



## Public financial management: ensuring transparent budgets

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## Public financial management: ensuring transparent budgets

The government's budget is its most important policy document, where policy objectives are reconciled and concrete commitments are made. Public budgets should therefore be as comprehensive, informative, and timely as possible. In addition to the executive budget proposal, information on revenues and expenditures is conveyed through 6 primary types of budget reports:

- Pre-budget report
- Monthly reports
- Mid-year report
- Year-end report
- Pre-election report
- Long-term report

Improving transparency of the budget process and documents is crucial for several reasons. A transparent public finance system helps illuminate the relationship between desired public objectives and the availability, affordability or constraint of public resources to pursue policies that support those objectives. In that regard, it is equally important to be transparent with regard to budget indicators and underlying assumptions, such as fiscal projections and macro-economic outlooks over the medium- and long-term. The transparency and accountability of financial information in budget reports is supported by specific disclosures of methodologies and assumptions, as well as classifications that allow the user to get the bigger picture. Transparent and comparable methodologies and both internal and external accountability are required in order to ensure the quality and integrity of budget reports.

In the light of the recent economic crisis, public demand for transparent governance of public resources is on the rise. A credible and open budget process based on realistic projections and clear policy choices helps increase trust of the business community and citizens at large in government institutions and

decisions. And publishing information in an accessible, timely and comprehensible manner helps to support public engagement in and understanding of budgetary decision-making and choices, as well as foster dialogues on how policy choices will impact fiscal sustainability.

The 2002 *OECD Best Practices for Budget Transparency* provide a critical reference tool for countries to increase their budget transparency – the full disclosure of all relevant fiscal information in a timely and systematic manner. Rather than a formal “standard” for budget transparency, these best practices, based on OECD member experiences, are meant to be adapted to countries’ specific reporting regimes. This document provides some examples to illustrate the best practices – drawing from within and beyond the OECD area.

## Priority checklist

1. Is the **budget comprehensive**, encompassing all government revenue and expenditure, along with detailed commentary and non-financial performance data, including targets, where practicable?
2. Does the budget **provide comparative information** on revenues and expenditures for the immediate past and future (e.g. actual expenditures and forecasts as well as the budget request)?
3. Is **expenditure classification** done by major function, economic and administrative units, with description as appropriate? Are the total amounts of contingent liabilities disclosed and classified by major category, where feasible, or listed and described where they cannot be quantified?
4. Are **key financial data and economic assumptions** disclosed explicitly, and are financial assets -- including assets belonging to employee pension plans -- valued at market value?
5. Is a **sensitivity analysis** made of the impact of changes in the key economic assumptions, as well as interest rates and foreign exchange rate assumptions? Are the economic assumptions accurately presented in the budget documentation?

6. To ensure transparency, are the same **accounting policies** used for all fiscal reports, with a summary of relevant policies, disclosure of deviations from generally accepted practices, and comparable data between reporting periods?
7. Is the government's draft budget submitted for **parliamentary scrutiny** and approved in a timely fashion, and does the executive budget proposal contain all necessary supporting documents for the legislature to take an informed decision? Do additional budget reports provide information on the government's long-term objectives, assumptions, compliance with the level of revenue and expenditure authorised by the Parliament, and long-term sustainability?
8. Is a dynamic system of **internal financial controls** in place to ensure the integrity of fiscal reports? Does each report contain a statement of responsibility by the finance minister and the senior official responsible for producing the report?
9. Is **public scrutiny** facilitated by making relevant fiscal reports publicly available, free and online? Does the ministry of finance actively promote an understanding of the budget process?
10. Is the accountability ensured through year-end fiscal report and an external audit by the **Supreme Audit Institution**? Are the audit reports scrutinised by Parliament, and does it have the opportunity and resources to effectively examine any fiscal report that it deems necessary?

## Implementation guidance

### BUDGET REPORTS

**1. Is the budget comprehensive, encompassing all government revenue and expenditure, along with detailed commentary and non-financial performance data, including targets, where practicable?**

The principle of comprehensiveness states that all government agencies' activities and public funds should be accounted for in the budget. Revenues and expenditures that do not form part of the annual budget appropriations are called extra-budgetary funds. Extra-budgetary funds have become a common feature in many OECD countries. Too many off-budget activities bear the risk of diminishing budget transparency and undermine the inherent control function of the government over public expenditures. Thus, governments should include as much public expenditure as possible in the government budget.

Off-budget expenditure may not be decided through the regular budget process (e.g. require legislative approval), but should still be presented in the budget in order to maximise the transparency of public expenditures. Examples of extra-budgetary funds include, but are not limited to, overall (special) transactions such as the activities of public enterprises, credit provided or guaranteed by government or subsidies channelled through the tax system. In addition, a budget narrative should be submitted as supporting documentation to the actual budget to help explain policy priorities and principles that have guided budget decisions. Explanatory text and non-financial performance data helps to justify and provide context for budget decisions to the legislature and the public at large.

