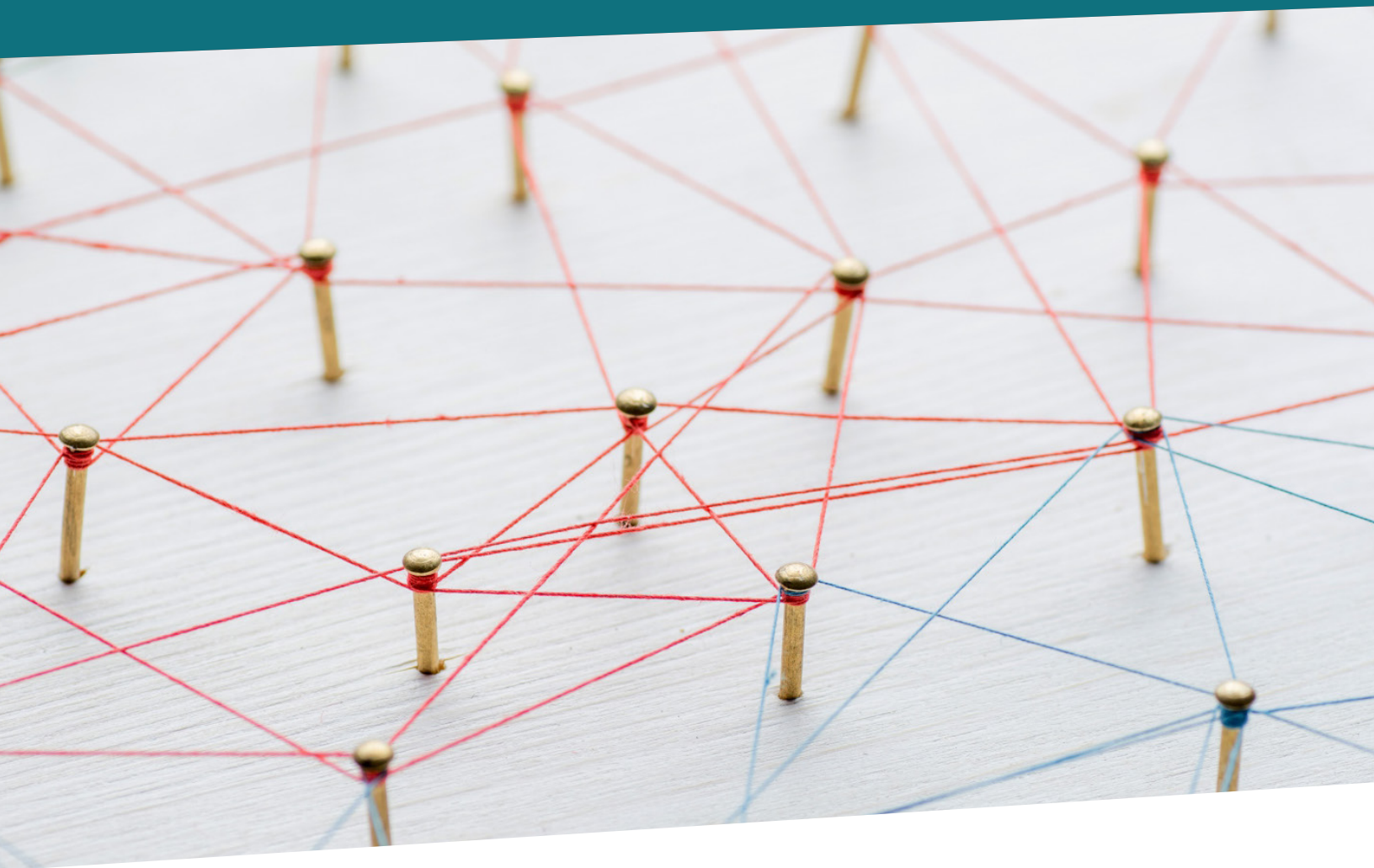


Strengthening Budget Credibility through External Audits

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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Chapter 3: Budget credibility risks at the whole-of-government level

This chapter looks at budget credibility risks at the whole-of-government level. It provides examples of these risks at each stage of the budget process and illustrates how SAIs in several countries have assessed some of them. Building on the concept of budget credibility as discussed earlier, this chapter aims to raise awareness of the potential indicators of budget credibility risk and guides auditors on how to identify them when auditing government budgets.

3.1. Understanding budget credibility risks at the whole-of-government level

The credibility of government budgets is a key driver of effective service delivery and public confidence in government systems. At a technical level, a credible budget is one where deviations are insignificant at the end of the budget year.⁷⁰ From a governance perspective, a credible budget is one that has been subject to adequate oversight.

Budget credibility risks can occur at any stage of the budget process. At the whole-of-government level, they can be defined as credibility risks that relate to budget functions and processes (e.g.,

planning, monitoring) carried out by the main stakeholders responsible for the budget process at the national level and apply to the entire public administration at a consolidated level or the whole-of-government (as compared to specific entities or programs). The focus is on transversal (intersecting) processes rather than on specific institutions. For example, a recent assessment of nine countries using the AFROSAI-E assessment tool (see Chapter 4) identified transversal risk areas including the completeness of monitoring and supervision and policy automation of financial management and service delivery.⁷¹ Budget credibility risks such as those to the whole-of-government can also result in credibility risks at the program and/or entity level, as discussed in Chapter 6.

