accounts' audits. For example, in their audit of FY 2018, the SAI emphasized the need for the government to be accurate and consistent in meeting its revenue and expenditure estimates. The audit found that some entities with zero budget lines had been appropriated funds (e.g., for goods and services) from supplementary or contingency budgets that had not been included in the integrated financial management system, increasing the risk of incurring budget overruns.

Source: A. Guillán Montero, 2021.

Although the number of findings related to budget credibility may be more limited when integrating budget credibility as only one dimension into audit objectives, questions, and criteria, this will help auditors make more explicit links between audit findings and budget credibility. Auditors will have to explicitly relate the findings of the analyses to

credibility risks and problems and identify their causes. For example, one credibility problem is the deviation of collected revenues from their original forecasts and projections. Since some SAIs assess macroeconomic forecasts, they can consider the potential effects in terms of credibility and some of the possible causes. (See the example in Table 2.4.)

**Table 2.4. Relating an audit finding with budget credibility and identifying its causes**

Finding	Conclusions related to budget credibility	Causes
Poor or inaccurate macroeconomic forecasting creates credibility risks.	Unrealistic macroeconomic indicators can undermine the credibility of revenue forecasts and lead to multiple budget revisions due to resultant revenue/ expenditure mismatch.	<ul style="list-style-type: none"> <li>The inaccuracy of revenue projections may result from the poor quality of the revenue planning process due to capacity constraints, but also from political factors.</li> <li>Unexpected economic shocks may turn revenue estimations inaccurate (either over or underestimated).</li> </ul>



Another entry point for an SAI on this work may be via an entity or program that is suited to audits related to budget credibility. The audit could focus, for example, on the impact of budget deviations on beneficiaries or on any structures or internal processes that may underlie recurrent budget deviations in a specific program. Considerations for selecting relevant entities or programs could include:

- Those that involve the allocation/execution of large amounts of budget resources.
- Those with a track record of significant budget deviations (i.e., greater risk).
- Those where previous audits have identified weaknesses in internal controls, processes, or information systems, among others.
- Service delivery entities or programs that require certain conditions for eligibility (e.g., social programs) and /or delivery to beneficiaries.
- Common public services (e.g., related to health or education) where the availability of performance data may allow further inquiry into the impacts of budget deviations.

### Box 2.6. Examples of entities/programs that may be suited for audits that integrate budget credibility

**Brazil** - The Federal Student Loan Program failed to account in a timely manner for all expenditures, thereby unduly postponing bookkeeping and distorting the budget. The program also underestimated liabilities incurred by the government to private universities. The Federal Court of Accounts (TCU) issued an order for the executive branch to fully account for student loan expenditures in future budget legislation

**Indonesia** – The distribution of funds for some government assistance programs is not carried out in a timely manner, in the right amount, nor to the eligible beneficiaries. Deviations from the budget undermine the ability of the programs to meet the expected targets and accomplish their designated purpose. Unsound budgeting processes distort the planned budget for the programs and lead to deviations (underspending) during execution. One of the causes is the lack of reliable and valid data on the programs' beneficiaries.

**Portugal** – Recurrent deficiencies in the budgeting of basic and secondary education and health programs reveal structural problems in the budget forecasting process, which needs to be more realistic, and meanwhile represents a risk to budget credibility.

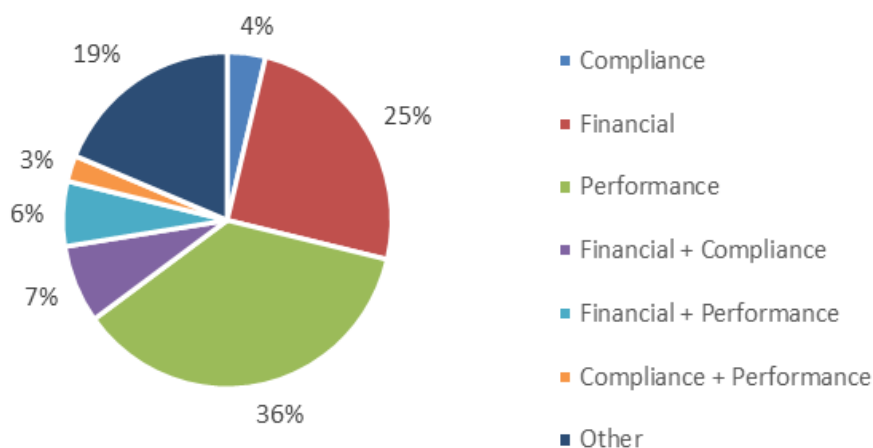
Source: UNDESA/IBP 2022 SAI survey; Input from SAI Brazil to the UNDESA-IBP Technical Meeting on the development of this handbook (May 26-28, 2021).