The principle of budget comprehensiveness applies to each of the four major steps of the budget cycle:

- Budget preparation
  - The preparation of extra-budgetary funds should be defined in budget circulars.
  - Extra-budgetary funds should be included in budget documentation.
  - Where total amounts of off-budget funds are not certain (e.g. in the case of tax expenditures), the budget should include an estimate of value or a trade-off analysis.

- Budget approval
  - Although extra-budgetary funds might not need legislative approval, they should be presented to the legislature together with the executive budget proposal to provide a complete picture of planned expenditures in line with government policies.
  - A policy rationale for the extra-budgetary activity should be provided.
- Budget execution
  - Information on the execution of extra-budgetary funds must be made available; reporting should follow the same principles as general budget reports.
  - There should be clear and transparent rules guiding the management and execution of extra-budgetary funds.
- Budget accountability
  - Accounting and auditing of extra-budgetary funds should follow the same rules and procedures as the general budget.

### **Comprehensive Budget Reports: Transparency of Tax Expenditures in Canada**

Tax expenditures are a type of extra-budgetary fund. For governments, tax expenditures represent a loss in revenue by giving taxpayers preferential treatment (e.g. special tax rates, credits against tax liabilities, etc.). Because of the heterogeneous nature of tax systems, comparisons of country practices to measure tax expenditures are difficult to make. For tax expenditures to be included in the budget documentation, the revenues forgone through tax preferences have to be estimated. One way to promote transparency of extra-budgetary tax expenditures is to compare tax with direct expenditures. Canada systematically calculates the trade-off between the two: “the system requires ministers proposing tax expenditures to offset the revenue loss with reductions in direct expenditures. The great virtue of the system is that it sensitises ministers to the reality that tax relief is not costless.”

Source: (Schick, 2007).

**2. Does the budget provide comparative information on revenues and expenditures for the immediate past and future (e.g. actual expenditures and forecasts as well as the budget request)?**

The trend in public budgets is to adopt a multi-year perspective. This includes comparability with past budgets, baseline estimates of public expenditure under current policy, and an indication of future intent, e.g. under a medium-term budgeting framework.

Although in most countries budgets are prepared on an annual basis, it is important to take into account projections of expected revenues, the cost of programmes and macro-economic forecasts in the budget documentation to allow for a well informed decision-making process. Of particular importance is the inclusion of the future costs of entitlement programmes, capital expenditures and contingent liabilities. A lack of transparency in these areas might result in hidden costs and consequently overspending in years to come. Moreover, medium-term projections of current policy choices on future budgets also provide the government and the public with an indication of the affordability of policy options.

In addition to forward-looking information, the budget should also include comparative information on past revenues and expenditures. Ideally this should include the two previous fiscal years (actually referring to the current fiscal year's estimates of actual revenue and expenditure outcome at the time of budget preparation, plus the completed fiscal year prior to the current year for which audited accounts should be available). This information should be presented in the same format as the budget to allow for meaningful comparison. A budget narrative should include explanatory text on why funding levels have changed from previous years and the expected impact of changes in the funding level.



### **Comparative Information in Budget Reports: Budget Transparency in New Zealand**

New Zealand was one of the first countries to explicitly enshrine fiscal responsibility and transparency as principles in its legislation. Part II of the Public Finance Act amongst others sets out detailed requirements for government reporting on its fiscal policy, including the relationship between policy and budget decisions. For instance, New Zealand publishes a detailed pre-budget report – called the Budget Policy Statement – which is aimed at increasing budget transparency and a better understanding of budgetary decisions.

#### **Key requirements for the Budget Policy Statement (from the New Zealand *Guide to the Public Finance Act*, 2005):**

When:

- Commonly tabled in the House of Representatives by the Minister of Finance in December (in conjunction with the December Economic and Fiscal Update). It must be provided by 31 March.

Broad strategic priorities:

- State the broad strategic priorities for the forthcoming budget, including overarching policy goals, policy areas and consistency with the most recent short-term fiscal intentions.
- Explain any changes in the long-term fiscal objectives and their relationship to the principles of responsible fiscal management.
- Explain any changes in short-term fiscal intentions and their relationship to the principles of responsible fiscal management and long-term fiscal objectives.

The budget policy statement:

- Contributes to fiscal transparency. The statement provides for transparency by avoiding big surprises at Budget time. The Budget Policy Statement may be used as a vehicle for seeking submissions from the public on the proposals outlined in it. Pre-Budget reports are regarded as part of international best practice on budget and fiscal transparency;
- Encourages consistency in fiscal policy. It encourages consistency between stated intentions and actual budget decisions, and between budget decisions and the principles of responsible fiscal management;
- Encourages debate on the aggregate impact of the proposed Budget as opposed to the detailed budget allocations within the proposed Budget.

