

Guide to Transparency in Government Budget Reports:

*Why are Budget Reports Important,
and What Should They Include?*

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Acknowledgements

This guide was edited by Vivek Ramkumar and Isaac Shapiro. Various chapters were initially drafted by Barry Anderson, the former head of the Budgeting and Public Expenditures Division of the Organization for Economic Cooperation and Development; Peter Heller, former Deputy Director of the Fiscal Affairs Department of the International Monetary Fund (IMF); and Murray Petrie, Transparency International New Zealand. We thank them for contributing their expertise and efforts to this report.

We would also like to thank the many reviewers whose insights greatly contributed to the quality of this report: Ann Blyberg of the International Human Rights Internship Program, Washington, D.C.; Jasper Cummech of Actions for Genuine Democratic Alternatives, Liberia; Antoine Heuty, Juan Carlos Quiroz, and Antonio Barroso of the Revenue Watch Institute, New York City; Chea Kimsong of the NGO Forum, Cambodia; José María Marín of Fundar, Mexico; John Mutua of the Institute of Economic Affairs, Kenya; Carlos Santiso of the Africa Development Bank, Tunisia; Jon Shields of the IMF, Washington, D.C.; and Gregory Smith of the Overseas Development Institute, United Kingdom.

Valuable assistance and inputs were provided by International Budget Partnership colleagues Juan Pablo Guerrero, Delaine McCullough, Elena Mondo, and Albert van Zyl.

Finally, we extend our sincere gratitude to the United Kingdom's Department for International Development (UKaid), the Open Society Institute, the Ford Foundation, and the William and Flora Hewlett Foundation, whose financial support made this effort possible.

Warren Krafchik
Director

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I.

Introduction

International good practice recommends that governments publish eight budget reports at various points in the budget cycle. Increasingly, civil society organizations, donors, and governments are asking for more information on why these particular reports are important, what a model report should contain to be considered transparent, and when these reports should be published.

There are few existing reference materials that answer these questions. Development banks and the Organization for Economic Cooperation and Development (OECD) have published manuals containing detailed information on public finance management systems, but the existing literature is neither tailored to the needs of a broad audience nor does it fully explore the issues of transparency in these reports.

This guide attempts to fill this void in the budget literature. The guide describes the importance of the reports and what they should contain. It also discusses the timeframe for their publication, typically referring to publication standards put forward by the OECD and International Monetary Fund (IMF) (for some reports both institutions have made recommendations on timing, while for other reports, only one or the other organization has made a recommendation, and for still others, neither organization has made a recommendation and the International Budget Partnership's (IBP) own recommendation is presented).

Last, for each budget report, examples of countries that meet good practice standards on budget transparency are included. The examples were selected from those countries that rated highly according to the IBP's Open Budget Survey for 2010. (This survey assesses on a biennial basis the publication and comprehensiveness of all eight documents.) The particular examples were chosen both to represent countries from different regions of the world and highlight documents written in commonly-spoken languages.

In thinking about the role of these budget reports, it is worth considering that the budget process is not a single event; rather, it is a year-long cycle with four stages:

- ➔ *formulation*, when the executive branch puts together the budget plan;
- ➔ *approval*, when the legislature debates, alters, and approves the budget plan;
- ➔ *execution*, when the government implements the policies in the budget; and

- ➔ *auditing and legislative evaluation*, when the national audit institution and the legislature account for and assess the expenditures made under the budget.

Four of the eight key budget reports discussed here pertain to the formulation and approval stages of the budget process — the Pre-Budget Statement, Executive's Budget Proposal, Enacted Budget, and Citizens Budget. The remaining reports pertain to the government's execution and oversight of the budget — the In-Year Reports, Mid-Year Review, Year-End Report, and Audit Report.

II.

Pre-Budget Statement

A. Why is this document important?

The Pre-Budget Statement — often called the Fiscal Strategy Paper, the Budget Strategy Document, or the Budgetary Framework Paper — sets out the government’s budget strategies for the coming budget year and, frequently, for the two subsequent budget years. At a minimum, the report is provided to the government’s cabinet, but in many countries it is also provided to the legislature and the public. Indeed, tabling and discussing the Pre-Budget Statement in the legislature is now commonly considered to be good practice.

As noted by the OECD in its *Best Practices for Budget Transparency*, the Pre-Budget Statement “serves to encourage debate on the budget aggregates and how they interact with the economy... [thus serving] to create appropriate expectations for the budget itself.” The Pre-Budget Statement provides the public with a way of understanding the link between policies and budget allocations.

A Pre-Budget Statement improves the budget formulation process within the government. Prior to the establishment of these statements, budgets were often only presented just before the commencement of the budget year. In such cases, finance ministries often would issue budget call circulars, which included highly restrictive budget ceilings for individual line ministries. A significant share of the budget was thus available for allocation at the discretion of the finance ministry, the head of government, or both when the budget was being finalized. But this approach created a “budget game” in which sectoral ministries had the incentive to provide inflated submissions to the finance ministry, knowing that the initial ceilings had been too cautious. Now, by requiring a Pre-Budget Statement, the ceilings discussed by the cabinet and legislature are more realistic. Deviations at the time of the formal presentation of the budget proposal principally reflect any important exogenous developments or new policies that emerged since the Pre-Budget Statement was issued.

The timing of the statement’s release influences the nature of its role — and its importance — in the budget process. The Pre-Budget Statement is usually issued in the fourth or fifth month of the *current* budget year, serving as the starting point for the budget process for the next year. By providing the document to the legislature early in the process of budget preparation, the government can solicit views and comments from legislators. Though not usually requiring specific legislative approval (Brazil being an exception), providing the Pre-Budget Statement at this point in the budget year facilitates discussion by legislative committees and the public, and thus allows feedback to the government as

it begins the more intensive process of formulating the actual budget proposal. Often, the finance ministry issues its budget call circular after a period for comments on the Pre-Budget Statement.

In some countries, notably South Africa, the Pre-Budget Statement is coupled with the Mid-Year Review of the current budget. While in important ways this allows the budget strategy to be informed by a midterm perspective on the implementation of the current budget, delaying the Pre-Budget Statement until this point leaves less time for the more detailed budget formulation process. This reduces the available time for ministries to prepare the budget estimates for the forthcoming year. Because of the time intensive nature of the budget preparation process, which often involves significant back-and-forth discussions with individual ministries as well as detailed discussion of capital budget proposals, most finance ministries seek this longer time frame and prefer not to couple the Mid-Year Review and the Pre-Budget Statement.

In other countries, however, the statement is issued even later in the current budget year, sometimes as little as one month before the presentation of the government’s formal budget proposals. In such cases, the formulation process is already well underway when the Pre-Budget Statement is issued, thus the report has less useful influence over the budget formulation process. Delaying the formulation of the budget until after the Pre-Budget Statement in such cases would excessively compress the time frame for formulation.

The Pre-Budget Consultation Process in Canada

Canada has established an interesting approach to the pre-budget period. The following description is excerpted from an OECD report.

“In the fall of 1994, a formal Pre-Budget Consultation Process was introduced involving Parliament. Previously, the Minister of Finance had conducted consultations with a number of interested parties in a series of one-on-one discussions. This formalized process was part of the government’s endeavor to reduce the tradition of secrecy associated with the budget formulation process which had become the subject of persistent and increasing criticism. The stated purpose of the Pre-Budget Consultations was ‘to provide Canadians with a formal mechanism by which they could make suggestions as to the contents of the next budget.’ The Pre-Budget Consultations would, however, appear to have been launched primarily to educate the public about the dire fiscal situation and create an environment more conducive to accepting the difficult budget decisions that lay ahead. By using Parliament as the vehicle for this, it also served the purpose of involving the Opposition in this discussion.”

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*In mid-October, the Minister of Finance appears before the Committee. This is a major event and is televised nationally. During his presentation, the minister outlines the current and prospective economic situation and relates this to the government's broad budget policy objectives. Concurrently, the Department of Finance releases the **Economic and Fiscal Update**, which provides supporting material.*

[Although the] Pre-Budget Consultations started during the fiscal crisis of the mid-1990s as a vehicle for promoting the government's budget policy [...] there is no indication that this process will be abandoned. The Pre-Budget Consultations have been an important element in opening up the budget process and creating an atmosphere where the public feels it can have some input."

Source: Blöndal (2001)

B. What information should be included in this document?

Broadly speaking, the Pre-Budget Statement should provide considerable information on the government's perspective on how fiscal policy will relate to the broader economy and how budget priorities will be shaped in the coming years. However, the statement is not the budget: it should provide a general sense of the government's budget priorities and policies but without the considerable detail that ultimately will be embedded in the budget itself. Moreover, the Pre-Budget Statement reflects the government's initial thinking about the budget for the coming year, with the understanding that the final budget will be different, taking account of both new developments that emerge during the period when the budget is being formulated and the feedback that the Pre-Budget Statement itself will provoke from the cabinet, the legislature, civil society, and the public at large.

