BACKGROUND NOTE

MINI SURVEY ON SUPREME AUDIT INSTITUTIONS AND PERFORMANCE-RELATED BUDGETING

10th Annual meeting of
OECD SBO PERFORMANCE AND RESULTS NETWORK

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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
INTRODUCTION

“Performance-related budgeting” is the term for the attempt, in budgetary practice, to establish clear links between (a) financial allocations (traditionally the central focus of budgeting) and (b) non-financial or “performance” information – e.g. outputs, results, outcomes and impacts, as well as more ad hoc measurements of the quality and efficiency of public services. The intention is that clear links of this nature will improve transparency, accountability and quality in the allocation and use of public resources, and will thereby promote better outcomes for citizens and for society.

While a large number of OECD countries have made efforts to implement performance-related budgeting, the effectiveness of the various approaches has been mixed. Recently, the OECD Working Party of Senior Budget Officials (SBO) and their parent body, the Public Governance Committee (PGC) adopted the OECD Principles of Budgetary Governance, which include the principle that “Performance, evaluation and value-for-money should be integral to the budget process.” There is also a separate principle that “The integrity and quality of budgetary forecasts, fiscal plans and budgetary implementation should be promoted through rigorous quality assurance including independent audit.” Under this latter principle, it is acknowledged that:

"The supreme audit institution (SAI) has a fundamental role, as an independent guardian of the public trust, in assuring the proper use of budgeted resources. A well-functioning SAI should deal authoritatively with all aspects of financial accountability, including through its audit reports which should be published in a timely manner, relevant for the budgetary cycle. As regards efficiency and value for money, both the internal and external control systems should have a role in auditing the cost-effectiveness of individual programmes and in assessing the quality of performance accountability and governance frameworks more generally."

During its 10th Annual Meeting (24-25 November 2014) the SBO’s Network on Performance and Results will hold a first debate on the practical scope and relevance for SAIs to play a role in adding to the quality of performance-related budgeting systems. Prior to the meeting delegates were asked to participate in a “mini-survey” to gather views and perceptions from network members to serve as background for this discussion. The results which form a first “snapshot” from about two thirds of OECD Member countries are below.

Twenty-four countries responded to the survey including: Australia, Austria, Belgium, Chile, Czech Republic, Estonia, Finland, France, Hungary, Iceland, Ireland, Italy, Japan, Korea, Mexico, New Zealand, Norway, Poland, Slovenia, Spain, Sweden, Switzerland, Turkey, and the United States.

RESULTS OF THE “MINI-SURVEY”

Description of the performance-related budgeting system in place

Performance-related budgeting frameworks are widely found in OECD countries (OECD, 2014). Most member countries performance-related budgeting practices can be described as “presentational “or performance-informed” with only a loose or indirect link between performance information and funding or allocative decisions (Hawkesworth and Klepsvik, 2013). Arguably, another emerging approach might be described as a managerial performance approach which focuses on managerial impacts and changes in organizational behaviour but may de-emphasize a strong budget linkage.

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1 This background note was prepared by Lisa von Trapp and Joung Jin Jang, Policy Analysts in the Budgeting and Public Expenditures Division, Public Governance and Territorial Development Directorate, OECD.

2 The results will also be shared with the OECD Public Sector Integrity (PSI) division which is leading parallel work on the ways in which SAIs can contribute to quality public governance more broadly.
Question one of the “mini-survey” asked respondents to describe the performance-related budgeting system in place in their countries based on four choices (respondents could choose all that applied, see Fig.1 below). Only the Czech Republic stated that the “system of budgeting focuses solely on financial information”.

![Fig. 1 Describe the performance-related budgeting system](image)

The vast majority of respondents indicated that budget related documentation specifies “clear and measurable objectives and targets expected to be achieved with the financial resources allocated”, indicating the predominance of the performance informed approach. But while SAIs might be expected to use these objectives and targets in their own assessments, only five respondents indicated that this happens as a matter of course (“always”) and only three indicated that this happens “often”.

![Fig. 2 SAI audits achievement of performance objectives or targets specified in the context of the budget](image)

The role of the SAI in the performance-related budgeting system

Traditionally SAIs audit the accuracy and probity of financial information of public bodies. Indeed all respondents noted that this approach was practised in their country. More and more however, SAIs look at aspects of performance or value-for-money.

Along the continuum of practices the most common is for the SAI to conduct its own performance or value-for-money audits. There is wide variation however in terms of the number of performance or value-for-money audits published annually with one country reporting 5; five countries reporting between 10-15; three countries reporting between 25-50; and others reporting numbers as high as 84, 200 and 800 in FY2013. Information was not readily available on the approximate percentage of central government spending subject to performance or value-for-money audit in FY2013. It may be simply that this information is not reported to Ministries of Finance or that it is not easily obtainable.

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3 It is interesting to note that while their system of budgeting also focuses on financial information, The German Court of Audit or “Bundesrechnungshof” also acts as the Federal Performance Commissioner and is tasked with putting forward proposals, recommendations, reports and opinions in order to enhance the efficiency of and accordingly organize the federal administration.
About half of the respondents also reported that the SAI may assess or critique the quality of the performance information used in the budget or may audit the achievement of performance objectives or targets in the budget. Ideally this should allow for useful feedback to line ministries and the centre as they develop and refine performance information and seek to evaluate what they have achieved.

Respondents indicated that it was much less common for the SAI to assess the quality of the programme model being used or to provide an overall assessment of the effectiveness of the performance-budgeting related system as a whole.

The impact of the SAI in contributing to the effectiveness of the performance-related budgeting system

Most respondents reported that the SAI had only a low or moderate impact in contributing to the effectiveness of the performance-related budgeting system in their country. The exceptions were Austria, Japan and Poland which reported a “high impact”.

When asked how SAIs might better contribute, respondents noted that SAIs might simply carry out more performance audits in general, and more specifically put renewed focus on auditing

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4 With “effectiveness” assess in the broad sense of promotion of quality public service outputs and outcomes.
output/outcome indicators and the quality of programme logic models. Other suggestions included:

- Supporting whole-of-system level reforms to improve the quality of performance reporting.
- Ensuring better follow-up of the SAIs recommendations, including in the budget documentation.
- Taking a multi-annual perspective.
- Making audit reports more interesting and accessible for parliamentarians and the public, and improving communication more generally.

**Fig. 7 Rate the impact of the SAI in contributing to the effectiveness of the performance-related budgeting system**

Conclusions

From this first “snapshot” there appears to be ample room to bolster the role of SAIs to promote better design and use of performance-related budgeting and management systems and to enhance accountability in OECD member countries. However, many SAIs will likely have to evolve their traditional focus on compliance and develop new skill sets, as well as strategies to both communicate their work in this area and to ensure that it is seen as having greater impact. With this in mind, it would be useful to study more concretely good practices of SAIs with longer experience of performance and value-for-money audits and, more critically, assessments of aspects of performance-related budgeting systems.

**Sources**

