Why budget accountability fails?

The elusive links between parliaments and audit offices

in the oversight of government finances

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Abstract

Parliaments and audit agencies have critical and complementary roles in the oversight of the budget and the enforcement of government accountability. Yet, the nexus between parliaments and audit agencies is one of the weakest links in the accountability chain of the budget process, generating an accountability gap in the governance of public finances. In this article, we gauge the effectiveness of the interactions between parliaments and audit agencies in the oversight of government finances to explain the root cause of its dysfunctions. This articles analyses how this relation should work, how it works in practice and how it could be improved. It uses key proxies to evaluate the quality of those linkages, such as the follow-up to audit findings and the discharge of government. In analyzing the enforceability of accountability mechanisms, we make a distinction between the oversight role of audit agencies and the accountability functions of parliaments. We show that there is an important gap between the potential and actual effectiveness of those critical links due to a combination of technical capacity constraints and political economy disincentives. We reveal important coordination failures in the architecture of financial scrutiny and budget oversight, and suggest that the effective functioning of the system of checks and balances in public budgeting depends inasmuch on the agility of the functional linkages between accountability institutions, as on the efficacy of individual accountability institutions acting in isolation. As such, the failure of budget accountability is due to systemic dysfunctions in the systems of integrity and accountability, rather than the failure of one accountability institution in particular. In turn, these dysfunctions are due to the interaction of institutional rules and individual incentives of key actors in the budget process.

**Keywords:** Public budgeting, budget process, political economy, accountability, parliaments, audit agencies

**JEL classification:** H61, H83, O54, P51

Introduction: What explains the accountability gap in the budget process?

Constant experience shows us that every man invested with power is apt to abuse it ... it is necessary from the very nature of things that power should be a check to power. Charles de Montesquieu, Spirit of the Laws, 1748:XI,4.

Parliaments and audit agencies have a critical and complementary role in the scrutiny of government finances, the oversight of the budget process and the enforcement of government accountability (Wehner 2006). Yet, the nexus between parliaments and audit agencies is one of the weakest links in the accountability chain of the budget process (Stapenhurst et al 2008; Santiso 2006, 2008). There is an important gap between the potential and actual effectiveness of this link in the architecture of accountability institutions. This link is seldom as effective as it could and should be, which generates an “accountability gap” in the management of public finances in the downstream phases of the budget process (Santiso 2009). This link is embedded in the broader political economy of the budget process, the governance of public spending, and the more general feebleness of accountability institutions.

The link between parliaments and audit agencies occupies a critical juncture in the relations between the executive and legislative in the oversight of public spending. The role of parliaments in the budget process has been imbued in controversy but a consensus gradually emerged that anchoring fiscal responsibility requires restraining the budgetary powers of parliaments (von Hagen 1992; Stein et al 2006; Santiso 2008; Stapenhurst 2008). This is due because legislative budgeting is marked by an intractable collective action dilemma referred to as the “common pool” challenge that inhibits cooperation and inter-temporal bargains (Ostrom 1990; Halleberg et al. 2009): individual parliamentarians tend to lack the incentives to internalize budget constraints, often seeking to tax less and spend more for electoral purposes, and thus worsening fiscal deficits. As Halleberg et al (2009:299) note, “legislators therefore vote for more spending than they would if they considered the full tax effects of their spending”. As a result, fiscal rules that strengthen the budget powers of the president in his relationship with parliament are expected to lead to more fiscal restraint and better budget outcome (Filc and Scartascini 2007). Most countries have adopted a centralized process for budget preparation that provided for a weak legislature and a strong executive in budget decision-making, Chile being a model of these arrangements. They gradually established hierarchical budgetary processes dominated by the ministries of finances to anchor fiscal discipline.

Nevertheless, excessive government discretion in public budgeting also carries risks. Centralized budgetary processes dominated by the ministries of finance are not, *per se*, a guarantee against budget opacity or fiscal imprudence, as recent experience in developed countries has shown. The recent public debt crisis in developed countries has led to a regain of interest in the role of parliaments in checking government and more rigorously overseeing fiscal policy and the budget process.[[2]](#footnote-2) Parliaments have sought to regain greater influence in the budget process (Schick 2008; Wehner 2006), not necessarily by increasing their budget powers but also by strengthening their capacity to exercise the budgetary powers they have (Santiso 2006, 2004).[[3]](#footnote-3) They have sought in particular to increase their oversight of the budget and their capacity to hold governments to account for the quality of public spending. In recent years, especially since the 2008 crisis, many industrialized countries have established independent fiscal councils and parliamentary committees to better check and oversee fiscal policies (Kopits 2011).

Similarly, as part of the global trend to strengthen accountability institutions in the budget process, there is a renewed interest in the contribution of audit agencies. This stems from a greater attention to improving fiscal transparency and government performance (Noussi 2012; Santiso 2009). Independent audit agencies are key actors in the architecture of the budget and the system of checks and balances. They are tasked with promoting transparency, efficiency, effectiveness and accountability in public administration, as underscored by the United Nations Resolution 11-60142. Their purpose is to oversee the management of public finances, ensure compliance with financial regulations, and hold government to account for the results achieved and the manner in which it manages public resources. Through their compliance audit, they certify the legality of public spending; through their financial audits, they certify the alignment of public spending with the budget approved by parliament; and through their performance audits, they assess value for money - efficiency, effectiveness and economy - of public spending, and more broadly, the performance of government in implementing public policies.

