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EX POST FINANCIAL OVERSIGHT: LEGISLATIVE AUDIT, PUBLIC ACCOUNTS COMMITTEES....AND PARLIAMENTARY BUDGET OFFICES?

Rick Stapenhurst, Riccardo Pelizzo and Mitchell O'Brien
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For further information, please contact:

Lisa VON TRAPP
OECD Secretariat
Tel: +33 1 45 24 81 33
lisa.vontrapp@oecd.org

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Two sets of factors appear to be critical to the success of a parliamentary audit committee, or Public Accounts Committee (PAC): its institutional design and the conduct of its members (Stapenhurst *et al.*, 2005). Until recently, little data have existed on what might enhance the effectiveness of PACs' oversight of government activities and expenses. The World Bank Institute (WBI) and the Commonwealth Parliamentary Association (CPA) have begun to fill this gap through a survey of chairpersons of 51 national, state and provincial parliaments in Commonwealth countries in Africa, Asia, Australasia, Canada, the Caribbean and the United Kingdom, as well as some of the newly created PACs in non-Commonwealth countries¹ (Stapenhurst and Hamilton, 2011). The resulting data identify certain factors that may help PACs work effectively. This paper examines these factors within the broader framework of whether or how *ex post* financial oversight can be strengthened.

The first section of this paper describes the role of legislatures in financial oversight and presents a general concept of public financial accountability. It underlines the critical role played by public accounts committees or similar committees which are on the rise around the world. The second section discusses the institutionalisation of PACs, their terms of reference, and the activities they perform. The third section summarises the findings of our survey of PACs that sought to identify the institutional factors associated with success. The last section identifies obstacles to effective performance and suggests possible ways in which complimentary institutions like parliamentary budget offices could act to overcome them.

Legislatures and Public Financial Accountability

Legislatures perform three functions: representative, legislative, and oversight (Sartori, 1987; Pasquino and Pelizzo, 2006). They perform a representative function in that they represent the will of the people, the legitimate source of authority in democratic countries. They perform a legislative function by amending, approving or rejecting government bills or introducing legislation on their own. And they perform an oversight function by overseeing the preparation of a given policy (*ex ante* oversight) and by overseeing the execution and implementation of a given policy (*ex post* oversight) (Maffio, 2002).

Though most legislatures have the power to hold the government accountable for its actions and policies, differences in the form of government and other constitutional arrangements create

¹ Non-Commonwealth countries which have established, or are considering the establishment of, PACs include Afghanistan, Bhutan, Denmark, Ethiopia, Federated States of Micronesia, Finland, Israel, Indonesia, Kosovo, Liberia, Nepal, Rwanda, Southern Sudan, Thailand and Turkey.

considerable variation in the tools used by legislatures to perform their oversight function. These tools include legislative committees, questions and interpellations, debates, the budget or estimates process, scrutiny of delegated legislation, private members' motions, and adjournment debates that allow legislators to raise issues relating to the use or proposed use of governmental power, to call on the government to explain actions it has taken, and to require the government to defend and justify its policies or administrative decisions (Pelizzo and Stapenhurst, 2004a, 2004b).

One tool a legislature can use to enhance oversight of the financial operations of government is a specialised committee. In the "Westminster model" of democracy (Lijphart, 1999), the committee is known as a PAC (see Annex 1). The PAC is the audit committee of the legislature, the core institution of public financial accountability. The potential of PACs in improving public financial accountability is such that, in recent years, they have been established in a dozen countries which have no historical or political ties to the United Kingdom and which do not otherwise follow the "Westminster model".

Legislatures need useful information to perform their representative, legislative, and oversight functions effectively, as Frantzich (1979) pointed out more than two decades ago. For PACs, this information is generally provided by the legislative auditor or auditor general. The auditor general reports to the legislature and the public at large on whether public sector resources are appropriately managed and accounted for by the executive branch of the government.

