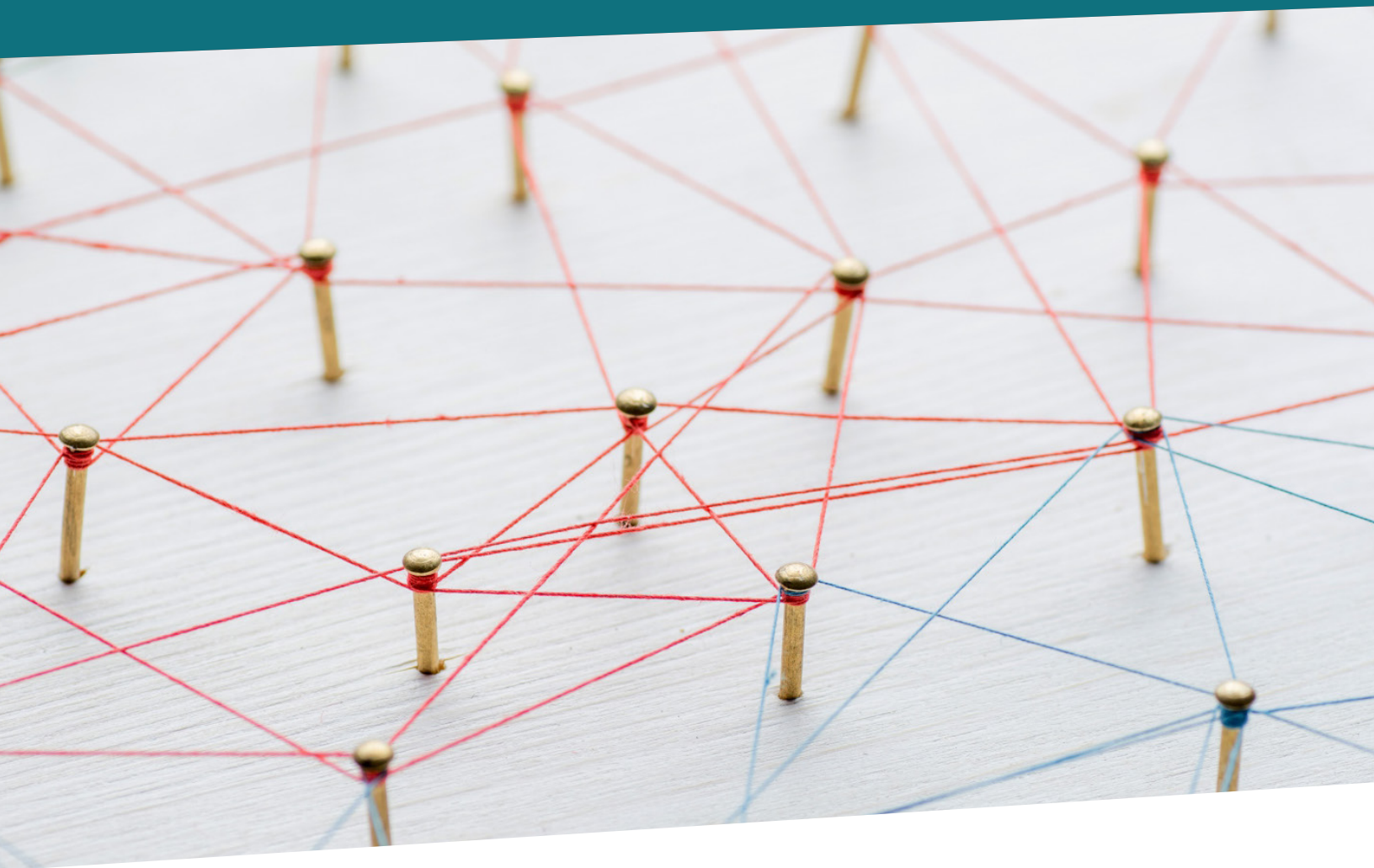


# Strengthening Budget Credibility through External Audits

**A Handbook for Auditors**



**United  
Nations**

Department of  
Economic and  
Social Affairs



**International  
Budget  
Partnership**

# Strengthening Budget Credibility through External Audits

A Handbook for Auditors

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## Chapter 5: Auditing the state budget on a regular basis

Many Supreme Audit Institutions (SAIs) audit their national government's year-end accounts by conducting a retrospective analysis of budget execution at the end of the fiscal year. Audits of the year-end accounts, as well as other audits of the budget carried out recurrently during the fiscal year, are critical to fostering budget credibility. They help reinforce the expectation that public-sector entities and public servants will perform their functions effectively, efficiently, ethically, and in accordance with applicable laws and regulations. Although the legal mandate of an SAI and the particular country context influence this audit work, there is an increasing global convergence on combining performance, compliance, and financial audit tools when conducting these audits. This chapter examines regular audits on the execution of the state budget or year-end accounts, highlights their value, and provides guidance on how to conduct these audits and link them with budget credibility.

### 5.1. Understanding the approach

Auditing the state of public finances has been a key role of SAIs since the establishment of structured oversight entities in Western Europe. This is reflected in the preamble to the

Lima Declaration (1977), which highlights that "the orderly and efficient use of public funds constitutes one of the essential prerequisites for the proper handling of public finances and the effectiveness of the decisions of the responsible authorities."<sup>108</sup>

The transactions associated with maintaining the financial operations of the modern nation-state – namely, those pertaining to the collection of government revenue and the disbursement of public funds – take place on a regular basis. Therefore, it is to be expected that auditors in charge of verifying the regularity of these transactions also conduct audits of the state budget on a regular or recurring basis.

Accordingly, recurring audits of the state budget, including audits of the year-end accounts, refer to audit work that is conducted by SAIs on a regular basis – whether it is every year, or over different time intervals (e.g., every six or three months). Recurring audits of the budget typically have a wide scope and take a consolidated, whole-of-government approach. This does not exclude the possibility that recurring audits encounter and address audit findings and recommendations at the program or entity level. (Box 5.1.)

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<sup>108</sup> INTOSAI P-1, The Lima Declaration <https://www.issai.org/pronouncements/intosai-p-1-the-lima-declaration/>

## Box 5.1. Defining characteristics of regular audits of the state budget or year-end accounts

**Conducted on a recurrent basis:** These audits are carried out every year, every six months, three months, etc., depending on the SAI mandate and country context. Yearly audits (which encompass the entire fiscal year) have different characteristics from mid-year audits.

**Varied audit methodologies and reporting formats:** These audits may be reported and published in different forms, including the audit of the government's accounts; audit of the year-end financial statements; audit of the expenditures and revenues of the state; and audit of budget execution, among others. These audits may draw on prior audits conducted during the targeted time frame. They may prioritize financial, compliance, or performance auditing, or a combination thereof.

**Comprehensive:** These audits have a wide scope and take a comprehensive approach. By contrast, other SAI reports – e.g., the SAI's yearly institutional report; the collection of SAI audit results; the yearly audit of an individual government department/program – do not constitute a recurring assessment of the budget because they do not provide a comprehensive analysis.

## Benefits of recurring audits of the budget

Sound public financial management is positively correlated with budget credibility.<sup>109</sup> An evaluation based on the Public Expenditure and Financial Accountability (PEFA) methodology<sup>110</sup> can be a reliable indicator for measuring and monitoring the intertemporal evolution of budget credibility (See Chapter 1). A sound PFM system makes it possible for a country to advance on fiscal discipline at the aggregate level, strategic allocation of resources, and the effective provision of services.

Recurring audits of the budget, through year-end reports and other audits conducted during the fiscal year, provide an important diagnosis of constraints in the PFM system. The audit findings relate specifically to the procedures of budget apportionment, as well as to broader issues in the system. Besides contributing directly to budget credibility through their findings and recommendations, SAIs can also use the findings from recurring audits to plan additional work to further assess and address budget credibility. For example, in the year-end audit of consolidated statements for 2017, the Auditor General of Canada found the federal payment management system had significant inconsistencies. This

<sup>109</sup> Jens Kromann Kristensen, Martin Bowen, Cathal Long, Shakira Mustapha, and Urška Zrinski, eds., 2019. PEFA, Public Financial Management, and Good Governance, Washington DC, World Bank. Available on <https://www.pefa.org/sites/pefa/files/resources/downloads/9781464814662.pdf>

<sup>110</sup> PEFA Secretariat, 2019. Framework for Assessing Public Financial Management. Available on [https://www.pefa.org/sites/pefa/files/resources/downloads/PEFA%202016\\_latest%20version\\_with%20links%20%282%29.pdf](https://www.pefa.org/sites/pefa/files/resources/downloads/PEFA%202016_latest%20version_with%20links%20%282%29.pdf)

resulted in a specific follow-up audit in 2020, which reported that subsequent work was necessary to fully implement the Auditor General's recommendations.<sup>111</sup>

A key advantage of recurring audits of the budget is that they allow stakeholders (including the general public, the legislative branch, public servants, the media, local and foreign investors,

scholars, entrepreneurs, the international donor community, and multilateral organizations) to gain a clear understanding of the evolution of public finances over time. Moreover, recurring audits enable a timely response to evolving trends in the government's accounts, thereby generating incentives for responsible budget management. (Box 5.2.)