The literature on budget institutions has traditionally focused on analysis the impact of legislative oversight and external auditing on fiscal outcomes, with mixed results. However, with the emergence of results-based management and performance-based auditing attention is gradually shifting towards seeking to ascertain the impact of legislative oversight and external auditing on government performance. More research is warranted, but, as figures 1 and 2 show, empirical evidence from Latin America and the Caribbean suggests that strong legislative budget oversight and audit institutions have a positive impact on government effectiveness rather than fiscal outcomes.

**Figure 1: Government effectiveness and legislative oversight**

**in Latin America and the Caribbean**[[4]](#footnote-4)



Figure 1: Government effectiveness and legislative oversight. Graph shows the bivariate association between the World Bank Institute’s government effectiveness index (2011) and the International Budget Partnership’s strength of legislative oversight index (2010). Countries in Latin America and the Caribbean are depicted by large red circles. Countries in other regions are depicted by smaller green circles. The estimated regression line for a regression of the effectiveness index on the oversight measure is shown as a thick black line. Ninety-five percent confidence intervals are shown as dashed lines.

**Figure 2: Government effectiveness and external auditing**

**in Latin America and the Caribbean**[[5]](#footnote-5)



Figure 2. Government effectiveness and auditing institutions. Graph shows the bivariate association between the World Bank Institute’s government effectiveness index (2011) and the International Budget Partnership’s strength of the supreme auditing institution index (2010). Countries in Latin America and the Caribbean are depicted by large red circles. Countries in other regions are depicted by smaller green circles. The estimated regression line for a regression of the effectiveness index on the strength of auditing measure is shown as a thick black line. Ninety-five percent confidence intervals are shown as dashed lines.

Increasingly, audit agencies are moving from a focus on government compliance with financial legislation and budget appropriations, to an emphasis on value for money and government performance in managing public resources and implementing public policies. This shift entails moving from an oversight role to assuming more advisory functions so as to recommend practical improvements in the implementation of public policies. There is, indeed, an important “implementation gap” between public policies enacted by government and their effective implementation by the bureaucracy, which audit agencies can help bridge.

Why, then, budget accountability fails? Why the concurrent strengthening of parliaments and audit agencies has not led to concurrent strengthening of budget integrity and fiscal accountability? In this article, we assess the quality of the links between parliaments and audit agencies in the oversight of public spending and the enforcement of government accountability. We assess the factors enabling or hindering the effectiveness of this link and analyses how this relation should work, how it actually works (or doesn’t) and how it could be improved. The article focuses on key processes as proxies to evaluate the quality of those linkages, in particular the discharge of government and the follow-up of audit findings.

We argue that audit agencies are critical partners and advisers of parliaments in the oversight of the budget and enforcing accountability on government, but show that the linkages between them are not as effective as they could be due to a combination of technical capacity constraints and political economy disincentives. The article reveals important coordination failures in the architecture of financial scrutiny and budget oversight. We suggest that the effective functioning of the system of checks and balances in public budgeting depends inasmuch on the agility of the functional links between accountability institutions, as on the efficacy of individual accountability institutions acting in isolation. In turn, these dysfunctions are due to the interaction of institutional rules and individual incentives of key actor in the budget process. Ultimately, the budget is an inherently political process. Budgeting is governing.

How to frame the links between parliaments and audit agencies?

Good scrutiny makes for good government. Robin Cook, 2001

The political economy literature provides useful insights to conceptualize the role and functions of independent audit agencies as auxiliaries to parliaments in the oversight of government finances (Santiso 2009). The literature and practice of external auditing underscore two critical factors affecting their effectiveness: their degree of independence and the intensity of their accountability functions. The 1977 Lima principles and the 2007 Mexico declaration highlight the importance of independence for audit agencies to effectively perform their oversight responsibilities. This independence requires the existence of an appropriate constitutional, statutory and legal framework guaranteeing the credibility and impartiality in the appointment of external auditors, security of tenure and legal immunity in the discharge of their duties, as well as financial, managerial and administrative autonomy of audit agencies, including unrestricted access to government information, and their autonomy in reporting and publicizing audit results.

At the same time, however, the effectiveness of audit agencies depends on the agility of their functional linkages with the other components of the national systems of integrity and the architecture of fiscal accountability. The literature on “delegative democracy” (O’Donnell 1994) and “horizontal accountability” (O’Donnell 1999, 1998) emphasizes the dynamic interdependence between accountability institutions inserted in the interwoven system of checks and balances. From this perspective, audit agencies are part of a broader system and their effectiveness is conditioned by the effectiveness of their interaction with other budgetary actors.

* *Relations with government*: To be effective, audit agencies need to develop efficient and constructive relations with government ministries that are responsible for responding to audit findings and implementing corrective measures. They also need to collaborate with the government’s internal control and audit systems, so as to be able to rely on them.
* *Relations with parliament*: It requires fluid and effective relations with parliaments and parliamentary committees, which are to follow up on audit findings and hold government to account.
* *Relations with the judiciary:* It requires effective linkages with the judiciary, where applicable, to press criminal charges and impose sanctions.
* *Relations with civil society and other integrity institutions:* Experience has shown the critical importance of the relation with integrity institutions such as anti-corruption and financial crime commissions, civil society organizations, and the media to publicize audit findings and to increase demand for transparency and accountability.

This web of intertwined relationships nevertheless depends on the nature of the political regime (democratic or autocratic), the nature of the political system (presidential and parliamentary) and the quality of democracy (liberal or “illiberal” democracy) (Zakaria 1997).