As Figure 1 indicates, there are four stages of the annual budget process: drafting, legislative, implementation, and audit. The latter two stages, commonly known as the *ex post* stages, are the domain of the legislative auditor and of the PAC or similar committee, if there is one.² Following implementation of a government's budget, a legislative auditor audits government accounts, financial statements, and operations. In most countries, this audit is followed by the legislature's consideration of the audit findings, which may include value-for-money and performance auditing as well as the traditional financial or compliance auditing. If the legislatures' role in the budget process is effective, legislative recommendations to the executive – based on the deliberation on audit findings put forward by the auditor – are reflected in future budgets, thus allowing for continuous improvements in public financial accountability.

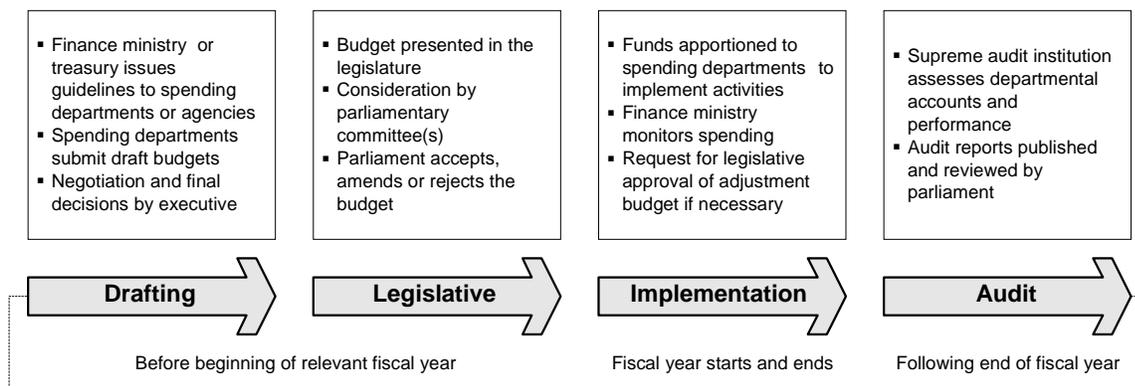
The exact nature of the relation and interaction between the legislature and the auditor depends partly on the model of the legislative auditor and the auditor's reporting relationship to the legislature. In most Commonwealth countries, the legislative auditor is the auditor general, whose office is a core element of parliamentary oversight; he or she reports directly to parliament and the PAC. In some countries, such as Australia and the United Kingdom, the auditor general is an officer of parliament, which guarantees his or her independence from the executive. In other countries, such as India, the auditor general is independent of both the executive and the legislature. Ideally, the information provided by the legislative auditor should be timely and relevant to the needs of the PAC and of parliament more generally. All too often, however, audit reports are out-of-date and focus more on financial compliance rather than on

² In some countries, PAC functions are part of the mandate of the Estimates Committee (*e.g.* New Zealand) or the Finance Committee (*e.g.* Germany).

broader issues of public financial management. As Vinod Sahgal has stated, “...the auditor focuses more on the train timetable and less on the railway system, let alone public transportation” (personal interview).

Figure 1

Stages of the annual budget process



Source: J. Wehner (2006), “Parliament and the Budget Process”, unpublished slides used in World Bank Institute course on parliament and the budget, Bangkok.