When selecting an entity or program for an audit related to budget credibility, auditors should consider the level of risks to budget credibility associated with the execution of the budget in that entity or program. If the level of risk is low, an examination with a focus on credibility may not add value. To the contrary, as the risks to budget credibility increase, an audit could help government officials address and strengthen budget credibility. For more on budget credibility risks, see Chapters 3 and 6.

## 2.4. Types of audits to examine budget credibility

Auditing budget credibility cuts across different types of audit practices. SAIs may examine issues related to budget credibility through financial, compliance, performance, and forensic audits, as well as through other activities (e.g., evaluations, inputs to the legislature). In a recent analysis of 80 audit reports from 20 SAIs that touched on budget credibility in some way, 20 of the reports were financial audits, three compliance audits, and 29 performance reports; 13 were a combination of two types of audits, and 15 were other types of SAI input. (Figure 2.2.)

Figure 2.2. SAIs can examine budget credibility through different types of audits



Note: This distribution is drawn from a sample of 80 audits analyzed in 2021.  
Source: A. Guillán Montero, 2021. "Upholding commitments. How supreme audit institutions can strengthen budget credibility through external audits," IBP.

Different types of audit practice may be more suited to examining specific aspects related to budget credibility. For example, as illustrated in Chapter 5, the scope of the audit of the year-end accounts varies across countries and auditors may use different audit methodologies and tools, ranging from financial to compliance audit, and even to performance audit.

Auditors may rely on different types of audits because of the nature of the issue examined and the objectives of the audit or due to their

mandate and professional experience. While some SAIs use all types of audits to examine budget issues (Indonesia, South Africa), some report only conducting financial (Kuwait), compliance (the Philippines), or performance audits (Latvia), and some report using two types of audits such as compliance and performance (the Netherlands) or financial and performance (South Sudan). Some SAIs also report using forensic audits (Algeria).<sup>64</sup>

## Box 2.7. Examining aspects of budget credibility through different types of audits

A financial audit confirms whether the financial statements and other financial information regarding the budget and the performance of the budget are complete and accurate in all material aspects. (Based on ISSAI 200.)\*

A compliance audit establishes whether the budget processes have complied with the legal and regulatory framework of the country and abides other relevant standards. (Based on ISSAI 400.)\*

A performance audit assesses whether government undertakings regarding the preparation and implementation of the budget have been carried out in an economical, efficient, and effective way. In addition, the audit will assess whether the objectives of the budget interventions have been achieved. (Based on ISSAI 300.)\*

\*See Section 2.5 for more on audit standards and principles.

Source: SAI Uganda 2022.

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<sup>64</sup> UNDESA/IBP SAI survey, 2022.

A comprehensive analysis of budget credibility at the aggregate level benefits from combining or integrating different types of audit information. However, combining different types of audit information must be well-defined in the scope of an audit, as different types of audits have different objects. Organizational barriers often make it difficult for auditors to work across audit

practices. For many SAIs, the various types of audit practice are generally conducted in silos and there is little or no synchronization of the audit periods covered or cross-referencing of audit findings. Despite these challenges, integrating audit practices can strengthen SAIs' budget work. (Box 2.8.)

### Box 2.8. The benefits of combining different audit practices and information

The Auditor General's Department of **Jamaica** has identified significant analytical benefits through meaningful recommendations when the auditing of an entity involved more than one audit type. In other cases, where analytical reviews (trend analyses) of the financial statements (FSA) were conducted as a precursor to a performance audit, the findings were more targeted, and the audit recommendations contributed to improvements in the entities' financial management. These positive results may contribute to the reduction of the entities' reliance on government budgetary support and increase fiscal space for the support of other important government programs.

Source: Input by Gail Lue Lim, UNDESA-IBP Technical Meeting on the development of this handbook (May 26-28, 2021).

## 2.5. Standards and general process to audit credibility

Audits of budget credibility follow the same standards and general processes as other audits. These standards and audit processes vary across audit practices - i.e., depending on whether an SAI conducts a financial, compliance, or performance audit, or an integrated audit which combines more than one type of audit (e.g., compliance and performance).

