



Upholding commitments

How supreme audit institutions can strengthen budget credibility through external audits

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1. INTRODUCTION

We rely on our national budget to provide a roadmap to effective service delivery and the achievement of long-term national objectives such as the Sustainable Development Goals (SDGs). But how do we know that the government is indeed collecting and spending funds according to this approved plan? In other words, how do we determine that these budgets are “credible”?¹

Credible budgets are fundamental to effective, accountable and transparent institutions. This importance is reflected in the inclusion of a dedicated indicator (16.6.1) in the global framework monitoring progress on the SDGs.² Lack of budget credibility undermines public trust in institutions and jeopardizes the integrity of public funds, increasing corruption risks.

Supreme audit institutions (SAIs) are the critical channels through which legislatures scrutinize the use of public resources. As such, SAIs assess the credibility of government budgets through their audits. Although external audits do not always articulate budget deviations in terms of credibility, or assess the causes and impacts of such deviations, they can provide important information for budget credibility analyses. Leveraging the role of SAIs in ensuring budget accountability requires strengthening the SAIs’ budget assessments as well as addressing structural limitations in budget oversight.

The aim of this paper is to take stock of how external audits are currently analyzing issues of budget credibility and to identify trends, gaps, opportunities and challenges to further advance budget assessments along this line. The review is based on 80 audit reports from 20 SAIs across regions. The geographic distribution of the sample includes four SAIs from Africa (20%), five from Asia and the Pacific (25%), five from Latin America (25%), and six from Europe and North America (30%).³ This is meant to be an informative, rather than an all-encompassing, review of

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¹ The ability of a government to meet the revenue and expenditure targets approved by the legislature during a financial year determines the credibility of its budget. When actual spending deviates from the approved budget, it can be either underspent (if spending is less than the allocation) or overspent (if spending is greater than the allocation). Underspending or overruns may occur in aggregate and/or within a specific area of the budget. For definitions of budget credibility, see IBP (2018), Simsom and Welham (2014).

² On the importance of budget credibility for the achievement of the Sustainable Development Goals, see for example, “SDG action begins with credible budgets” (<https://www.internationalbudget.org/2019/10/sdg-action-begins-with-credible-budgets/>) or “Achieving Sustainability Goals Hinges On Credible Country Budgets” (<https://www.internationalbudget.org/2019/09/news-release-achieving-sustainability-goals-hinges-on-credible-country-budgets/>)

³ The sample of SAIs includes four from Africa (Ghana, Sierra Leone, Tanzania, Uganda); three from Asia (Korea, India, Philippines) and two from the Pacific (Fiji, New Zealand); five from Latin America (Argentina, Brazil, Colombia, Costa Rica, Mexico); six from Europe and North America (Finland, Georgia, the Netherlands, Portugal, UK, USA).

quality audit reports. The audit reports were selected based on their online availability, language (English, Spanish and Portuguese), coverage period (2010-2020), and relevance to the topic. The 27 responses to a survey sent out to 40 SAIs in 2021 provided yet another source of information.⁴

Section two of this paper explores how SAIs have approached the assessment of budget credibility. Section three reflects on the challenges SAIs face in assessing budget credibility more systematically. Finally, section four identifies opportunities for leveraging the role of SAIs and external audits towards strengthening budget credibility at the national level.

2. HOW HAVE SAIS APPROACHED BUDGET CREDIBILITY ASSESSMENTS?

Data on budget credibility are increasingly available and have facilitated new cross-country research. Nonetheless, limitations remain in transparency of reporting as well as justifications for and analysis of budget deviations and their causes (IBP 2018, 2019). Through their audit work, SAIs are in an ideal position to address these constraints and assess budget credibility at the national level.

The traditional mandate of an SAI refers to the oversight of budget execution. SAIs provide checks-and-balances on government expenditures; assess the effectiveness of procedures for managing, monitoring and overseeing financial allocations (compliance and consistency of in-year budget reallocations; adequacy of in-year budget execution reports), and review the accuracy and probity of annual public accounts for specific entities and the whole of government.