## Box 5.2. Benefits of recurring audits of the budget

These audits contribute to budget credibility by:

- Providing a coherent, comprehensive analysis of the nation's budget.
- Tracking and identifying inconsistencies across the budget cycle in a timely manner.
- Providing useful information to legislators, citizens, and other stakeholders.
- Enhancing spontaneous adherence to fiscal rules and regulations.
- Demonstrating the institutional value of the SAI and its professional work to verify and make recommendations regarding the nation's finances.

Beyond promoting transparency and raising awareness about budget deviations and other credibility risks found during audit work, an SAI may directly contribute to improving budget credibility and the country's public finance framework by issuing and following up on audit recommendations from these audits.<sup>112</sup> These audit recommendations are normally addressed to the executive branch. For this reason, conducting recurring audits of the budget generally enhances

the status and value of an SAI as the guardian of national financial stability and sound PFM.

## Frequency of recurring audits of the budget

Most SAIs carry out at least a yearly audit, based primarily on but not limited to the government's year-end accounts. In addition, governments

<sup>111</sup> Office of the Auditor General of Canada, 2020. Follow-up Audit on the Implementation of the Office of the Auditor General of Canada Recommendations on Payroll Management. Available on <https://www.publicsafety.gc.ca/cnt/rsrcs/pblctns/2020-foag-pm/index-en.aspx>

<sup>112</sup> See Chapter 7 on the follow-up to audit recommendations.

increasingly publish mid-year reports, to furnish up-to-date information on the budget's execution during the fiscal year. Both the year-end and mid-year reports should be published by governments, in line with the Best Practices for Budget Transparency issues by the OECD.<sup>113</sup>

The frequency of the mid-year reports varies, and multiple budget transparency reports may be filed within a fiscal year. Mid-year budget transparency reports may also be subject to the SAI's oversight. The frequency of mid-year recurring audits depends on the frequency of the government's partial budget reports. In mid-year audits, SAIs can check for the consistency of effective revenue collection and spending, compared with the projections set in the budget. For instance, the SAI may point out that excessive spending early in the year will make it unlikely for fiscal targets to be met. During budget execution, the SAI may also detect failures to comply with the law within

a time frame that enables course corrections and makes SAI recommendations more effective.

In year-end recurring audits, on the other hand, SAIs benefit from a broader outlook of the year's budget execution practices. SAIs may emit an opinion on the government's annual financial statements. Government auditors may also carry out compliance work, often in combination with financial analysis, verifying whether budget execution followed pertinent fiscal rules and regulations. For example, in the year-end report of the fiscal year 2019, the SAI of Sierra Leone found that senior government officials had incurred public spending "without policy or legal justification."<sup>114</sup> Recurring audits of the budget provide an important venue to raise awareness of detected failures in government compliance with laws and regulations, supporting the implementation of corrective measures.

### Box 5.3. Periodicity of SAIs' recurring audits of the budget

SAIs conduct recurring audits of the budget at various times of the fiscal year and with different periodicity (every three months; every four months; every six months, depending on circumstances). Some examples are provided below:

- Only when auditing the year-end accounts: Algeria, Australia, Bahrain, Bulgaria, Cuba, Cyprus, Eritrea, France, Ireland, Kuwait, Latvia, Madagascar, Mauritius, Myanmar, the Netherlands, Portugal, Puerto Rico, Romania, South Sudan, Viet Nam.
- When auditing the year-end accounts and in other audits during the fiscal year (recurring mid-year audits): Argentina, Bosnia and Herzegovina, Dominican Republic, Egypt, Greece, Guatemala, Indonesia, the Philippines, South Africa, United States, Yemen.
- Only mid-year audits: Croatia, Paraguay.

Source: Survey of SAIs conducted in 2022 in preparation for this handbook (N=38 respondents).

<sup>113</sup> OECD, 2002. *Best Practices for Budget Transparency*, p. 10.

<sup>114</sup> See: <https://www.audit-service.gov.sl/wp-content/uploads/2020/12/Annual-Report-on-the-Account-of-Sierra-Leone-2019.pdf>



## 5.2. Implications of the SAI mandate for auditing the state budget or year-end accounts

External audit institutions are typically classified in three models based on their mandates: judicial or Napoleonic model (Court of Accounts), Westminster or parliamentary model (Auditor-General), and Board of Audit or collegiate model. The legal mandate and institutional model of an SAI is a critical consideration when defining the cycle of recurring audits of the budget.

The institutional model of an SAI has implications for whether and how to conduct recurring audits of the budget. SAIs that adhere to the Court of Accounts model often specialize in compliance auditing, focusing on the detection of deviations between administrative acts and the provisions that govern such acts in laws and regulations. Given their status as administrative or jurisdictional decision-making bodies, Courts of Accounts may issue rulings that impose penalties, such as pecuniary fines, to government personnel. SAIs of the Auditor-General and Board of Audit models traditionally conduct financial audits of the state's balances and may also carry out performance (also known as value for money) audits to provide the parliament with relevant information for decision-making.

An audit of the consolidated year-end and/or mid-year accounts by a Court of Accounts may form the basis for an SAI ruling or could inform the ruling by another entity. Such a ruling may

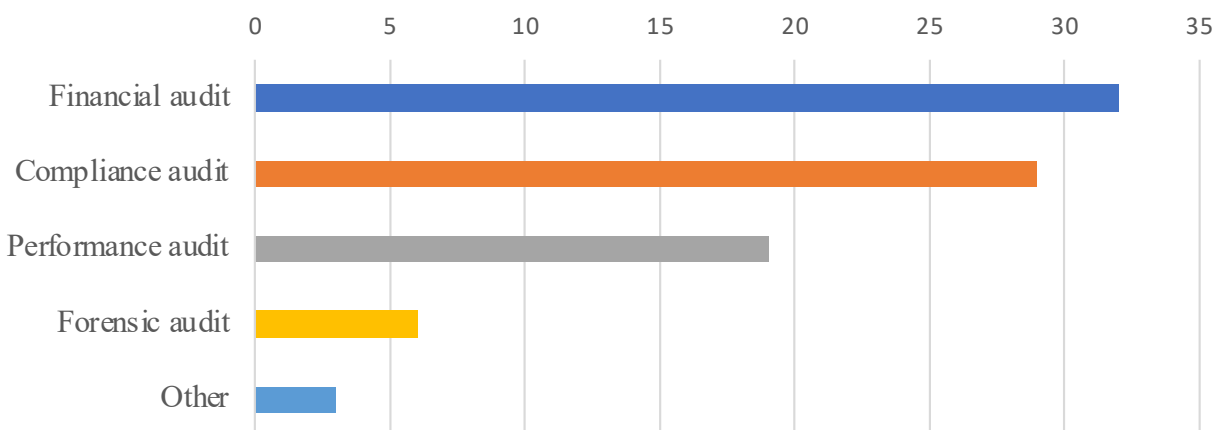
attribute responsibilities and result in penalties to high-level personnel, including government ministers. Therefore, given the complexity of the budget process, which is beyond any single entity's domain, SAIs with jurisdictional powers may take additional precautions. These precautions include conducting a careful analysis of cause-effect relationships, considering concurring actors, understanding the legal framework, and scrutinizing all relevant actions in the time frame related to the potential infraction. Another important precaution is to provide all actors involved the opportunity to present a defense, which should be considered in the SAI's ruling.

In recent years, there has been a convergence in the nature of the audit work undertaken by SAIs pertaining to different institutional models.<sup>115</sup> SAIs that follow the Courts of Accounts model are directing more efforts to financial and value for money auditing, while Auditor-General SAIs increasingly conduct compliance work. Evident in the survey supporting this study, these trends are also reflected in the enhanced quality and comprehensiveness of budget oversight from the recurring audits of the budget. Out of 35 respondents, 89 percent of SAIs reported they conduct financial audits of the consolidated year-end accounts, 80 percent compliance audits, and 52 percent performance audits. Fifteen SAIs (43 percent) undertake all three types of audit work.