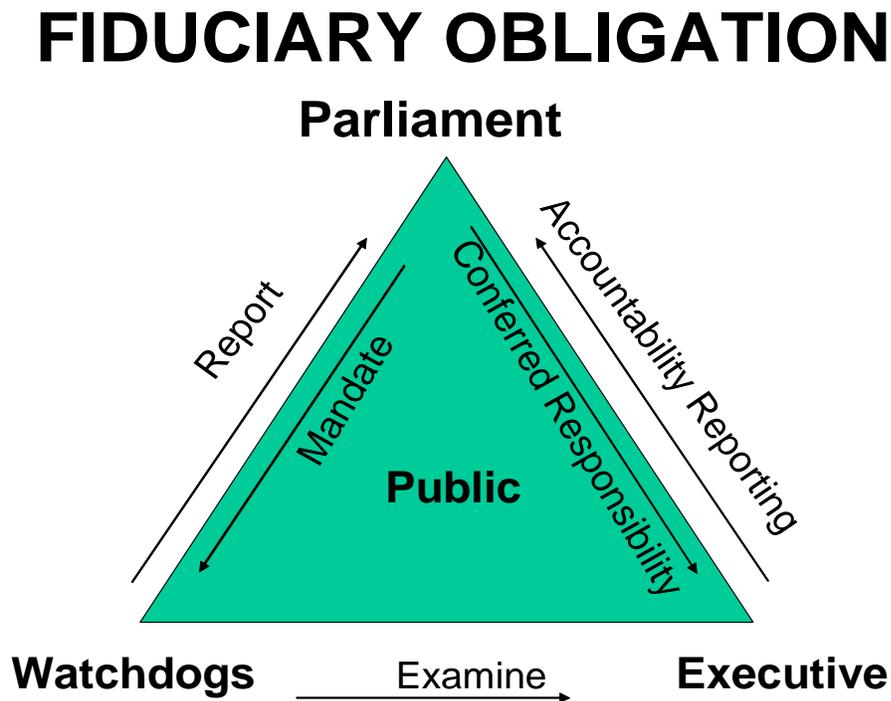
The structure and functions of the PAC date back to the mid-19th century. The first national PAC was created in Denmark in 1851. However, the global archetype is the British PAC, established a decade later as part of the reforms initiated by William Gladstone when he was Chancellor of the Exchequer. Replicated in virtually all Commonwealth countries and an increasing number of non-Commonwealth countries, PACs are seen as the apex for financial scrutiny and have been promoted as a crucial mechanism to facilitate transparency in government financial operations (see Figure 2). In this model, parliament confers responsibility to the executive and, in return, the executive is accountable to the legislature.³ Watchdogs – in this instance, legislative auditors, whose mandate derives from parliament – examine the financial performance of the executive and report to parliament. Parliament then uses the audit reports to help hold the executive to account. (An alternate model of executive accountability – namely in presidential systems – is presented in Annex 1.)

While their mission may be the same, across the Commonwealth there is considerable variation in PACs’ terms of reference and *modus operandi*. In some instances, for example, the terms of reference are narrowly defined, with PACs concentrating exclusively on financial probity. In others, the terms of reference are more widely defined; here, the committee does not simply focus on financial probity but also on the efficiency and effectiveness of programmes in achieving the objectives for which they had been established. (Indeed, our findings indicate that this “scope of work” is one of the principal factors affecting PAC performance.) There is

³ In contrast to presidential or semi-presidential systems, where executive authority is not dependent on parliament.

considerable variation, too, regarding the relationship between the auditor general and the PAC, the status of the PAC within parliament, how the PAC conducts its business, PAC reporting to the legislature as a whole, and the requirements for government follow-up on PAC recommendations. These and related issues are examined in detail in McGee (2002). An important feature in virtually all jurisdictions is the fact that PACs do not question the desirability of a particular policy – that is the mandate of parliamentary departmental committees; rather, PACs examine the efficiency and effectiveness in the **implementation** of policy.

Figure 2



Source: Stapenhurst *et al.*, (2005), “Scrutinizing Public Expenditures: Assessing the Performance of Public Accounts Committees in Comparative Perspective”, *Policy Research Working Paper No. 3613*, The World Bank, Washington DC.

Organisation of PACs around the World

PACs are usually legislative standing committees of the lower chamber of parliament. In Australia and India, the PAC is a bicameral committee.