In most jurisdictions, the main entities responsible for the budget process at the whole-of-government level are the Ministry of Finance and the legislature. Each plays a role at different stages of the budget process, as summarized in Table 3.1, although the exact distribution of their responsibilities varies among different countries depending on the governance model. Nonetheless, budgeting is a process that encompasses different entities and levels of government.⁷² As highlighted in Chapter 1, other stakeholders also play important roles. For example, SAIs are critical

⁷⁰ John Whiteman, 2013. "Measuring the capacity and capability of Public Financial Management Systems," International Public Management Review, vol. 14, issue 2.

⁷¹ AFROSAI-E, 2022. "Public financial management transversal risk report 2022", available at https://afrosai-e.org.za/wp-content/uploads/2022/07/AFROSAI-E_Public-Financial-Management-Transversal-Risk-Report-2022.pdf

⁷² OECD, 2014. "OECD principles of budgetary governance", Paris, OECD, available at <https://www.oecd.org/gov/budgeting/Draft-Principles-Budgetary-Governance.pdf>

to ensuring independent external oversight of the budget. Therefore, the budget process must be coordinated, consistent, and coherent across the public sector and across levels of government.⁷³

Table 3.1. Responsibilities of the Ministry of Finance and the Legislature in the budget process*

Budget process stage	Tasks	Responsible stakeholder
Budget formulation	<ul style="list-style-type: none"> Preparation of the annual budget in alignment with the country's long-term planning frameworks such as the National Development Plans and the Sustainable Development Goals (SDGs) Setting of revenue and expenditure targets at the national level 	Ministry of Finance
Budget approval	<ul style="list-style-type: none"> Presentation of the draft budget to parliament or the legislature for review 	Ministry of Finance
	<ul style="list-style-type: none"> Review and approval of the budget Enactment of the Appropriation bills 	Legislature
Budget execution	<ul style="list-style-type: none"> Mobilizing revenue, as budgeted. Release of funds to implementing entities and programs according to the approved cash flow plan. Providing budget execution guidance to entities 	Ministry of Finance
Accounting and reporting	<ul style="list-style-type: none"> Ensuring that there are functional budget monitoring systems within the government 	Ministry of Finance
	<ul style="list-style-type: none"> Ensuring that entities account for resources provided Ensuring that information regarding the performance of the budget is available, easily accessible, and reliable 	Legislature
External oversight and evaluation	Discussing and taking action on issues raised in the audit reports regarding the execution of the budgets by entities.	Legislature

*Distribution of responsibilities can vary depending on the country's governance model.
Source: Chapter authors.

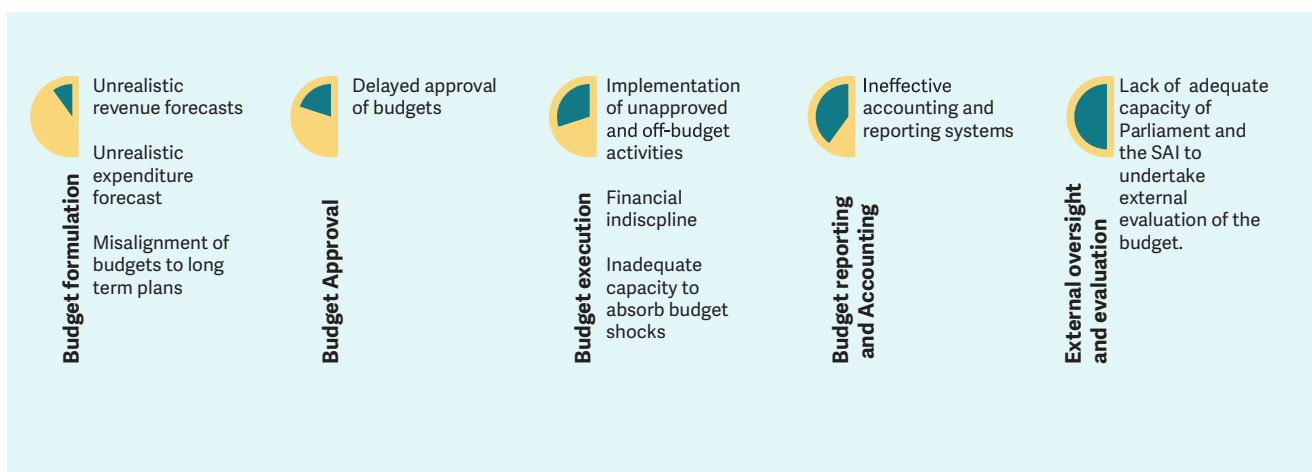
⁷³ Ibid

3.2. Common budget credibility risks at the whole-of-government level

Budget credibility risks related to whole-of-government functions are found at each of the

stages of the budget process. The most common ones are summarized in Figure 3.1.