There are five principal components to the Pre-Budget Statement. First, the report should lay out the government's perspective, including the rationale for its views, on the evolution of expected macroeconomic conditions. Thus the statement should describe the government's basic assumptions about broad domestic and external macroeconomic indicators over the medium term. Such indicators include real output growth, composition of GDP growth, employment, prices, the current account, and interest rates.

Second, as noted by the OECD, the "report should state explicitly the government's long-term economic and fiscal policy objectives and the government's economic and fiscal policy intentions for the forthcoming budget and, at least, the following two fiscal years." The Pre-Budget Statement should "highlight the total level of revenue, expenditure, deficit or surplus, and debt" and the role that fiscal policy is expected to play in the context of overall macroeconomic policy. The Pre-Budget Statement should also discuss, for the medium-term period, the sensitivity of budget aggregates to macroeconomic conditions and provide estimates of the net borrowing requirement and assumptions concerning debt-servicing costs.

Third, the Pre-Budget Statement should highlight the broad policy strategy envisaged for different sectors, providing an initial perspective on how different sectors will fare in terms of budget allocations and how these allocations might be influenced by any new policy initiatives. This would include aggregate estimates for current outlays and investment by sector or ministry. It also would include information on the different elements of expenditure on a functional and economic classification basis (including estimates of spending on personal emoluments, and initial estimates of any prospects for enhanced employment or staff cutbacks). For most sectors, the Pre-Budget Statement would represent an update of the estimates issued in the previous year, as well as any unanticipated changes in the role of a sector. While detailed, the Pre-Budget Statement would not match the level of detail found in the Executive's Budget Proposal.

South Africa illustrates the approach that might occur in a federal state. The South African equivalent to the Pre-Budget Statement – the Medium Term Budget Policy Statement – includes proposals for intergovernmental grants, the allocation of resources between provincial and local authorities, and tabulation of the major conditional intergovernmental grants.

Fourth, the Pre-Budget Statement should include expectations for broad categories of tax and revenue. These estimates should take account of developments to date in the budget year in terms of revenue collections and any unanticipated developments in the broader economy that would influence revenue collections.

Fifth and finally, the statement should describe and estimate the costs of any important new policy initiatives that will be undertaken in the coming budget year, highlighting how such initiatives will affect the budget over the medium term and possibly the long term.

C. When should this document be published?

As per the OECD's *Best Practices for Budget Transparency*, the Pre-Budget Statement should be published at least one month before the publication of the Executive's Budget Proposal.

D. Examples of Pre-Budget Statements that meet good practice standards on transparency

➔ **Brazil: *Projeto da Lei de Diretrizes Orcamentarias* 2011**

Presentation/rationale

www.planejamento.gov.br/secretarias/upload/Legislacao/projetos/projetoLDO2011-em.pdf

Main Report

<http://www.planejamento.gov.br/secretarias/upload/Legislacao/projetos/projetoLDO2011.pdf>

Annexes

http://www.planejamento.gov.br/link_secretaria.asp?cod=6496&cat=50&sec=8&sub=507

➔ **Kenya: *Budget Outlook Paper* 2009/10**

http://www.treasury.go.ke/index.php?option=com_docman&task=cat_view&gid=78&Itemid=54

➔ **Papua New Guinea: *Budget Strategy Paper* 2010**

http://www.treasury.gov.pg/html/national_budget/files/2009/budget_documents/Related%20Budget%20Documents/2010%20BSP.pdf

➔ **South Africa: *Medium Term Budget Policy Statements* 2009**

<http://www.treasury.gov.za/documents/mtbps/2009/default.aspx>

➔ **Uganda: *National Budget Framework Paper* 2010-2011**

<http://www.finance.go.ug/docs/National-Budget-Framework-Paper-FY2010-11-FY2014-15.pdf>

III.

Executive's Budget Proposal

A. Why is this document important?

Typically, the Executive's Budget Proposal is the most important policy document that a country issues each year, for it is through the budget that governments translate many of their key policy goals into action. If civil society is to have any prospect of being able to influence the design and implementation of policies in such areas as poverty alleviation, health, education, gender equity, or the environment, the public must have access to information on what the government is intending to spend in these areas, as well as how it intends to finance its activities.

More generally, it is critically significant that the Executive's Budget Proposal be transparent because its proposals determine:

➔ **Revenues:** How much citizens pay in taxes.

➔ **Expenditures:** How government resources are then distributed among citizens.

➔ **Debt:** How much of the cost of government is borne by current or future generations.

The government takes these decisions on behalf of all citizens. Therefore, it is essential that the government provides a full explanation of its taxation, borrowing, and spending plans before the Executive's Budget Proposal is enacted to allow for informed public debate and informed legislative discussion and approval, and so citizens know how their money is collected and spent.

B. What information should be included in this document?

This question can be answered in both general and highly specific terms. At a general level, a small number of widely accepted public finance principles serve as guidance as to what information should be disclosed in the Executive's Budget Proposal. These include:

Comprehensiveness – The Executive's Budget Proposal should show all the projected revenues and expenditures of entities that conduct government activities. This includes the activities of extra-budgetary funds and resources provided by external donors. Data on revenues and spending should be supplemented with information on public debt, government guarantees, and financial assets.

Sound classification of transactions – The classification of revenues, expenditures, the budget balance, and financing should follow recognized classification systems. This promotes accountability for the use of public funds and enhances public understanding of how the government is using public resources.

Gross versus net – All fiscal aggregates should be reported on a gross basis, so that the full value of transactions, assets, and liabilities can be seen, as well as on a net basis, so that any deductions or offsets are also in the public domain. For example, public debt should be reported in gross terms, and not simply net of financial assets. All the “own revenues” earned by each government agency, such as fees and charges, should be disclosed in the Executive's Budget Proposal, as well as total spending by agency.

In terms of specific information, the Executive's Budget Proposal presented to a legislature contains a request for legal authority to tax and spend public moneys in the coming budget year. This request is made through an Appropriations or Budget Bill. The form of this bill varies from country to country, as does the level of appropriation (that is, the legal “point of appropriation” at which the legislature controls spending by the executive). The level at which the legislature controls spending is a basic choice for each country to make, involving a trade-off between the need for legislative oversight and control, and the need for the executive to have sufficient flexibility to implement the budget as circumstances change during the budget year.

It is common practice for the detailed appropriations to be accompanied by documents that provide the rationale for and explanation of the budget, as well as detailed supporting technical information.

Regardless of whether they are contained in separate sections of a single document, or in a number of separate documents, the Executive's Budget Proposal should include the following (not necessarily in this order):

- ➔ budget speech, in which the responsible minister (typically the Finance Minister) sets out the rationale for, and explains, the government's fiscal strategy, the budget, and the new initiatives being introduced;
- ➔ Budget Summary, a relatively short technical explanation of the main points in the proposal;
- ➔ Budget Bill, in which expenditures are presented for specific authorization by the legislature, according to the format required in public finance law in each country;
- ➔ Description of recent economic developments in the domestic and international economies, and a summary of the forecasts of macroeconomic variables that influence the government's finances;
- ➔ Discussion of the government's medium-term fiscal strategy and forecasts, and an assessment of the sustainability of current policies;
- ➔ detailed explanations of the government's forecast revenues, by main revenue type, describing any new revenue measures being introduced, the contribution they are expected to make to policy objectives, and their individual estimated fiscal impacts. Information on tax expenditures also should be presented. In some countries, revenue measures are considered in a separate Revenue Bill;
- ➔ detailed explanations of government expenditures, by administrative unit, economic classification, and functional classification. New measures being introduced should be described. For capital (or development) spending, a table should show at least basic information on each individual project (project name, responsible institution, location, total approved project cost, total expenditure to date, and source and type of financing) to facilitate *ex ante* discussion and *ex post* monitoring by the legislature and civil society. Good practice is to include nonfinancial and financial performance indicators, a discussion of priority spending programs — such as those focused on poverty alleviation — and an indication of what the government is doing to improve the delivery of public services;
- ➔ an explanation of how the Executive's Budget Proposal will be financed, with details of domestic and external financing of the deficit;
- ➔ detailed information on the level and composition of public debt, debt servicing, and how the debt is being managed;
- ➔ information on the financial assets being held by government, by entity and category; and
- ➔ supporting documents that provide details of fiscal activities that do not require annual appropriations (such as social security funds, road funds, autonomous agencies), including details of any earmarking of revenues.

- ➔ An overview of the financial position (i.e., assets and liabilities) and financial performance (i.e., profit and loss) of the State-Owned Corporations sector.