There are two important controversies in the theory and practice of accountability institutions and audit agencies. These center on (i) whether audit agencies are independent or autonomous, and (ii) whether they are oversight agencies or accountability institutions (Santiso 2009). A first consideration in this debate is whether the independence of audit agencies should be approached in relative or absolute terms. Different approaches emphasize different definitions, degrees and features of independence in terms of political, constitutional, financial, and administrative independent.  According to the Oxford Dictionary, an institution is independent if it is free from outside control, does not depend on another’s authority, and is not influenced or affected by others. In other words, an institution is independent if it is free from control and influence of other institutions as a self-contained entity with its own capacity for action.[[6]](#footnote-6) Audit agencies themselves emphasize the importance of their absolute independence as a fourth power of the state.

However, absolute independence is hard to attain and not necessarily advisable. The concept of “embedded autonomy” (Evans 1995) drawn from the institutional literature is useful to conceptualize the place of audit agencies in the architecture of the state. Undoubtedly, audit agencies should be as autonomous as “independent fiscal institutions” (Kopis 2011), tax authorities (Taliercio 2004), central banks (Boylan 2001), and some legislative budget offices (Johnson and Stapenhurst 2007). However, they are “embedded” in the architecture of the state and the system of checks and balances in public budgeting. Thus, the question is not whether audit agencies ought to be totally independent as “islands of efficiency” (Evans 1995), but rather how much independence is enough and how much is too much. Independence should be viewed as a means to an end not an end in itself. From this perspective, the most critical consideration is not so much one of absolute independence, but rather one of impartiality, competence, and independence from government interference.

In the system of checks and balances in public budgeting, there is a symbiotic relation between parliaments and audit agencies, the latter often acting as advisers of the former. In the political economy literature, the institutional and functional linkages between audit agencies and parliaments are often couched in a principal-agent framework. Audit agencies are conceptualized as “agents” or “auxiliary institutions” of parliaments, assisting their “principals” in mitigating asymmetries in fiscal information. Their effectiveness is contingent on the quality of its linkages with its “principal”. This why we prefer to refer to supreme audit institutions as *autonomous* audit agencies (Santiso 2009): they ought to be impartial, capable and competent, and are inserted in the broader governance of the budget and the systems of checks and balances.

If audit agencies are to be effective, they can rarely function in isolation. As O’Donnell (1999:39) underscores: “effective horizontal accountability is not the product of isolated agencies but of networks of agencies. In particular, their ultimate effectiveness depends on decisions by courts and legislatures to enforce government accountability.” From this perspective, there is or should be a symbiotic relation between audit agencies and parliaments. These two institutions are more effective acting in concert than acting in isolation (Santiso 2009). Part of the “accountability gap” in public budgeting is due to coordination failures between them.

A second debate in the accountability literature relates to the core functions of audit agencies and the extent of their statutory powers to hold government to account. There is some controversy as to whether audit agencies are accountability institutions or oversight agencies. Accountability institutions have autonomous enforcement powers in their own right; while oversight agencies require a “principal” to act upon their recommendations and hold government to account. A distinct feature of an accountability institution is its ability to hold answerable and enforce sanctions on another state institution. In a democratic system of institutionalized checks and balances, only a state power can enforce accountability on another state power. The three powers of the state are the executive, the legislature and the judiciary. In this democratic triangle of powers, audit agencies need the relay of a power of the state to effectively restrain government and hold it to account. This is why audit agencies are most often institutionally embedded in either the judiciary or the legislative branches (Santiso 2009). Their main powers, contributions and functions center on the oversight of government, somehow on behalf of another state power with the authority to enforce accountability on government.[[7]](#footnote-7) As such, as we have argued elsewhere (Santiso 2009), audit agencies are oversight agencies, rather than accountability institutions.

These two dimensions highlight the centrality of the institutional and functional linkages between parliaments and audit agencies and parliaments to bridge the “accountability gap” in the oversight of public spending. In democratic systems of government, there is a distinction between the financial scrutiny undertaken by audit agencies and the political accountability enforced by parliaments. As such, audit agencies are best conceptualized as oversight agencies, with sufficient autonomy to perform their responsibilities in an effective and impartial manner; but enforcing accountability on government ultimately rests with the other two branches of government, in particular parliament.

Indeed, in the various institutional models for organizing the external audit function there is either an institutional or a functional linkage between parliaments and audit agencies. The institutional set-up of audit agencies varies reflecting the constitutional, legal, financial and political traditions of countries’ public financial management systems. Standard typologies of audit agencies classify them according to their institutional features and functions and include three ideal types: (i) the monocratic model, (ii) the court model and (iii) the board or collegiate model (Santiso 2009; Stapenhurst and Titsworth 2001).

* The *monocratic model* or the Westminster model is that of a uninominal audit agency headed by a single auditor-general or president, and generally acting as an auxiliary institution to parliament, albeit with ample autonomy. Under this model, audit agencies focus on ex-post auditing, rather than ex-ante control, and privilege financial and performance auditing over compliance control. The controls they perform seek to correct rather than penalize. This model is prevalent in many Commonwealth countries, Anglophone Sub-Saharan countries, and in several Latin American countries.
* The *court model* or Napoleonic modelis that of a collegiate court of auditors or tribunals of accounts, endowed with quasi-judicial powers in administrative matters, often acting as an administrative tribunal. The quasi-judicial features and functions of the court model privilege legal and financial compliance over performance auditing. The links with the legislature are weaker than in the monocratic model; yet those with the judiciary are also ambiguous. As a result, there is often uncertainty as to who the agency’s principal is. Roman law countries in Europe, Latin America and Francophone and Lusophone Sub-Saharan countries follow this model.
* The *board model* or collegiate model is an institutional hybrid. It is an agency with collegial decision-making similar to that found in tribunals, headed by a board of auditors, but without jurisdictional authority or quasi-judicial powers. Under this model, audit agencies emit an audit opinion on the reliability and probity of government accounts, usually for the legislature to consider. Many Northern European countries, most Asian countries and a few Latin American countries such as Argentina follow this model.