Figure 3.1. Common budget credibility risks at the whole-of-government level



Source: Chapter authors

Risks for budget credibility at the budget formulation stage

Among the most common budget credibility risks that affect the budget formulation stage concern forecasting and alignment with long-term national plans.

Unrealistic revenue and expenditure projections/forecasts

The accuracy of revenue and expenditure forecasts will affect the credibility of the budget. More credible revenue forecasts are associated with fewer expenditure deviations.⁷⁴ Estimates of revenue and expenditure must be realistic and reflect the existing economic circumstances at the national level. The executive must also be able to mobilize/raise the projected revenue and spend it as planned. Unreliable forecasts are likely to result in major discrepancies between planned revenue

⁷⁴ de Renzio and Cho, 2020.

versus the actual revenue collected at the end of the year, both for individual revenue sources (e.g., tax, grants) and aggregate total revenue. In turn, this tends to lead to significant variation between

planned and actual expenditure, both at the aggregate and at the program, entity, and activity levels.

Box 3.1. Unreliable revenue and expenditure forecasts result in the misallocation of resources

SAI Jamaica found that the Ministry of Finance's reliance on the projections approved by the Cabinet when the Special Early Retirement Program was first conceived, instead of undertaking the necessary research to identify credible up-to-date estimates, resulted in overfunding of the budget. This required a reduction of J\$2.5 billion (approx. US\$19 million) in the First Supplementary Budget. Poor budgeting, due to the lack of credible estimates, can result in a lack of funding for other relevant programs, a worrisome outcome in a context of limited fiscal space.

Source: "The importance of budget credibility to SAI Jamaica and related issues", Gail Lue Lim, Chief Economist and Deputy Auditor General, Auditor General's Department of Jamaica, 2021.

Unreliable estimates of revenue and expenditure affect the allocation of resources including service delivery (and outcomes achieved), with some programs or entities not receiving enough budget resources while others are over-funded. (Box 3.1.) When macroeconomic constraints are not properly factored in and/or underlying economic assumptions of costs are weak, the budget is too often forecasted on the basis of the previous year's budget, i.e., via a "bottom-up" approach determined by spending requests, which often leads to overspending.⁷⁵

Governments tend to abandon revenue targets and other fiscal rules during external shocks (e.g., pandemics, natural disasters, and other

emergencies) and in times of poor economic performance and recession due to the adverse impacts on revenue realization and pressures to expand spending. These actions further affect revenue and expenditure targets, and the credibility of the budget.⁷⁶

In sum, audits should examine the ability of the executive to make reliable revenue and expenditure forecasts and ensure that this revenue is mobilized. The inability to produce reliable forecasts may result from systemic causes or other factors (including political pressure), and may necessitate reforms to the entire forecasting system. (Box 3.2.)

⁷⁴ de Renzio and Cho, 2020.

⁷⁵ IMF, 1999. <https://www.imf.org/external/pubs/ft/expend/guide3.htm>

⁷⁶ Pratap Ranjan Jena and Satadru Sikdar, 2019. "Budget credibility in India-Assessment through the PEFA framework," No 284, NIPFP Working paper series, available at https://www.nipfp.org.in/media/medialibrary/2019/12/WP_284_2019.pdf

Box 3.2. Deciphering systemic causes of unreliable revenue and expenditure forecasts

In 2013, **SAI Uganda** found limitations in their government's forecasting, including the lack of formal rules and a well-structured process to guide the revenue forecasting process; coverage gaps in revenue forecasts; low transparency in revenue forecasting; little or no systematic process for reviewing and learning from past revenue forecasts or assumptions; and the use of very basic forecasting models. The SAI specifically highlighted that these factors have negative consequences for the credibility of revenue forecasts.

Source: VFM audit report on revenue forecasting by MoFPED- OAG Uganda- 2013.

Misalignment of budgets to long-term planning frameworks and the SDGs

Making progress on the implementation of the Sustainable Development Goals (SDGs) requires effective national policies and credible budgets that reflect public finance and policy priorities. National Development Plans play a critical role in SDG implementation, as they reflect the long-term aspirations of the government and its citizens for a period of five, ten, or more years.⁷⁷ These plans highlight interventions, pathways, and timelines for the achievement of the targets set by the executive.

Annual budgets are the tool through which governments implement these long- and medium-term strategic plans, and accordingly, they are expected to be aligned to the national development frameworks. Different mechanisms can help link budgets to cross-cutting policy

objectives. For example, the tagging of spending for SDGs, gender, climate, or children in financial information systems⁷⁸ can help track and assess the allocation of resources towards the achievement of the SDGs and other cross-cutting priorities.

Assessing the extent of alignment of annual budgets to national development plans is an important way for audits to identify opportunities for corrective actions. SAI audit reports have highlighted that a weak alignment of the budget to long-term national development frameworks undermines the achievement of long-term national priorities. Similarly, failure to integrate the SDGs into the budget cycle may impair progress on the achievement of the SDG targets. (Box 3.3.)

⁷⁷Tarek Katramiz and Mahesti Okitarashi, 2021. "Accelerating 2030 Agenda integration: Aligning National Development Plans with the Sustainable Development Goals," Policy brief no. 25, United Nations University.