An increasing number of SAIs have begun to analyze other aspects of budget planning, execution, implementation and oversight (OECD 2016). Among these are the existence of mechanisms to generate, manage and capture performance information during budget execution; the adequacy of mechanisms for determining the quality and reliability of forecasts, and the authority of entities to reallocate funds in-year. SAIs are also evaluating budget planning issues such as the comprehensiveness, reliability and accuracy of the budget document; the soundness and quality of the national budgetary governance framework, and the adequacy of budgetary planning processes to manage public debt, assess long-term financial sustainability, or facilitate alignment with strategic objectives like the SDGs.

⁴ *Arab region*: Algeria, Morocco, Tunisia, UAE; *Latin America and Caribbean*: Argentina, Brazil, Colombia, Costa Rica, Guatemala, Mexico, Peru, Jamaica, St. Kitts and Nevis; *North America and Europe*: USA, France, Finland, the Netherlands, UK, Georgia, Sweden; *Asia*: Indonesia, India, Philippines, South Korea, Nepal; *Pacific*: Samoa, Fiji, New Zealand; *Africa*: Ghana, Tanzania, Kenya, South Africa, Uganda, Sierra Leone; *Francophone Africa*: Djibouti, Niger, Gabon, Senegal.

SAIs are aware of budget credibility problems (74% of the recent SAI survey respondents identify it as a significant problem in their countries) and many address related issues in their work (82%). However, SAIs have not yet systematically conducted comprehensive assessments of budget credibility, particularly at the aggregate level. Many audits identify common factors associated with budget credibility, but do not necessarily link them to aggregate budget deviations. Audit reports help assess the extent and causes of budget deviations, but SAIs do not typically classify such deviations as matters of budget credibility. Also, some audits merely identify overruns or under expenditures without providing additional analysis to understand these problems, particularly their impact on development outcomes and results (37% of respondents do not analyze impacts).⁵

The lack of international audit standards on budget credibility assessments may explain some of these limitations. Another contributing factor may be the limited understanding of how the traditional work of an SAI supports budget evaluation, and what it means to conduct a budget credibility assessment.⁶ Moreover, access to relevant information for analyzing some credibility aspects, such as the impacts of deviations, is limited. Finally, some credibility issues cut across different types of audits and make the analysis harder to untangle.

Nonetheless, the review of audit reports conducted for this paper shows that SAIs are already assessing issues related to budget credibility in their audits, and the information they produce is relevant for strengthening budget credibility. These reports illustrate the value of external audits to inform budget credibility assessments and provide examples of the types of analyses and approaches that SAIs could undertake to help strengthen the credibility of government budgets. Table 1 provides an overview of issues SAIs currently consider in relation to budget credibility, some of which are further illustrated in the next sub-sections.

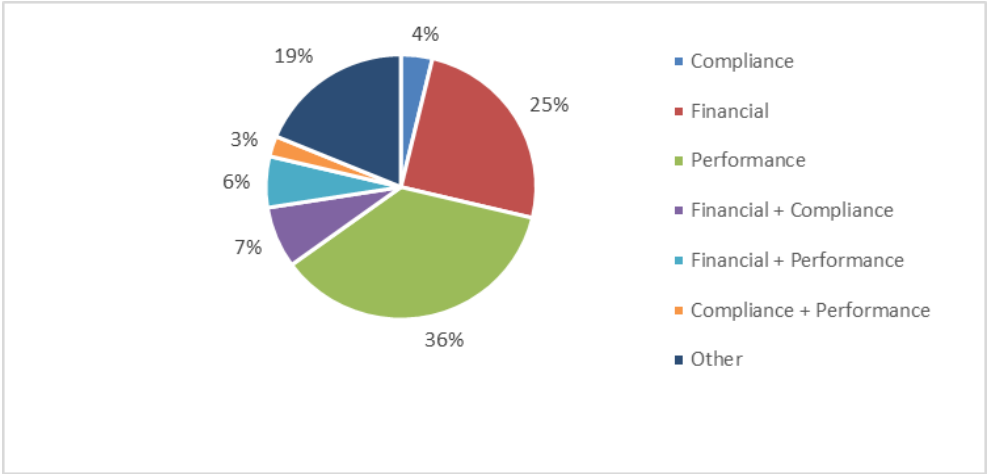
SAIs examine these issues through different types of audit, including financial, compliance and performance, as well as through other activities (e.g., evaluations, forecasts, testimonies before Congress).⁷ In our sample, 20 reports are financial audits, three compliance audits, and 29 performance reports; 13 are a combination of two types of audits, and 15 are other types of SAI input (Figure 1). These findings support the idea that budget credibility issues cut across types of audits, and a comprehensive budget credibility assessment would benefit from combining different types of audit information. Partial assessments could rely on different types of reports according to the nature of the issue at hand.

