

V EUROSAI CONGRESS

RECOMMENDATIONS

The SAI and State Budget Audit

The V EUROSAI Congress held in Moscow in May 27–31, 2002 has discussed national reports, analytical papers and reviews, and other documents submitted by the EUROSAI members on the theme *The SAI and State Budget Execution Control*.

Addressing this theme the participants assessed the role SAIs have as the budget proposals are prepared by the governments and then discussed by the parliaments, considered in detail the audit during and after state budget execution, had a thorough discussion of IT used in the state audit. The subthemes of the Congress were as follows:

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| Subtheme I | The role of the SAI in the Preparation by the Government of the Budgetary Proposals and in the examination of the same ones by the Parliament |
| Subtheme II | The Control during and after Execution of the State Budget |
| Subtheme III | The use of IT in the State Budget Execution Audit |

In fulfilling the stated purpose of EUROSAI to promote professional and technical understanding and cooperation among its member states;

While recognizing the important principle of respect for the juridical legal ordinance by which each supreme audit institution is governed;

Whereas the SAIs have the necessary powers,

1. The Congress **affirms** that:
 - 1.1. SAIs' vast experience and knowledge accumulated while auditing the state budget execution constitute an important potential which can be utilized in the course of preparation and execution of the budget.
 - 1.2. Specifying objectives and results in a budget is an additional management and control tool for making it a final-result-oriented budget and allowing more parliament influence on the budget. The interrelation between initial data and projected results becomes more evident and contributes to the effectiveness of the state sector.
 - 1.3. As a rule, budget allocations may only be exceeded when special exceptions are made by the parliament or minister of finance, such as for extraordinary or imminent items. This model makes the budget less flexible. At the same time, the executive branch's unlimited freedom in changing the allocations could hardly be acceptable, as it may reduce the role of parliaments in authorizing the extraordinary items.
 - 1.4. A major portion of the budget expenditure is determined by the existing laws and financial obligations, which limits the parliament's capability to make decisions on budget issues. It is important that SAI consultations and findings be provided to the parliament with regard to the long-term financial obligations. The above recommendation is also important for the parliament's mid-term financial planning.
 - 1.5. In the cases when SAIs are involved in drawing up the budget, their role as a rule is limited to that of providing, without commitment, consistent and balanced advice. As a rule, SAIs do not have the authority to introduce changes into the budget estimates by the executive branch. Their proposals are non-binding. It should be kept in mind, though, that involvement of the SAI in the budget procedure must not jeopardize its independence in the subsequent audit of the budget execution.
 - 1.6. A SAI may enjoy a more active role of an independent advisor to the parliament, if its budget can not be constrained by the executive. However, no legal mandate is required, for the SAI to provide advice both to the parliament and government.

- 1.7. The reports by the SAI on the final accounts facilitate the legislators' job and form a basis for the parliament's decision making process. While doing the audit of financial reports, SAIs have to provide the legislators with reliable information on the manner and on the degree of the implementation by the government of the parliament's intentions.
- 1.8. Each country intends to nationally adopt and use what is considered an internationally accepted best practice; this would allow the SAIs to audit the use of state finances, and to do the reporting in accordance with INTOSAI standards and with due transparency ensured.
- 1.9. In addition to the transparency of the state budget, the parliaments increasingly demand reliable and verified information on the amount of spending by the state and on spending items, and also on what are the social and economic benefits and effectiveness of public money spending.
- 1.10. Implementation of state-of-the-art IT by SAIs can be a powerful tool to support efficient and effective auditing of the execution of the state budget.

Using IT tools is not just about technology and trying to keep up with the most up-to-date solutions; it is primarily about skilful application of the developments in this field of knowledge in order to achieve clearly defined and specific audit objectives. They should give an additional value to the auditing process and satisfy the need to keep abreast with the latest developments and to select adequate tools.

By providing a friendly IT implementation environment for SAIs, legislative and executive bodies would help achieve effective audit of the state budget preparation and execution; such environment should be considered as norm.

II. Drawing on the results of discussions, the Congress **recommends:**

In the area of organizing audit of the state budget:

- 2.1. Interacting with the executive branch, to seek to fully exercise its legal mandate as a SAI, in order to achieve a greater depth of the state budget audit .

- 2.2. Interacting with both the executive and legislative branch, to work to create an effective system of state financial control, such as would involve cooperation of external and internal audit and control bodies at various levels of executive and legislative power.

In the area of auditing the preparation of budgetary proposals:

- 2.3. In the cases when SAIs are involved in an advisory capacity in drawing up the budget, not only to supply the parliament with the SAI audit results needed to control the budget execution, but also to provide consultations both to the legislative and executive branches at the budget preparation stage. The earlier the SAI can begin consulting, the more efficient these consultations will be in principle. The consulting SAI should always pay special attention to staying independent, particularly if consulting occurs at an early stage.