This helps make the trade-offs between taxes, expenses, debt and net worth more explicit; and

- Provides a key opportunity for debate on the content of the forthcoming budget. This is consistent with an open budget process in which fiscal strategy, budget parameters and priorities are debated.

### **Comparative Information in Budget Reports: Chile**

“In Chile, the budget documentation for 2006 shows information for the main fiscal aggregates for four years prior to the budget and projections for three years following the budget. The draft Budget Law includes final execution figures for the four previous years for ministries and programmes, with as much disaggregation as in the budget. The government’s General Control Agency (Contraloría General de la Republica) annual statements include a comparison with the relevant budget. The Public Finance Statistics Yearbook includes consolidated figures for central government, general government, and the nonfinancial public sector for the previous nine years. Since 2000, as required by Chile’s fiscal responsibility law, the documents accompanying the budget have included a financial projection of the fiscal macro aggregates of budgetary central government for three years following the budget.”

Source: *Chile, Fiscal ROSC-Update*, IMF 2007

### **3. Is expenditure classification done by major function, economic and administrative units, with description as appropriate? Are the total amounts of contingent liabilities disclosed and classified by major category, where feasible, or listed and described where they cannot be quantified?**

Budget classifications need to be transparent. That is, correct and transparent budget classification is important for monitoring the efficient allocation and spending of resources by sectors and units and to ensure compliance with budgetary approvals according to policy and performance standards. It is important to classify public expenditures in order to allow a broader perspective on expenditure trends, and budget allocations by organisation and programme area. At the least, revenues should be classified according to major categories and there should be an administrative, functional and economic distinction of expenditure allocations.

To improve transparency and accountability of the use of public resources, ideally classifications should allow for a link between allocations and expected results (programme classification: output or outcome instead of input-based). In the 2007 OECD Budget Practices and Procedures Survey, 29 countries out of 33 OECD countries that responded to the survey reported that they use output and/or outcome information to measure performance.

Budget classification should also follow internationally accepted standards. This allows for greater transparency and comparability across countries. At the international level, a basis for coherent budget classification can facilitate the integration of donor funds into national budgets of developing countries and thus enhance aid transparency and the effective use of foreign resources.

#### **Expenditure Classification in Budget Reports: Mauritius' experience with programme based budgeting**

In 2007 Mauritius introduced performance budgeting in all ministries concurrently, including programme based budgeting. This reform was part of an effort to tackle rising public expenditure and high levels of debt, as well as to create more accountability and transparency of public spending.

“The implementation of PBB [programme based budgeting] has increased awareness of performance and the need to monitor the achievement of targets. The presentation of performance information in the budget documentation has improved over time, and some ministries have enhanced the quality of the information provided. Transparency and access to information have been enhanced since the implementation of PBB. The Cabinet is in a better position to set targets and priorities based on the information contained in the PBB, and line ministries feel that financial administration is facilitated by more readily available information. Debates in the National Assembly are focused on targets and achievements rather than just on line-items.” (Collaborative Africa Budget Reform Initiative (CABRI), 2009).

An excerpt of the *2012 Programme Budget for the Ministry of Education* in Mauritius below depicts how Mauritius defines outputs, outcomes and progressive targets for each spending programme.

DELIVERY UNITS	SERVICES TO BE PROVIDED	PERFORMANCE				
		Service Standards (Indicators)	2010 Actual	2012 Targets	2013 Targets	2014 Targets
<b>PROGRAMME 423: Primary Education</b>						
<b>Outcome:</b> Children leave primary school literate, numerate and IT-familiar, with enriched learning experiences and ready for secondary education.						
School Directorate [implemented with Private-Aided Primary Schools and Mauritius Examinations Syndicate]	S1: Provision of Primary Education in the public sector and supervision of the private sector.	SS1: Certificate of Primary Education examinations pass rate.	68.8%	70.0%	71.0%	72.0%
	S2: Organisation of extra and co-curricular activities for the overall development of the learner	SS2: Minimum number of extra and co-curricular activities as per recommended list and others organised at school level in which pupils participate.	4	8	8	8
Zone d'Education Prioritaire Unit	S3: Providing learning and other support to pupils in Zone d'Education Prioritaire (ZEP) schools.	SS1: Certificate of Primary Education examinations pass rate of ZEP Schools.	36.2%	39.0%	40.0%	41.0%

**4. Are key financial data and economic assumptions disclosed explicitly, and are financial assets -- including assets belonging to employee pension plans -- valued at market value?**