In some countries, the PAC is established by the country’s constitution. This is the case in Antigua and Barbuda, Bangladesh, the Cook Islands, Kiribati, the Seychelles, St. Vincent and the

Grenadines, Trinidad and Tobago, and Zambia. In other countries, the existence of the PAC is institutionalised by the standing orders of the legislature. This is the case in Canada, Guyana, India, Jamaica, Malta, Tanzania, and Uganda. In a third group of countries, which includes Australia and the United Kingdom, the PAC is instituted by an act of parliament.

The distribution of seats within the PAC corresponds, as much as possible, to the distribution of seats in the legislature. This means that the government party (or the government coalition) typically controls a majority of the seats in the PAC. To counterbalance the power of the majority in the PAC, the opposition party is generally given the chairmanship of the committee. This was the case in two-thirds of the PACs studied by McGee (2002). In some countries, such as India and the United Kingdom, this practice is the result of “a very strong convention” (McGee, 2002:66). In other countries, it is codified by the same norms and rules that establish the PAC itself. For example, the standing orders of Malta’s parliament establish that “one of the members nominated by the Leader of the Opposition and so designated by him in consultation with the Leader of the House shall be appointed as Chairman of the Public Accounts Committee.” The standing orders of Tanzania’s parliament establish that “the Chairperson for the Public Account Committee shall be elected from amongst the Members of the Committee from the Opposition.”

Giving the chairmanship of the PAC to the opposition serves to re-equilibrate the balance of power between the government and the opposition, and indicates the willingness of both the majority and the minority to operate within the PAC in a nonpartisan manner.⁴

Australia represents an interesting exception to this general trend. There the chair of the PAC is generally a member of the parliamentary majority. This choice is motivated by the fact that in Australia it is considered advantageous to have a government Member as Chair, as this can assist with the implementation of the PAC’s recommendations. It is regarded as the duty of the Chair to advocate that the PAC’s recommendations be taken up and implemented by the government. This can involve behind-the-scenes work persuading reluctant ministers to act. It has been suggested that a government Member can do this more effectively than an opposition Member who, as political opponent, will not have the confidence of the ministers. McGee (2002) points out that this practice has not been particularly successful.

Depending on the scope of their mandate, PACs may be given additional and more specific powers to perform their tasks. They may, for example, be given the power to examine the public accounts, the comments on the public accounts, and all reports drafted by the auditor general and the national audit office. The PAC may also have the power to: conduct some investigations, directly or indirectly; receive all documentation it considers necessary to adequately perform its functions; invite government members to attend the meetings of the PAC and to respond to PAC members’ questions; publicise its own conclusions; report to the legislature; and suggest to the government how to modify its course of action when necessary.

⁴ Some countries, such as France, that do not have PACs have chosen to have an opposition Member chair the finance or budget committee.

What Factors Contribute to the Success of a PAC?

The success rate of PACs varies significantly both across and within regions, depending on the nature of the results the PAC seeks to achieve. PACs seem to be most successful acting as catalysts for enhancing implementation of policy decisions and improving the availability of government information to the legislature. They are less successful at catalysing legal or disciplinary action against errant civil servants. However, survey evidence indicates substantial regional variations (Table 1). In Australasia, Canada, and the Caribbean, the response to and implementation of the recommendations of the PAC are regarded as the most frequently achieved results. In Africa and South Asia, by contrast, the acceptance of the recommendations and the government's provision of better information are considered the two most frequently achieved outcomes. In the United Kingdom, the acceptance and implementation of the PAC's recommendations as well as the government's provision of better information are regarded as the most common results achieved.

Survey respondents were also given a list of factors that could be beneficial to the PAC's effective performance and were asked to indicate whether they considered those factors very important, important, or not important. Following Stapenhurst *et al.* (2005), these factors are grouped into three categories: the formal powers of the PAC, the composition of the PAC, and the practices and procedures of the PAC. We briefly consider the first two categories and then examine the third in more detail.