- 2.4. When examining an input-based budget, the SAI should press for a level of segmentation sufficient to provide an appropriate degree of transparency, for the purpose of informing the parliament and to facilitate any review work by the SAI.

When examining an outcome-based budget, the SAI should press to ensure that final goals and estimated results are specified, as this will contribute to a more effective use of the state resources.

- 2.5. To make the parliament aware that SAIs need to be financially independent, in order to play a more active role and act as the parliament's independent advisor.
- 2.6. In those countries where the executive branch has the right to introduce changes into budget allocations, to propose to the parliament to establish, through legislation, relevant procedures, rules and limits of such changes, and also to include these procedures in the SAI audit mandate.

The flexibility in the budget execution, thus obtained, requires an efficient system of internal control in the executive bodies.

In the area of auditing the budget execution:

- 2.7. The execution of the state budget and the audit of its report need a stable, well developed legal framework. Therefore, the SAIs should promote, through their recommendations and suggestions, the transparency of using public money, a full-scale legal regulation, which guarantees adequate audit conditions while auditing the final accounts and the reduction in the number of extraordinary provisions on appropriations that lower financial confidence. This activity should not jeopardize the SAIs' independence from the executive power.
- 2.8. In addition to the requirement of public money transparency, parliaments increasingly demand reliable and verified information about the following: how much money and on which items the state spends during the execution of the budget and what the social and economic benefits and the effectiveness of expenditure are. SAIs should seek to comply with these requirements when auditing the state budget execution. Also, they can use both financial audit and performance audit in their review of final accounts. Financial audit and the accounting system serving as the basis for preparing financial statements are interrelated. Consequently, SAIs have a special role in advising on developing the state budget accounting system of their countries and in forming connected accounting and auditing standards and in the professional training for controllers.
- 2.9. In the process of auditing the state budget execution, SAIs should organize their work in a way that assures an economical, efficient, effective and timely execution of proper audit. It is necessary to take into consideration the operation of all public sector's internal control systems, their mechanisms and types of activity, which the SAI has to assess and support by its available means (e.g. an exchange of standards, methods, and experience). At the same time, this support serves – in the system of budget accountability – to improve the auditing of the final accounts through independent internal supervisory audits, which increases confidence in the reports and accounts and reduces auditing risks.

- 2.10. Auditing the government's report on the state budget execution means a special responsibility for each SAI. SAIs should base their opinion and report on appropriate, sufficient and documented evidence so that the Parliament be more confident while making its decisions. At the SAI level, these requirements imply a quality assurance system which means using consistently the accepted and commonly applied audit methods and techniques. This can only be achieved by working out methods and procedures that comply with the international standards and creating a consistent hierarchic documentation system.

In the area of using IT:

- 2.11. To seek to achieve a SAI-friendly IT implementation environment, through dialogue with the executive and legislative branches, which involves:
- 2.11.1. providing sufficient legal powers to access all the data required to achieve proper control over the forming and execution of the state budget, the data being consistent regardless of the format (electronic or hard-copy);
 - 2.11.2. providing free of charge access to data, at least in those cases when an auditee agency is completely or partly financed from the state budget;
 - 2.11.3. developing standards for the data provided by an auditee so that the data would be compatible with the SAI information system, and also developing a process to create such a standard, as essential data accessibility factors. One of the ways to achieve this is through legislation;
 - 2.11.4. keeping auditees responsible for reliability, completeness and integrity of data provided. This is important to prevent misuse of the information and non-effective practices.
 - 2.11.5. introducing adequate measures to ensure safety and confidentiality of accessed data.
- 2.12. When encountering obstacles in IT implementation for budget formation and execution audit, to take appropriate measures as provided for by the SAI mandate.

- 2.13. To take into consideration the following factors while making the decisions on the character and the degree of the application of information technologies and the choice of IT tools:
- 2.13.1. Legal environment and the philosophy of audit, approved of by the SAI, the requirements as set up by the Parliament regarding the information to be submitted to it, the requirements of the general public.
 - 2.13.2. The need to ensure that the development of the IT tools selected goes hand in hand with the development of audit concepts and methodology;
 - 2.13.3. Ensuring a clear understanding by the SAI of the auditee's structure of computerized data; determination of the nature of verifications needed;
 - 2.13.4. Possibility of benefiting from compatible technological solutions and software;
 - 2.13.5. The degree of the auditee's preparedness to implement IT during data exchange with the SAI;
 - 2.13.6. The need to ensure the cost effectiveness of the IT tools;
 - 2.13.7. Available conditions and framework that would ensure the reliability, completeness and integrity of data submitted and the results of data processing and analysis.
- 2.14. While making the decisions regarding the elaboration of IT training means and strategies, to keep it in mind that continuing and considerable investment in human and technical resources is the key factor in the successful use of IT tools in the budget execution audit.