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<sup>115</sup> World Bank, 2020. *Enhancing Government Effectiveness and Transparency: The Fight Against Corruption*, p. 306. Available at [https://documents.worldbank.org/en/publication/documents-reports/documentdetail/235541600116631094/enhancing-government-effectiveness-and-transparency-the-fight-against-corruption?cid=gov\\_tt\\_gov\\_en\\_ext](https://documents.worldbank.org/en/publication/documents-reports/documentdetail/235541600116631094/enhancing-government-effectiveness-and-transparency-the-fight-against-corruption?cid=gov_tt_gov_en_ext)

**Figure 5.1. Type of audit work conducted by SAIs in the year-end audits of the budget**



Note: By number of respondents (out of 35 total). Respondents could select multiple options.  
Source: Chapter authors from data provided by the 2022 UNDESA/IBP SAI survey.

An SAI's mandate also affects the nature of audit procedures that auditors follow as part of the recurring audits of the budget. It may prevent auditors from undertaking certain types of audits and exclude some government departments or entities from the SAI's supervision. For instance, the Australian SAI's Audit Manual indicates that audit teams shall not investigate instances of potential fraud or other wrongdoing, except in exceptional circumstances as decided by the Auditor-General.<sup>116</sup>

An SAI's mandate will also determine its ability to conduct prospective audits, i.e., to examine preparatory documents before an administrative procedure is concluded. In the context of recurring audits of the budget, this could refer to issuing an audit opinion of the budget's macroeconomic

assumptions, pre-project estimates, and other draft budget documents, before the budget proposal is approved by the legislature.

Some auditors and SAIs reject prospective control, arguing that recommendations made at the budget preparation stage would constrain an SAI, and undermine its ability to freely exercise professional judgment over the final budget law. However, based on the experience of some SAIs with prospective auditing, such as SAI Brazil, this type of oversight is valuable as it allows the early detection and correction of inconsistencies in the budget process. Auditors would not necessarily be bound by conclusions reached at the prospective stage if the motives that lead to apparently conflicting conclusions are properly explained.

<sup>116</sup> Available at <https://www.anao.gov.au/work/audit-manual>

### 5.3. Combining audit procedures in recurring audits of the budget

The type of audit work performed to examine the year-end accounts is affected by an SAI's mandate and the nature and scope of the government's year-end report.

As noted in Section 5.2, SAIs are increasingly open to conducting audit work that a priori would not be typical of their institutional model. It is advisable that all SAIs conducting recurring audits perform a financial audit of the national accounting balances, thereby expressing an opinion on the appropriateness of the reports. A financial audit provides extremely valuable insights regarding the soundness of a country's public financial management, and SAIs are in a unique position to do this work since government auditors are not subject to the same pressures and incentives that may hamper private accounting firms. Even those SAIs that adhere to the Courts of Accounts model

are gradually adopting financial audits. A review of SAIs in Francophone countries found that the Courts of Accounts of Belgium and France have recently adopted yearly financial audits of accruals-based national financial statements.<sup>117</sup>

Whenever permitted by their mandate, SAIs should also use compliance and performance audit techniques in their recurring audits of the budget. Through recurring audits that include compliance work, SAIs under the Auditor-General and Board of Audit models could enhance their advice to legislators by recommending legislative changes to close loopholes that allow for improper conduct in government. Similarly, value for money audits would allow Court of Accounts SAIs to yield findings that would not have been possible in a compliance audit and to issue recommendations that can improve the provision of public services.

#### Box 5.4. SAI Morocco: Mandated to conduct a yearly comprehensive audit

The Court of Accounts of the Kingdom of **Morocco** is legally mandated to carry out a comprehensive audit of the government budget at the end of the fiscal year. In its year-end report, the Court of Accounts employs a broad set of audit procedures, with a focus on compliance and performance audit work, as well as a financial audit of the government's consolidated financial report.

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<sup>117</sup> Rémi Frenzt, 2022 (unpublished), Supreme Audit Institutions and Budget Credibility in Francophone Countries. p. 14-15.

Recurring audits of the budget that include financial auditing plus the oversight of the government's operations using both compliance and performance audit procedures require a broad audit scope, an ample timeframe, and sufficient resources. Year-end recurring audits with a whole-of-government approach encompassing all public revenue and spending provide the best setting for achieving this goal. Mid-year recurring audits tend to be more limited in duration and scope, and therefore they should focus primarily on financial

and/or compliance auditing of key documents and financial statements.

The nature and scope of the year-end and mid-year reports also influence an SAI's work on recurring audits of the budget. The government's year-end report yields a more in-depth, whole-of-government approach to the government's budgetary and financial management policies since it covers a longer time frame. While the specific contents of the year-end accounts reports can vary considerably across

### Box 5.5. Type of audit work carried out by surveyed SAIs in annual audits of the budget

- **Financial audit:** Australia, Cyprus, Kuwait, Latvia, New Zealand, Viet Nam.
- **Financial and compliance audit:** Argentina, Azerbaijan, Bosnia and Herzegovina, Croatia, Eritrea, Greece, Guatemala, Guinea-Bissau, the Philippines, Romania.
- **Financial, compliance, and performance audit:** Algeria, Bahrain, Cuba, Dominican Republic, Egypt, France, Indonesia, Ireland, Japan, Mauritius, Myanmar, the Netherlands, Paraguay, Portugal, Yemen.\*
- **Other:** Bulgaria (*compliance audit*), Madagascar (*performance and compliance audit*), South Africa (*audit of pre-determined objectives*), South Sudan (*performance, compliance and forensic audit*), United States (*performance audit*).

\*Some SAIs in this group also reported conducting forensic audits.

Source: UNDESA/IBP SAI survey, 2022 (38 respondents).

countries, according to the applicable legal and constitutional mandate, generally, they report on the status of the nation's financial statements, and in light of this fact, SAIs should perform financial audit work.

In addition, the country's normative framework may require the year-end accounts to cover other topics. In these accounts, the government may detail the status of the public financial management system in a particular year.

For example, they may include a justification of the measures taken at different stages of the budget process and allow a close-up assessment. First, at the stage of budget preparation, whether reasonable projections for macroeconomic variables were informing decision-making on budget allocations. Second, whether the budget was formulated in accordance with the country's fiscal rules. At the budget execution stage, whether disbursements during the fiscal year followed fiscal rules and good practices and how budget deviations, additional or unforeseen spending, and other noteworthy issues were handled. Finally, in this context, the last stage of budget revision involves reporting the final aggregate statements on revenue collection

and outlays allocation, comprising the entire budget during the fiscal year. Budget revision in the year-end accounts may also entail a projection of the consolidated budget into the future, in terms of its impact on fiscal solvency, on projected macroeconomic scenarios, as well as considerations of contingent liabilities and outstanding risks.

These supplementary considerations may demand a different approach by an SAI. In addition to the audit of financial statements, auditors may also use compliance auditing tools to check for the legality and the propriety of reported procedures.

### Box 5.6. Argentina's audit of the annual financial statements

The government of **Argentina** publishes an annual report disclosing the nation's financial statements in addition to other yearly reports on budget execution, the national debt, and other public finance information. The General Audit of the Nation (AGN) runs a year-end audit of the whole-of-government accounts (cuenta de inversión).

In auditing the Consolidated Financial Statements (CFS), AGN considers the budgetary, accounting, and physical aspects of the State's action. As a result, the report may include outcomes from specific annual audits on:

- Public debt service.
- National Social Security Administration.
- Federal administration of public revenues.

The CFS must be accompanied by various legal documents related to:

- Budget execution status.
- Statements that show the movements and situation of Central Administration's Treasury.
- The updated state of the internal, external, direct, and indirect public debt.
- The Central Administration's accounting-financial statements.
- A report that presents the consolidated financial management of the public sector during the year

and shows the corresponding operating, economic, and financial results.

- A report on the degree of compliance with the objectives and “physical goals” originally planned.
- The behavior of costs and efficiency indicators of public production.
- National Public Sector’s (NPS) financial management.

In this audit, the SAI employs financial and compliance audit techniques to provide Congress with an audit opinion on the regularity of budget execution and financial reporting.

Finally, although less common, the year-end accounts may also report on the results and the impact of public policies implemented during the fiscal year. In this case, the SAI will also use a performance audit toolset. Auditors would file their findings as to the efficiency, efficacy, and economy of government programs. This approach is employed by the SAI of Brazil, whose year-end report contains a section on public policy outcomes; by the SAI of the European Union which prepares a separate year-end report on the performance of the EU budget; and by the SAI of Sweden which includes a compilation of key findings from performance audits published during the year, plus additional follow-up and analysis of outstanding challenges. Naturally, having limited time to conduct such audit work within a broader recurring report is often the case, and audit teams should factor that in accordingly.