All three models share a central common feature: their institutional independence from government and a connection to parliament. In most parliaments a standing parliamentary committee or subcommittee is in charge of relations with audit agencies, guiding its mandate and setting its budget. The parliamentary committee responsible for controlling the budget before and during its implementation, the budget and finance committee, is generally distinct from the committee responsible for controlling it after its implementation, the public accounts committee. In the United Kingdom, as in most Commonwealth parliamentary systems following the monocratic model, the Public Accounts Committee is chaired by the opposition and is one of the most influential parliamentary committee (McGee 2002; Wehner 2003). In Argentina, which follows the board model, the audit agency acts as an auxiliary body to parliament and reports to the joint audit and public accounts committee of the bicameral legislature, the *Comisión Parlamentaria Mixta Revisadora de Cuentas*.

Nevertheless, in some parliaments a single parliamentary committee is responsible for entire budget cycle through various sub-committees. This model is, by design, potentially more effective, “the same members who scrutinize audit findings in the subcommittee subsequently make decisions on upcoming budgets in the budget committee. This link is weaker in parliaments with separate audit and budget committees, or, worse, without any audit committee at all” (Wehner 2013).[[8]](#footnote-8) In presidential systems of government and in those countries following the court model, a subcommittee of the finance and budget committee is in charge of the relations with the audit agency, considers audit reports and discharges government. For example, in 1999, France established a specialized sub-committee of its finance committee, the *Mission d’Évaluation et de Contrôle*, to work with the audit agency with a broad mandate on the evaluation public policies. In Brazil, the audit agency is highly autonomous and overseen by the joint committee for planning, budgeting and control of the bicameral parliament, the *Comissão Mista de Planos, Orçamentos Públicos e Fiscalização*.

Furthermore, external audit agencies are gradually shifting their emphasis from checking compliance with budgetary legislation to improving government performance. The emergence of performance auditing emphasizes the advisory role of audit agencies as partners of parliaments in the oversight of government finances. This synergy is all the more important as parliaments seek to reassert their influence in the budget process (Shick 2009; Santiso 2008, 2006). The role of parliament in public budgeting has traditionally been weak, both in parliamentary and presidential systems (Stapenhurst 2008; Wehner 2006; Pelizzo and Stapenhurst 2004). This is changing, though, as parliaments are reasserting their constitutional prerogatives and strengthening their technical capacities in budget matters. However, it is important to stress that greater budget scrutiny by parliament is not on its own sufficient to ensure sound fiscal decisions and effective budgets. The literature on public budgeting in fact warns against excessive and irresponsible budgetary powers of parliaments, which could lead to chronic deficits and fiscal irresponsibility (von Hagen 1992).

The changing role of parliament in public budgeting is part of broader reforms in the management of public finances that seek to redress the “accountability gap” (Andrews 2013). Nevertheless, and despite parliaments’ renewed assertiveness, the “downstream” part of the budget process of budget execution and accountability, remains generally weaker than the “upstream” part of budget formulation and fiscal responsibility. Several indicators underscore weaknesses in legislative oversight and external auditing of the budget. The *Public Expenditure and Accountability Framework* (PEFA) highlights structural weaknesses in the scope, nature and follow-up of external audit; parliamentary scrutiny of the annual budget law; and parliamentary scrutiny of external audit reports.[[9]](#footnote-9) Figure 3 shows the general weakness of the downstream part of the budget process around the world and in particular external scrutiny and auditing. Figure 4 highlights the shortcomings in parliamentary scrutiny of the budget proposal (measured by PEFA Performance Indicator 27) and more severely of external audit reports (measured by PEFA Performance Indicator 28) in Latin America and the Caribbean. Measures of parliamentary scrutiny of the budget in Latin America and the Caribbean suggest parliamentary influence on the budget process is not so much hindered by limited budgetary powers, but rather by the effective use of those budgetary powers and their limited technical capacities (Santiso and Varea, 2013).

**Figure 3: Weakness in external scrutiny and independent auditing**

Source: Based on PEFA reports, as of end 2012. [www.pefa.org](http://www.pefa.org)

**Figure 4: Shortcomings in parliamentary scrutiny**

**of the budget proposal and audit reports**

Source: Based on PEFA reports for Latin America and the Caribbean, as of end 2012. [www.pefa.org](http://www.pefa.org)

Why scrutiny fails to become accountability?

*The law is like a knife: it does not threaten the one who holds it.* José Hernandez, 1834-1886.

There is therefore a critical synergy between the oversight of the budget performed by audit agencies and the accountability functions of parliaments. However, those linkages are not as effective as they could and should be. This is partly explained by the framework of incentives and the political economy of the budget process. The quality of those linkages can be gauged using four proxies: (i) the role of parliament in providing an enabling environment for independent external auditing and the autonomy of the audit agency; (ii) parliament’s consideration of audit reports and follow-up to audit findings; (iii) parliament’s certification of public accounts and the discharge of government; and (iv) parliament’s examination of the draft budget law.

**Enabling external auditing.** Parliaments are critical to provide the enabling environment for independent external auditing and for guaranteeing the autonomy of audit agencies. First, parliaments enact the enabling legislation providing audit agencies with effective powers and autonomy, through the audit law, the organic budget law, and the public financial management law. In the recent past, many countries have updated their legislation for public financial management and external auditing, strengthening the role of parliament and upgrading the responsibilities of audit agencies. Brazil adopted a fiscal responsibility law in 2000 that significantly enhanced the role of parliament and the *Tribunal de Contas da União*. The organic budget laws and fiscal responsibility laws adopted by several emerging economies have enhanced the autonomy of audit agencies and parliamentary oversight functions. Second, parliaments participate in the selection of the auditor general, approve the agency’s budget appropriation, which is often ring-fenced, guide the work of the audit agencies, and request special audit reports as part of their investigatory powers. Third, parliaments are one of the main clients and beneficiaries of the audit agency’s work.