⁵ Panel from civil society organizations at the IBP Budget Credibility CoP meeting, Dec. 2019, Washington DC.

⁶ Input from Auditor General of Jamaica, Feb. 2021.

⁷ Compliance audits certify the legality of public spending and government compliance with financial legislation and budget appropriations. Financial audits certify the alignment of public spending with the budget approved by Parliament. Performance audits assess value for money (efficiency, effectiveness and economy) of public spending and more broadly the performance of government in implementing policies and programs.

FIGURE 1. DISTRIBUTION OF AUDIT REPORTS IN OUR SAMPLE, BY TYPE



IDENTIFYING CHALLENGES TO BUDGETARY FRAMEWORKS

Sound budgetary frameworks allow governments to extend policy-making beyond the annual budget cycle and thereby enhance budget credibility by strengthening the government’s ability to meet its revenue and expenditure targets accurately and consistently.

Financial sustainability and effective debt management are necessary to achieve budget outturn according to plan. Audits have identified deficiencies in these areas. Sometimes fiscal deficits are used to achieve opportunistic goals, undermining budget credibility (Sarr 2015).

- ⇒ For example, a 2011 audit in **Mexico** found that the economic situation did not justify decisions to increase the budget deficit.
- ⇒ High budget deficits have also been a major concern for SAI **Costa Rica** (Acosta 2019). In March 2020, the SAI published an infographic explaining in clear language the SAI’s decision about the maximum deficit allowed, applying the fiscal rule on expenditures to the executed budget, against the Ministry of Finance’s position to rely on the planned budget instead.⁸

⁸ Cf. <https://cgrfiles.cgr.go.cr/publico/docsweb/documentos/sala-prensa/boletines/2020/infografia-cumplimiento-regla-fiscal-hacienda.pdf>

TABLE 1. SELECTED CREDIBILITY-RELATED ISSUES EXAMINED BY SAIS (BASED ON A SAMPLE OF 80 AUDIT REPORTS FROM 20 COUNTRIES)

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

Mandatory spending cuts, often used to achieve deficit reduction targets, can also affect budget credibility and have significant impact on service delivery and policy implementation. Spending cuts may be unevenly distributed across entities or types of expenditure, with some areas systematically benefiting from in-year reallocations and able to overspend, while others remain underfunded (Simsom and Welhan 2014). In other cases, poor budget planning (e.g., inflated revenue estimates) and limited spending evaluation capacities may lead to in-year budget cuts that can cause underspending in certain sectors (Herrera and Lakin 2019). Multi-year strategic programs or projects, which require predictable budget flows, may be particularly affected.⁹

- ⇒ In their work, the **Netherlands'** Court of Audit (2013b, 2016) concluded that not all entities in their government made spending cuts in a reasonable manner or informed the legislature of their impact on policy implementation and service provision. Improvements in public finances were uncertain because of the difficulty in separating the budgetary impacts of different measures and the limited information into the extent to which the benefits are offset by leakage (e.g., savings in one budget heading leading to higher expenditure or to lower revenue in another). The Court called for increased transparency; further analysis of costs, benefits and impacts of spending cuts; and more clarity on the information Parliament can expect to receive from government to account for the impacts of spending cuts.
- ⇒ The **U.S.** Government Accountability Office (GAO) (2014) has also assessed the impact of mandatory spending cuts (i.e., sequestration) on reduced or delayed services and noted the difficulty of separating the effects of spending cuts from other measures.¹⁰ Uncertainty regarding the timing and amount of mandatory spending reductions, as well as technical questions about its application to complex accounts (e.g., fee-based), affect budget planning and implementation. GAO (2016) has called for more transparency on the amount of annual mandatory spending reductions to better assess progress towards overall deficit reduction targets.

SIGNALING THE IMPORTANCE OF BUDGET PLANNING FOR CREDIBLE SPENDING

The planning and preparation of annual budgets is key to enabling a credible and predictable execution of the budget. SAIs have assessed different aspects of budget planning and preparation, such as revenue estimates, macroeconomic forecasting, and planning processes. Problematic areas have also been identified at the program level.