Table 1. Percentage of PAC Chairs Who Report that PAC “Frequently” Achieved Various Results, by Region

Result	Africa	Australasia	Canada	Caribbean	South Asia	United Kingdom
Recommendations accepted	36	75	50	50	90	100
Recommendations implemented	18	75	50	50	70	100
Legislation modified	20	12	0	25	20	33
Information improved	36	57	25	25	80	100
Legal action taken	9	0	25	25	40	0
Disciplinary action taken	30	0	25	25	56	0
[N]	[11]	[9]	[4]	[7]	[10]	[3]

Source: Stapenhurst *et al.*, (2005), “Scrutinizing Public Expenditures: Assessing the Performance of Public Accounts Committees in Comparative Perspective”, *Policy Research Working Paper No. 3613*, The World Bank, Washington DC.

Formal Powers

Five formal powers of the PAC emerge as most important: the power to make recommendations and publish findings; to freely choose the subjects for examination; to investigate all past, present, and committed government expenditures; to hold the government accountable for its

spending; and to examine the public accounts. A complete list is presented in Annex 2.

Composition

The second set of factors concerns the composition of the PAC. These factors include the balanced representation of all major political parties and the exclusion of cabinet members. The mission of a PAC is to investigate the activities of the government, especially with regard to the use of public funds and resources. In order to perform its oversight activity, the PAC has to be free to conduct its business without government interference. Freedom from government interference would be difficult to achieve if cabinet members also served as members of the PAC. If members of parliament (MPs) already serving in the cabinet were allowed to serve on the PAC, they might try to slow or mislead the investigative action of the commission in order to protect the cabinet. Even if they did not do so, their presence in the PAC would impair the proper functioning of the committee (see Annex 3).

Practices

A third set of factors – the practices adopted by the PACs and their members – may facilitate success. To identify which practices and dynamics could improve PAC performance, the survey asked respondents to assess the importance of several practices (see Table 2).

Table 2. Percentage of PAC Chairs who Consider Various Practices and Procedures “Very Important” to PAC Success, by Region

Factor	Africa	Australasia	Canada	Caribbean	South Asia	United Kingdom
Comprehensive response from government	64	89	67	71	90	67
Close working relationship and research reports from legislative auditor	55	33	75	71	100	100
Independent technical expertise and research support for hearings	70	67	33	50	86	100
[N]	[11]	[9]	[4]	[7]	[10]	[3]

Source: Stapenhurst *et al.*, (2005), “Scrutinizing Public Expenditures: Assessing the Performance of Public Accounts Committees in Comparative Perspective”, *Policy Research Working Paper No. 3613*, The World Bank, Washington DC.

Across regions, a comprehensive government response to the recommendations is regarded as an important determinant of effectiveness and success, but this is very closely followed by

maintaining a close relationship with the legislative auditor and having independent technical expertise and research support. In fact, if we compute the average percentage of respondents from each region treating a comprehensive government response to the recommendations as very important, we find that while the comprehensive response is viewed as very important by a cross-regional average of about 75% of the respondents, a close relationship with the legislative auditor is viewed as very important by a cross-regional average of about 72% and having independent technical expertise and research support by an average of 68% of the respondents. Regional variations are significant, with Australasian respondents considering a close working relationship with the legislative auditor as less important than all other regions, but especially South Asia and the United Kingdom; and Canadian respondents considering access to independent technical expertise as less important than other regions, and especially the United Kingdom.

Obstacles to Effective PAC Performance...and a Role for PBOs?

Oversight potential does not always translate into effective oversight. A serious problem impinging on the effectiveness of the PAC's activity is the fact that governments sometimes have little interest in (if not open aversion to) the legislative oversight of their activities. Some governments consider legislative oversight as an improper intrusion into their own sphere of influence. Others think that PAC members are not sufficiently informed or competent to formulate suggestions, criticisms, or observations worthy of the government's attention. This is a very serious problem, as it indicates a very poor understanding of the functions performed by executives and legislatures in parliamentary systems, in which the government is supposed to govern and the parliament is supposed to check on how it does so. Governments that try to avoid legislative controls or that consider them as obstacles to effective government action have an imperfect understanding of how accountability works in a parliamentary context.