All budget year tables should show the totals for the budget year, plus corresponding information for the two years prior to the budget. It should be clearly indicated whether the prior year's data is final, provisional, or estimated. This comparative data provides an indication of the relationship between the original budget and the final budget outturn in recent years, thus providing some indication of the credibility and priorities of the budget proposal. Where there have been changes to budget classifications – e.g., restructuring of government ministries, changes to expenditure or revenue classifications, or changes to applicable accounting standards – the effect of these should be explained.

Reporting on the government's relationship with state enterprises and state-owned financial institutions raises a number of complex issues, and the relationship is often not transparent. However, the costs that state corporations can impose on government budgets – as illustrated by the current international financial crisis – can be massive. So all financial flows between the government and state-owned corporations should be included in the Executive's Budget Proposal, including taxes and dividends paid by state-owned corporations; any government subsidies paid to state-owned corporations; and any loans or guarantees made by government to state-owned corporations, as well as any capital injections.

In addition, “quasi-fiscal activities” should be reported. Examples include charging less than commercial prices for specific goods or services or to specific consumers (e.g., petrol or heating gas sold at below market prices, or subsidized lending to small businesses). Quasi-fiscal activities represent hidden taxes and transfers that should be publicly disclosed and debated alongside regular fiscal activities. From a transparency perspective, when disclosing information on quasi-fiscal activities, the government should:

- ➔ in cases in which most state-owned corporations are purely commercial, report in its annual budget documents any significant quasi-fiscal activities by those corporations that conduct noncommercial activities;
- ➔ present an overview of the finances of state corporations; and
- ➔ report the balance of the consolidated public sector, in addition to the budget balance of the central government sector, as a supplementary indicator of its fiscal activities.

All of these approaches to quasi-fiscal activities are advocated by the IMF's *Code of Good Practices on Fiscal Transparency*.

Recently, some developing country governments have begun providing supplementary information in the Executive's Budget Proposal on fiscal risks more generally – as called for by international standards. Risks disclosed and discussed include the sensitivity of the budget to variations in macroeconomic assumptions (including assumptions about natural resource prices), risks in public debt management,

risks from contingent liabilities (guarantees, indemnities, legal action against the government), and risks from subnational governments and state-owned corporations. Fiscal risk statements have been included in the Executive's Budget Proposal in Brazil, Chile, Colombia, Indonesia, and Pakistan.

It is important to recognize that, while there is a large common element of information that should be contained in the Executive's Budget Proposal in all countries, there will also be particular information needs that reflect specific country circumstances. For instance:

- ➔ In federal countries, and in countries in which subnational governments play a large role in delivering public services, it is important that the central government's budget presents an overview of the *general* government's fiscal position, i.e., the combination of central government and subnational governments. Details of transfers to subnational governments should be shown.
- ➔ In countries dependent on natural resources, a range of additional information should be disclosed on the government's policy on resource exploitation and fiscal sustainability, and on resource revenue receipts, including the operation of any natural resource funds (see the text box, below).
- ➔ In countries dependent on development assistance, the Executive's Budget Proposal should present information by donor on assistance received, both financial and in-kind assistance, and by project and program. The budget balance net of development assistance should be presented as an indicator of budget sustainability.

Budget Transparency in States Dependent on Natural Resources

The IMF's *Guide on Resource Revenue Transparency* sets out a Summary of Good Fiscal Transparency Practices for Resource Revenue Management. It is intended to apply to countries that are dependent on natural resources. With respect to the Executive's Budget Proposal, the Summary stipulates that:

- ➔ The budget framework should incorporate a clear policy statement on the rate of exploitation of natural resources and the management of resource revenues, referring to the government's overall fiscal and economic objectives, including long-term fiscal sustainability.
- ➔ Mechanisms for coordinating the operations of any funds established for resource revenue management with other fiscal activities should be clearly specified.

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- ➔ The investment policies for assets accumulated through resource revenue savings should be clearly stated.
- ➔ All resource revenue-related transactions, including those through resource funds, should be clearly identified, described, and reported.
- ➔ Reports on government receipts of company resource revenue payments should be available.
- ➔ The (primary) fiscal balance not related to natural resources should be presented as an indicator of the macroeconomic impact and sustainability of fiscal policy, in addition to the overall balance and other relevant fiscal indicators.
- ➔ Arrangements whereby international or national resource companies undertake social or environmental expenditures or provide subsidies to producers or consumers without explicit budget support should be clearly defined and described.
- ➔ Risks associated with resource revenue, particularly price risks and contingent liabilities, should be explicitly considered, and measures taken to address them should be explained and their performance should be monitored.

The information requirements discussed in this chapter are implicit in the design of the IBP's Open Budget Survey. They are also consistent with international transparency standards issued over the last decade by international financial institutions. Of these, the most relevant to expectations for developing countries are the IMF's *Fiscal Transparency Code* and its related *Guide on Resource Revenue Transparency*, and the *Public Expenditure and Financial Accountability (PEFA) Performance Measurement Framework* developed by the World Bank and some bilateral donors. These standards and associated guidance materials provide a useful codification of what information governments at all levels of development can realistically be expected to disclose in their annual budget reports.

C. When should this document be published?

As per the OECD's *Best Practices for Budget Transparency*, the Executive's Budget Proposal should be published at least three months before the start of the budget year.

D. Examples of Executive's Budget Proposals that meet good practice standards on transparency

- ➔ **Brazil: *Projeto da Lei Orcamentaria Annual*** 2011
<http://www.planejamento.gov.br/secretaria.asp?cat=50&sub=507&sec=8>
- ➔ **Chile: *Proyecto Ley de Presupuesto*** 2010
<http://www.dipres.cl/574/propertyvalue-15168.html>
- ➔ **South Africa: *Estimates of National Expenditure*** 2009
<http://www.treasury.gov.za/documents/national%20budget/2009/ene/default.aspx>
- ➔ **South Africa *Estimates of National Revenue*** 2009
<http://www.treasury.gov.za/documents/national%20budget/2009/enr/enr.pdf>
- ➔ **Spain: *Proyecto del Presupuesto General de Estado*** 2009
<http://www.sgpg.pap.meh.es/Presup/PGE2009Proyecto/MaestroDocumentos/PGE-ROM/Cuerpo.htm>
- ➔ **United Kingdom: *Budget 2010: Securing the Recovery*** 2010
<http://webarhive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/budget2010.htm>

IV. Citizens Budget

A. Why is this document important?

The annual budget is typically the key instrument by which a government translates its policies into action. The annual budget, however, is normally long and complex and accompanied by a number of detailed supporting documents. Thus, even for technical experts, understanding the budget is a difficult and time-consuming task. Therefore, it is essential that governments be proactive in helping the general public to make sense of the budget. Budgets should not only be available to the public they should also be *accessible* to the public.

Currently, most governments fall significantly short when it comes to making their budgets accessible to the public. A Citizens Budget can help improve this situation.

A Citizens Budget is a nontechnical presentation that “can take many forms, but its distinguishing feature is that it is designed to reach and be understood by as large a segment of the population as possible” (Shields and Petrie, forthcoming). A Citizens Budget is in some senses a simplified summary of the budget designed to facilitate discussion. Although the IBP distinguishes between a summary that may be part of a budget document and a Citizens Budget, the latter is what is needed because of the Citizens Budget’s nontechnical nature and accessibility to a wide audience.

While Citizens Budgets have been produced by civil society groups themselves, it is essential that governments issue such reports. Governments have the capacity to produce such reports on a sustained basis, and government production of a Citizens Budget also serves to institutionalize the government’s commitment to presenting its policies in a manner that is understandable and accessible to the public.

Until very recently, there were no international standards calling for governments to produce a citizens guide to the budget. Since 2006 the IBP’s Open Budget Survey has included a question on whether the government publishes a summary of the budget, and whether it publishes a Citizens Budget. In a 2007 revision to the IMF’s *Fiscal Transparency Code*, a provision was included calling for publication of a clear and simple summary guide to the annual budget; this step by the IMF underscores the growing consensus on the importance of Citizens Budgets.

B. What information should be included in this document?

The Open Budget Survey identifies two types of Citizens Budgets: a simplified version of the Executive’s Budget Proposal, and a simplified version of the Enacted Budget after the legislature has considered the budget and voted on it. In practice, existing Citizens Budgets are almost always confined to guides to the budget proposal, rather than to the enacted budget. Over time, not only might guides to both be appropriate but it would also be helpful to provide guides for all the main budget reports. That is, all eight key budget documents would have accompanying citizens guides.

Existing Citizens Budgets vary widely in focus, content, and length. Rather than explaining the budget proposal, in the United States the focus is on explaining the end-of-year Financial Statements. Some guides, such as the South African People’s Guide are very short (two pages), while others, such as the Estonia Guide, are very long (100 pages). Some Citizens Budgets are explicitly used to encourage active public participation in discussion of budget issues. In Ghana, for instance, the 2006 Citizens Guide to the Budget contained a foreword by the Minister of Finance encouraging Ghanaians to develop a culture of participation in public policy formulation, and specifically to contribute ideas to the preparation of the annual budget.