Many SAIs have highlighted problems with revenue forecasting that contribute to lack of budget credibility. For example:

- ⇒ An audit of **the U.K.** National Audit Office (2014) identified poor revenue forecasting by departments as an entrenched problem.

⁹ Input from SAI Brazil to survey.

¹⁰ Sequestration refers to automatic spending cuts to United States federal government spending in specific categories of outlays.

- ⇒ SAI **Uganda** (2014) found limitations in government 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 the negative consequences of these problems for the credibility of revenue forecasts.

In contrast, some SAIs have identified good practices in revenue forecasting.

- ⇒ SAI **Finland** (2018) highlighted the reliability and comprehensiveness of the forecasts, and the independence of their preparation. Nonetheless, the SAI noted the importance of regularly monitoring those dimensions, given that Finland's system to prepare official forecasts differs from the one used by the European Union. Other audits in Finland (2019) have also called for clarifying medium-term projections, given their substantial methodological differences with short-term forecasts.

HIGHLIGHTING PROCESSES WHERE BUDGET APPROVAL AND PARLIAMENTARY ACTIONS IMPEDE CREDIBILITY

Audits also bring value to the understanding of broader trends affecting budget deviations, such as the role of the legislature. An effective legislature strengthens budget credibility, as it ensures budget approval according to the law and oversight of budget execution.

Conversely, in countries where legislatures have amendment powers, parliaments may also become drivers of credibility problems.

- ⇒ The **Brazilian** Court of Accounts (TCU) (2018) conducted an audit of individual parliamentary amendments to the budget bill between 2014 and 2017. The audit found that the total amount authorized through parliamentary amendments was R\$36.54 billion (US\$8.15 billion), but only 66% of it was committed, out of which 84% (US\$4.5 billion) was not spent. In absence of the executive's guidance and tools, the identification of priority beneficiaries and projects by Parliament depended on previous experience and relationships with constituencies. Underspending was explained by the long time (over eight years on average) it took to execute these projects—due to limited management capacity of small municipalities, delays in the disbursement of federal resources transferred to municipalities, and multiplicity of normative instruments regulating the transfers. The audit noted that, despite the need for containing spending, the execution of those expenditures was prioritized in 2017 and 2018, most likely due to electoral considerations.

Excessive aggregation of spending in broad categories may facilitate the circumventing of legislative approval and oversight and undermine budget credibility.

- ⇒ **New Zealand's** SAI (2019) noted that transferring funds within an aggregated budget article without legislative approval compromised Parliament's right to approve the budget and circumvented legislative oversight, including unjustified deviations. The SAI stressed the need to preserve

Parliament's ability to authorize spending and to hold the government accountable for its spending at the appropriate level of detail.

ASSESSING BUDGET EXECUTION AND CONTROL PROBLEMS COMMONLY ASSOCIATED WITH WEAK CREDIBILITY

Weak documentation of expenditures, unexplained expenditures, use of expenditures for non-intended purposes, non-compliance with laws and regulations, and weak internal controls, among others, are types of execution problems that frequently underlie lack of credibility. For example, poorly enforced internal controls or capacity constraints for internal oversight create incentives for overruns or underspending, given their potential for going undetected and unsanctioned.

Although several SAIs in our sample identify these factors in audits, they do not usually report them in terms of "credibility" but rather as sources of expenditure mismanagement. Moreover, these factors are not usually linked to overall deviations in revenues or expenditures.

- ⇒ One exception is SAI **Ghana**, which directly refers to budget credibility in some of its public accounts' audits. This might be explained because budget deviations have been previously documented in Ghana.¹¹ The audit of fiscal year 2018, for example, highlighted that budget credibility requires the government to be accurate and consistent in meeting its revenue and expenditure estimates. However, the audit found that some entities with zero budget lines had appropriated funds (e.g., for goods and services) and that such spending from supplementary or contingency budgets had not been included in the integrated financial management system, increasing the risk of incurring budget overruns.

The timing of spending is another relevant execution issue affecting credibility.

- ⇒ The **U.S.** Government Accountability Office (GAO) (2017) found that budget uncertainties about the total funding available in any given year (due to continuing resolutions, lapse in appropriations and sequestration) make agency officials limit spending early in the fiscal year, because final funding decisions may be less than anticipated. While recognizing such flexibility in budget execution, GAO highlighted the existence of a legal framework in place to avoid over-obligating and under-obligating funds, ensuring accountability and fiscal control.