Linked to this challenge is the general lack of government responsiveness, especially in those political contexts where there is "executive dominance" and limited scope for constructive parliamentary engagement. The work of the PAC ultimately only has practical significance if the government goes beyond merely "accepting" the issues raised by the PAC and actually implements the recommendations made by the PAC. As Wehner noted, quoting Burnell (2001, p. 40):

The [PAC] reports paint much the same picture year after year. They not infrequently make tart remarks about the absence of improvement in the management of public finances in spite of the critical observations, constructive recommendations, assorted warnings and threats issued by the Committee on many previous occasions. This record speaks volumes both about substantive shortcomings in the executive and the weakness of parliamentary oversight – a mechanism for accountability that lacks the means to ensure enforcement. (Wehner, 2003, p. 29)

Typically, government responses to PAC recommendations are evasive and, even when the recommendations are accepted, they are usually only noted in a Treasury Minute or similar

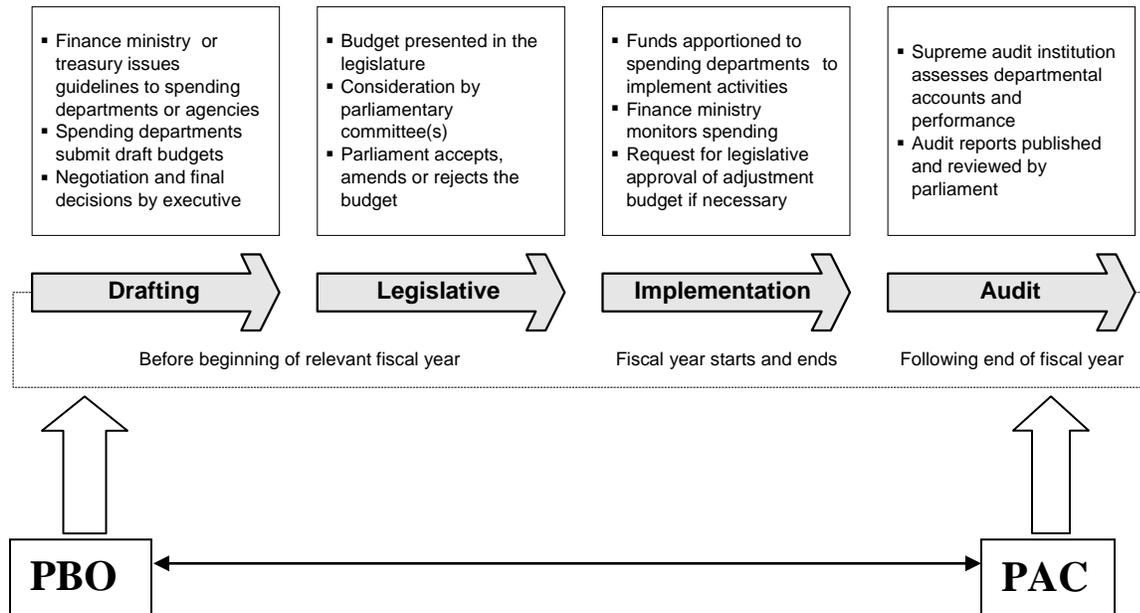
formal government response, often with limited action or implementation. Parliament usually has limited resources to ensure that sufficient government action is taken (McGee, 2002). All too often, Parliament relies on the media coverage to “shame” the government into implementing reforms (Blick and Hedger, 2008).

Several writers (Stapenhurst *et al.*, 2005; Pelizzo *et al.*, 2006; Wehner, 2003; McGee, 2002; Blick and Hedger, 2008) have made recommendations to improve the effectiveness of PACs, including the opening up of PAC hearings to the public and the media, introducing status reporting on follow-up by government, and the merging of finance and audit committees, on the model of New Zealand. This latter proposal, while seemingly radical, does underscore a fundamental weakness in the Westminster model, namely the non-existent feedback from the completion of the audit stage of the budget to the start of budget planning for the next fiscal year.