Shields and Petrie put forward the following general criteria for a government’s Citizens Budget.

- ➔ It should be an objective and technical document, not a political tract.
- ➔ It should be written with the needs of the general public in mind, using everyday language, and it should be linked to more detailed explanations to provide a simple access point to those who want to know more.
- ➔ Full use should be made of simple and effective tables, charts, and diagrams, such as a “Budget at a Glance” table showing revenue, spending, the budget balance, and public debt for the budget year and the previous two years, and their percentages of GDP; the distribution (and change in distribution) of spending by function, ministry, major program, or economic type; revenues by source; the division of spending across levels of government; and per capita spending on the main social programs.
- ➔ It should be a self-contained document, so that readers do not need to know the contents of other documents in order to make sense of it.
- ➔ It should focus on the objectives and contents of the budget — not its process.
- ➔ It should meet a range of quality standards, including comprehensiveness, objectivity, relevance, reliability, ease of understanding, and timeliness.

- ➔ It should be disseminated at the same time that the government presents the annual budget to the legislature, so that the public is engaged in the discussion in time to have an impact on the legislature's deliberations on the budget.
- ➔ It should be actively and widely disseminated using a variety of media. In some countries this will require production of the guide in more than one language.

Two contrasting but good examples of Citizens Budgets are those produced by Ghana and South Africa. In Ghana, the Ministry of Finance and Economic Planning published its first Citizens Budget in 2006. As noted, the guide contained a foreword by the Minister of Finance encouraging Ghanaians to contribute to the preparation of the annual budget. The guide started by explaining its purpose, and then summarized the 2007 Budget Statement and Economic Policy. Separate sections covered the economic outlook, revenue, the focus of the 2007 budget, expenditures, poverty reduction initiatives and progress toward the Millennium Development Goals, and policy initiatives. There also were sections on the budget cycle and the preparation of the budget.

In South Africa the National Treasury issues a two-page People's Guide to the National Budget. The guide briefly summarizes recent and projected economic performance, presents medium-term fiscal aggregates, and describes priority areas for additional spending. A Budget Highlights box identifies key tax and spending initiatives. The 2007 People's Guide included helpful pie charts showing the source of tax revenues and the allocation of government spending.

As to the content of a Citizens Budget, which topics are emphasized and the level of detail are obviously determined to a large extent by what is in the budget itself. Beyond that, the guide should reflect country circumstances and capacity, including the general levels of understanding of government budgeting in the country, the coverage of these issues by the media, and the number of languages spoken.

Shields and Petrie have put forward a standard general set of contents that most Citizens Budgets should contain. This is reproduced in the text box, next page.

Depending on country circumstances and capacity, it will often be desirable to include in a Citizens Budget data on transfers and fiscal relations with subnational governments, especially in federal states or in countries where subnational governments play a significant role in service delivery. The general public may be particularly interested to see how much is transferred to each province and local administration, what formulae are used to determine the allocation of revenue or grants between subnational governments, and spending per capita. There also might be general public interest in detailed information on public investment projects by locality. In states that are dependent on revenues generated by natural resource exploitation, a range of additional information should be presented, including the sustainability of the current rate of resource extraction, the resource price and volume assumptions on which the budget is based, and the relationship between the budget and any natural resource funds.

Suggested Outline of a Citizens Budget

Part One: Introduction. The government's objectives in publishing the guide; the place of the annual budget in public finance legislation; a very brief description of the institutional coverage of the budget, and of the budget process.

Part Two: The Economic Outlook and Government Objectives. Macroeconomic forecasts and the main macroeconomic assumptions underlying the budget; the sensitivity of the fiscal aggregates to variations in key economic assumptions; the government's national development strategy; and medium term fiscal policy objectives.

Part Three: The Government's Accounts and Budget Prospects. Aggregate revenues, expenditures, and the fiscal balance over a medium term horizon, including the broad allocation of spending and sources of revenue, and comparative figures for the previous year; public debt, fiscal risks, and the sustainability of current policies and trends.

Part Four: New Measures. Summary of the main budget initiatives; estimates of their fiscal effect and impacts on key policy groups, such as the poor, females, and those in disadvantaged regions; contribution to meeting the government's stated policy objectives.

Part Five: Improving Delivery of Services. A brief indication of what the government is doing to improve service delivery and tax administration, including an outline of any strategies to improve the efficiency and/or effectiveness of government activities and any evidence of results such as change in non-financial performance indicators.

Source: Shields, Jon and Murray Petrie, forthcoming.

C. When should this document be published?

The document should be published at the same time as its corresponding budget report. For example, if the Citizens Budget pertains to the Executive's Budget Proposal, then it should be published at the same time as the Executive's Budget Proposal (i.e., at least three months before the start of the budget year).

D. Examples of Citizens Budgets that meet good practice standards on transparency

➔ **Brazil: *Orcamento Federal ao Alcance de Todos* 2011**

http://www.planejamento.gov.br/secretarias/upload/Arquivos/noticias/sof/100901_orc_fed_alcance_todos.pdf

➔ **El Salvador: *Guia del Presupuesto* 2010**

http://www.mh.gob.sv/portal/page/portal/MH_Finanzas/MH_PRESUPUESTO/Guia_del_Ciudadano/Gu%EDa%20del%20Presupuesto%202010.pdf

➔ **Ghana: *A Citizen's Guide to the Budget***

http://www.mofep.gov.gh/report_main.cfm

➔ **New Zealand: *Budget Executive Summary, Key Facts for Taxpayers, and Tax Ready-Reckoner***

<http://www.treasury.govt.nz/budget/2009/execsumm>
www.treasury.govt.nz/budget2009/taxpayers/
www.treasury.govt.nz/government/revenue/estimatesrevenueeffects

➔ **Rwanda: *A Guide to the Public Budget* 2009-2010**

<http://www.minecofin.gov.rw/docs/budget/Guide-English.pdf>

➔ **South Africa: *People's Guide to the National Budget***

<http://www.treasury.gov.za/documents/national%20budget/2009/guides/Peoples%20Guide%20to%20the%20Budget%20-%20English.pdf>

➔ **South Korea: *Budget Overview***

http://www.mpb.go.kr/eng/mpb_data/national_budget/viewjsp?board_no=7&localPage=1&menuFlag=E330

➔ **Tanzania: *Is Central Government Managing Money Well? Findings from Recent Audit Reports* 2008**

http://www.hakielimu.org/hakielimu/documents/document158leaflet_2_is_central_gov_managing_money_well_en.pdf

(Note: This is an example of a Citizens Guide to the Audit Report and not the Executive's Budget Proposal, and it is published by a local civil society organization in Tanzania, HakiElimu, and not the Tanzanian Supreme Audit Institution.)

➔ **United States: *A Citizen's Guide to the 2008 Financial Report of the United States Government***

www.fms.treas.gov/frsummary/index.html

(Note: This is an example of a Citizens Guide to the Year End Report and not the Executive's Budget Proposal.)

V. Enacted Budget

A. Why is this document important?

A government report on the Enacted Budget is an essential element in a transparent process of providing budget information to the public.

- ➔ The Enacted Budget is the law of the land and for this reason alone needs to be public.
- ➔ The Enacted Budget provides the baseline information for any analyses conducted during the budget year. In other words, it is the starting point for monitoring the execution phase of the budget.
- ➔ The Enacted Budget grows in importance when it differs significantly from the budget proposal (this is one reason that the Executive's Budget Proposal cannot be used as a proxy for the Enacted Budget). The Enacted Budget allows one to compare what was proposed by the executive to what the legislature enacted into law.

B. What information should be included in this document?

Budgets contain inherently difficult choices: there are always too many demands for too few resources. Thus it is critical that the Enacted Budget report contains enough detail for society in general – and especially for those parties most impacted by the budget – to determine the significance of the final decisions. As the IMF's *Code of Good Practices on Fiscal Transparency* recommends for the proposed budget, the Enacted Budget should provide the public with comprehensive information on past, current, and projected fiscal activity and on major fiscal risks. The Enacted Budget should include:

- ➔ A listing and brief commentary on each major revenue and expenditure program. Fiscal data should be reported on a gross basis, distinguishing revenue, expenditure, and financing, with expenditure classified by economic, functional, and administrative categories.