**Following-up on audit findings.** An important shortcoming in the oversight of the budget is the lack of follow-up of audit reports and findings. A frequent criticism is that audit recommendations are not systematically followed up. Admittedly, the prime responsibility for acting upon audit findings rests with audited government agencies themselves. Nevertheless, audit agencies and parliaments have a role in ensuring that their recommendations are acted upon. Often, yet not systematically, audit agencies provide regular follow-up to the audit recommendations of past audit reports. Parliaments, through their public accounts committees, do so less systematically, reducing the effectiveness of the ex-post scrutiny of budget execution. Good practice recommends formal arrangements in parliament for systematically following up on audit report findings and that the public accounts committee should report on the extent to which the executive has addressed the recommendations of the external auditor. To critically scrutinize public spending and adequately consider audit reports, parliamentary committees need to allocate sufficient time for debate, be adequately resourced with support staff, and have appropriate terms of appointment for their members.

The annual report of the audit agency and the annual audit of public accounts provide parliament with another opportunity to discuss the outcome of the previous year’s budget, to assess government performance in managing public spending, and, if needed, to take corrective actions. Nearly all OECD countries’ annual audit reports on financial accounts are made public within twelve months, and slightly less than half of these thirty countries’ parliaments receive them within six months after year-end (OECD 2012). Reporting lags are longer in emerging economies. Parliamentary regulations and practices dictate the procedures and allowable time for dedicated parliamentary committees to discuss the report of the external auditor and follow up on its recommendations. However, only a handful of countries have put in place a mechanism for systematic tracking of the implementation of audit recommendations, such as Canada’s Status Report or Germany’s Results Report.

**Discharging government.** Many parliaments impose ex-post reporting requirements and carry out some form of ex-post scrutiny of budget execution. They generally examine and approve the implementation of the budget through the discharge procedure and, most often, a legislative act. In some countries, parliament is legally required to adopt a budget execution law, through which it decided on whether or not to discharge government and officially close the budget cycle. In about a third of OECD countries, it is a legal requirement for parliament to be provided with a comparison between actual spending and budgeted spending (Lienert 2010). Parliamentary decisions tend not to have legal consequences *per se,* but can have serious political consequences through a motion to censure or impeach government. They may also influence budget allocations in future budgets (Kanis 2012).

The cooperation between audit agencies and parliamentary public accounts committees is critical in the discharge of government. Audit agencies certify government public accounts and emit an audit opinion on those accounts. Parliamentary public accounts committees consider the audit opinion and decide whether or not to discharge government through a law. This synergy illustrates the distinction between oversight and accountability, between the oversight of the budget performed by the audit agency and the accountability functions of parliament. Practice, however, shows that these linkages are often dysfunctional.

In Argentina, for example, the certification of public accounts and parliament’s discharge of government is marred by long delays, which tend to render the process extraneous (Santiso 2008b). (Berensztein et all (2000) argue that the external audit agency’s audit are sparse, usually untimely, do not go beyond legal compliance are generally ineffective in themselves in improving budget efficiency or punishing corruption practices. The audit agency has abstained from emitting an audit opinion on government accounts, arguing that they did not provide sufficiently reliable information on the true nature of budget execution. The problem is further compounded by the lack of legislative action on audit findings. Between 1994 and 2006 parliament did not approve or disapprove government accounts.[[10]](#footnote-10) According to Abulafia et al (2009:47), “the main problem affecting the way control mechanisms work relates to their being highly politicized; that is they are subject to political interference.” Oddly enough, in Argentina the opposition chairs the audit agency, while the majority chairs the public accounts committee. In addition, the discharge of government is a legislative act that could thus be vetoed by the ruling party’s majority in the commission.

In Brazil, legislative scrutiny of the consolidated financial statements of the federal government using the audit findings is subject to significant delays at times reaching almost a decade.[[11]](#footnote-11) Approval of the government’s accounts after the end of the president’s term has not been unusual. The audit agency has usually recommended approval, except in 1992, though it typically includes reservations and recommendations. On several occasions, to clear the backlog, the legislature approved the public accounts of several years simultaneously, often in the same day, as in 2002. The audit of the consolidated financial statements of the federal government are completed in a timely manner, but parliamentary scrutiny is subject to long delays despite the parliament having a permanent public accounts committee and a strong parliamentary budget office. According to the OECD (2012:24), during the past decade the public accounts committee has taken, on average, two and a half years to initiate its review of the consolidated financial statements of the federal government after receiving the preliminary audit opinion. However, the consideration by the federal parliament of the public accounts committee’s recommendation is marred by even more delays. As of 2012, the federal parliament has only concluded deliberations on the government accounts of 2001 (OECD 2012:25).

**Examining the budget proposal.** The interaction between the audit agency and parliament is also important to close the feedback loop in the budget process. Ideally, parliament ought to have examined the audit report of fiscal year *y-1* when considering the government’s budget proposal for fiscal year *y+1*. Thus, to be relevant, the budget execution law ought to be examined a few months after the end of the fiscal year and coincide with the pre-budget parliamentary debate. However, in many countries, time lags and delays do not allow for the audit report of the previous year to feed back into the consideration of next year’s budget proposal. Greater understanding of the constraints, barriers and incentives affecting this process could assist audit agencies in working together with parliaments to enhance public sector accountability and inform decision-making, linking ex-post and ex-ante budget oversight.