Depending on a country’s practices and regulations, general information on the public financial management system may be published in various documents, such as in ancillary reports to the budget law. In the United States, for example, some ancillary documents are published in the yearly “Analytical Perspectives” volume and in the Appendix to the Federal Budget, while in New Zealand there is a requirement that the government issue a Budget Policy Statement, a Budget Economic and Fiscal Update, and additional reports on the Fiscal Strategy and on Child Poverty. Even if the relevant information is not part of the government’s yearly accounts, it still falls under the purview of external auditors, and the SAI may take it into consideration in its recurring audits of the budget. (See Box 5.7.)

### Box 5.7. Potential sources of information about the PFM system

- Government databases.
- Preparatory and ancillary reports to the budget proposal and deliberations, prepared by the executive and legislative branches of government.
- Other official reports on budgetary execution and fiscal policy (such as reports on public debt, fiscal management, administrative pay, and state-owned enterprises).
- Previous reports from internal and external auditors, including audit reports from the SAI.
- Evaluations and reports from private-sector and international researchers.
- News media reports.

In addition to the audits of year-end accounts, recurring audits of the budget during the fiscal year could play an important role in a country's budget oversight. Besides what it records on the year-end accounts, the government may issue other official documents on budget execution during the fiscal year.

According to the 1977 Lima Declaration,<sup>118</sup> the 2007 Mexico Declaration of SAI Independence,<sup>119</sup> and United Nations Resolution A/66/209,<sup>120</sup> governments should make information of public interest available upon request by external auditors. If the government does not disclose mid-year reports on budget execution, SAIs must request and gather the necessary data from official sources. In the survey conducted in 2022

to support the development of this handbook, 95 percent of respondents indicated that, by law, the SAI has unrestricted access to records, documents, and other relevant information.

Mid-year reports offer an opportunity for SAIs to track and analyze the evolution of public revenue and disbursements, with a smaller time gap between decision-making and auditing. Exercising oversight of the budget during the fiscal year allows the SAI to formulate timely conclusions and recommendations. Auditor opinions may be instrumental in correcting course and avoiding imbalances that might otherwise go unchecked for longer periods of time and hinder administrative controls.

**Table 5.1. Recurring audits and SAI tasks across the budget cycle**

Budget formulation	<p>The SAI may collect pre-budget reports and other data that support the initial formulation of the budget, typically put together by the executive branch. The evidence collected at this stage reveals the intent of policymakers when the budget was formulated. It may underscore whether budget projections were made in good faith and regulations and good practices followed.</p> <p>Depending on its mandate, the SAI may be able to publish an early audit report at the budget formulation stage. The information from this stage will be useful for the SAI to reach conclusions associated with the budget proposal.</p>
Budget approval	<p>The approval of the budget proposal generally corresponds to the legislative branch. The SAI may be called upon to assist legislators in this task by conducting a budget-related audit. Given the cyclical nature of the budget, this work may translate into a recurring mid-year audit of the budget by the SAI.</p>

<sup>118</sup> The Lima Declaration <https://www.issai.org/pronouncements/intosai-p-1-the-lima-declaration/>

<sup>119</sup> [https://www.intosai.org/fileadmin/downloads/documents/open\\_access/INT\\_P\\_1\\_u\\_P\\_10/INTOSAI\\_P\\_10\\_en\\_2019.pdf](https://www.intosai.org/fileadmin/downloads/documents/open_access/INT_P_1_u_P_10/INTOSAI_P_10_en_2019.pdf)

<sup>120</sup> [https://www.intosai.org/fileadmin/downloads/documents/open\\_access/intosai\\_and\\_united\\_nations/66\\_209\\_2011/EN\\_un\\_resol\\_66\\_209.pdf](https://www.intosai.org/fileadmin/downloads/documents/open_access/intosai_and_united_nations/66_209_2011/EN_un_resol_66_209.pdf)

Budget execution	<p>During the fiscal year, budget execution involves the discharge of government functions in line with budget appropriations approved by the legislative branch as well as other pertinent regulations.</p> <p>Information related to budget execution is crucial for SAIs in their audits of the budget. SAIs may conduct one or several mid-year audits of the budget at this stage to track budget execution.</p>
Budget evaluation and oversight	<p>At the end of the fiscal year, the government is generally required to publish consolidated information related to budget execution, financial statements, and public policy outcomes.</p> <p>At this stage, the SAI can conduct a year-end, comprehensive audit of the budget, covering budget execution and public financial management for the entire year. Audit teams will benefit from more data availability and have more time and resources to conduct the audit. A greater array of audit techniques may be used. The year-end audit usually draws more attention from stakeholders on the SAI's work.</p>

## 5.4. Relevant audit standards

Recurring audits share commonalities with other audits. Therefore, the foundations outlined in auditing standards such as the International Standards of Supreme Audit Institutions (ISSAIs) provide the starting point for conducting recurring audits of the budget. The stages of the audit process (planning, execution, reporting, and follow-up) also apply, with some peculiarities, as described in the other sections of this chapter. In accordance with the scope and specific objectives of each audit, the auditor must select and apply the most appropriate auditing standards recommended by the International Organization of Supreme Audit Institutions (INTOSAI), expressed in the different ISSAIs, or the combination of different standards when the audit includes more than one objective. Attention should also be paid to existing standards related to auditing a specific topic, such as information systems (ISSAI 5100); public debt audit (ISSAI 5250); and audit of the public debt information system (ISSAI 5259), among others. (See Chapter 1, section 1.4.)

Depending on the audit objectives, other manuals, standards or guidance can also be useful. For non-financial information, the auditor can use the International Standard on Assurance Engagements (ISAE) 3000 (revised) and the Assurance Engagements Other than Audits or Reviews of Historical Information, issued by the International Auditing and Assurance Standard Board (IAASB).

In the case of audits of public financial statements, the IMF's Fiscal Transparency Handbook (2018) and their Government Finance Statistics Manual (GFSM) (2014) are useful. The GFSM provides a comprehensive conceptual and reporting framework suitable for analyzing and evaluating fiscal policy, especially the performance of the general government sector and the broader public sector, providing guidelines for presenting fiscal statistics within an analytical framework. The Fiscal Transparency Handbook (2018) covers Pillars I to III of the Fiscal Transparency Code and provides detailed guidance on the implementation of the Code's principles and practices, with examples from different countries. For review engagements, with limited assurance, a relevant resource is the International Standard on Review Engagements (ISRE) 2400 (revised) (2013).



## 5.5. Conducting recurring audits to assess and address budget credibility

Recurring audits of the budget may be carried out as year-end or mid-year audits. The distinction between these two types of audits should be considered for each phase of the audit cycle. With this in mind, this section provides guidance for conducting recurring audits (year-end and mid-year) to assess budget credibility.

Recurring audits of the budget should be aligned with an SAI's audit strategy. Recurring audits can focus on many possible areas, depending on the legal mandate of the SAI, which stipulates the work to be done in each fiscal year, and on the SAI's own suggestions of specific work to include in its audit plan. Therefore, to increase budget credibility and monitor it over time, an SAI could promote an integrated assessment of the PFM system to identify potential weaknesses and credibility risks. Based on their diagnosis, an SAI could include yearly recurring work or ad-hoc one-time audits to monitor relevant items in its audit plan. (See Chapter 3 on budget credibility risks.)

### Year-end audits versus other recurring audits of the budget

Recurring audits track and verify budget execution over a certain period, checking for the regular application of financial and compliance audit criteria. SAIs may also employ performance audit techniques to provide an overview of the results of the implementation of programs and public policy.

Because the budget cycle is typically structured around a fiscal year, recurring audits of budget execution tend to occur annually. This has some advantages. Over the course of a year, auditors have more time to collect evidence to document how that year's budget was developed; whether budgetary execution was regular and proper (see ISSAI 4000/24); if financial records were kept in accordance with existing regulations; and the extent to which non-compliance was material or justifiable, among other relevant criteria. Audit teams have more time to collect data, allocate resources, and develop their report. Some audit institutions may opt for a longer period, conducting recurring budget audits every two or three years, although this is less common. For example, SAI Morocco issues a yearly report on budget execution, but also a two-year general report analyzing other macroeconomic issues that would generally be part of an SAI's comprehensive year-end report.

SAIs may also establish an audit cycle that includes conducting multiple audits of budget execution during a single year. These mid-year audits allow SAIs to quickly react to inconsistencies in budget execution and suggest ways to address them. If audits of budget execution are conducted every two, three, or four months, auditors do not have to wait for a full year to publish an audit report that can flag budget credibility risks and sway budget execution favorably, ultimately contributing to better resource allocation and enhancing budget credibility. Frequently checking budget execution through mid-year audits also tends to improve spontaneous compliance by public officials.