- ➔ Nonfinancial performance data, including performance targets, for expenditure programs.
- ➔ A presentation that reconciles and explains all significant deviations between the Executive's Budget Proposal and the Enacted Budget.
- ➔ The overall balance and gross debt of the general government, or their accrual equivalents, which should be provided as a set of standard summary indicators of the government's fiscal position. This information could be supplemented by other fiscal indicators, such as the primary balance, the public sector balance, and net debt.
- ➔ Depending on the amount of time between when the budget was first proposed and when it was finally enacted, an updated economic and fiscal forecast for the current year and the budget year.
- ➔ A brief discussion of the impact of the Enacted Budget on the government's financial assets and liabilities, nonfinancial assets, employee pension obligations, and contingent liabilities.

C. When should this document be published?

As per the IBP's *Guide to the Open Budget Questionnaire*, the Enacted Budget should be published as soon as it is approved by the legislature and no later than three months after approval.

D. Examples of Enacted Budgets that meet good practice standards on transparency

- ➔ **Argentina: Ley de Presupuesto** 2010

<http://www.mecon.gov.ar/onp/html/presutexto/ley2010/ley/ley2010.pdf>

Annexes

<http://www.mecon.gov.ar/onp/html/presutexto/ley2010/leydosdiez.html#>

- ➔ **Bolivia: Presupuesto Nacional del Estado** 2010

<http://www.economiayfinanzas.gob.bo/biblioteca/MH/documentos/PGE2010.htm>

➔ **Spain: *Presupuestos Generales del Estado* 2009**

<http://www.spgg.pap.meh.es/Presup/PGE2009Ley/MaestroDocumentos/PGE-ROM/Cuerpo.htm> and <http://www.spgg.pap.meh.es/Presup/PGE2009Ley/MaestroTomos/PGE-ROM/Cuerpo.htm>

➔ **Mozambique: *Orçamento do Estado para o Ano Económico de 2010***

<http://www.dno.gov.mz/oe10.html>

➔ **Philippines: *General Appropriation Act* 2010**

<http://www.dbm.gov.ph/index.php?pid=8&xid=28&id=1289>

VI. In-Year Reports

A. Why are these documents important?

In-Year Reports provide a snapshot of the budget's implementation during the budget year. In-Year Reports are relatively brief, periodic (usually monthly) reports that list – but do not really attempt to assess – the major components of the budget. These features distinguish In-Year Reports from the Mid-Year Review (discussed in the next chapter), which is a comprehensive effort to provide an assessment of the government's fiscal performance midway through the fiscal year against the strategy established in the original budget. The objectives of In-Year Reports are to provide a periodic measure of the trends in revenues and expenditure totals to date with, ideally, some explanation of any significant deviations from expectations.

In-Year Reports provide an important contribution to budget transparency as they require the government to develop the systems and staff expertise necessary to track aggregate budget spending and revenue trends. This ability to track trends in spending and revenues can provide regular information to policy makers, the press, and the public, if budget plans are going astray. Similarly, the need to develop and operate dependable systems and train staff to provide the data contained in In-Year Reports can promote the availability and accuracy of this data not just for the In-Year Reports but for all budget reports.

In-Year Reports can support the information in the Mid-Year Review to help determine whether the initial strategy in the budget is in need of any adjustment or fine-tuning if, for instance, government is overspending or underspending. This is not to argue in favor of regular adjustments or supplemental budgets. Quite the contrary, regular unplanned-for supplemental appropriations to the budget diminish one of the most important functions of the basic budget – to provide a detailed, comprehensive listing of all policy proposals to facilitate the necessary trade-offs between different policy options. But when adjustments are truly needed, and they are occasionally in all countries, In-Year Reports can help provide the data to determine the timing and amount of the required adjustments.

B. What information should be included in these documents?

In-Year Reports can be published on a monthly or quarterly basis, although best practice requires that these documents be published with information on the overall aggregated budget on a monthly basis.

In 2002 the OECD published *Best Practices for Budget Transparency* as a reference tool to increase the degree of budget transparency in member countries. These Practices are also relevant for non-OECD countries. With respect to In-Year Reports, the OECD *Practices* state:

- ➔ In-Year Reports should show progress in implementing the budget.
- ➔ They should contain the amount of revenue and expenditure in each month and year-to-date. A comparison should be made with the forecast amounts of monthly revenue and expenditures for the same period. Any in-year adjustments to the original forecast should be shown separately.
- ➔ A brief commentary should accompany the numerical data. If a significant divergence between actual and forecast amounts occurs, an explanation should be made.
- ➔ Expenditures should be classified by major administrative units (e.g., ministries, departments, and agencies). Supplementary information classifying expenditures by economic and functional categories should also be presented.
- ➔ The reports, or related documents, also should contain information on the government's borrowing activity.

The OECD *Practices* are consistent with the IMF's 2007 *Code of Good Practices on Fiscal Transparency*, which state, in part [emphasis in italics added]:

- ➔ There should be clear procedures for budget execution, monitoring, and reporting.
- ➔ The accounting system should provide a reliable basis for tracking revenues, commitments, payments, arrears, liabilities, and assets.
- ➔ A timely mid-year report on budget developments should be presented to the legislature. *More frequent updates, which should be at least quarterly, should be published.*
- ➔ Supplementary revenue and expenditure proposals during the fiscal year should be presented to the legislature in a manner consistent with the original budget presentation.

As to the appropriate level of detail, to ensure that administrative units are held accountable for their expenditures, In-Year Reports should show actual expenditures by administrative unit. In some countries, some administrative units issue In-Year Reports individually, while in other countries the information is consolidated into a single In-Year Report, which is typically issued by the Treasury. The latter approach is preferable, because it facilitates comparisons and provides a fuller picture. But the most important purpose of any In-Year Report is to disclose expenditures to the public. If all administrative units were not able to report actual expenditure in a timely manner, the value of the In-Year Report would be limited.

C. When should these documents be published?

As per the OECD's *Best Practices for Budget Transparency*, the In-Year Reports should be published within at least one month of the end of the period they cover (for example, the monthly report for the month of June should be published before the end of July).

D. Examples of In-Year Reports that meet good practice standards on transparency

➔ **Afghanistan: *Monthly Fiscal Bulletin* 2010**

http://www.budgetmof.gov.af/Eco_Fiscal_info/Regular_Reports/MEB/MEB_Period_4_FY%201389_15-08-2010.pdf

General link to Regular Reports

http://www.budgetmof.gov.af/Eco_Fiscal_info/Regular_Reports/Regular_Reports.html

➔ **Egypt: *The Financial Monthly* 2010**

<http://www.mof.gov.eg/English/publications/Reports%20and%20Indicators/Pages/TheFinancialMonthly-August2010.aspx>

➔ **Lebanon: *The Monthly Statistical Bulletin of the Ministry of Finance* 2010**

<http://www.finance.gov.lb/NR/rdonlyres/EDD0A1EF-20FC-460C-AEAC-C6433A97A181/0/PFMMay2010.pdf>

➔ **Mexico: *Informes sobre la situación económica, las finanzas públicas y la deuda pública* 2010**

<http://www.shcp.gob.mx/POLITICAFINANCIERA/FINANZASPUBLICAS/ITSSEFPDP/2010/Segundo%20Trimestre%20de%202010/Informe%20o%20Trimestre%20de%202010.pdf>

➔ **Información de Finanzas públicas y deuda pública: enero-julio 2010**

http://www.shcp.gob.mx/POLITICAFINANCIERA/FINANZASPUBLICAS/finanzas_publicas_info_mensual/2010/finanzas_deuda_congreso_jul10.pdf

➔ **South Africa: Statement of the national revenue, expenditure and borrowing 2010**

http://www.treasury.gov.za/comm_media/press/monthly/1009/press.pdf

VII.

Mid-Year Review

A. Why is this document important?

The Mid-Year Review is an analysis of the budget's effects provided about halfway through the budget year. In some countries, it is legally required to be released no later than within six months of the beginning of the budget year. In other countries, it may take place somewhat later, around the seventh month of the budget year, reflecting the normal lags in availability of data on budget performance.

The Mid-Year Review represents an opportunity to comprehensively assess a government's fiscal performance against the strategy established in the Enacted Budget, the importance of which countries like Sri Lanka have recently recognized (see text box). Thus it should allow for an assessment of whether the budget is adequately coping with current macroeconomic developments, including changes in the prices of natural resources, the state of implementation of the different elements of the budget, and revenue collections in the context of expected seasonal patterns. The Mid-Year Review can also indicate whether the budget needs adjustments or corrective measures in the allocation of resources between ministries or in the level of spending overall or for a given sector. For countries with a performance-based budget system, it is also an opportunity to take stock of the progress in realizing specific output targets in public programs.

Budget Legislation in Sri Lanka Recognizes Importance of Mid-Year Review

In Sri Lanka the government is required by its Fiscal Management (Responsibility) Act of 2003 to present a Mid-Year Fiscal Position Report in order to enable an evaluation of the same against the government's fiscal strategy. The report is required to be placed in parliament within two weeks from its date of release. It reviews the performance of government revenue, expenditures, cash-flow operations, and borrowings for the first four months of the relevant year. The report also provides updated information, depending on data availability, relating to macroeconomic performance, price developments, foreign aid, government debt, balance of payments, and credit.