⁷⁸Jennifer Asman, Claire Schouten, Sally Torbert, and Nik Mandalia, 2022. IMF blog: "How to Maintain Progress on Implementing the SDGs" at <https://blog-pfm.imf.org/en/pfm-blog/2022/10/how-to-maintain-progress-on-implementing-the-sdgs>. Also, see UNDESA, 2019. Sustainable Development Goal 16: Focus on public institutions, World Public Sector Report 2019, Chapter 3, Division for Public Institutions and Digital Government, NY, available at: <https://publicadministration.un.org/en/Research/World-Public-Sector-Reports>

Box 3.3. Misalignment of budgeting to long-term planning frameworks can inhibit progress on SDGs

An audit looking at the alignment of **Malawi's** national budget against its commitment to implement the SDGs concluded the country would face challenges in achieving its SDG targets because of significant financing gaps in the annual budget to support their implementation.

Source: UNDP, 2018. "[SDGs audit on the national budget alignment in Malawi](#)," November.

Risks for budget credibility at the budget approval stage

Risks for budget credibility may also arise around the submission of the draft budget and its approval by the legislature. A major risk relates to the timing of the submission and approval of the budget.

Delays in budget approval by the legislature

Many countries have set regulatory frameworks to structure the way budgets are prepared by the executive, including timelines for the submission of the draft budget to the legislature for deliberation, scrutiny, and approval. The IMF Code of Fiscal Transparency, the OECD budget guidelines, and the PEFA framework

Box 3.4. Delayed approval of the budget creates risks for budget credibility

The 2020 financial audit report on budget execution of **Bosnia and Herzegovina's** institutions highlighted that, despite the existence of deadlines for passing and adopting the budget laws to facilitate implementation of the budget, the 2020 Budget/Appropriations Act was only passed in July 2020. Financing of institutions and servicing of international obligations was carried out for most of the year based on temporary decisions of the Bosnia and Herzegovina Council of Ministers. From a governance perspective, this case highlights a major budget credibility risk, i.e., having the budget implemented based on temporary decisions by the Council of Ministers without oversight by the legislature.

Source: Response from SAI BiH to survey conducted in 2022 in preparation for the handbook

provide good guidance on this aspect (see Chapter 1). Most regulatory frameworks establish that the budget should be submitted to the legislature at least three to four months before the beginning of the next fiscal year.

Despite timelines established by law, budgets are still submitted late to the legislature (e.g., in many countries draft budgets are submitted to the legislature only one or two months before the beginning of the fiscal year).⁷⁹ This significantly reduces the time legislators have to scrutinize and analyze the budget and its fiscal objectives before approval, which increases the risk of budget deviations during budget execution. Moreover, delayed approval of the budget prevents government entities from initiating procurement processes based on the approved budget, especially in cases where cash warrants have to be provided to public entities. Inadequate procurement planning may also affect credible cash planning practices, which in turn affect the implementation of projects that would improve the living conditions of citizens.⁸⁰ Poor cash planning may create risks for debt management or lead to significant end-of-year spending. Late approval of the budget may also exacerbate other existing problems such as unsound revenue forecasting, further undermining budget credibility.⁸¹ (Box 3.4.)

Delays in the approval of the budget are an indicator of potential budget credibility risk to be considered by auditors. Audits should pursue any explanations put forth, illuminate the effects of such delays, and make recommendations to prevent these delays in the future.

Risks for budget credibility at the budget execution stage

Auditors may come across information and evidence suggesting credibility risks at the budget execution stage, too.

Implementation of unapproved and off-budget activities

One of the credibility risks during budget execution is the allocation of budget resources for the implementation of activities that have neither been scrutinized nor approved by parliament. This can be limited to a few specific programs as discussed in Chapter 6, but could also be widespread across programs and subprograms throughout the budget. In this case, it is no longer a risk at the program level but becomes a risk at the whole-of-government level. Since unapproved activities were never allocated resources by the legislature, this puts pressure on other areas and increases the risk of diversion of resources and underperformance of some programs in relation to others.

In some cases, the executive implements activities using funds that were never disclosed to parliament for appropriation or “off-budget financing”. Failure to disclose funds to the legislature implies that the budget that is finally approved is understated by the amount of off-budget financing. Sometimes these funds are significant in terms of volume and implemented with limited transparency and oversight.⁸²

⁷⁹ CABRI, AFROSAI, and ATAF, 2010. “A status report on good financial governance in Africa,” Pretoria, Collaborative Africa Budget Reform Initiative, available at https://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/Annual_Meetings/2013_AM_Interpreters_Working_Documents/27%20Mai%20CABRI%20Status%20Report%20on%20GFG%20Web%20Version%20English_01.pdf

⁸⁰ Ianna Jato Gideon, 2015. “Budget Implementation and Governance in Nigeria” Academic Discourse: An international journal, available at <https://www.globalacademicgroup.com/journals/academic%20discourse/BUDGET%20IMPLEMENTATION%20AND%20GOVERNANCE%20IN%20NIGERIA.pdf>