It is here that Parliamentary Budget Offices could provide significant value added, by highlighting government shortcomings in the implementation of PAC and audit recommendations as part of their analysis of the government’s proposed budget (see Figure 3). PBOs could use the PAC recommendations as a basis for analysis of the viability of budget proposals, especially relating to the absorptive/implementation capacity of departments. At the same time, when the PAC is examining budget implementation, it could draw upon the analysis undertaken by the PBO during the *ex ante* phase of the budget cycle. In so doing, PBOs could help close what William Gladstone called “the circle of financial accountability” and thus further help improve public financial management.

Figure 3

Stages of the annual budget process



Source: Authors, adapted from J. Wehner (2006), “Parliament and the Budget Process”,

unpublished slides used in World Bank Institute course on parliament and the budget, Bangkok.

Issues for discussion and/or further research include: What are the strengths and weaknesses of the Westminster PAC model compared to other *ex post* oversight models? Are countries where a single finance committee oversees both *ex ante* and *ex post* oversight more, less or similarly successful in closing the “circle of financial accountability” than those which have separate *ex ante* and *ex post* oversight committees? PBOs aside, how can legislatures strengthen communication between the budget or finance committee and the PAC or audit committee?

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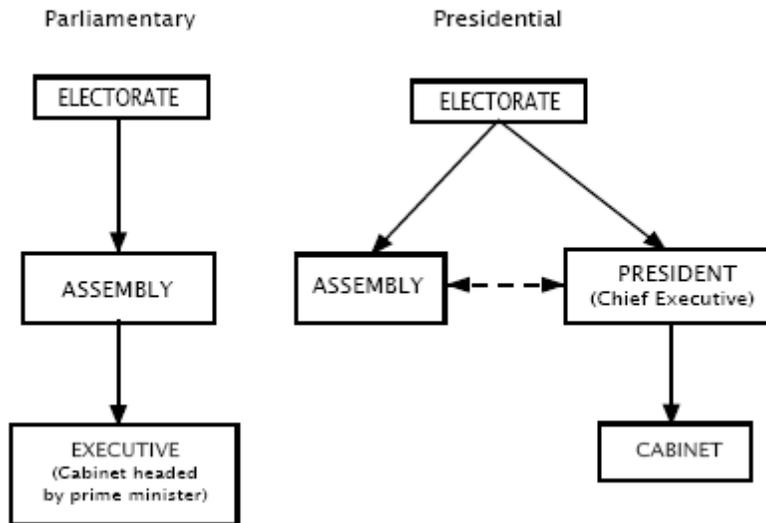
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**ANNEX ONE:
ACCOUNTABILITY IN PARLIAMENTARY AND PRESIDENTIAL SYSTEMS**

In presidential systems, the executive has direct accountability to the electorate. By contrast, in parliamentary systems the executive is accountable through the legislature. As a result, legislatures in parliamentary systems are required to develop specific tools of oversight in order to hold the executive to account. Instead of combining the best of both systems, it would seem as if countries with semi-presidential systems have combined the worst of both.

Figure 4

**Hierarchical and Transactional Relations in the “Pure” Forms
of Executive-Legislative Structure**



Note: Solid lines indicate hierarchical relationship, with arrow indicating selection of agent by principal. Dashed lines with two-headed arrows indicate transactional relationship.

Source: M.S. Shugart (2005), “Semi-Presidentialism: Dual Executive and Mixed Authority Patterns”, *French Politics*, 3(3):323-351.