Countries differ in the approaches they take to carrying out a Mid-Year Review; the different approaches, in turn, influence the role Mid-Year Reviews play in the budget process. In some countries, such as Australia, the presentation of the Mid-Year Review is mandated by law (in Australia's case, *The Charter of Budget Honesty*) and is provided to the parliament and the public, though it may not formally be the subject of parliamentary discussion and is not presented for approval by the parliament. Malawi is another example of a country where a Mid-Year Review is presented to the parliament for informational purposes.

Some countries, notably South Africa, combine the Mid-Year Review with the Pre-Budget Report in the form of a Medium-Term Budget Policy Statement. This statement takes medium-term stock of performance during the current budget year, reflects on the adequacy of current fiscal policies in the context of economic developments, indicates the need for any reallocations or corrective measures within the current budget year, and provides the perspective required for the consideration of budget priorities and fiscal strategy for the next fiscal year. Although delaying the Pre-Budget Statement squeezes the time available for the budget formulation process, in the South African case the timing is motivated by the need to incorporate work of the provinces in the Medium-Term Budget Policy Statement.

In other countries, the Mid-Year Review is not submitted to the legislature or provided publicly, thereby limiting its influence. It reflects an internal review by the technical staff of the Finance Ministry, which may be discussed by the cabinet but is not submitted to the legislature for information or provided to the public.

The Mid-Year Review serves a useful purpose but its importance should be viewed in context. Mid-Year Reviews help assess what is on or off track in terms of programs underspending or overspending relative to the Enacted Budget. This allows for a decision to be made as to whether the initial strategy in the budget is in need of any significant adjustments. Thus the internal Mid-Year Review often primarily serves to judge whether a supplementary budget is needed to cover items that require additional spending authorization. (In countries with a well-established practice of *virements* — in which surplus funds for a given line item within a ministry's budget allocation can be transferred to another line item — budgetary fine-tuning may be taking place during the course of the year even in the absence of supplementary budgets and before Mid-Year Reviews are issued.)

B. What information should be included in this document?

In its statement on *Best Practices for Budget Transparency*, the OECD notes that the Mid-Year Review should provide a “comprehensive update on the implementation of the budget, including an updated forecast of the budget outcome for the *current* fiscal year and, at least, the following two fiscal years.” The OECD also suggests that the “economic assumptions underlying the budget should be reviewed

and the impact of any changes on the budget disclosed;” the “mid-year review should contain a comprehensive discussion of the government's financial assets and liabilities, non-financial assets, employee pension obligations and contingent liabilities;” and “the impact of any other government decisions, or other circumstances, that may have a material effect on the budget should be disclosed.”

This summary statement highlights the importance and the extent of the material that should be provided in a Mid-Year Review. First, the Mid-Year Review allows the government to present its current perspective on the budget outlook and explain what factors might be responsible for those changes observed since the budget was enacted, such as changes in the prices of natural resources. In particular, the Mid-Year Review should indicate any revisions to the economic assumptions that underlie the original budget and make appropriate adjustments to the aggregate estimates for revenue, expenditures, and public borrowing. The connection between these assumptions and revenue levels is self-evident, but certain expenditures, such as unemployment-related outlays, also are highly sensitive to underlying economic conditions. Any revisions should also extend to forward budget estimates that would be sensitive to changes in major economic parameters.

Second, the Mid-Year Review should assess whether the aggregate fiscal strategy continues to be appropriate in the context of the current economic environment, and whether there might be scope to adjust the fiscal policy stance in light of prevailing economic conditions. Thus the Mid-Year Review provides another opportunity for the government to clarify its perspective on domestic and international economic conditions and the impact that these might have on the budget.

Third, the Mid-Year Review should indicate the state of implementation at mid-year (ideally with six months of data on the outturn) of the different elements of the budget, both by ministry or department and by such nonministerial line items as debt service, social insurance transfers, and fiscal-federal grants or loans. This would include specifics on current outlays and investment by sector and information on the different elements of expenditure on a functional and economic classification basis. On the revenue side, it would include mid-year estimates of revenue collections by specific tax and revenue items. Ideally, the discussion in the accompanying text would explain the factors underlying deviations in the mid-year outturn relative to the original budget estimates — in particular, the degree to which these changes are due to policy, problems in implementation, or changes in underlying economic conditions.

Fourth, the Mid-Year Review should provide detail on policy decisions taken since the presentation of the budget that have affected revenues, operating expenditures, and capital budget estimates, with estimates on the magnitude of the impact. For many countries, this might include a discussion of whether there is a need for a supplementary budget, and the specific elements that it would include. In other countries, such as the United States, where budgetary decisions essentially reflect the response of the Congress to the President's Budget, the Mid-Session review provides an analysis of the pace of budgetary spending and revenue outturns, the state of play in terms of budget authorizations, and the budget balance (surplus or deficit) at the midpoint of the budget year. It also reports on any new budget initiatives of the president since the issuance of the original budget (but with no expectation of a formal supplementary budget).

Finally, some countries, such as Australia, use the Mid-Year Review to highlight specific policy developments. For example, in 2007-08 Australia's Mid-Year Review examined the state of personal income tax reform, including data on tax expenditures. In 2008-09 it discussed the government's fiscal policy response to the global economic downturn.

C. When should this document be published?

As per the OECD's *Best Practices for Budget Transparency*, the Mid-Year Review should be published within at least six weeks of the end of the period it covers (for example, if the midpoint of the budget year falls in June, the Mid-Year Review should be published before 15 August).

As per the IMF's *Manual on Fiscal Transparency*, the Mid-Year Review should be published within at least three months of the end of the period it covers.

D. Examples of Mid-Year Reviews that meet good practice standards on transparency

- ➔ **Australia: *Mid Year Economic and Fiscal Outlook* 2009-2010**
http://www.budget.gov.au/2009-10/content/myefo/download/MYEFO_2009-10.pdf

- ➔ **Chile: *Evaluación de la gestión financiera en 2009 y actualización de proyecciones para 2010***
http://www.dipres.cl/572/articles-50148_Ev_Proyecciones_2010.pdf

- ➔ **Ghana: *Mid Year Review of the Budget Statement and Economic Policy and Supplementary Estimates* 2009**
http://www.mofep.gov.gh/documents/2009_supplementary_budget.pdf

- ➔ **South Africa: *Medium Term Budget Policy Statement* 2009**
<http://www.treasury.gov.za/documents/mtbps/2009/mtbps/National%20Treasury%20Medium%20Term%20Budget%20Policy.pdf>

- ➔ **Sri Lanka: *Mid-Year Fiscal Position Report* 2009**
<http://www.treasury.gov.lk/FPPFM/fpd/pdfdocs/midyearreport/2009/midyearreport2009.pdf>

- ➔ **United States: *Mid-Session Review, Budget of the U.S. Government* 2010**
<http://www.gpoaccess.gov/usbudget/fy10/pdf/10msr.pdf>

VIII.

Year-End Report

A. Why is this document important?

A Year-End Report presents the government's discussion of the performance of the budget as executed relative to its original budget and any supplementary budget that may have been issued during the course of the year. It covers what was actually spent and collected relative to what was budgeted. In a few countries, the report may also include a discussion of how the government performed in terms of the physical output targets set in the original budget.

A Year-End Report may be comprehensive, describing the financial performance of the entire central government and individual ministries. But often, individual ministries may issue their own, more detailed report, discussing the performance of the ministry and its departments during the previous fiscal year, again with reference to the Enacted Budget. This, for example, is the practice of Slovenia and New Zealand. In the case of the latter, where performance targets are established each year for ministerial output the chief executive of a ministry is legally required, in an explicit statement of responsibility, to acknowledge his or her responsibility for the financial and nonfinancial information provided in its reports.

It is important to distinguish the Year-End Report from the final audited accounts of the government. The latter represent a detailed statement of the government's actual spending and revenue collection by budget category (highlighting both excesses and underspending), as well as an assessment by the Auditor General of cases in which government officials may have violated specific budgetary or procurement rules. The Year-End Report should provide a far more substantive characterization of whether the government and its individual ministries succeeded in terms of realizing the government's policy objectives. Another important distinction is that the Year-End Report is prepared by the relevant ministry or the Treasury, while the Audit Report is prepared by an external agency that is typically independent of the executive branch.

The Year-End Report provides an important opportunity for a government to take stock of its previous year's performance, both in macroeconomic terms and for specific sectoral programs. Thus it can serve the dual role of heightening the awareness of sectoral ministries as to what policies and programs need to be strengthened and to begin to provide ideas as to future directions for policy.