⁸¹ Camille Karamaga, 2012. “Timing is everything: Why delays in budget approval are undermining fiscal policy in Africa ... and what can be done about it,” September, IMF PFM Blog, <https://blog-pfm.imf.org/en/pfmblog/2012/09/timing-is-everything-why-delays-in-budget-approval-are-undermining-fiscal-policy>

Large amounts of “off-budget” financing outside the appropriation structures of the regular budget affect policy choices and outcomes and involve a risk in terms of budget credibility. The lack of accountability for off-budget spending may lead to overall overspending and poor provision of goods and services, create opportunities for corruption and maladministration, and prioritize non-strategic spending. Also, off-budget financing undermines external oversight by the SAI and other stakeholders and therefore, affects the assessment of budget credibility risks that were based only on resources that were regularly appropriated by parliament.

Financial indiscipline within the executive and legislature

The credibility of the budget also relates to the financial discipline of stakeholders, particularly the executive and the legislature. Budget credibility risks may arise as a result of the relative balance of

powers between the executive and the legislature in the budget process. This balance is shaped by the political economy of executive-legislative relations throughout the budget process and the institutional arrangements that influence those interactions.⁸² Parliaments have budgetary powers which are not always used effectively and responsibly. In some cases, these powers may be used to avail resources for achieving political agendas at the expense of sound budget execution and effective service delivery. See Box 3.5.

Other stakeholders, especially within the executive, may use budgetary powers for granting tax waivers for political reasons, for the unsustainable accumulation of debt, or for the implementation of projects without confirming their economic viability at the expense of service delivery. See Box 3.6

Box 3.5. Legislative amendments can affect budget credibility

In 2018, in **Brazil**, an audit of individual parliamentary amendments to the budget bill by the Federal Court of Accounts (TCU) revealed that a total of R\$ 8.15 billion was authorized through parliamentary amendments between 2014 and 2017. Out of this, only R\$5.4 billion (66 percent) was committed and R\$ 4.5 billion was finally spent. Lack of technical capacity to implement projects at the subnational level was, among other factors, one of the causes of underspending. The audit further noted that the execution of those expenditures was prioritized in 2017 and 2018, most likely due to electoral considerations.

Source: A. Guillán Montero, 2021.

⁸² Linda J. Bilmes, 2018. “The Fiscal Opacity Cycle: How America Hid the Costs of the Wars in Iraq and Afghanistan.” *Toward A Just Society: Joseph Stiglitz and Twenty-First Century Economics*. Ed. Martin Guzman. Columbia University Press, 457-478.

⁸³ Carlos Santiso, 2005. “Budget institutions and fiscal responsibility. Parliaments and the political economy of the budget process in Latin America,” Washington D.C., World Bank Institute, available at <https://documents1.worldbank.org/curated/en/963711468265796384/pdf/358630WB10BudgIsponsibilityIPUBLIC1.pdf>

Box 3.6. Political pressure can affect budget execution and credibility

In **Nigeria**, the budget contained unrealistic capital spending projections for several years (2009-2016), because multiple projects were included in the budget for political reasons, even though the executive had a very low capacity to implement any of them. More than a third of these projects were never started or completed. In such circumstances, critical projects had to compete for budget resources with non-priority projects.

Source: Atiku and Lakin, 2019. "The Contours of Budget Credibility in Nigeria", <https://internationalbudget.org/publications/the-contours-of-budget-credibility-in-nigeria/>

External audits can shed light on the credibility risks related to legislative amendments or the use of executive budgetary powers for political considerations.

Inadequate capacity to absorb budget shocks due to emergencies or long-term risks

External shocks, emergencies such as COVID-19, and, increasingly, longer-term external risks such as climate change, put pressure on the executive to increase spending in certain areas and shift resources within the budget in order to mobilize the resources required to respond to these emergencies or longer-term risks. The likelihood of budget deviations significantly increases if budgets cannot sufficiently absorb the pressure. In

these cases, when the executive has no clear plan to respond, the only way out is to cut resources originally allocated to areas to raise resources for contingency and supplementary budgets which will affect the performance of the undercut programs. (Box 3.7.)

A study by IBP which examined expenditure deviations related to 10 SDGs in 13 countries for the period 2018-20 showed that budget shifts as a result of Covid-19 did not worsen budget credibility with respect to the SDGs, but overspending in the health and social protection sectors was facilitated by resources pulled from other key sectors. As a result, underspending in education, water and sanitation, and gender was significant, on average to 18 percent, 15 percent, and 13 percent respectively.⁸⁴ (See Figure 1.5 in Chapter 1.)

⁸⁴ IBP, 2022. "Budget Credibility and the Sustainable Development Goals"

Box 3.7. Budget credibility in the context of COVID-19

Confronted with the onset of the pandemic, in FY 2019/20, **Kenya's** health budget was overspent compared to previous years. Health programs' spending exceeded the original approved health budget by 11 percent. This was largely on account of additional resources to the Health Policy, Standards, and Regulations program (which included the COVID-19 Emergency Response), which overspent its budget by 63 percent.