Financial information needs to be included in the budget report, in addition to expenditure allocations, in order to provide a picture of the financial health of the government and to make key assumptions underlying the budget proposal available. This information should be made available in the budget, the mid-year and year-end report. Monthly borrowing should be reported on frequently, preferably on a monthly basis. The disclosure of financial information should include:

- Financial liabilities, with monthly borrowings classified by the currency denomination, maturity, fixed or variable interest rate of the debt, and debt management instruments (e.g. forward contracts, swaps);
- Financial assets, classified by major type;
- Contingent liabilities with a disclosure of total amount (where applicable) and a classification by major type and historical information on defaults;

- Non-financial assets, with a disclosure of the depreciation schedule and method under accrual accounting, or register of assets under cash accounting;
- Employee pension obligations and key actuarial assumptions underlying the calculation of the obligations; and
- Tax expenditures and estimated costs.

**Specific Disclosures of Key Financial Data and  
Economic Assumptions: Transparency of Budget  
and Programme Data in the Philippines**

The following information is posted on the official websites of Departments / Agencies:

- Approved Budgets
- Performance Measures and Targets
- Annual Procurement Plan
- Contracts Awarded
- Name of Contractors/Suppliers/Consultants
- Targeted and Actual Beneficiaries
- Utilisation of Funds
- Status of Implementation
- Programme/Project Evaluation/Assessment Reports

Agencies with key programmes and projects are required to post on their websites public information including:

- Details of programme beneficiaries
- Locations of projects

The disclosure of economic assumptions should include a forecast for GDP growth, the composition of GDP, the rate of unemployment and employment, the current account, inflation and interest rates (monetary policy). In order to create a realistic budget it is important to base the macroeconomic framework and fiscal projections on consistent assumptions. The methodology for arriving at economic assumptions should be made publicly available for independent scrutiny. In addition, the government should proactively encourage parliamentary and public debate on financial data and economic assumptions. It is considered good

practice that macroeconomic assumptions and fiscal projections are reviewed or established by an independent body.

**Specific Disclosures of Key Financial Data and Economic Assumptions: Forecasts and Review in the Netherlands**

“The past few years have witnessed a discussion on the role of independent fiscal councils as guardians of sound budgetary policy making. In 2006 the IMF took a closer look at the Dutch budgetary framework in its fiscal Reports on the Observance of Standards and Codes (ROSC) for the Netherlands. According to this report, one of the outstanding features was the Netherlands Bureau for Economic Policy Analysis’s (CPB) unique role in the policy-making process owing to its technical reputation and its independence. The CPB provides the economic outlook as well as its own budgetary outlook. The economic outlook is independent and unbiased input into the budget-making process, while the budgetary outlook provides an independent second opinion on the government’s budgetary and institutional measures. Moreover, the Netherlands Bureau for Economic Policy Analysis performs cost-benefit calculations of public investment projects. The IMF concluded: —The Netherlands Bureau for Economic Policy Analysis appears to span the full spectrum of activities identified in the recent IMF’s analysis of independent Fiscal Councils.”

Source: [Government of the Netherlands, Stability Programme Netherlands 2011](#)

**5. Is a sensitivity analysis made of the impact of changes in the key economic assumptions, as well as interest rates and foreign exchange rate assumptions? Are the economic assumptions accurately presented in the budget documentation?**

It is critical to manage risk related to unpredictable changes in economic assumptions. A sensitivity analysis allows ministries of finance to better anticipate the effects of deviation from expectations. Short- and medium-term macroeconomic projections should be realistic and tested for their sensitivity to changes on the parameters used for establishing the estimations. Unrealistic or overly optimistic assumptions can undermine the budget credibility and integrity.

In the framework of creating a long-term macroeconomic outlook, a sensitivity analysis of public finance should be included to shed light on the possible long-term impact on public budgets under various policy and socio-economic trends. Sensitivity analysis can enhance fiscal responsibility as policy-makers and the

public will be empowered to understand the long-term implications of fiscal policy on public debt. A sensitivity analysis can thus serve as an early warning mechanism and is key element of fiscal transparency.

#### **Specific Disclosures of Sensitivity Analysis: Australia**

The Australian Budget provides an estimate of the impact on the Budget year and forward year estimates of expenses and revenue of a one percentage point shock to selected economic variables in the Budget year. This sensitivity analysis gives only a rule of thumb indication of the impact on the budget of changes in prices, wages and other parameters. In each case, the analysis presents the estimated effects of a change in one economic variable only, and does not attempt to capture the linkages between economic variables that characterise changes in the economy more broadly. The economic parameters that are shocked are -- on the expenses side -- prices, wages, the number of unemployment beneficiary recipients, and the annual adjustment to the Federal Minimum Wage; and -- on the revenue side -- prices, wages, employment, private final demand for goods and services, and business profits.