**Standards:** SAIs rely on relevant international auditing standards (ISSAI) established by the International Organization of Supreme Audit Institutions (INTOSAI) for each type of audit.<sup>65</sup> There are no specific standards or guidance on auditing budget credibility endorsed by INTOSAI. Auditors should apply the appropriate standards for the type of audit to be conducted. In addition, auditors should consider the existing standards and guidance related to specific topics such as auditing of information systems (GUID 5100); public debt audit (GUID 5250), or audit of the

<sup>65</sup> <https://www.issai.org/professional-pronouncements/?n=0-1000000000> There are handbooks to support SAIs in conducting each type of audit.

public debt information system (GUID 5259), among others. Relevant standards that cut across audit practices - such as ISSAI 100 and ISSAI 12 - also apply. Table 2.5 summarizes relevant INTOSAI standards and guidance that apply to auditing budget credibility.

SAIs also rely on their own internal guidelines, manuals, and standards for conducting different types of audits. According to the results of the survey conducted in 2022 for this handbook,

35 percent of respondents noted that their SAI follows internal standards and guidelines when conducting audits of the PFM system.<sup>66</sup> When using their own standards, SAIs must ensure that they are consistent with the relevant principles included in ISSAI 100, 200, 300, and 400. They can also rely on INTOSAI guidance on applying other relevant international standards (e.g., IPSAS for Public Sector Financial Statements, including IPSAS 24 and 42).

**Table 2.5. International audit standards and selected guidance relevant to auditing budget credibility**

Financial audit	Compliance audit	Performance audit
ISSAI 200-299 (FA principles) ISSAI 1000-1999 (now ISSAI 2000-2899) series of Financial Auditing Standards Guidance 2900 (to FA standards)	ISSAI 400-499 (CA principles) ISSAI 4000-4899 (CA standards) Guidance 4900 (authorities and criteria)	ISSAI 300-399 (PA principles) ISSAI 3000-3899 (PA standards) Guidance 3910 (central concepts PA), 3920 (PA process)
<b>Cross-cutting</b>		
ISSAI 12 (value and benefits); ISSAI 100 (fundamental principles of public sector auditing); ISSAI 140 (quality control) INTOSAI Gov 9100 (guidelines for internal control standards for the public sector)		

In addition, when conducting audits related to budget issues, SAIs also rely on international standards and good practices as sources of audit criteria. Some of these standards have been presented in Chapter 1. In the handbook survey, many SAIs reported using the [IMF Fiscal Transparency Handbook](#) and the [OECD Principles of Budgetary Governance](#), among others.<sup>67</sup>

Another relevant standard is the [IMF Government Finance Statistics Manual](#) (GFSM) (2014),<sup>68</sup> which provides a comprehensive conceptual and reporting framework for analyzing and evaluating fiscal policy, especially the performance of the general government sector and the broader public sector, and provides guidelines for presenting fiscal statistics.<sup>69</sup> For review engagements, with

<sup>66</sup> UNDESA/IBP SAI survey, 2022.

<sup>67</sup> Ibid. (UNDESA/IBP SAI survey, 2022.)

<sup>68</sup> <https://www.imf.org/external/Pubs/FT/GFS/Manual/2014/gfsfinal.pdf>

<sup>69</sup> Input by Gail Lue Lim to UNDESA-IBP Technical Meeting for the development of this handbook, (May 2021); UNDESA, 2021. CEPA Strategy Guidance Note.

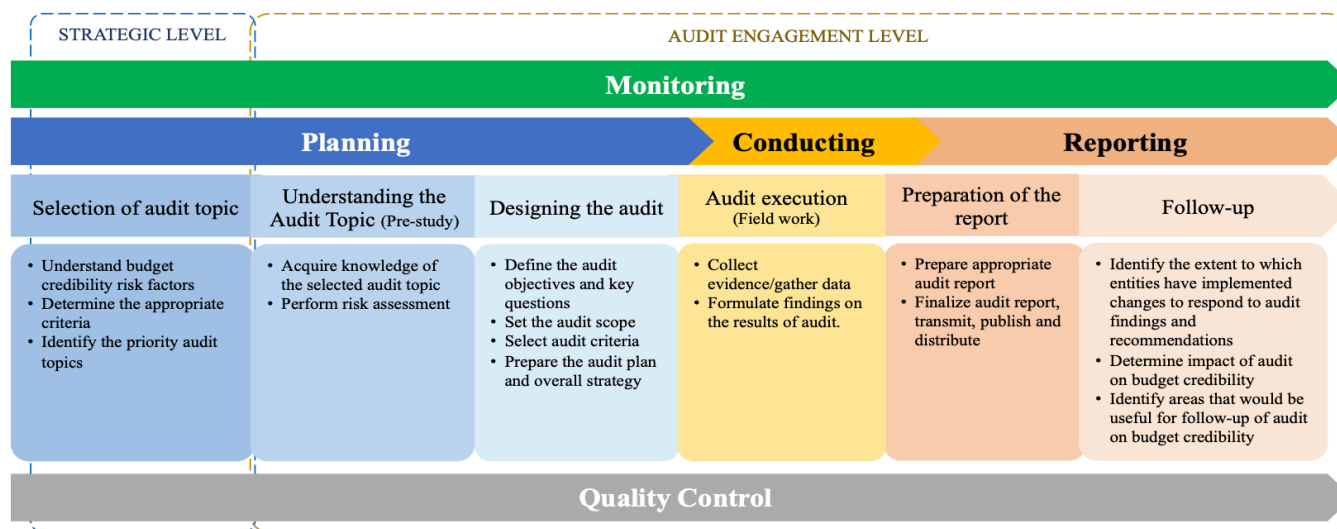
limited assurance, a relevant resource is the International Standard on Review Engagements (ISRE) 2400 (revised) (2013).