Mid-year audits differ from broader, full-year audits. Because they refer to a shorter timeframe and are carried out with less time and fewer resources, audit teams must focus mid-year

audits on certain items to be verified, typically related to major fiscal rules and critical risk areas. Performance audit procedures are generally not suitable for mid-year audits.

Conducting several smaller, mid-year audits is compatible with a broader, yearly audit of the budget. In fact, mid-year audits may yield relevant findings that inform the broader year-end audit. This makes the year-end report more robust, as auditors will have looked into budgetary execution earlier in the year, and have more time to discover and investigate inconsistencies. This also contributes to greater effectiveness of audit work, as management may be better prepared to implement recommendations derived from mid-year reports that were already published. For example, SAI Germany conducts a mid-year audit related to each government ministry in addition to the year-end audit of the budget. The mid-year audits evaluate budget execution during the year, looking into parameters such as budget deviations and changes in staff, together with information from the last few years, to assist legislators in their discussions around the new budget proposal.

The SAI of Brazil has developed a recurring audit cycle that combines some mid-year audits with a broader year-end audit of the budget. In mid-year audits, the SAI makes projections to verify whether major fiscal rules would be observed throughout the entire fiscal year. The SAI also makes recommendations for course corrections.

## Audit planning

Planning for recurring audits of the budget must consider the breadth of the subject matter. Recurring audits should present a comprehensive, whole-of-government analysis of budget execution, even though conclusions may require

auditing relevant individual topics. Therefore, it is not expected that the procedures and results of a recurring audit are as detailed as those of a stand-alone audit. For example, in the case of policy outcomes, performance audit tools are used, but a complete performance audit of budget execution is not feasible in most contexts.

**SAI resources and skills:** Recurring audits pose a challenge in terms of resources. An SAI must have sufficient personnel to continuously process and examine large sets of data related to fiscal rules, public revenue, and spending. Budget auditing also demands a unique set of abilities, at the confluence of various disciplines including law, accounting, and economics. Due to the recurring nature of budget processes and the constant need to audit them, it is advisable that an SAI has a specialized team dedicated to conducting recurring audits at the end of and throughout the fiscal year. Sufficient and specialized human resources are critical. Auditors must have enough time to analyze year-end and mid-year budget reports, financial statements, and other documents.

SAIs with a broader mandate should assemble a diverse team to conduct recurring audits, involving experienced staff who are able to conduct audit work requiring accountancy, economic, and legal knowledge. Some background in law is particularly relevant for audit teams in SAIs with jurisdictional powers, since recurring audits may have legal repercussions.

Ideally, recurring audits of the budget should fall under the responsibility of a dedicated department within the SAI. Budget auditing demands a unique set of abilities to repeatedly carry out audit techniques in year-end and mid-year audits. Having specialized staff to run recurring audits of the budget is preferable to ad hoc engagements by auditors that generally perform other duties in the

audit institution and would increase productivity and help ensure that the proper routines are followed.

The narrower focus of other recurring audits of the budget carried out during the fiscal year allows

for some flexibility in terms of human resources. A smaller permanent team could conduct these recurring audits, with additional staff for the broader year-end audit.

### Box 5.8. Critical factors for consideration in *planning* a recurrent audit of the budget

**Scope:** Auditors should define the scope of their work on budget execution according to their legal mandate. For example, does it include the reviewing of pre-budget projections, public debt sustainability, and public policy outcomes. The SAI's mandate also influences its ability to make audit recommendations. Since the scope of recurring audits of the budget can scale up quickly, audit teams should carefully plan the audit, considering the available resources and the expected results.

**Resources, information and methodology:** Year-end audits require more resources and information given their longer timeframe. They also provide opportunities for different audit activities, combining financial, compliance, and performance audit procedures.

**Level and depth of analysis:** Recurring audits are not as detailed on all aspects of budget execution as individual audit engagements. For instance, the level of reporting on the evaluation of policy outcomes in a recurring audit of the budget is not as in-depth as in a stand-alone performance audit

**Audit object:** When planning recurring audits of the budget, SAIs must discern which objects will be selected for analysis to provide a comprehensive overview of budget execution. Typically, this will entail a careful selection of budget execution topics based on materiality, relevance, and risk. Overarching fiscal rules, general legal requirements for budget appropriations and disbursement, major national policy targets, and consolidated debt outcomes, are some of the major budget-related audit objects in the purview of a recurring audit of the budget.

Another relevant consideration for the selection of the objects of analysis is whether the recurring audit is a year-end or mid-year audit. (Box 5.8) Since year-end audits cover budget execution during the entire year, they examine more audit objects, rely on a wider set of audit procedures and have broader conclusions. Other recurring audits conducted over shorter periods during the fiscal year have a more limited and focused approach.

The auditors should present a general, preliminary overview of the audit object to the audited

entity to ensure mutual understanding of the object and its organizational environment. The auditors should consider existing legislation and the specific rules applicable, the entity's organogram, and the working flow of processes, operations, projects, programs, activities, as well as its routines and manuals, and the strategic and operational plans. It might also be useful to read the results, findings, and recommendations of previous audits. In addition, auditors should conduct a risk assessment as described in Chapter 3.

**Control environment:** As a rule, auditors must consider the control environment when planning new audits. In operating environments with weak internal controls and low compliance, auditors are expected to carry out more extensive tests and procedures to minimize audit risks. Therefore, in countries with indicators of a fragile control environment (e.g., high levels of corruption, investigations of crimes committed by public officials), recurring year-end audits of budget execution should use a broader set of audit procedures, involving at least financial and compliance auditing: the procedures do not differ significantly from those used in government auditing generally, such as confirmation, inspection, and recalculation.

Further, all terms of the audit should be defined during the planning phase, including the specific roles and responsibilities of both the auditor and the management of the audited entity.

SAIs should also ensure that they will have timely access to the relevant information to conduct recurring audits – i.e., access to government

documents, especially the year-end and mid-year budget reports and financial statements, and large datasets related to budget planning, execution, and policy results at the whole-of-government level.

**Audit objectives:** Audit planning requires identifying audit objectives. In general, the main audit objective in recurring audits of the budget is to express an opinion on the adequacy of the country's financial and budgetary statements. Secondary audit objectives include the examination of the adequacy of financial statements, the soundness of fiscal policy, the solvency of the state through sustainable public indebtedness, the adherence to laws and regulations in budget management, and the effective delivery of public policies.

By relating the audit objectives of the recurring audit to budget credibility, the audit work will contribute towards the enforcement of budget credibility in the PFM system. To get an idea of how audit objectives for the year-end accounts can be directly related to budget credibility, see Table 5.2.

**Table 5.2. Year-end accounts: Relating audit objectives to budget credibility, an example from SAI Philippines<sup>121</sup>**

Audit objective	Implication for budget credibility
To obtain reasonable assurance on whether the account balances in the financial statements are fairly presented and are free from material misstatements (statement of comparison of budget and actual amounts).	This work leads to strengthening credibility in the country's PFM system by providing independent support and credence to national accounting data.
To determine whether claims against government funds are authorized, valid, and supported with complete documentation.	This supports the credibility of budget execution by overseeing compliance with legal requirements for the allocation and disbursement of funds.
To determine that Accounts Payable balances as presented in the financial statements are valid obligations and supported with sufficient evidence.	The analysis of the regularity of obligations promotes the credibility of pending credits held against the State.
To determine whether recorded revenues and receipts are incurred during the period to which it relates.	This objective reinforces the credibility of budget execution consistent with the principle of budget annuality.
To determine whether budgetary information is properly disclosed in the Notes to Financial Statements as required in IPSAS 24.	The verification of the budget's reporting structure in accordance with international standards provides credibility as to proper budget transparency and regularity.

**Audit scope:** Subsequently, the auditors must define the audit scope, which is related to the subject matter, and the criteria which will be used to assess and report on the subject matter. The scope of the audit should be defined in a way that allows it to respond to the audit objectives. Defining the scope of the audit involves: (i) articulating audit questions; (ii) establishing the depth of the audit procedures that will be conducted during the execution phase; (iii) describing the nature and the extent of these procedures; (iv) delineating the auditable universe,

and (v) defining the audit samples to be obtained.

**Audit questions:** Audit questions will be informed by the SAI's mandate and the nature and circumstances of the budget process in the country, as discerned in the auditor's overview of the object of the audit. Audit questions are formulated to yield relevant conclusions on the audit objectives. In the case of recurring audits, audit questions should consider the nature of work and whether it pertains to mid-year or year-end accounts.

<sup>121</sup> UNDESA/IBP SAI survey, 2022.