Source: [OECD Budget Practices and Procedures Survey, 2007](#).

The 2007 OECD Survey on Budget Practices and Procedures revealed that 53,3 % of OECD countries do not include a sensitivity analysis of economic assumptions in their budget documentation. Merely 16,7% countries reported that they do, while 26.7% stated that a sensitivity analysis was carried out for selected activities (3,3,% of the countries did not respond). It is expected, however, that an increasing number of countries will have adopted sensitivity analysis in the wake of the economic and financial crisis.

**6. To ensure transparency, are the same accounting policies used for all fiscal reports, with a summary of relevant policies, disclosure of deviations from generally accepted practices, and comparable data between reporting periods?**

Budget accounting is important for monitoring budget execution. It should capture any changes in appropriations (increase/decrease/reallocations), commitments and expenditure. Transactions should be registered throughout the budget cycle. Common and transparent methodologies should be used so that financial information provided in budget reports is comparable across programmes and sectors as well as across budget periods. Budget classification and accounting classifications should be integrated to avoid loss of information in recording the budget execution.

**International Public Sector Accounting Standards Board (IPSASB)**

The International Public Sector Accounting Standards Board (IPSASB) is an independent accounting standard setter that sets standards for public sector entities (with the exception of State-owned enterprises). It has 18 members, including 3 public members (the IMF, World Bank and the OECD serve as permanent observers). IPSASB seeks to take into account the specificities of accounting needs in the public sector in order to provide a basis for national standard setters. It sets 1 cash-based standard, 32 accrual based standards, and 28 standards derived from IFRS. It also sets 4 “original” standards:

- Disclosure of information about the GGS (financial statistics)
- Revenues from non-exchange transactions (transfers and taxes)
- Presentation of budget information
- Service concession arrangements (public-private partnerships)



**INTEGRITY, CONTROL & ACCOUNTING**

- 7. Is the government's draft budget submitted for parliamentary scrutiny and approved in a timely fashion, and does the executive budget proposal contain all necessary supporting documents for the legislature to take an informed decision? Do additional budget reports provide information on the government's long-term objectives, assumptions, compliance with the level of revenue and expenditure authorised by the Parliament, and long-term sustainability?**

The timely submission of the budget and its related reports is important to allow parliament and parliamentary committees sufficient time to analyse the government's proposal. A pre-budget report should be released no later than one month prior to the presentation of the executive budget proposal. The report should state explicitly the government's long-term economic and fiscal policy objectives and the government's intentions for the forthcoming budget and for at least two fiscal years to come. The Government's draft budget has to be submitted to Parliament with sufficient time for proper review and approved by Parliament prior to the start of the fiscal year. This should in no case be later than three months prior to the start of the fiscal year. The legislature should authorize the budget before the beginning of the fiscal year. The legislation should spell out clear rules and procedures in case a budget is not approved in time for the start of the fiscal year. In sum, the legislature should be presented with the following budget documents:

- Pre-budget report;
- Budget estimates for the year under consideration and projections for the next 3-5 years;
- Budget estimates of actual revenues and expenditures for the current and prior fiscal years;
- Macro-economic forecast (for the medium- and long-term) and fiscal sensitivity analysis;
- All off-budget expenditure/extra-budgetary funds and contingent liabilities; and

- Budget narrative on policy changes and their impact, as well as performance information for past and future activities.

Budget information and assumptions should also be made public as they are updated. In addition to the main budget, additional budget reports provide updated information throughout the fiscal year and promote accountability and transparency vis-à-vis Parliament and the rest of society. Monthly, mid-year, year-end, pre-election, and long-term reports provide information on the government's long-term economic and fiscal policy objectives, financial information and economic assumptions, compliance with the level of revenue and expenditure authorised by the Parliament, and long-term sustainability of government policies.

### **Parliamentary Scrutiny: Budget Disclosure in Rwanda**

From 2007 to 2010, Rwanda's score on comprehensiveness of information included in budget documentation as evaluated in the World Bank-led Public Expenditure and Financial Accountability (PEFA) Programme improved from D to A. The score on public access to key fiscal information improved from C to A.

The 2003 Constitution provides a legal basis for budget comprehensiveness and public disclosure:

1) Macroeconomic assumptions, medium term budget framework, policy priorities

- Analytical summaries of revenues and expenditures, including financing of the budget balance;
- Data projections for the two years following the budget year;
- Expected revenues and expenditures in the following budget year;
- Actual data on the use of the budget of the previous year, the current year and its revision;
- Quasi-fiscal activities and off-budget expenditures: reports submitted in the same manner as all other funds;
- Projections relating to public debt.