While the National Safety Net Programme's budget was increased by 63 percent to expand the reach of the government's social protection programs in FY 2019/20, only 82 percent of that budget was absorbed. This represented significant underspending just when the economic impact of COVID-19 was at its peak with a strict lockdown in the country.

Transparency and accountability challenges persist in how the government raised and spent the COVID-19 allocations. Disaggregated information on pandemic-related budget allocations was limited. For instance, detailed information on how funds from the Kenya COVID-19 Emergency Response Fund were allocated and expended was not available, particularly with regard to voluntary contributions, grants, and donations to the fund. Spending information at the national level, as provided in the Controller of Budget Reports and Sector Working Group Reports, was also not comprehensive regarding spending at the very granular budget lines and the resulting impact.

Source: FaithAnn Kinyanjui, Abraham Ochieng, Abraham Rugo, John Kinuthia, 2021. https://internationalbudget.org/covid/wp-content/uploads/2021/08/Kenya-Brief-Managing-COVID-Funds_Paper.pdf

Auditors need to examine how the executive mobilizes and executes resources to respond to emergencies or other economic shocks given that they present opportunities for significant risks to budget credibility. Countries that have a low capacity to accommodate shocks are more likely to have major diversions of resources from social programs than countries where the budget has some flexibility to accommodate such unexpected occurrences. This will drive

deviations and underperformance in the programs which have been undercut. Poor implementation capacity may explain at least some of the significant underspending of critical resources during emergencies. Auditors should also examine the transparency and accountability provisions governing the mobilization and execution of resources in response to emergencies. (See Box 3.8.)

Risks for budget credibility in budget reporting and accounting systems

Strong and comprehensive accounting and reporting systems contribute to strengthening budget credibility since they ensure the availability of budget information and enable effective oversight over public spending and the correct use of resources. Strong accounting and reporting systems also significantly reduce the risk of diversion of resources from approved budgets. Moreover, the integration of non-financial and performance information holds stewards of public resources accountable for results.

Ineffective reporting and accounting systems

Weak reporting systems are characterized by insufficient and/or inappropriate performance indicators, poor quality data, and information (notably limited transparency on contingent liabilities and the debt management framework, ad-hoc and unsystematic monitoring of activities, and weak linkages between financial and performance indicators, which exacerbate credibility issues).⁸⁵ Disaggregated information on budget allocations and spending is often limited. Despite overall improvements in budget transparency over the years, significant challenges remain that create risks for budget credibility. (Box 3.8.)

Box 3.8. Lack of budget transparency contributes to budget credibility risks

Despite overall improvements in budget transparency (Open Budget Survey scores have increased over 20 percent among countries surveyed between 2008 and 2021), most countries are still far from being sufficiently transparent to allow for meaningful engagement and scrutiny of public spending. Nearly one in three budget documents that should be published worldwide are missing from the public domain. Three out of five countries surveyed do not publish mid-year reports, which are important channels to communicate changes in spending during budget execution. Many governments failed to provide information about debt.

Serious gaps remain in the checks and balances of executive's management of public funds. In three out of five surveyed countries, executives can shift funds between agencies without first gaining legislative approval and in two thirds can reduce budgeted funds without prior approval. In these countries, executives can act unchecked and disregard public and legislative input as expressed in approved budgets.

Source: IBP 2022, Open Budget Survey 2021.

⁸⁵ A. Guillán Montero, 2021.

Box 3.9. Budget credibility and the quality of performance indicators and information

A report by the Auditor-General of **New Zealand** (2008) identified weak linkages between medium-term outcomes and organizational strategies and annual output information, as well as the lack of well specified and relevant performance measures and standards for both medium-term and annual forecast information as one of the areas that affect budget performance.

The **Republic of Korea's** SAI conducted a review of the performance reports of 52 central government agencies in 2015. The SAI found overlapped settings in the performance index, and errors in reporting the achievement of performance indicators. In 2016, an analysis of 563 of 740 program indicators (76 percent) showed that 38 cases in performance planning and 24 in performance reporting had been wrongfully evaluated.

Source: A. Guillán Montero, 2021.

Audits need to examine the effectiveness of the accounting and reporting systems to produce accurate, complete, and reliable reports and information. Linking budget execution to improved service delivery requires effective

accountability systems that include non-financial and performance indicators and information. Performance reviews indicate that weak accountability systems contribute to budget credibility issues. (See Boxes 3.9 and 3.10)

Box 3.10. Calls for legislative tightening of reporting requirements to enhance budget credibility

In a November 2022 letter to Parliament, citing the need for better visibility on how budget decisions relate to the long-term outcomes that government is pursuing, the Auditor General of **New Zealand** requested the body to clarify and tighten the reporting requirements on government spending, generally, but also on what is being achieved by that spending. Too often the reports are “tenuous, lack transparency and are focused on the short term.”⁸⁶

For more from SAI NZ's efforts to strengthen performance reporting, see:
[Performance reporting — Office of the Auditor-General New Zealand \(oag.parliament.nz\)](#) and
[Part 3: The Controller function — Office of the Auditor-General New Zealand \(oag.parliament.nz\)](#)

⁸⁶ See [Letter to the Officers of Parliament Committee about accountability concerns — Office of the Auditor-General New Zealand \(oag.parliament.nz\)](#)

Risks for budget credibility at the external oversight and evaluation stage

The government has a duty to account for the use of public resources and results achieved. Risks for budget credibility can also stem from the processes and stakeholders meant to ensure independent oversight and evaluation of the budget – mainly the legislature and external audit agencies.