**Planning matrix:** A planning matrix can be a useful tool to help the audit team during the planning phase. In recurring audits, audit planning benefits from the cyclical nature of audit work, and the team may iterate and improve the planning tools established in previous assignments. Once a planning matrix is developed, it can serve as the initial basis for audit planning in subsequent budget cycles.

For each audit question, the matrix asks:

- What information is required to answer the audit question.
- What criteria can be utilized as a benchmark to assess the information
- What are the sources of information.
- Which procedures will be conducted to obtain the data.
- Which procedures will be conducted related to data analyses.

- What limitations are potential constraints to the analyses.
- What conclusions can be drawn from the analyses.

The planning matrix highlights the relevance of access-to-information systems used by the government in budget-related work, which will provide the bulk of the information in a recurring audit of the budget. Annex 5.1 provides an example of this tool.

## Audit Execution

When conducting the audit, auditors should perform the audit procedures described in the planning matrix to obtain sufficient and appropriate audit evidence. ISSAI 100 defines audit evidence as any piece of information used by the auditor to determine whether the subject matter complies with the applicable audit criteria

### Box 5.9. Critical factors for consideration in the *execution* of a recurrent audit of the budget

**Specialized team:** Due to the complexity of the audit object and the cyclical nature of both the government's budget and recurring audits, it is recommended that a specialized team is tasked with these audits on a permanent basis in the SAI, rather than an ad-hoc collaboration between auditors.

**Skillset:** Conducting recurring audits of the budget requires a specific set of skills and knowledge related to the PFM system, the budget process, and policy implementation. It is important to provide appropriate training to strengthen auditors' skills in these areas.

**Understanding of previous audit work:** In recurring audits, there is a strong incremental element to auditing reports. Examinations and conclusions are often based on findings from previous audits, whether recurring or regular audit engagements. Over time, auditors will be able to better identify proper audit objects and challenges.

**Access to information:** The extent to which the audit team will be able to obtain information, including pre-budget reports and economic projections, and to carry out financial, compliance, and/or performance audit procedures, will depend on the SAI's legal framework as well as on the audit's scope defined at the planning stage.

**Audit findings:** Any fact that does not comply with the audit criteria is an audit *finding*. An audit finding is the result of the comparison between the situation found and the applicable criteria and should be attested by audit evidence. The finding has four main attributes: the situation found (or condition), the applicable criteria, the cause, and the consequence.

An audit finding can be classified as an *impropriety* or as an *irregularity*, according to the nature of the finding. An impropriety comprises flaws of formal nature, which do not result in material or financial damage to the public purse. Findings of improprieties related to budget credibility may refer, for instance, to an incomplete disclosure of budget data to the public, in violation of national law or international good practices on transparency. An irregularity refers to the incurrence of illegitimate, antieconomic or illegal management, violations of legislation, and damage to public funds. For example, such findings may relate to public resources spent in areas not authorized by the budget, or to the government's inability to account for funds spent in terms of corresponding deliverables.

The audit evidence that corroborates the audit findings should be sufficient and complete to allow third parties that have not engaged in the audit process to reach the same conclusions as those reached by the audit team.

**Documentation:** Recurring audits of the budget require that SAIs collect documentation with relevant data and information on government revenues and expenditures. These include the national budget law itself, plus other official documents published during the budget cycle.

During the budget preparation phase, in addition to the budget proposal, the government may also publish a pre-budget statement (PBS) containing relevant macroeconomic information that will guide the approval of budget legislation. If the SAI has the legal mandate, it can review the information contained in the PBS or similar preparatory documents, such as macroeconomic forecasts of growth in gross domestic product and inflation; revenue and expense growth forecasts; the alignment of the budget proposal with national plans; the strategy for achieving fiscal objectives, the dimensioning of fiscal result targets, as well as the existence of fiscal risks that could affect the achievement of objectives; the long-term sustainability and credibility of public debt; verification of fiscal rules, such as the allocation of minimum and/or maximum mandatory expenses, maximum expenditure on personnel, and other country-specific situations.

Recurring audits aimed solely at assessing budget preparation are uncommon. However, every year the SAIs of Brazil and Germany execute recurring audits of the draft budget proposal and analyze its contents to inform discussions and deliberations in their legislature.

**Sources of information:** During the fiscal year, evidence for all budgetary transactions should be available to the SAI. Partial budget execution reports are an important source of information for mid-year recurring audits. Typically, this involves storing information in massive electronic databases. This can pose a challenge to auditors, due to limited technological capabilities in government agencies and/or in the SAI, multiple sources of information, time delays in data availability, and denial of access to some



datasets. The SAI should consider the need for technological proficiency from the audit planning stage and use its general powers to gather such data. If the SAI does not have access to timely, complete information, this may constrain the audit's scope and should be mentioned in the audit report. The government may also prepare comprehensive mid-year budget execution statements on a regular basis, showing the state of effective revenue collection and incurred obligations and outlays.

At the end of the fiscal year, the government may render accounts to the public in a specific report. The year-end report may contain financial statements and ancillary notes, plus other data related to the country's fiscal situation and the performance of government programs, and forecasts for the next fiscal year. In short, these year-end government reports are key and useful sources of information. For instance, the Comptroller and Auditor General of India (C&AG) conducts a recurring, year-end financial audit of the national government as well as a year-end compliance audit over various issues detected in the government's annual accounts (e.g., violation of laws and statutes, poor project management, lapses in internal controls). Similarly, the SAI of Georgia carries out recurring financial and compliance audits of the government's yearly state budget execution report.

In their year-end recurring audits, SAIs can also audit the performance of public policy results observed during the fiscal year. This entails looking at the effectiveness of government programs in areas such as education or healthcare. These

areas may be selected by criteria such as relevance, size of the budget, and previous risk assessment. For example, the SAI of Brazil runs specific performance audit verifications in its year-end report, examining the consistency and appropriateness of performance indicators, and evaluating observed policy results in the fiscal year, compared with government targets and external benchmarks.

SAIs may also compile the main findings of performance audits conducted during the fiscal year for inclusion in the year-end audit. The SAI of Sweden includes performance audit findings in its year-end report based on their relevance and risk considerations. In its 2021 year-end report of the budget, the SAI underscored a performance audit conducted earlier in the same year, in which it found that government subsidies for highway infrastructure in remote areas had had a limited impact on regional development.<sup>122</sup> The SAI of Japan provides an outline of key performance audit findings, based on audits executed during the year, in addition to financial and compliance audit work.<sup>123</sup>

The inclusion of performance-related work in recurring audits of the budget contributes to assessing budget credibility. Public-sector performance is a major factor in budget credibility, as a public finance management system that fails to effectively deliver goods and services cannot be regarded as credible.<sup>124</sup>

Both mid-year and year-end recurring audits (particularly the latter) may contain recommendations for the correction of improprieties found by the SAI, in addition to

<sup>122</sup> Riksrevisionen, 2021. Annual Report of the Auditor General 2021, p. 9. Available at [https://www.riksrevisionen.se/download/18.608c1dd117d5c1cd2ffb329d/1638355391810/Annual\\_Report\\_2021.pdf](https://www.riksrevisionen.se/download/18.608c1dd117d5c1cd2ffb329d/1638355391810/Annual_Report_2021.pdf)

<sup>123</sup> <<https://www.jbaudit.go.jp/english/effort/procedure5.html>>

<sup>124</sup> OECD, 2014. Principles of Budgetary Governance.

<sup>125</sup> See Chapter 7 for more on reporting and follow-up of audit recommendations.



follow-up on recommendations made in previous recurring audit reports. In recurring audits, SAIs may also replicate findings from audits conducted during the year – this highlights that these findings are considered relevant, and merit being featured in the recurring audit of the general budget.

## Reporting and follow-up<sup>125</sup>

Reporting consists of preparing a formal and technical document where the auditor communicates all relevant information to stakeholders, which may include audit objectives, audit questions, scope, the methodology employed, findings, and results.

A good audit report should use clear and straightforward language, be easy to understand, free from vagueness or ambiguity, and be complete. It should be objective and fair, present information supported by sufficient and appropriate audit evidence, and put findings into perspective and context. The form and content of a report may vary according to the nature of the audit, the intended users, the applicable standards, and the legal requirements.

SAIs have a role in the monitoring actions taken by the responsible party in response to the matters raised in an audit report. As a good practice, the SAI could request the audited entity prepare an action plan, where the responsible entity manager describes the actions that will be implemented to address the findings and recommendations. For each finding, this document should contain the

actions to be implemented; the entity personnel responsible for the action; and the implementation schedule. The action plan may also include additional elements such as the objectives, the indicators, and the benefits derived from the implementation of each recommendation.

## 5.6. Regular audits of the budget – two SAI experiences

Brazil and the Republic of Korea audit the year-end accounts of the state budget through annual as well as other regular audits conducted throughout the fiscal year.