2) Annexes to the budget document for submission to the Parliament

- Summaries of expected revenues and expenditures;

- Country loans, interests to be paid, use of loan and how it served to achieve development goals;
- All donations received (origin & use) during the year preceding the budget year;
- Securities seized by the central Government, Government enterprises, and/or financial institutions.

### **Parliamentary Scrutiny: Disclosure of long-term fiscal projections in the United States**

“The United States budget contains detailed information on the long-term implications of current fiscal policies. In an “Analytical Perspectives” publication provided as part of the budget documentation, projections are given for the budget to 50 years beyond the current year. The key assumptions are described and illustrations provided of the sensitivity of the projections to alternative assumptions and scenarios. Long-term (75-year) projections of the income and outlays of the Social Security, Medicare, and Medicaid trust funds are also provided, including the estimated 75-year actuarial balance of the trust funds as a summary measure of their financial status.”

Source: Economic Assumptions and Analyses section in the [Analytical Perspectives](#) publication. (IMF, 2007).

### **8. Is a dynamic system of internal financial controls in place to ensure the integrity of fiscal reports? Does each report contain a statement of responsibility by the finance minister and the senior official responsible for producing the report?**

Internal financial control systems should be in place to attest to the correct, transparent and efficient execution of the budget. Transparent budget execution relies on an effective system that tracks revenues, expenditures and arrears, as well as assets and liabilities. In general, internal financial control systems should monitor the orderly execution of the budget in an ethical, economical, efficient and effective manner. Control systems should safeguard against misappropriation of public funds, ensure compliance with laws and regulation, and ensure accountability vis-à-vis the public at large.

### **Internal Financial controls: The function and role of Accounting Officers in the United Kingdom**

In the United Kingdom, each organisation in central government, including arm's length bodies, is required to have an Accounting Officer – usually the senior official in the organisation – who is personally responsible to ensure that the organisation he/she manages complies with the internal control regulations.

The Accounting Officer acts within the authority of the Minister, but separately has personal responsibility to Parliament for the management and organisation of the Department, including the use of public money and the stewardship of its assets. This includes propriety and regularity; prudent and economical administration; avoidance of waste and extravagance; efficient and effective use of available resources; and the organisation, staffing and management of the Department. The Accounting Officer personally signs the resource accounts, annual accounts and the internal control statement. It is also the role of the Accounting Officer to appear before the Committee of Public Accounts (PAC) to give evidence of his/her personal performance as well as that of the Department as a whole.

The Treasury has responsibility, under the Government Resources and Accounts Act (GRAA) 2000, for appointing an Accounting Officer to each Departmental Resource Account and discretion to appoint Accounting Officers to parts of a Departmental Resource Account.

Sources: [Accounting Officers and the Treasury's role](#) and UK's Manual on [Managing Public Money](#).

Accountability for the financial information provided in budget reports should be clear. It entails both top level accountability (finance minister and senior official) as well as internal controls to ensure the accuracy of information. Each report should contain a statement of responsibility by the minister of finance and the senior official responsible for producing the report, attesting to correctness of information and the application of professional standards for producing information.

Internal audit services should be able to function as independent as possible from the department in which they are located. The Supreme Audit Institution should

assess the independence and effectiveness of the internal financial controls system.

**9. Is public scrutiny facilitated by making relevant fiscal reports publicly available, free and online? Does the ministry of finance actively promote an understanding of the budget process?**

Budget reports should be accessible and contestable in order to promote transparency and accountability. Ministries of finance should not only make budget reports available, but use them as part of an active strategy to educate citizens about the budget process. In addition to making budget information publicly available in a timely manner, the presentation of the content and its accessibility is of equal importance. While it is invaluable to make as much budget information available as possible to facilitate in-depth budget analysis and monitoring by experts, it is of equal importance to present budget information in a format that is useful and understandable for a broad range of society. Providing a citizens' budget that presents the main budget decisions and aggregates expenditures in a user-friendly manner enhances citizen understanding on how their tax money is being allocated. In addition, government should make an effort to engage the public in the budget process and decision making. Especially during the budget formulation and approval stage, dialogues with civil society can contribute to a mutual understanding on priority setting, affordability and impact of various policy options. At the same time, budgets are amongst the documents most vulnerable to lobbying. To avoid undue influence for vocal vested interests in the process of budget formulation and approval, ministries of finance should consider the chapter on "Lobbying: influencing decision making with transparency and integrity" in this Toolkit.

**Public Scrutiny: South Africa's Citizen Guide to the Budget**

Producing a citizens' guide to the budget is an effective means to enhancing public accountability, transparency and understanding for an often complex budget process. The guide should be a factual document that explains in clear language the most important elements of the budget cycle, revenue and expenditure policies.

