

The Importance of Budget credibility to SAI Jamaica and Related Issues: Gail Lue Lim

General Remarks: The importance of budget credibility to SAI Jamaica has been amplified by the impact of the COVID-19 pandemic on Jamaica's economic activity which has resulted in a decline in government revenues, necessitating budget cuts and a redirection of spending towards health and social programmes. In almost the blink of an eye, in March 2020, the Government which previously ran fiscal surpluses, was facing large fiscal deficits with poor prospects for the medium-term.

Following the Auditor General's validation of the fiscal impact of the COVID-19 pandemic, the Government suspended the fiscal rules in May 2020 and extended the legislated Debt to GDP target by two years to March 2028. Consequently, the credibility of the budget took on even greater significance, given the importance of having adequate funding for effective service delivery and the need to return Jamaica on a sustainable growth path.

Government's Responsibility: Whereas budget credibility is determined by the government's ability to meet its revenue and expenditure targets, if the macroeconomic assumptions underlying the revenue forecasts are not realistic, the Government is unlikely to meet its expenditure targets.

SAI Jamaica's Role: SAI Jamaica, through effective audit scrutiny of the budget targets and outcomes, can contribute to transparency of budget formulation process, to improve budget credibility; thereby enhancing public trust and investor confidence, reducing the risk of corruption, and helping stakeholders, including Parliament, to hold the Government to account. These are also essential prerequisites for the achievement of those fiscal targets that will enable Jamaica's return to prosperity over the medium-term.

Issues related to Budget Credibility: Many of the audits conducted by Auditor General's Department over the years and more recently, have highlighted issues relevant to budget credibility and performance. For example, we have reviewed:

- Expenditure outturns and outcomes for various programmes against the respective budgets.
- Government's Fiscal Policy Papers to determine whether the reasons given for deviations from budget were reasonable.
- The Information Systems Infrastructure Governing COVID-19 Allocation of Resources for Employees (CARE) IT platform to provide assurance that reliance could be placed on the system, to process and validate payments only for applications that meet the established qualifying criteria.

While several audits have provided important insights, time only permits a brief review of the findings from one audit.

Standout Audit for budget credibility: The Government's Special Early Retirement Programme (SERP) had engendered significant mistrust amongst public sector employees as well as, uncertainty among and CEOs managers of ministries, departments, and other stakeholders.

Important findings: There were several important findings related to the Program's implementation, that highlighted the importance of budget credibility. Included among these:

1. We found that the Ministry of Finance's reliance on the projections approved by Cabinet when the SERP was conceived, instead of undertaking the necessary research to put together credible estimates, resulted in overfunding of the budget, necessitating a J\$2.5 billion (approx. US\$19mn) reduction in the First Supplementary Budget. What this meant was that poor

budgeting would have denied funding to other important programmes due limited fiscal space.

2. Whereas the Ministry was able to provide information on the amounts paid from the Treasury (J\$1.7 billion), it was unable to identify payments made through other sources such as municipal corporations and executive agencies. Our audit identified a combined J\$37.3 million in other payment in respect of incentive and gratuity packages. Hence, the Ministry' deficiency in tracking and compiling accurate information on actual expenditure undermined the credibility and transparency in implementation of the SERP.

Some Recommendations to strengthen the role of SAI role regarding budget credibility:

1. The conduct of real time audits can assist in early detection of errors in calculations, or potential misappropriations before actual payments are made.
2. An interagency collaborative approach can reduce the risk of system errors which can lead to financial loss or reduce the risk of corrupt practices.
3. Engagement of a wide range of skillsets and professions such as IT specialists, financial analysts, economists, engineers etc can strengthen the SAI's role in auditing government budgets.

Discussant: Gail Lue Lim

Auditor General's Department of Jamaica

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