ANNEX TWO: FORMAL POWERS OF A PUBLIC ACCOUNTS COMMITTEE

Table 3. Percentage of PAC Chairs who Consider Various Formal Factors “Very Important” to PAC Success, by Region

Factor	Africa	Australasia	Canada	Caribbean	South Asia	United Kingdom
Power to make recommendations and publish findings	91	100	100	100	100	100
Power to choose subjects for examination	73	100	100	71	100	100
Power to investigate or review all past, current, and committed government expenditures	64	100	75	100	100	100
Clear focus on holding government accountable for spending	90	87	100	86	90	100
Permanent reference to examine public accounts	64	78	100	100	80	100
Power to compel witnesses to answer questions	100	78	75	71	100	100
Power to call independent witnesses	82	100	75	100	78	33
Power to compel officials to attend and be held accountable for administrative performance	73	56	25	100	67	67
Power to make legislative auditor perform specific tasks	56	57	75	100	67	67
Power to hold meetings <i>in camera</i> if dealing with sensitive issues	55	78	50	86	75	67
Permanent reference to examine all reports of legislative auditor	86	50	100	86	83	[100]

Clear focus on administrative policy and not on whether policies are good or bad	50	44	25	43	78	[100]
Power to hold meetings and conduct inquiry even when legislature not in session	64	56	100	43	90	[33]
Power to hold press conferences and issue press releases	64	33	50	86	57	[67]
[N]	[11]	[9]	[4]	[7]	[10]	[3]

Source: Stapenhurst, *et al.* (2005), “Scrutinizing Public Expenditures: Assessing the Performance of Public Accounts Committees in Comparative Perspective”, *Policy Research Working Paper No. 3613*, The World Bank, Washington DC.

ANNEX THREE: COMPOSITION OF PUBLIC ACCOUNTS COMMITTEES

The study by McGee (2002) reveals that PACs are not the most appealing commissions on which MPs can serve. Some MPs fear that serving on a PAC requires much work with little visibility, that serving on a PAC is not adequately rewarded at the ballot box, and that there is therefore no electoral incentive to serve on a PAC. The absence of electoral incentives is also coupled with the absence of partisan incentives (or the presence of partisan disincentives). MPs fear that serving on a PAC may get them into trouble with their own parties. MPs belonging to the majority party (or coalition) worry that serving on a PAC may force them to choose between loyally serving their party (by not performing the committee duties) and loyally serving the PAC (and alienating their own party). If MPs with appointments in the cabinet were allowed to serve in the PAC, their presence would provide younger MPs with an incentive to favour partisan interests over the interests of the committee. The committee would end up functioning in a very partisan manner or become totally unable to function as it should.

A third reason why cabinet ministers (and undersecretaries) should not be permitted to serve on a PAC is that – even if the presence of government officials would not negatively affect the functioning of the PAC – it would affect the credibility of the PAC and its deliberations, which are the PAC’s true assets. For these reasons, government members should not be allowed to serve on the committee.

How important are these factors for a PAC’s successful functioning? Most respondents in the survey by the World Bank Institute/Commonwealth Parliamentary Association reported that the composition of the PAC is important. There was some cross-regional variation as to whether maintaining balanced representation was more important than excluding MPs with cabinet posts (see Table 4). Chairs from Canada, the Caribbean, and South Asia agreed that achieving balanced representation of the various parties in the committee is more important than excluding MPs with cabinet posts. In contrast, PAC chairs from Africa and Australasia reported that excluding MPs with cabinet appointments is more important than maintaining balanced partisan representation within the committee. Chairs from the United Kingdom were evenly divided.

Table 4. Percentage of PAC Chairs who Consider Alternative Compositional Factors “Very Important” to PAC Success, by Region

Factor	Africa	Australasia	Canada	Caribbean	South Asia	United Kingdom
Balanced representation of various parties	91	63	100	86	100	100
Exclusion of MPs with cabinet posts	100	89	75	83	80	100
[N]	[11]	[9]	[4]	[7]	[9]	[3]

Source: Stapenhurst, *et al.* (2005), “Scrutinizing Public Expenditures: Assessing the Performance of Public Accounts Committees in Comparative Perspective”, *Policy Research Working Paper No. 3613*, The World Bank, Washington DC.