### Brazil

The constitutional mandate of the Federal Court of Accounts of Brazil (TCU) includes the execution of year-end audits of the comprehensive annual national budget reports. The Court enjoys a broad mandate to perform financial, compliance, performance, and asset auditing. These functions are discharged by the Court in its year-end recurring audits. The TCU's audit report and opinion are submitted to Congress for a final decision on the President's accounts.

Traditionally, the TCU's recurring audit reports focused on compliance auditing of the budget transactions during the fiscal year. Some budget operations were selected to undergo analysis,

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<sup>125</sup> See Chapter 7 for more on reporting and follow-up of audit recommendations.

considering public finance regulations. Auditors also checked whether general fiscal rules were enforced.

In a 2012 peer review, the OECD recommended TCU be more concise, take a more critical stance on the analysis of information provided by the government, improve its financial auditing capabilities, and better communicate its audit opinion. Over time, the development of information technology solutions has also expedited the audit process, although compliance auditing still represents the core of the year-end and mid-year audit reports. There is a specialized unit at TCU to conduct recurring audits of the budget.

The TCU's recurring year-end report presents an outline of the country's macroeconomic situation and likely scenarios; the policy framework expressed by the government in the budget proposal, and the considerations made by Congress upon budget approval as compared against market consensus expectations. Additionally, in the year-end report, auditors verify whether the government abided by key fiscal rules, such as the Constitutional expenditure ceiling and the "golden rule" of indebtedness.

The Court's year-end report also contains a section on public policy outcomes. The Court surveys a rotating sample of performance indicators and analyzes the reported results of government policies in comparison with expected performance, as well as the appropriateness of the indicators themselves. Finally, the TCU also performs a financial audit of the national balance sheet. Regarding fiscal years 2018, 2019, and 2020, the TCU was unable to express an opinion on the national financial statements.

In its year-end report, the TCU may build or expand upon the conclusions of other audits conducted

by the Court. For example, this may include findings identified when the TCU discharges its annual rulings on the adequacy of individual public managers' tenure of office. The results of recurring mid-year audits may also be incorporated into the consolidated year-end report.

Furthermore, annually the TCU evaluates the draft proposals for the budget appropriation act ("lei orçamentária") and budget guidelines law ("diretrizes orçamentárias") submitted by the government to Congress. When examining draft legislation, the TCU may issue recommendations to support congressional discussions and highlight risks to the attainment of fiscal rules, expected targets, and the upkeep of public policies.

The Court also conducts mid-year audits of the budget based on the bi-monthly government reports on budget execution. In these audits, the TCU tracks whether the government has followed regular budgetary procedures for appropriation disbursement and whether fiscal targets are likely to be met.

In all audits, the TCU may issue recommendations to the government. These recommendations are followed up on by the Court, which can reinstate or modify recommendations. The repeated refusal to comply with the Court's recommendations may result in an adverse opinion from the SAI. This was the case concerning the year-end reports for fiscal years 2014 and 2015.

## Republic of Korea

The Board of Audit and Inspection (BAI) of the Republic of Korea conducts recurring audits with examinations of the settlement of accounts and audit activities, relative to each fiscal year, pursuant to the National Finance Act.<sup>126</sup> For

example, in its audit of fiscal year 2016, the BAI identified 99 discrepancies in reported financial statements of national assets and liabilities, related to underrepresentation and overrepresentation of figures.<sup>127</sup>

The BAI's yearly audit includes an overview of the state of public finance and macroeconomic variables. The BAI describes the trajectory of government revenue and spending, the consolidated and operational budget balance, national debt, and special government funds.

In its year-end recurring audit, the BAI also examines government performance and compliance with legal statutes. The Board of Audit does not limit itself to an analysis of indicators as reported by the government but also examines the appropriateness of performance planning and the reliability of performance reporting. Therefore, it may conclude that performance indicators are wrongly reported, due to inconsistencies and unreliability. In terms of policy performance, for example, the BAI reported 62 discrepancies in 2016.

In terms of compliance auditing, in its yearly report, the BAI compiles the results of audits carried out during the fiscal year. It may

recommend that government officials be reprimanded, that individuals compensate the State for unaccounted outlays, and that government agencies rectify wrongful legislation and administrative regulations. The BAI also makes recommendations for corrective measures.

## 5.7. Key challenges

The execution of recurring audits of the budget involves several challenges. A major one is the broad scope of a general audit of the budget. Recurring audits, particularly in the case of the year-end audit of government accounts, typically have an ample scope, encompassing a large share, or even the totality, of the state's budget. Hence, auditors must deal with a variety of subject matters, numerous sources of information, various government managers, and other stakeholders. To tackle this challenge, the SAI must carefully define the scope of this work, seek to apportion the necessary resources, and empower auditors with the tools and skills necessary to obtain relevant information to support a robust audit opinion.

### Key challenges to undertaking recurrent audits of the budget

- Addressing the breadth of the state's budget operations, in accordance with the SAI's mandate.
- Establishing a specialized audit team to conduct recurring audits, preferably on a permanent basis.
- Working with different types of audit techniques, related to financial, compliance, and/or performance auditing.
- Ensuring timeliness of audits and reporting of the results to other state institutions and the general public.

<sup>126</sup> National Finance Act 2006 of Korea, Article 60.

<sup>127</sup> Board of Audit and Inspection of Korea, Examination of the Final Accounts of 2016.

Another significant challenge stems from the need to consider all sources of government revenue and expenditures, given that relevant income and obligations may be yielded outside of the budget framework. SAIs should be diligent in their inquiry regarding extra-budgetary transactions that have an impact on the state's fiscal standing and budget credibility.

The institutional process of these audits may also present some challenges. For example, when the year-end audit conducted by the SAI is a preliminary opinion subject to approval by the legislature, there may be significant delays or even the omission by the legislature in discussing and approving the SAI's report on budget execution. Another challenge here concerns the fulfillment of the statutory time limits by the SAI to finalize its audit report. These challenges apply to other types of audits as well and can generally undermine budget oversight. However, they have a particular impact on recurrent audits of the budget as these are expected to be conducted within a specific time frame, aligned with the budget cycle/fiscal

year. Any delay undermines the potential of these audits to provide a regular diagnostic of the PFM system and the ability to address any potential problems in a timely manner.

Yet another important challenge surrounds the communication of recurrent audits of the budget with stakeholders. In general, effective communication is a key issue that SAIs strive to address – see, for instance, INTOSAI's efforts in creating a Communications Task Force, and the overview provided in EUROSAI paper "Roadmap for Reaching Supreme Audit Institution Communication Goals."<sup>128</sup>

However, communication with stakeholders is particularly consequential in the case of recurring audits of the budget. Such audits are among the most impactful activities performed by an SAI. The outcomes of recurring audits convey significant information to the legislature and the judiciary, the general public, civil society organizations, academia, investors, news media, as well as policy managers and internal auditors in government entities. Effective communication

### Box 5.10. US Government Accountability Office's communication strategy

The SAI of the **United States** relies on a multi-pronged communication approach through several media resources, producing key highlights for each audit, communicating information to Congress through a dedicated website, and engaging with the general public through the GAO blog. All these various resources are used to communicate findings of the audit of the consolidated financial statements in addition to other recurring fiscal oversight work, such as the yearly report on debt sustainability.

<sup>128</sup> EUROSAI, 2017. A Roadmap for Reaching Supreme Audit Institution Communication Goals  
<https://www.eurosai.org/handle/404?exporturi=/export/sites/eurosai/content/documents/strategic-plan/goal-team-1/Roadmap-for-Reaching-SAI-Communication-Goals.pdf>

with such a wide array of social actors is critical. On the one hand, SAIs should be aware of the potential repercussions of a recurring audit in the country's public sphere and in decision-making at all levels. On the other hand, recurring audits are able to increase the SAI's institutional profile due to their broad appeal, and are a powerful tool to communicate the value and benefits of auditing in the public sector.

## 5.8. Wrapping up and recommendations

Recurring audits of the budget can have a positive impact on increasing budget credibility, as they contribute to greater rationality and predictability in budget allocation and execution. Because they are conducted regularly, they generate positive expectations for both the public and the audited agencies and may become a "flagship" product of the SAI, leading to a greater public understanding of the value and benefits promoted by the audit institution.

The SAI's institutional model notwithstanding, it is suggested that year-end recurring audits of the budget involve financial auditing of the national financial statements, as well as some compliance and performance audit techniques to establish the degree of regularity and effectiveness of the government's acts and policies. In year-end recurring audits, risk-based selection may lead SAIs to scrutinize critical threats to fiscal rules and policy decisions that have the greatest impact on the lives of citizens.