A reason for these disjunctions lies in that parliaments and audit agencies have different “bounded rationalities” (Rubinstein 1998; March 1994; Simon 1991). Audit agencies tend to be dominated by technical rationality and parliaments by political rationality. The incentives motivating parliamentary oversight are primarily political, determined by the balance of political power, electoral rules, electoral cycles, and committee politics framing parliamentarians’ incentive structures. There is indeed an important correlation between the degree of political competition and budget transparency (Wehner and de Renzio 2013). As Khagran et al (2013:12) note, “single-party governments will most likely face weak demand by the legislature for information taken by the executive” and “the higher the level of political party competition and therefore the probability of losing power in the next election, the more a government will have an incentive to promote transparency and reduce discretion, in order to tie the hands of its competitors in the case of electoral defeat”. In Argentina, for example, the majority party dominates both the collegiate body governing the audit agency and the parliament’s public accounts committee, which gives it *de facto* veto power over the certification of public accounts and the discharge of government. The result is that the audit agency risks to be hierarchically depending on those very authorities it is meant to control. In addition, parliamentarians’ careers depend more on their political standing in the provinces and with the federal government, than their standing in the legislature. They thus have few incentives to specialize and invest in strengthening parliament’s oversight capacities. In sum, flaws in institutional design are compounded by the broader political economy context in which the audit agency is embedded.

There is also an inconsistency in the time horizons of politicians and auditors, between the longer-term perspective of audit work and the shorter-term time horizons of parliamentarians determined by the electoral cycles. In some countries, committee politics, including the partisan nature of key committees and the rotation of their members, have an important influence on their capacities to engage in public budgeting. In Colombia, for example, members of parliamentary committees rotate every year, although a constitutional amendment is under consideration to change this. In addition, at any time, parliaments are overseeing three different budgets (the audit of the budget of *y-1*, the execution of the budget of year *y* and the preparation of the budget of year *y+1*). Parliamentarians have more incentives to engage in the debate on the preparation of the budget and budget appropriations for year *y+1*, than scrutinizing the execution of the current budget and engaging in a post-mortem debate on the budget of year *y-1* (unless the timing is such that the accounts being examined are those of the government in place).

Such dysfunctions are caused by a lack of technical capacities, but more fundamentally a lack of political incentives to use existing audit information to hold government to account. Because parliaments tend to be dominated by the president’s political party and party loyalty is adhered to strictly, there is very little incentive for parliamentarians to deviate from the party line during the examination of budget execution. Moreover, parliamentarians have limited access to technical expertise and so their ability to debate technical issues of budget content and execution is limited (Santiso and Varea 2013). In most countries there is limited incentive to focus on past spending. Parliamentarians from the ruling party have limited interest in finding fault with the government and opposition parliamentarians lack incentives to debate an often technically arcane audit report. As a result, as Ladipo (2009:47) notes “parliaments usually conduct a perfunctory vote to accept the audit agency’s audit on the consolidated public accounts. In general, few detailed questions are asked about the contents of the annual report or the audit findings, and there is no follow-up to audit recommendations to correct any deficiencies identified”.

In sum, parliamentarians have few incentives to invest in financial scrutiny and in strengthening parliaments’ technical capacities for budget oversight. Hence, the effectiveness of the audit agency can be improved not only by increasing its budget oversight powers or strengthening its technical capacities, but also by aligning the framework of incentives of its main principal, parliament. Parliamentary oversight of the budget is a matter of politics and political incentives, inasmuch as of technical capacities. This, in turn, requires working on electoral rules, political party systems and parliamentary politics.

How can budget accountability be improved?

*To live beyond your budget is to live in error.* Carlos Fuentes, *The Eagle’s Throne*, 2003.

Strengthening the partnership between parliaments and audit agencies, while maintaining the autonomy of audit agencies, can significantly enhance budget oversight and government accountability. One important obstacle to the effectiveness of audit agencies relates to the wider institutional context in which they are embedded. As Johnson et al (2012:21-22) underscore, “even the most detailed and robust audit reports are unlikely to have much effect without effective budgetary oversight and scrutiny by parliament, and the ability to hold spending ministries to account”. Nevertheless, the synergies between parliaments and audit agencies and parliaments could be enhanced in several ways.

**Strengthening the linkages with integrity institutions, including internal audit systems.** External audit agencies could improve their effectiveness by increasing their reliance on internal control systems tasked with ensuring compliance with legal and financial regulations, in particular through ex-ante control (Wescott 2008). This would also allow external audit agencies to concentrate more on ex-post performance auditing and selective auditing of high-risk areas or sectors, including through comprehensive sector reviews. This shift to ex-post performance auditing would also allow audit agencies to move towards a more strategic advisory role to government. Similarly, audit agencies could strengthen their functional linkages with key integrity institutions and reform units such as anti-corruption commissions, financial intelligence units, financial crime commissions, and anti-money laundering agencies. The synergies between internal and external audit functions is particularly important for public investment spending at the sub-national level, as sub-national governments tend to have more atrophic internal audit and control systems.