Capacity of parliament and SAIs to provide evaluation and oversight of budget execution

Effective external oversight and evaluation helps to mitigate risks to budget credibility. Accountability in the budget process depends on (1) the legislature having the means to question and authorize budget proposals and to track the integrity and effectiveness of their implementation and the corresponding outcomes and (2) external audit agencies that can provide an ex-post assessment of the degree to which the executive reports on resources raised and spent, whether such operations were carried out in compliance with existing laws and regulations, and if the spending achieved its policy objectives.

Budget reforms in recent years have sought to strengthen budget accountability by strengthening the role of parliament, enhancing

the capacity of independent oversight institutions, and opening more opportunities for citizens to engage in the budget process. However, challenges to budget accountability remain in relation to formal constraints (e.g., mandates of accountability institutions), limited capacity and resources, and the wider governance context in which both parliaments and SAIs operate.⁸⁷ For example, just over half of the SAIs that responded to the recent UNDESA/IBP survey (2022) cited challenges such as scarcity of resources and lack of expertise to conduct audits related to budget credibility.

In many countries, budget evaluation and oversight by the legislature is not adequate. Parliaments have the power to approve budgets before implementation, but more frequently their budget hearings are not open to all interested participants. Rather, in three out of four countries surveyed by the most recent Open Budget Survey (OBS),⁸⁸ legislatures invited only specific individuals to testify or provide input prior to budget approval.

The low level of public engagement in budget processes in most jurisdictions contributes to the challenges. Where it does occur, public engagement and debate around budgeting processes (through organized civil society, citizen platforms, and the media) creates pressure on the executive to align the budget to the aspirations and demands of citizens (as seen from several examples in Chapter 7). Yet few legislatures hold hearings on budget outcomes. For example, legislatures in only 19 out of the 120 countries surveyed in the most recent OBS engage with the

⁸⁷ UNDESA, 2019. Sustainable Development Goal 16. Focus on public institutions.

⁸⁸ IBP, 2022. Open Budget Survey 2021, available at <https://internationalbudget.org/open-budget-survey/>

⁸⁹ Ibid.

public on the review of the Audit Report.⁸⁹

The capacity of SAIs to undertake budget credibility reviews and evaluations is critical in promoting budget credibility. During the planning phase of the audits on the budget, SAIs should assess if they have the required capability to undertake budget reviews. In some cases, SAIs may have to use consultants as they build internal capacity. Measures to enhance the skills of auditors, including on assessments of budget credibility, are critical to strengthening the SAI role and mitigating risks related to weak external oversight. High-quality audit reports present an important opportunity to strengthen budget credibility and have a powerful positive impact on citizens' lives, but only if their recommendations are well-formulated, communicated, and spur the

appropriate remedial action by all the relevant stakeholders. (See Chapter 7.)

3.3. Indicators of credibility risks across the budget process

During the planning and execution of the audit, auditors should pay attention to common red flags that indicate budget credibility may be compromised. Many examples of such indicators are presented in Table 3.2. (and Annex 2.1). When auditors observe these indicators in the course of their work, they should review the evidence to assess and document the significance of the risks to budget credibility.

Table 3.2. Examples of common indicators of budget credibility risks

Budget Stage	Budget Credibility Risks	Common Indicators
Budget formulation	<p>Unrealistic revenue and expenditure forecasts.</p> <p>Misalignment of annual plans to long-term planning frameworks and SDGs.</p>	<p>Poor revenue planning processes.</p> <p>Lack of adequate technical competencies in the departments responsible for preparing the forecasts.</p> <p>History of under-collection of revenues by executive-without justification.</p> <p>History of requests for supplementary funding by the executive during budget implementation.</p> <p>History of requests for approval of new debt by the executive during budget implementation.</p> <p>Differing investment priorities within annual budgets and long-term planning frameworks.</p> <p>History of budget cuts for programs and entities.</p>

Budget Stage	Budget Credibility Risks	Common Indicators
Budget approval	Delayed approval of the budget.	<p>Frequent requests for and granting of emergency authorizations for government spending.</p> <p>Short periods for legislative scrutiny of budget proposals before approval.</p>
Budget execution	Un-approved/off-budget financing.	<p>Actual expenditure is often significantly more than appropriated expenditure.</p> <p>Regular seeking of retrospective approvals for expenditure already incurred by the executive.</p> <p>Significant number of approved projects are unfunded.</p> <p>Unabsorbed funds on several programs and sub-programs.</p> <p>High risk/prevalence of corruption and inefficiencies within expenditure systems</p>
Budget reporting	Ineffective reporting and accounting systems.	<p>Significant variations between formal performance indicators and targets and actual deliveries to citizens.</p> <p>Unreliable performance indicators.</p> <p>Incomplete and/or untimely performance data and reports.</p>
Budget oversight and evaluation	Capacity of and incentives for parliament and SAI to provide evaluation and oversight of budget execution.	<p>Resolutions of parliament are not public.</p> <p>Limited public debate on the budget.</p> <p>Focus of assessments is on the accuracy of financial information rather than assessing impact of government investments in communities</p>