**General process:** Overall, the audit process can be structured in generic phases and elements across different audit practices, although the relevance of these phases may vary depending on the type of audit to be conducted. These generic phases of the audit process are illustrated in Figure 2.3.

When undertaking an audit related to budget credibility, auditors are confronted with different questions and requirements throughout these

phases. The questions are different depending on the frequency of the audits related to the budget. For example, audits of the year-end accounts or the execution of the state budget are conducted annually and therefore may require less investment in the planning phase, as the audit has a similar methodology from one year to another. Moreover, combining different types of audit practices also involves some choices and considerations related to the selection of the audit.

**Figure 2.3. Overview of the audit process**



Source: SAI Philippines 2022.

**Moving ahead:** To supplement the discussion in this chapter, Annex 2.1 presents examples of actual issues examined by SAIs in 20 countries and the potential risks they posed to budget credibility. Further, the next several chapters illustrate different options available for an SAI to enhance

its work on budget credibility. Each provides guidance and examples (e.g., audit objectives and questions) to help auditors understand what auditing budget credibility entails and addresses some of the questions and choices involved when undertaking this work

# Annexes

## ANNEX 2.1. Selected credibility-related issues and risks examined by SAIs<sup>1</sup>

Budget area	Issue examined by SAI	Potential effect in terms of budget credibility
Governance framework	Budget policy and debt management	Strategic use of budget deficits can undermine budget credibility.
	Mandatory spending cuts—e.g., to achieve deficit targets	Timing, amount, and distribution of in-year mandatory cuts may cause systematic underspending in certain sectors and affect the predictability of budget flows.  Limited transparency of spending cuts and their impacts undermines credibility assessments.
Planning and preparation	Economic modeling (macro forecast)	Poor revenue forecasting creates credibility risks.
	Revenue estimation	Errors in revenue estimation create risks of overruns.
	Planning processes—e.g., setting spending ceilings, priorities, etc.	Unrealistic spending targets make it difficult for entities to absorb funds and lead to underspending.
Approval	Legislative amendments—when applicable	Underspending of funds authorized by the legislature through amendments due to, e.g., electoral considerations while disregarding technical and capacity aspects.
	Circumventing approval	Excessive aggregation or otherwise inappropriate categorization of spending facilitates circumventing legislative approval, creating credibility risks related to in-year reallocations or overruns.
Execution and implementation	Management capacity and procedures	Inconsistencies across information systems create risks of overruns or underspending.  Inconsistent legal frameworks and weak administrative procedures create risks of overruns or underspending with impacts on service delivery.
	Documentation of expenditures	Lack of integration of all spending (e.g., supplementary) in integrated financial systems creates overrun risks.
	Estimation of costs/spending	Bad cost estimation makes it impossible to check against spending to manage and prevent overruns with potential impact on service delivery.
	Timing of spending	Differences in timing between authorization and actual spending facilitates unauthorized spending that may deviate from the approved budget.
	Generation, capture and management of performance information	Weak systems to capture performance information—including lack of, insufficient or inappropriate performance indicators and targets—affect the ability to assess impact of executed budget and to identify negative effects of non-credible budgets.



Budget area	Issue examined by SAI	Potential effect in terms of budget credibility
Control and oversight	Rule compliance	Unlawful spending, due for example to poor and untimely cost estimation, creates credibility risks.
	Internal controls	Weak internal controls or capacity constraints for internal oversight create credibility risks, given the potential lack of detection and sanction.
	Reporting, including to Parliament and SAI	Excessive aggregation of spending makes it difficult for the legislature to assess budget availability and detect credibility problems. Poor information and reporting problems make it difficult for oversight actors to assess whether spending has proceeded according to plan and whether results correspond to execution.

[1] Based on a sample from 80 audit reports from 20 countries. See Guillán Montero, 2021.

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