B. What information should be included in this document?

The core of a Year-End Report should include:

- 1) aggregate spending and revenues, the overall budget balance, and its financing. This presentation should accord as much as possible with both the government's normal format for budget aggregates but also should include a presentation that is close to that suggested by the IMF's *Government Financial Statistics Manual*;
- 2) a statement of the government's overall balance sheet position, including both assets and liabilities (namely, the level of public debt);
- 3) a presentation of the budget outcome on an economic and functional classification basis for expenditures and a listing of revenue by different revenue items; and
- 4) a summary presentation of government spending by sector and ministry, ideally with similar data for subsectoral programs. This presentation should allow for a comparison of the budgetary outcome relative to that envisaged in the Enacted Budget, and including any supplementary budget provisions.

A Year-End Report should also include a discussion of the macroeconomic situation in the most recently completed fiscal year, contrasting the original assumptions and targets with the ultimate outcomes. Thus it should comment on the appropriateness of the policies that were pursued and draw lessons on ways in which fiscal policy performance could be strengthened in the current and coming years. The discussion also should take stock of whether the long-run sustainability of the budget was enhanced or weakened as a result of the recent year's fiscal performance.

Beyond this, ideally, the Year-End Report should include a compilation or summary of the year-end reports of the different sectoral ministries, highlighting strengths and weaknesses in the performance of the different ministries. Ministries should be expected to highlight the extent to which they met their original program targets in terms of various output indicators and any lessons that can be drawn about the ways in which policies in a sector can be improved in the future.

Note that in some countries, such as the United Kingdom, the government undertakes a more detailed evaluation of an individual ministry's spending program (a so-called "Spending Review"), including assessing what the government spent over the last few years in terms of trends, productivity, and value. The idea is to learn from the past and feed these results into the formulation of future policy.

Finally, information contained in the Year-End Report provides an opportunity to assess specific topics of policy interest.

C. When should this document be published?

As per the OECD's *Best Practices for Budget Transparency*, the Year-End Report should be published within at least six months of the end of the period it covers (for example, if the budget year ends in December, the Year-End Report should be published before 30 June of the following year).

As per the IMF's *Manual on Fiscal Transparency*, the Year-End Report should be published within at least one year of the end of the period it covers.

D. Examples of Year-End Reports that meet good practice standards on transparency

- ➔ **New Zealand: *Financial Statements of the Government of New Zealand* 2009**
<http://www.treasury.govt.nz/government/financialstatements/yearend/jun09>
- ➔ **Peru: *Cuenta General de la Republica* 2009**
http://cpn.mef.gob.pe/cpn/cgr2009/cgr2009TL_II.htm
- ➔ **South Africa: *Consolidated Financial Information* 2008**
<http://www.treasury.gov.za/publications/annual%20reports/annual%20financial%20statements/Consolidated%20fin%20info%20-%2031032008.pdf>
- ➔ **Sri Lanka: *The Final Budget Position Report* 2009**
<http://www.treasury.gov.lk/FPPFM/fpd/pdfdocs/annualreports/annualreport2009-eng.pdf>
- ➔ **Sweden: *Report of the Fiscal Policy Council* 2010**
<http://www.finanspolitiskaradet.se/download/18.778e24d112a169fd1c1800022590/Swedish+Fiscal+Policy+2010.pdf>



Audit Report

A. Why is this document important?

The Audit Report should provide the public with an independent and authoritative account of whether the government's reporting of how it raised taxes and spent public funds during the previous year is accurate. The Audit Report also indicates whether the government has complied with financial management laws and regulations during the budget year. In some countries, the Audit Report will also comment on the accuracy of information in the financial statements on assets and liabilities and may also comment on the efficiency and effectiveness of government spending.

The Audit Report, therefore, is a critical element in closing the accountability loop. Having approved a budget at the start of the year that sets out how the government intends to tax, borrow, and spend public money, the legislature and public require a credible assurance that the government's account of how it actually implemented the budget can be believed, and whether it remained at all times within the law.

It should be noted that in most countries, the mandate of the government's auditing agency (the supreme audit institution or SAI) does not extend to questioning government policies themselves but is confined to examining how the policies were implemented. Nevertheless, information in Audit Reports can be extremely useful to the legislature and civil society for questioning policies, especially where the SAI conducts performance audits (discussed below).

More generally, information in the Audit Report can be like gold to those outside the executive branch. This is because an SAI is typically endowed with considerable independence, and in principle has full access to information within government and a mandate to report directly to the legislature and the public. It is much more difficult for a government to criticize or reject a legislative, media, or civil society report as unfounded when it is based on findings from an Audit Report. Some SAIs also issue press statements, recognizing the value of the media in making their work more widely known.

SAIs enjoy greater or lesser degrees of independence, both in law and in practice. Issues of legal mandate, scope, appointment and removal from office, budget, staffing, and capacity influence the extent to which an SAI can act as a credible and robust watchdog for the public. There are international standards that cover how an SAI should operate and what it should report on. The operations of SAIs are discussed in the next section.

B. What information should be included in this document?

The information that should be in the Audit Report is very much dependent on the type of SAI concerned and its legal mandate, and on the information contained in the financial reports and statements produced by the government.

It needs to be stressed that the executive is responsible for the accuracy, completeness, form, and content of the financial statements, and for ensuring adequate internal systems are in place to reliably produce the necessary information. It is the auditor's task to assess the extent to which this is the case.

Historically, there are three main institutional models for the government's auditing agencies which influence the content of their reports (Dye and Stapenhurst, 1998):

- ➔ The Napoleonic model, in which a Cours des Comptes (Court of Accounts), a judicial body composed of magistrates, focuses on compliance auditing. In this model, which originated in France and is found in the Latin countries of Europe and some countries in Latin America and Africa, there is not as close a connection between the SAI and the legislature as in the other models.
- ➔ The Westminster model, in which an Auditor General staffed by professional audit staff reports to parliament on both attestation and compliance audits. Originating in the UK, this model has extended throughout the British Commonwealth.
- ➔ The Board model, common in Asia, in which a chair and small committee function in a manner somewhat similar to the Westminster model.

There is no one universal model of Audit Report, reflecting the different historical evolution of SAIs. There are two main types of audit:

- ➔ *The regularity audit*, in which the SAI verifies (or attests to) the accuracy and fairness of the financial statements, both of individual government entities, and of the government as a whole. The auditor checks control systems, samples transactions and balances, and expresses an opinion. The auditor also checks that no spending has breached the budget limits (appropriations) set by the legislature, or is otherwise illegal.
- ➔ *Performance auditing* (also referred to "Value for Money" auditing). Here the SAI tells the public whether they got value for their funds spent, based on analysis of the economy, efficiency, and effectiveness of government spending (the so-called "three Es"). Performance auditing started in the 1960s in industrialized countries, emerging out of public concern over the growing cost and size of government. The practice has since spread to a number of developing countries.

The Audit Report should indicate the scope and nature of the SAI's legal mandate, referring to the specific source legislation. Ideally, the mandate should empower the SAI to audit the revenues, spending, and assets and liabilities of all central government entities, both those that are funded from the annual budget and extra-budgetary and other off-budget entities. While state-owned corporations are often audited by private sector auditing firms, the SAI should nevertheless have the mandate to oversee and comment on the quality of these audits. The Audit Report should note any limitations to its legal mandate, and in its ability to implement its mandate in practice given its resourcing.

The mandate of an SAI generally requires the SAI to report audit opinions, conclusions, and recommendations. Opinions refer to findings with respect to the regularity audit. Their form will be influenced by the legal framework for the audit, but the opinion should indicate unambiguously whether it is unqualified or qualified and, if the latter, whether it is qualified in certain respects or is adverse, or it should include a disclaimer of opinion.

The audit opinion should be appended to and published with the financial statements to which it relates. The opinion should be signed and dated and should also indicate the auditing standards that the SAI adheres to in its work. Where an opinion other than an unqualified opinion is issued, the Audit Report should explain clearly the reasons for the qualification.

Where an SAI conducts performance auditing, its findings are referred to as reports (as opposed to opinions), and there is considerable flexibility in how the findings are presented, compared to regularity audit opinions.

SAIs constituted as Courts of Account also have a jurisdictional aspect to their function. They may be authorized to reconcile accounts and impose fines or other sanctions on individual officials. Their audit reports should contain an explanation of these functions.

The Audit Report should not comprise merely a long list of infractions or irregularities in individual agencies, as is the case in some countries. While noting individual irregularities is important, the Audit Report should evaluate the systems within government for managing and controlling the public finances (e.g., internal audit and internal control, payroll, IT systems). Further, it should demonstrate that the SAI focuses its resources on particular areas of risk (e.g., procurement, revenue collection, cash and debt management). Where systemic weaknesses are found – as evidenced, for example, by frequent irregularities – the Audit Report should include conclusions and recommendations on how the weaknesses should be remedied. The Audit Report should also report on actions taken by the executive with respect to irregularities detected and recommendations made in previous Audit Reports.