The National Treasury of South Africa is producing an annual people's guide to the Budget in 5 of the 11 official languages. The document provides a concise and illustrative overview of the main changes to revenues and expenditures for the next three years. Main initiatives and policy implications are highlighted. In addition to the people's guide, the National Treasury also produces an annual budget highlight which summarizes the main budget allocations and the underlying macroeconomic assumptions in an accessible format.

Source: the [People's Guide and Budget Highlights](#) (National Treasury of South Africa, 2009)

**Public Scrutiny: USA Open Government Initiative**

On January 21, 2009, the United States issued a "Memorandum on Transparency and Open Government". In this the President of the United States directed the Office of Management and Budget (OMB) to emit an Open Government Directive to disclose information "that the public can readily find and use". Following this instruction, the OMB issued the Open Government Directive, which asked executive departments and agencies to implement the principles of transparency, participation and collaboration, in accordance with the [Memorandum on Transparency and Open Government](#).

Amongst others, the directive stipulates concrete steps to improve transparency and accessibility of budget information as follows:

- a. Agencies shall respect the presumption of openness by publishing information online (in addition to any other planned or mandated publication methods) and by preserving and maintaining electronic information, consistent with the Federal Records Act and other applicable law and policy. Timely publication of information is an essential component of transparency. Delays should not be viewed as an inevitable and insurmountable consequence of high demand.
- b. To the extent practicable and subject to valid restrictions, agencies should publish information online in an open format that can be retrieved, downloaded,

indexed, and searched by commonly used web search applications. An open format is one that is platform independent, machine readable, and made available to the public without restrictions that would impede the re-use of that information.

c. To the extent practical and subject to valid restrictions, agencies should proactively use modern technology to disseminate useful information, rather than waiting for specific requests under FOIA.

d. Within 45 days, each agency shall identify and publish online in an open format at least three high-value data sets and register those data sets via the government web portal [Data.gov](https://data.gov). These must be data sets not previously available online or in a downloadable format.

e. Within 60 days, each agency shall create an Open Government Webpage located at [http://www.\[agency\].gov/open](http://www.[agency].gov/open) to serve as the gateway for agency activities related to the Open Government Directive and shall maintain and update that webpage in a timely fashion.

f. Each Open Government Webpage shall incorporate a mechanism for the public to:

- i. Give feedback on and assessment of the quality of published information;
- ii. Provide input about which information to prioritize for publication; and
- iii. Provide input on the agency's Open Government Plan.

g. Each agency shall respond to public input received on its Open Government Webpage on a regular basis.

h. Each agency shall publish its annual Freedom of Information Act Report in an open format on its Open Government Webpage in addition to any other planned dissemination methods.

i. Each agency with a significant pending backlog of outstanding Freedom of Information requests shall take steps to reduce any such backlog by ten percent each year.

j. Each agency shall comply with guidance on implementing specific Presidential open government initiatives, such as [Data.gov](https://data.gov), [eRulemaking](https://www.eRulemaking.gov), [IT Dashboard](https://www.ITDashboard.gov), [Recovery.gov](https://www.Recovery.gov), and [USAspending.gov](https://www.USAspending.gov).

Source: [OMB's Open Government Directive](#). (Executive office of the President. USA, 2009)

**10. Is the accountability ensured through year-end fiscal report and an external audit by the Supreme Audit Institution? Are the audit reports scrutinised by Parliament, and does it have the opportunity and resources to effectively examine any fiscal report that it deems necessary?**

It is considered good practice to make the year-end financial accounts and report available within 6 months of the end of the fiscal year. The annual financial statements have to be audited by the Supreme Audit Institution (SAI). The law should provide for the independence of the national audit body. The audit checks the legality and regularity of financial management and accounting and thus creates transparency of the correct use of public resources. In addition, the SAI can carry out a performance audit that analyzes the public financial management system with respect to its effective and efficient implementation of government activities. The audit shall be carried out in accordance with generally accepted auditing practices.

The results of the audited financial statements have to be made available for scrutiny by Parliament. At the same time, the audit report should be made available to the public at large. Audit reports should be factual and concise and present the essential findings in a clear and objective manner. Audits have to be carried out annually. Government (e.g. the audited agency that received a qualified opinion or a public accounts committee) should respond to the SAI's finding and stipulate concrete measures to correct any irregularities. Parliament and the SAI should have the processes and capacity in place to further examine and monitor the implementation of follow-up actions by government.



**International Organization of Supreme Audit  
Institutions (INTOSAI): The Lima Declaration of  
Guidelines on Auditing Precepts**

The International Organization of Supreme Audit Institutions (INTOSAI) was founded in 1953. It is an umbrella organisation of external government audit institutions of 190 countries. INTOSAI's aim is to share knowledge, set professional standards guidelines for external government auditing practices and to promote the capacity and standing of supreme audit institutions. In 1977, INTOSAI adopted the Lima Declaration that stipulates the guiding principles of independence of Supreme Audit Institutions. In 2007, the principle of independence enshrined in the Lima declaration (see excerpt below) has been refined in more detail in eight pillars in the Mexico Declaration.