3.4. Wrapping up

The budget, as a tool for the delivery of services and the fulfillment of government's policy objectives, can only be effective if deliberate efforts are made to uphold its credibility. Throughout the budget process, there are risks to budget credibility that need to be audited

from a whole-of-government perspective. SAls need to strengthen their arsenal of skills and competencies to be able to identify and address the risks to budget credibility when undertaking their audits. Annex 3.1 offers some guiding questions to support auditors in probing budget credibility risks in each stage of the budget process.

Annexes

ANNEX 3.1. Questions to ask about potential budget credibility risks at the whole-of-government level

Stage of the budget cycle	Potential budget credibility risks	Guiding questions
Budget formulation	Un-realistic revenue and expenditure forecasts	<ul style="list-style-type: none"> • What is the quality of revenue planning as a whole? • Is there a system through which revenue estimates are forecast? • Are there adequate procedures and guidelines for the forecasting process? • Are the forecasts comprehensive? Do they identify and assess all the potential sources of revenue? • Are the assumptions used in generating the forecasts realistic, based on realistic macroeconomic indicators? • Are the models used in generating the forecasts reliable? • Are the models aligned to current legislation and government policy? • Are there contingency plans in case of unforeseen occurrences that may disrupt revenue performance? • Does the team producing the forecasts have adequate skills and know-how? • Is there a relationship between the expenditure forecasts and revenue forecasts? • Are the expenditure forecasts reliable and reasonable? • Are the deficit financing provisions realistic? • Are the cost of government policies and programs, and therefore expenditures, realistically calculated (e.g., assumptions about inflation, exchange rates...)?
	Misalignment of budgets to long-term planning frameworks and SDGs	<ul style="list-style-type: none"> • Are the priorities within the national budget aligned with the national planning frameworks? • Is there a system in place to ensure that the annual budget is aligned with national planning frameworks? • In cases where non-alignment was noted, what has been the impact/effect of such an occurrence? • What are the causes of any non-alignment, who is responsible and how can these be addressed? • What has been the trend in terms of alignment in previous years? Is this systemic or a one-off occurrence?
Budget approval	Delayed approval of the budget by the legislature	<ul style="list-style-type: none"> • Are the requirements of the law clearly known and understood? • Did the executive comply with the timelines for budget approval? • If cases of non-compliance are identified, what is the cause? • How does non-compliance affect revenue and expenditure performance?

Stage of the budget cycle	Potential budget credibility risks	Guiding questions
Budget execution	Implementation of unapproved and off-budget activities	<ul style="list-style-type: none"> • Is there a system in place to ensure that the executive does not include unapproved activities within the budget? • What were the non-approved activities included and who was responsible? • What was the cause of circumventing approvals for the unapproved activities? • What was the effect of these non-approved activities on revenue and expenditure performance? • In cases where the budgets have been revised, were the revisions approved by the legislature or other necessary authorities, as required? • Is the practice of circumventing approvals entrenched or are the cases noted one-offs?
	Financial indiscipline within the executive and legislature	<ul style="list-style-type: none"> • Is there a clear system to minimize political interference in the activities of the technocrats? • Have there been past occurrences of interference and what was the effect of this interference? • Are the roles and responsibilities of each of the players well-defined and not in conflict? • Where interference was noted, what was the cause and who was responsible?
	Limited capacity to absorb budget shocks due to emergencies	<ul style="list-style-type: none"> • Are there provisions within the budget laws for emergencies? • Is the budget, as prepared by the executive, reflective of current economic trends? • Is the budget flexible enough to absorb shocks?
Budget reporting and accounting	Ineffective reporting and accounting systems	<ul style="list-style-type: none"> • Do government performance and statistical systems produce performance information that is accurate and reliable? • Do the reports produced from the monitoring and reporting systems facilitate performance analysis including understanding and identifying performance deviations, and understanding trends? • Are performance data and reports easily accessible to users and stakeholders? • Does the system link the performance information to the delivery of services? • Does the system of monitoring and reporting budget implementation track performance for assessment of long-term outcomes? • Is the team responsible for budget monitoring and reporting adequately skilled and equipped?

Stage of the budget cycle	Potential budget credibility risks	Guiding questions
External oversight and evaluation	The capacity of, and incentives for, the SAI and the legislature to provide external evaluation	<ul style="list-style-type: none"> • Does the SAI have an adequate mandate to undertake reviews of the budget? • Does the SAI have adequate expertise to undertake reviews of budget credibility? • Are legislative discussions and resolutions regarding the budget open or relayed to the public? • Does the SAI have a functioning system for monitoring and following up on audit recommendations? • Does the legislature approve the audits of budget execution on a timely basis? • Does the SAI engage regularly with parliament on budget oversight and evaluation?

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