STRENGTHENING REVIEW OF PERFORMANCE INFORMATION SYSTEMS AND DATA

Lack of credible budgets hampers effective service delivery and the achievement of results, including long-term national development objectives. Year-end reports increasingly include performance information to complement

¹¹ See for example, Killick 2005.

the assessment of the prior year's budget execution. However, linking budget execution with results requires sound and effective monitoring systems. SAIs have started to assess performance information systems and data, highlighting their impact on budget planning, reporting, and the ability to monitor long-term commitments and results.

- ⇒ In **Brazil**, recurring findings in assessments of consolidated year-end budget reports include the lack of annual milestones for each target, the need of performance indicators to monitor strategic dimensions, and the need of ensuring the quality and validity of such indicators. In 2018, the Brazilian Court of Accounts (TCU) (2019) evaluated the quality and reliability of 70 targets out of 1,136 (6%) included in the Pluriannual Plan 2016-2019. Twelve targets (17%) presented reliability problems, such as weak data collection and wrong quantification, and 17 (35%) out of a more restricted sample of 48 targets had quality problems, such as the lack of baselines and wrongful classification of targets.

External audits also evaluate government systems to capture and manage performance information to inform the budget process. SAIs in different countries have noted similar problems related to lack of targets, insufficient or inappropriate indicators, ad-hoc monitoring activities and inability to link expenditures and financial indicators to performance indicators.

- ⇒ Twelve of 20 SAIs included in this analysis (**Argentina, Colombia, Costa Rica, Georgia, Ghana, Korea, Netherlands, New Zealand, the Philippines, Uganda, the U.K. and the U.S.**) have looked at mechanisms and systems to capture performance information during budget planning/execution.
- ⇒ Since 2009, SAI **Korea** complements the assessment of the financial statements of a sample of entities with an evaluation of how well their financial and non-financial performance evaluation systems work. In 2015, in the review of the performance reports of 52 central government agencies, the SAI discovered 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%) showed that 38 cases in performance planning and 24 in performance reporting were wrongfully evaluated.
- ⇒ SAI **Uganda** (2013) highlighted the fragmentation, duplication, weak coordination and lack of a clear results chain of the monitoring system, resulting in inadequate tracking and reporting of results.
- ⇒ 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.
- ⇒ In **the U.K.** (2009), the departments' disregard of the quality of data needed and the lack of formal risk assessments undermined effective performance monitoring (e.g., inadequate data did not match complex performance indicators).

EVALUATING QUALITY OF REPORTING TO IMPROVE BUDGET CREDIBILITY

Comprehensive, reliable, accurate and disaggregated information in budget documents and reports is critical to identifying and assessing budget deviations, tracking them over time, and enabling legislatures and external audits to oversee budget execution and hold governments accountable. SAIs have identified opportunities for improvement, including in specific sectors (e.g., Costa Rica’s SAI found that information in budget execution reports for the health sector was inadequate).

Two recurring aspects highlighted in audit reports are excessive aggregation and limited transparency in budget documents.

- ⇒ The Auditor-General of **New Zealand** (2019) and the Netherlands Court of Audit (2019) have advised against too much aggregation of spending (large budget articles). Excessive aggregation affects the clarity of the information and makes it difficult for Parliament to gain insight into what part of the central government budget is still available.
- ⇒ The **Dutch** Court has made suggestions to improve information quality and value by using digital resources.

Limited transparency, missing or poor information, and reporting problems undermine a proper assessment of government finances, affecting the perceived credibility of government budgets.

- ⇒ The **Netherlands’** Court of Audit (2018) has found that budget documents often fail to include information on expenditure plans, policy goals and achievements for some of the funding, as well as on policies with responsibilities shared across sectors. Therefore, it becomes difficult to assess whether spending has proceeded according to plan and results match budget execution.
- ⇒ Similarly, despite ongoing improvements in the quality of information and analysis provided by the **U.K.** government for the entirety of its accounts, the National Audit Office (2019, 2018) has found limitations in the level of detail in key areas that prevent a fuller analysis of public finances. In addition to new data systems and ICT tools, the SAI has emphasized the critical importance of cooperation among different entities.