Section 5 of the 1977 Lima Declaration: Independence of Supreme Audit Institutions states:

1. Supreme Audit Institutions can accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence.
2. Although state institutions cannot be absolutely independent because they are part of the state as a whole, Supreme Audit Institutions shall have the functional and organisational independence required to accomplish their tasks.
3. The establishment of Supreme Audit Institutions and the necessary degree of their independence shall be laid down in the Constitution; details may be set out in legislation. In particular, adequate legal protection by a supreme court against any interference with a Supreme Audit Institution's independence and audit mandate shall be guaranteed.

## Further Resources

### OECD

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#### TOOLS, GUIDANCE, MANUALS

##### [OECD Best Practices for Budget Transparency \(2002\)](#)

Based on OECD country experiences, these best practices are designed as a reference tool for OECD and non-OECD countries to use in order to increase the degree of budget transparency in their respective countries. The best practices are in three parts: I) principal budget reports that governments should produce and their general content; II) specific disclosures to be contained in the reports; and III) practices for ensuring the quality and integrity of the reports.

##### [OECD Guidelines for Off-Budget Funds \(2004\)](#)

These guidelines provide guidance on how to improve the transparency and management of extra-budgetary activities. They are structured according to major categories of off-budget funds: direct loans, guarantee programmes and tax expenditures. For each type of fund, a set of guiding principles are provided. It describes recent developments in OECD countries concerning the ways these expenditures are accounted for in the budget.

##### [Producing a Citizens' Guide to the Budget: Why, What and How? \(2010\)](#)

This article suggests guidelines for the production and dissemination of a citizens' guide to the budget. Examples from a variety of countries help to illustrate why governments should publish an annual guide, what the contents and characteristics of a good guide should be, and how such a guide should be made accessible.

#### REVIEWS AND CASE STUDIES

##### [Senior budget official country reviews of budgeting systems](#)

The OECD's Working Party of Senior Budget Officials (SBO) undertakes country reviews of budgeting systems. The objective is to provide a comprehensive overview of the budget process in the country under examination, to evaluate national experiences in the light of international best practice and to provide specific policy recommendations, and to offer

other countries an opportunity to comment on specific budgeting issues in the country under examination ("peer review").

#### [Tax Expenditures in OECD Countries \(2010\)](#)

This publication sheds light on the use of tax expenditures, mainly through a study of ten OECD countries: Canada, France, Germany, Japan, Korea, Netherlands, Spain, Sweden, the United Kingdom and the United States. It will help government officials and the public better understand some of the technical and policy issues behind the use of tax expenditures. It highlights key trends and successful practices, and addresses a broad range of government finance issues, including tax policy making, tax and budget efficiency, fiscal responsibility and rule making.

#### [Budget Transparency around the World: Results from the 2008 Open Budget Survey](#)

In this article, the results of the 2008 Open Budget Survey (OBI) are presented and discussed. The OBI was developed in 2006 by the [International Budget Partnership \(IBP\)](#), a non-governmental organisation with the purpose of making budgets around the world more responsive to the needs of the poor.

## INTERNATIONAL MONETARY FUND

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#### [IMF Code and Manual on Fiscal Transparency](#)

The Code identifies a set of principles and practices to help governments improve fiscal transparency in their countries. It focuses on four key areas: Clarity of Roles and Responsibilities, Open Budget Process, Public Availability of Information and Assurance of Integrity. The Manual on Fiscal Transparency elaborates the Code's principles in more detail and draws on experiences in member countries to illustrate best practices.

## OPEN GOVERNMENT PARTNERSHIP

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This initiative was formally launched in September 2011 by 8 founding governments (Brazil, Indonesia, Mexico, Norway, Philippines, South Africa, United Kingdom, United States). They endorsed an Open Government Declaration and announced country action plans. More than 40 countries have expressed commitment to join the initiative. The Open Government Partnership is a global effort to make governments more transparent, effective and accountable and to create institutions that are responsive to citizens' needs and aspirations.

## UNITED NATIONS

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[United Nations Convention against Corruption \(eg, article 9\)](#)

[Legislative Guide for the Implementation of the UNCAC](#)

[Technical Guide to the United Nations Convention against Corruption](#)

[Travaux Préparatoires of the negotiations for the elaboration of the United Nations Convention against Corruption](#)

[TRACK - Tools and resources for anti-corruption knowledge \(including the Legal Library\)](#)

[www.cleangovbiz.org](http://www.cleangovbiz.org)