Given the recurring nature of these audits and the analysis involving large amounts of complex information, SAIs could consider the following recommendations:

- a. Budget credibility should take center stage during SAI work on recurring audits of the budget. Beginning with adequate preparation to ensure sufficient human and technological resources, proper audit planning, audit execution of financial, compliance, and/or performance audit procedures, and the follow-up on recommendations and communication of results, recurring audits should not lose focus of budget credibility, amidst the abundance of information collected by the team.
- b. The planning of recurring audits must be included in the SAI's strategic plan to ensure the necessary material and human resources.
- c. Establishment of a technical unit dedicated to these audits, as well as to the definition of internal bylaws or specific auditing standards to guide this type of work, is important. The creation of a specific technical unit would contribute to the specialization and training of the audit team, with positive impacts on the predictability of audit procedures.
- d. Indicate and communicate clearly which standards will be used as a reference in the recurring audits of the budget, so that the executive branch can better understand and benefit from the audits.
- e. Establish clear and precise audit objectives to enhance critical analysis and identify

opportunities for improvement and corrections (instead of simply reproducing the information submitted by the executive).

- f. Conduct the audit work within a reasonable time frame to ensure the relevance of the audit findings and the impact of the recommendations.
- g. Audit recommendations, in cases when SAI mandates allow for them, must be articulated in a clear and direct way, indicating how their compliance can contribute to budget credibility.
- h. Develop a communication strategy to increase the positive impact of recurring audits of the

budget. The strategy should target the main stakeholders (e.g., the executive branch, parliament, the media, and civil society) to convey the general and specific objectives and value of recurring audits and their results.

- i. In line with the communication plan, produce customized documents for the different stakeholders to inform them of the main audit findings, recommendations, and how any indicated remedial action will impact the credibility of the budget. Consider the use of non-technical language, depending on the target audience.

# Annexes

### ANNEX 5.1. Draft planning matrix for a comprehensive year-end audit

**ENTITY:** The National Government, the Ministry of Finance, and line ministries

**OBJECTIVE:** To express an opinion on the adequacy of the country's financial and budgetary statements; to examine the soundness of fiscal policy and the adequacy of financial statements

AUDIT QUESTION	AUDIT CRITERIA	REQUIRED INFORMATION	SOURCES OF INFORMATION	PROCEDURE RELATING TO ANALYSIS OF DATA	LIMITATIONS <sup>2</sup>	WHAT CONCLUSIONS CAN BE DRAWN FROM THE ANALYSES
Are imbalances in the government's financial statements fairly presented and free from material misstatements?	IPSAS (International Public Sector Accounting Standards) and national regulations	Consolidated financial information from the fiscal year.  Data on critical transactions	Financial statements and accounting notes  Statements related to financial transactions in the public sector	Financial audit of the government's accounting statements  Compliance audit procedure	Identify any limitations associated with the information required, planned methodology or your general ability to answer the audit question.  Limitations could include questionable data quality or reliability, inability to access some information, constraints on staffing or travel funds, or inability to generalize or extrapolate findings to the universe.	An opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.  This strengthens budget credibility by furnishing independent assurance on the adequacy of public-sector financial information.



AUDIT QUESTION	AUDIT CRITERIA	REQUIRED INFORMATION	SOURCES OF INFORMATION	PROCEDURE RELATING TO ANALYSIS OF DATA	LIMITATIONS <sup>2</sup>	WHAT CONCLUSIONS CAN BE DRAWN FROM THE ANALYSES
Has the budget execution during the year been compatible with legislative authorizations?	Budget law and legislation governing budget execution	Information on budgetary execution, regarding revenue collection and expenditure disbursement  Legal criteria that govern budget execution	Approved budget legislation and regulations  Statements related to government revenue and expenditures in the fiscal year  Prior recurring audits and standalone audits conducted by the SAI	[Compliance audit procedures on budget execution statements, with a focus on legislative authorizations for the fiscal year]	Identify any limitations associated with the information required, planned methodology or your general ability to answer the audit question.  Limitations could include questionable data quality or reliability, inability to access some information, constraints on staffing or travel funds, or inability to generalize or extrapolate findings to the universe.	A conclusion on the regularity of budget execution considering legislative authorizations applicable for the fiscal year.  The verification of the regularity of budget appropriations conveys the lawfulness of the government's discharge of fiscal management, thereby underscoring credibility in public finance.
Have applicable fiscal rules been followed during budget execution?	Legislation governing budget execution Best practices on budget execution	Information on budget execution, regarding revenue collection and expenditure disbursement.  Legal criteria and best practices that promote sound fiscal management	Statements related to government revenue and expenditures in the fiscal year  Permanent domestic fiscal rules.  International best practices on budget execution (e.g., OECD Principles for Budgetary Governance).  Prior recurring audits and standalone audits conducted by the SAI.	[Compliance audit procedures on budget execution statements, with a focus on fiscal rules and best practices criteria]	Identify any limitations associated with the information required, planned methodology or your general ability to answer the audit question.  Limitations could include questionable data quality or reliability, inability to access some information, constraints on staffing or travel funds, or inability to generalize or extrapolate findings to the universe.	A conclusion on the regularity of budget execution considering fiscal rules and applicable international best practices.  Auditors' oversight considering fiscal rules provides additional assurance at a higher level, beyond that of individual procedures, that budgetary management warrants credibility, in terms of rules and best practices on fiscal targets, general budgeting principles, and other overarching criteria.
Are macroeconomic assumptions that underlie the budget adequate?	Market projections for macroeconomic variables	Information on the assumptions that led the government to propose and approve the budget, regarding revenues and expenditures.	Budget draft and ancillary reports (such as the pre-budget statement) published prior to budget approval  Independent public- and private-sector projections for macroeconomic variables.  Prior recurring audits and standalone audits conducted by the SAI.	[Compliance audit procedures on the assumptions that underlie the budget]	Identify any limitations associated with the information required, planned methodology or your general ability to answer the audit question.  Limitations could include questionable data quality or reliability, inability to access some information, constraints on staffing or travel funds, or inability to generalize or extrapolate findings to the universe.	A conclusion on the regularity of the macroeconomic assumptions that substantiate projected revenues and expenses for the fiscal year.  This contributes to the credibility of budget preparation and its feasibility. Incorrect assumptions tend to be overly optimistic, inflating figures that may prove to be unrealistic during and after budget execution.

AUDIT QUESTION	AUDIT CRITERIA	REQUIRED INFORMATION	SOURCES OF INFORMATION	PROCEDURE RELATING TO ANALYSIS OF DATA	LIMITATIONS <sup>2</sup>	WHAT CONCLUSIONS CAN BE DRAWN FROM THE ANALYSES
Has the government delivered goods and services in an effective manner?	Technical benchmarks and best practices on policy evaluation	Information on the economy, efficacy and effectiveness of public policies in the fiscal year.	Government reports on policy results, results from critical indicators and target attainment for policy outcomes in the fiscal year.  Independent public- and private-sector reports on public policy outcomes in the fiscal year.  Prior recurring audits and standalone audits conducted by the SAI.	[Performance audit procedures on public policy outcomes in the fiscal year]	Identify any limitations associated with the information required, planned methodology or your general ability to answer the audit question.  Limitations could include questionable data quality or reliability, inability to access some information, constraints on staffing or travel funds, or inability to generalize or extrapolate findings to the universe.	A conclusion on the outcomes of selected government programs in the fiscal year.  This ratifies the credibility of the government's aptitude to deliver the goods and services outlined in the budget.
Does the national public debt have a sustainable outlook?	Technical benchmarks and best practices on public debt management	Government data describing the trajectory of public debt and budget balance  Independent opinions on the outlook of the public debt.	Government reports on the evolution of public debt.  Government reports on budget execution and projected trajectory in the future.  Independent public- and private-sector reports on the evolution of public debt.  Prior recurring audits and standalone audits conducted by the SAI.	[Compliance audit procedures on the projection for public debt]  Financial audit procedure	Identify any limitations associated with the information required, planned methodology or your general ability to answer the audit question.  Limitations could include questionable data quality or reliability, inability to access some information, constraints on staffing or travel funds, or inability to generalize or extrapolate findings to the universe.	A conclusion on the regularity of public debt outlook considering its projected trajectory and desirable debt sustainability.  The verification of the trajectory of public-sector indebtedness corroborates credibility in the government's capacity to finance its activities.

<sup>2</sup> Adapted from: <https://www.idi.no/elibrary/professional-sais/issai-implementation-handbooks/handbooks-english/performance-audit-v1-2021/1342-chapter-4-pa-handbook-v1-2021/file>

## **Strengthening Budget Credibility through External Audits: A Handbook for Auditors**

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