DISCLOSING BUDGET CREDIBILITY CHALLENGES IN PROGRAMS OR SECTORS

Although not many audit reports in our sample provide information on budget credibility in specific sectors or programs, there are some relevant examples in public works, education and health.

- ⇒ SAI **Uganda** (2018), in an audit of the works and transport sector, relates problems in the execution of expenditures to budget credibility and performance issues. The audit found that mischarging expenditures to budget lines unrelated to the expenditure in question impacted on financing and implementation of activities and highlighted that a substantial part of the sector budget was not used for its intended activities. This affected “the credibility of the budget” and the intentions of the appropriating authority, resulting in “misleading reported performance information.”

Persistent capacity and management problems, including human resource management, can explain overruns and underspending in some cases.

- ⇒ Several audits conducted in 2017-2018 in **Costa Rica** identified systemic problems related to weak human resources management in the Ministry of Education that explained amounts paid in excess. In 2019, another audit found underspending in salaries for an amount that could not be determined due to inconsistencies between the national social security system and the ministry’s human resources system.

Problems of budget credibility in the health sector have been identified in several countries.

- ⇒ In a context of insufficient budget resources in **Mexico**, the SAI found that the 2012 budget for a large social insurance program, amounting to more than half the budget of the health sector, was underspent by 23% (MX\$8,229 million) at the sub-national level. Several factors contributed to underspending, including inconsistencies in the legal framework and administrative procedures for financing the program and delivering services. Resource problems resulted in low quality services, scarcity of medicines and lack of infrastructure and personnel in rural communities.
- ⇒ In 2013, the **Netherlands’** Court of Accounts identified cost overruns as a virtually constant feature of the healthcare sector in recent years. The SAI recommended to improve information on healthcare costs to facilitate checking hospital expenditures against the available budget during the year to timely identify and address potential overruns.
- ⇒ In **Uganda**, an audit of eight entities of the health sector (2018b) showed that the Ministry of Health made unrealistic plans and targets for the outputs and lacked the necessary preparedness to execute them. This distorted the overall budget process and delayed the implementation and delivery of benefits to the intended beneficiaries. The audited entities were not able to absorb 21% of the funding released (earmarked for construction projects, procurement of specialized medical equipment, pensions, gratuity and social contribution, among others), and the Ministry was unable to absorb 29% of its capital development release. Failure to absorb funds was attributed to procurement delays and to the late verification of decentralized pensioners in regional hospitals.

3. CHALLENGES TO LEVERAGING THE WORK OF SAIS FOR ADVANCING BUDGET CREDIBILITY

While SAIs clearly produce valuable information to illuminate issues of budget credibility, they also face several challenges.

Varying capacities, skills, resources and experience. SAIs have different experiences (e.g., regarding audit standards) and capacities for various types of audit practice. For many SAIs, performance assessments are still relatively new, and complementing oversight with insight or foresight functions is new territory. In some areas, there are technical challenges related to the definition of audit criteria and standards to evaluate budget reallocations or to audit fiscal policy. There are also difficulties related to the extent of resources that SAIs can invest into evaluating more demanding stages of the budget process, such as budgetary planning.

Difficulties discerning the effects on performance. This analysis of audit reports indicates an increasing focus on analyzing the performance of programs and the impact on service delivery. However, linking results to budgets and gaining a better understanding of compositional budget deviations and their impact on the achievement of long-term development outcomes remains a challenge. This is particularly relevant in the context of the SDGs.

Lack of executive leadership inhibits SAI's work. Externally, limited executive and high-level leadership at critical budget stages, like planning, may inhibit the role of an SAI in examining budget credibility. Lack of budget transparency and problems with the quality and reliability of information are recurrent weaknesses found by SAIs. In this context, the executive's discretion to make budgetary changes and avoid legislative oversight increases.

Varying degrees of access to budget information. There are limitations in the quality and availability of budget information SAIs can access. The opportunities for an SAI to access such information varies depending on the country's legal and institutional framework and the SAI's mandate and functions. This may affect SAIs' work in the field of budget credibility.

Challenges in combining information and evidence from different types of audits. The sample of reports examined shows that the status of budget credibility cannot be based on financial information only. Rather, the analysis benefits from the combination of information from different types of audits (financial, compliance, and performance). Therefore, a further challenge is how to aggregate different types of information to convey a sound message regarding budget credibility. This would facilitate leveraging the evidence produced by SAIs to demand budget accountability.