**Strengthening the linkages with government monitoring systems and independent evaluation agencies.** Audit agencies and parliaments could engage more actively with the agencies responsible for evaluating public policies, in the center of government as well as sector ministries. There are unexplored and underutilized synergies between independent external auditing (especially performance auditing), government monitoring mechanisms, and independent evaluation of public policies. Strengthening the continuum of independent oversight of government policies could yield important benefits, connecting more effectively the political oversight of parliaments, with the financial oversight by audit agencies and the technical oversight of evaluation agencies. The evaluation of public policies remains, however, a relatively weak area of public sector management (Lopez-Acevedo 2012). Several countries are seeking to strengthen the independent evaluation of government policies by creating autonomous evaluation agencies, such as Mexico, Colombia and Chile. Nevertheless, in countries where the monitoring and evaluation of government performance is managed by finance ministries, as part of the move towards performance-based budgeting, there can be tensions between audit agencies and finance ministries in the evaluation of public spending and public policies.

**Strengthening the linkages with parliaments, parliamentary committees and parliamentary budget offices.** As previously noted,audit agencies and parliaments are moved by different “bounded rationalities”, as audit agencies tend to be dominated by technical rationality and parliaments by political rationality. These differences notwithstanding, the technical rationality of parliaments can be enhanced through the strengthening of their own technical capacities to undertake analysis of fiscal policies, audit reports, and budget proposals. As Halleberg et al (2009:306) note, a reason for the lack of legislative control “may be the resource disparity that structures the relationship between the president and congress ... countries differ substantially with regard to the technical capacities of the legislature” and the asymmetries with the resources of finance ministries. Most central budget offices in Latin America and the Caribbean have more than forty employees while parliaments seldom have specialize legislative budget offices and when they do these are usually staffed with less than ten employees.

More intense cooperation between audit agencies and parliamentary budget offices could yield important benefits, in particular in the monitoring of risks. Parliaments are strengthening their technical budget capacities through the reform of parliamentary committees, the strengthening of parliaments’ oversight capacities, the establishment of independent fiscal commissions, and the creation of parliamentary budget offices. Parliamentary budget offices have improved parliamentarians’ ability to interpret, review and make better decisions on the budget process Through the creation of parliamentary budget offices, parliaments have enhanced their technical and advisory capacities for independent fiscal and budget analysis and become a more assertive and responsible interlocutor for finance ministries (Johnson and Stapenhurst 2007; Santiso and Varea 2013). These have emerged in many countries in recent years, modeled after the powerful United States’ *Congressional Budget Office* created in 1974.[[12]](#footnote-12) They have emerged in developed and developing countries alike, including in fragile states. In Uganda, the Budget Act of 2001 established a Parliamentary Budget Committee to scrutinize macroeconomic and fiscal targets and a Parliamentary Budget Office to analyze budget proposals. Liberia created a *Legislative Budget Office* in 2010, which conducts fiscal impact analysis and reviews draft budget reports. In 2013, South Africa is setting up its parliamentary budget office (Verwey 2009; Fölscher and Cole 2006) and Colombia is considering it, as part of a broader modernization of parliament. Internationally, there had been growth in the number of parliamentary budget offices due to the emergence of more democratic governments and the rise in multi-party forms of government.

However, parliamentary budget offices tend to focus primarily on the analysis of fiscal policies and budget formulation, advising the finance and budget committees of parliament mainly during the approval stage of the budget. They tend to be less engaged with the downstream stages of the budget process and the ex-post scrutiny of budget execution. The move towards risk-based auditing has the potential to contribute to the work on fiscal impact assessment of public investment decisions and the monitoring of high-risk areas. There is thus space for strengthening the interactions between audit agencies and parliamentary budget offices to reinforce the technical advice to public accounts and audit committees. This will contribute to make the interactions between audit agencies and parliamentary committee more agile, more technical and less political.

Enhancing the linkages between audit agencies and parliaments can be particularly powerful in transitional contexts as part of the broader strengthening of checks and balances. In Tunisia, the *Cour des Comptes*, which follows the court model of external audit, has traditionally been recognized as a technically competent oversight body and as performing high quality auditing (IMF 2001). However, under the previous regime it was rather toothless and its audit reports were never made public. Furthermore, its political independence was questionable, as it reported to the President, its members were appointed by presidential decree, and it is administratively attached to the Prime Minister’s office.

**Connecting with civil society and engaged citizen groups.** Both parliaments and audit agencies can enhance their impact through a more agile and effective relationship with civil society organizations that are specializing in budget analysis and fiscal transparency. The specialized media plays a critical role and both audit agencies and parliaments should adopt pro-active communication strategies. Beyond the publicity of audit reports, audit agencies and parliaments should make their reports more accessible to the public in terms of contents, avoid overly technical and legalistic terminology, and work with the specialized media to disseminate them. In France, for example, the annual audit report of the *Cours des Comptes* is largely covered by the press and contributes to highlighting key challenges in the efficiency of public spending. Civil society organizations and policy think tanks specialized in budget analysis have emerged in both developed and developing countries, advocating for greater budget transparency. In Tunisia for instance, a multitude of civil society organizations have emerged since the Arab Spring. Several of them are demanding greater fiscal transparency and increasingly analyzing budget information in order to hold government to account. Such organizations provide a further source of independent budget analysis. In addition, the publicity of audit reports has proved an effective way for audit agencies to press for greater transparency and accountability of government.

Concluding remarks

*Most practical budgeting may take place in a twilight zone between politics and efficiency.* Aaron Wildavsky, 1961:187

The interactions between audit agencies and parliaments are a critical juncture in the cycle of accountability and the system of integrity. However, these linkages are often ineffective, diminishing the overall effectiveness of the system of checks and balance in the management of public finances. This explains why “oversight potential does not always translate into effective oversight” (Pelizzo and Stapenhurst 2007:391). As Halleberg et al (2009:2) note, “institutional arrangements can either exacerbate or contribute to resolving a number of potential problems” and, as such, institutional arrangements and agency coordination have a significant impact on the efficacy of the overall system of fiscal control and budget policymaking.