In all cases, the Audit Report should contain an executive summary that clearly and succinctly sets out for the legislature, the media, and the general public what key issues and findings are in the report.

C. When should this document be published?

As per the IMF's *Manual on Fiscal Transparency*, the Audit Report should be published within at least one year of the end of the period it covers (for example, if the budget year ends in December, the Audit Report should be published before 31 December of the following year).

The OECD considers it best practice to publish the Audit Report within six months after the end of the budget year.

D. Examples of Audit Reports that meet good practice standards on transparency

- ➔ **France: *Certification des Comptes de l'Etat* 2009**
<http://www.ccomptes.fr/fr/CC/documents/RCE/Rapport-certification-comptes-Etat-exercice2009.pdf>
- ➔ **India: *Compliance Audit* 2009**
<http://www.cag.gov.in/html/reports/2010.htm>
- ➔ **New Zealand: *Central Government: Results from Audits* 2008-2009**
<http://www.oag.govt.nz/central-govt/2008-09/docs/oag-central-govt.pdf/view?searchterm=Central%20Government:%20Results%20of%20the%202008-2009%20Audits>
- ➔ **Russia: *Conclusion of the Accounting Chamber of Russian Federation on the Report on Execution of the Federal Budget* 2007**
<http://www.ach.gov.ru/ru/expert/follow-up/?id=246>
- ➔ **United Kingdom: *Financial Reporting and Financial Management: General Report of the Comptroller and Auditor General* 2008**
http://www.nao.org.uk/publications/0809/general_report_for_2008.aspx

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<http://www.oecd.org/dataoecd/52/61/40140423.pdf>
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<http://www.imf.org/external/np/pp/2007/eng/051507m.pdf>
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<http://www.imf.org/external/np/fad/trans/guide.htm>
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<http://www.oecd.org/dataoecd/33/13/1905258.pdf>
- PEFA Secretariat, 2005. *Public Financial Management Performance Measurement Framework*. World Bank. Washington, D.C. June 2005.**
http://www.pefa.org/pfm_performance_frameworkmn.php
- Shields, Jon and Murray Petrie. “Producing a Citizens’ Guide to the Budget: Why, What, and How?” *OECD Journal on Budgeting*, Volume 2010/2, forthcoming.**
- Tanaka, Susan. “Engaging the Public in National Budgeting: A Non-Governmental Perspective.” *OECD Journal on Budgeting*, Vol. 7, No. 2. 2007.**
<http://www.oecd.org/dataoecd/42/4/43412013.pdf>

Annex: Summary Table on Transparency in Key Budget Reports

IMPORTANCE	KEY CONTENTS	PUBLICATION TIME FRAME
Pre-Budget Statement		
Strengthens link between policies and budget allocations	Macroeconomic forecast over the medium term	Ideally, in the fourth or fifth month of previous budget year
Identifies government's basic strategy for the medium term	Government's fiscal objectives over the medium term	Sometimes combined with midterm evaluation of the previous year (seventh month)
Improves the rationality of the budget formulation process	Broad sectoral allocations	At least one month before publication of the Executive's Budget Proposal
Calibrates expectations for the budget	Expectations for broad categories of taxes and revenues	
Allows legislators and the public to provide input on broad budget themes	Description and cost of new policy measures	

Executive's Budget Proposal

Most important economic policy instrument and expression of executive's priorities	Minister of Finance's budget speech and budget summary	At least three months before the start of the budget year
Determines tax burden on citizens	Budget bill on revenues and appropriations	
Determines the distribution of resources among different segments of the population	Macroeconomic forecast	
Determines costs/debt to be borne by future generations	Assessment of sustainability of current policies	
Key opportunity for civil society and legislators to influence policy	Forecast and explanation of revenues	
	Estimates and classification of expenditures	
	Financing of deficit	
	Composition of debt	
	Other fiscal activities (such as social security)	
	Overview of financial position	

IMPORTANCE	KEY CONTENTS	PUBLICATION TIME FRAME
Citizens Budget		
Budget is technical and difficult to understand	Objectives of the document, description of budget process, and institutional coverage of budget	At the same time as its corresponding document
Makes the budget "accessible" and not just available	Economic outlook and government policy objectives	
Facilitates wide and informed debate on fiscal priorities	Government's accounts and budget prospects	
Demonstrates the government's commitment to the public and fosters trust in government	New measures	
	Delivery of services	

Enacted Budget

Law of the land	Listing and brief commentary on major expenditures and revenues	As soon as the budget is approved by the legislature and no later than three months after it has been enacted
Provides baseline information against which actual budget results can be compared	Nonfinancial performance data	
Enables an assessment of changes made by the legislature to the budget proposal	Reconciliation of deviations between the budget proposal and the Enacted Budget	
	Overall debt situation	
	Revised economic forecast (if there is a major delay between the budget proposal and the Enacted Budget)	
	Impact on government's financial assets and liabilities, contingent liabilities, etc.	

In-Year Reports

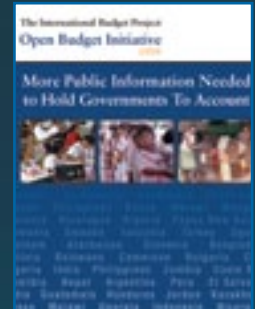
Snapshot of budget implementation	Progress in implementing budget	At least one month after the end of the reporting period (i.e., monthly report for June should be published no later than 31 July)
Periodic measure of revenue and expenditure trends	Actual revenues collected and expenditures incurred in each month and year-to-date and comparison with plans	
Helps in fine-tuning budget implementation	Government's borrowing activities	
Builds capacity and systems that improve budget management	Initial identification of deviations from budget	

IMPORTANCE	KEY CONTENTS	PUBLICATION TIME FRAME
Mid-Year Review		
<p>Enables comprehensive assessment of actual spending and revenue collection against original estimates at midpoint of budget year</p> <p>Assesses the impact of changes in the macro-economy on the budget</p> <p>Identifies the need for changes in budget allocations, including need for supplementary budgets</p> <p>Takes stock of progress in realizing specific performance targets</p>	<p>Revisions in economic assumptions and their impact on budget estimates</p> <p>Comprehensive identification and explanation of deviations in budget spending and revenues and estimates</p> <p>Exploration of policy adjustments</p> <p>Details on policy decisions taken and policy developments since presentation of budget</p>	<p>OECD recommends publication within at least six weeks of the end of the reporting period</p> <p>IMF recommends publication within at least three months of the end of the reporting period</p>

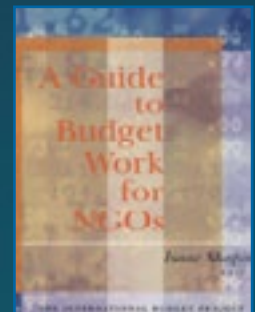
Year-End Report

<p>Enables comprehensive assessment of actual spending and revenue collection against original estimates at the end of the budget year</p> <p>Takes stock of government's performance in realizing its targets and performance indicators</p> <p>Informs future policy direction</p>	<p>Overall budgetary outcomes</p> <p>Overall position of government's assets and liabilities (balance sheet)</p> <p>Expenditures by functional and economic classification and listing of actual revenues collected under different categories</p> <p>Summary of government spending by sector and programs</p> <p>Deviations and explanation of deviations between macroeconomic forecast and actual results</p> <p>Narrative on strengths and weaknesses in performance of ministries/agencies</p> <p>Nonfinancial information on government's performance in realizing its targets and performance indicators</p>	<p>OECD recommends publication within at least six months of the end of the reporting period</p> <p>IMF recommends publication within at least one year of the end of the reporting period</p>
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IMPORTANCE	KEY CONTENTS	PUBLICATION TIME FRAME
Audit Report		
<p>Independent and authoritative assessment of budget execution</p> <p>Assesses the degree to which the government has complied with the budget law</p> <p>Provides commentary on the accuracy and reliability of government financial statements</p> <p>Closes the accountability loop</p> <p>Valuable resource for legislative, civil society, and media analyses of government performance</p>	<p>Comments on the accuracy and fairness of government financial statements</p> <p>Comments on the adequacy of government's control systems for managing public finances</p> <p>Identifies cases in which the government has breached the budget and other related laws on public finances</p> <p>Provides the SAI's opinion (qualified, unqualified, disclaimer, etc.) on the accounts audited</p> <p>Lists recommendations for rectifying problems identified by audit</p> <p>Tracks status of previous audit recommendations</p>	<p>Best practice as per the OECD is publication within six months of the end of the budget year</p> <p>IMF recommends publication within at least one year of the end of the reporting period</p>



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