The entire accountability system matters. Moving from evaluating credibility to holding governments accountable for lack of credible budgets is not straightforward. The impact of audit reports depends on the follow up to audit recommendations (still weak in many contexts), but also on the entire accountability system. There are constraints related to legislative budget oversight, and parliaments themselves may contribute to budget credibility problems (IBP and IDI 2020). There are asymmetries and different timing and periodicity in parliaments' access to inputs from the executive and from SAIs. Moreover, there are opportunities to enhance legislators' budget skills, capacities and incentives to hold governments accountable on their budgets. There are also challenges for external

stakeholders (e.g., civil society) to understand audit reports and to leverage fragmentary audit information to advocate for solutions to budget credibility problems.

4. OPPORTUNITIES FOR STRENGTHENING BUDGET CREDIBILITY THROUGH AUDITS

Responses to budget credibility problems may aim to improve the efficiency of expenditures to achieve better development results, and/or to increase the legitimacy of expenditures. For example, governments may improve revenue forecasting models or enhance the skills of budget staff to address uncertainty at the planning stage (Simsom and Welham 2014).

Through their findings and recommendations, external audits by SAIs are critical to improving budget credibility. This brief does not analyze whether and how the credibility problems identified in the reviewed audit reports have been followed up and ultimately resolved. This would require additional information on government responses to the recommendations and audit findings.

However, setting realistic expectations about how SAIs can help correct budget credibility problems requires understanding their varying statutory powers and institutional set-ups. While some SAIs have jurisdictional competence (e.g., SAIs in the court model have quasi-judicial powers), most do not. They rely on other actors (state powers and external stakeholders) and channels to incentivize the enforcement of audit recommendations and effectively restrain governments to execute the budget as planned, or to explain the reasons for their deviations. Therefore, collaboration and effective inter-operation of SAIs with other actors is critical to strengthening budget accountability.

Some specific actions can help strengthen SAIs' role in this area. First, it is vital to raise awareness among the audit community on what is meant by budget credibility, its importance, and how SAIs can contribute to its assessment through their audit practice. Simultaneously, there is a need to continue strengthening SAIs' capacity to perform budget oversight functions, while adopting new techniques and approaches to enhancing budget evaluations.

Sharing experiences can help develop more systematic approaches, methodologies and tools for assessing budget credibility. (Box 1 identifies some entry points.) Specifically, SAIs could start by explicitly identifying the linkages between the issues they routinely examine and credibility. They can also build on existing SAI experience in combining financial, compliance and performance elements to improve credibility analyses.

BOX 1. MOVING FORWARD: HOW SAIS CAN STRENGTHEN ANALYSES TO IMPROVE BUDGET CREDIBILITY

- Conduct routine audits of budget deviations at the aggregate level beyond year-end accounts reports.
- Go beyond quantitative assessment of deviations and analyze which services, programs and projects were affected and how, and determine the causes and the impact generated by the deviations. This requires sorting out attribution problems and strengthening the assessment of performance aspects.
- Consider the diversity of country contexts to tailor credibility analyses. For example, in countries with persistent credibility challenges, focus on contributing factors and impacts; in other contexts, focus on issues related to wider trends (e.g., amendment powers of parliaments, off-budget resources, spending cuts, supplementary budgets).
- Incorporate an analysis of contributing factors that relate to cross-cutting management issues, such as coordination, project management, information, and evaluation and monitoring systems, including performance indicators. These are core functions of government that affect implementation and the achievement of long-term national objectives.
- Strengthen the performance focus. Assess performance of programs or sector entities against budgets, including longitudinal analysis to identify trends. Conduct performance assessments of budget core functions and processes (e.g., related to planning).
- Share and identify good practices for refining recommendations on budgetary issues to make them more granular and impactful.
- Use not only audits but other SAI activities and products to communicate findings and raise awareness about credibility. Particularly, raise awareness among parliament, government, and other stakeholders about the need of granularity and quality of information in budget reports.

Finally, the adoption of practical and operational approaches to strengthening the functional links between accountability actors – building on a better understanding of their different incentives, roles and capacities – can help leverage budget credibility information, including audits. This would help promote government accountability for recurring budget deviations that undermine service delivery and the achievement of long-term development goals.

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