The article contains four important findings:

* *First,* the strengthening budget accountability will not necessarily emerge from increasing the formal budgetary powers of parliaments and audit agencies, but rather through a more effective use of the budgetary powers they already have. This would require, in turn, enhancing thee incentives, motivations and capacities of individual parliamentarians to do so.
* *Second,* the analysis of the interactions between parliament and audit agencies reveals important gaps in the system of accountability in the budget process. It shows that those dysfunctions are systemic rather than agency-specific. As Halleberg et al (2009:4-6) underscore, “the budget process should not be examined as part of an isolated and technical discussion … (it) is part of a broader policymaking process.”
* *Third*, those dysfunctions are primarily coordination failures, rather than agency failures. The agility of the linkages between the different components of the system of budget oversight is often more important than the effectiveness of each individual oversight agency and accountability institution taken in isolation.
* *Fourth,* the analysis shows that the linkages between parliaments and audit agencies are marked by principal-agent challenges. However, it suggests that modifying the framework of incentives of the principal, parliament can strengthen the effectiveness of its agent, the audit agency. In other words, changes in the incentives of the principal improve the effectiveness of the agent.

Parliaments and audit agencies are two important but separate institutions of integrity that have mutually supporting roles in assuring effective governance, overseeing public spending, and promoting greater transparency in the management of public resources. Parliament can perform its accountability functions most effectively when it uses and can rely upon the oversight work of the audit agency. Similarly, an audit agency can be much more effective when parliament and its public accounts committees provide both a forum for the presentation and discussion of the results of the audit agency’s work, and an ally in taking or strongly encouraging government to take corrective actions (OECD 2002).

However, it is important to recognize that, ultimately, the budget is an inherently political process framed by the interaction between institutional rules and individual incentives of political actors (Stein et al 2006; Halleberg et al. 2009). The politics of the budget are particularly intense in the parliamentary arena (Schick 2009; Wildavsky 1964). Ultimately, “budgeting is a subsystem of politics, not *vise versa* - because of the current tendency to overload budgeting. As much as I respect the importance of budgeting and the talents of budgeteers, to substitute budgeting for governing will not work” (Wildavsky, 1992:439). The budget is the main public policy process reflecting political priorities. Budgeting is about governing; budgeting is governing but the absence of strong audit institutions cannot in itself prevent the abuse of power by those who are circumstantially holding it.

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2. For a discussion on recent reforms to enhance the budget powers and capacities of parliaments in Africa, see: Kubai Khasiani and Florence Kuteesa, *PFM Law Reforms: Balancing Legislative and Executive Powers*, blog-post on the IMF Public Financial Management blog on 28 May 2013 which can be accessed at <http://blog-pfm.imf.org>. [↑](#footnote-ref-2)
3. Roy Meyers (2000) identifies five key institutional features determining the effectiveness of legislative involvement in budgeting: (i) the budgetary prerogatives and the extent of legislative involvement in fiscal planning; (ii) the timing and duration of the budget adoption process; (iii) the extent of legislative powers in the budget and means of legislative oversight of budget implementation; (iv) the expansion of budget expertise in parliament; and (v) internal coordination of legislative budgeting committees and associated bidies. [↑](#footnote-ref-3)
4. Analysis undertaken by Dan Gingerich. [↑](#footnote-ref-4)
5. Analysis undertaken by Dan Gingerich. [↑](#footnote-ref-5)
6. In probability theory to say that two events are independent (alternatively statistically independent, marginally independent or absolutely independent) means that the occurrence of one does not affect the probability of the other. Similarly, two random variables are independent if the observed value of one does not affect the probability distribution of the other (Russel and Norvig 2002). [↑](#footnote-ref-6)
7. Another important distinction is between managerial accountability and political accountability: ‘political accountability involves holding those in public office responsible for performance and decisions, while managerial accountability involves the more technical aspects of fiscal and administrative responsibility’ (Newell and Bellour 2002:6). While managerial accountability is part of the process of bureaucratic delegation, political accountability is embedded in the process of legislative delegation. However, managerial accountability is often inoperative in the absence of political accountability. [↑](#footnote-ref-7)
8. Electronic communication, 23 April 2013. [↑](#footnote-ref-8)
9. See: www.pefa.org The *Open Budget Index* of the International Budget Partnership and the *Global Integrity Index* of Global Integrity also underscore weaknesses in the oversight capacities of parliament and dysfunctional linkages between parliaments and audit agencies in the oversight of the budget. See: www.internationalbudget.org and www.globalintegrity.org [↑](#footnote-ref-9)
10. Moreover, parliament’s decision whether or not to discharge government being an ordinary law, it could in theory be vetoed by the ruling party, which controls the parliamentary majority. [↑](#footnote-ref-10)
11. Brazilian presidents are required to render accounts to parliament every year since 1934. The audit agency prepares a report on the public accounts of the federation within three months of receiving them and issues a ‘preliminary opinion’ or ‘prior judgment’ (*‘parecer prévio às contas’*) to guide discussions in parliament on whether to approve the government’s statements or not. Based on the audit agency’s opinion, the parliamentary public accounts committee emits its own recommendation to parliament by unanimity vote. The process then follows normal legislative procedures, being examined and voted on by both chambers successively. However, the audit agency’s preliminary opinion is not a formal audit ruling and seldom includes any reference to corrective measures or a follow-up of the irregularities detected in previous years. [↑](#footnote-ref-11)
12. These include: United Kingdom in 2010, Canada in 2006; Korea in 2003; Mexico in 1998; Philippines in 1990. [↑](#footnote-ref-12)