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Assessing the role of Parliament in the Budget Process: the Public Expenditure and Financial Accountability Framework

WFD Financial Accountability Series
Briefing Paper 3

London, October 2020

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Acknowledgements and disclaimer

The policy brief 'Assessing the role of Parliament In the Budget Process: the Public Expenditure and Financial Accountability Framework' is the product of Westminster Foundation for Democracy (WFD). It was made possible through funding received from the United Kingdom's Foreign, Commonwealth and Development Office (FCDO).

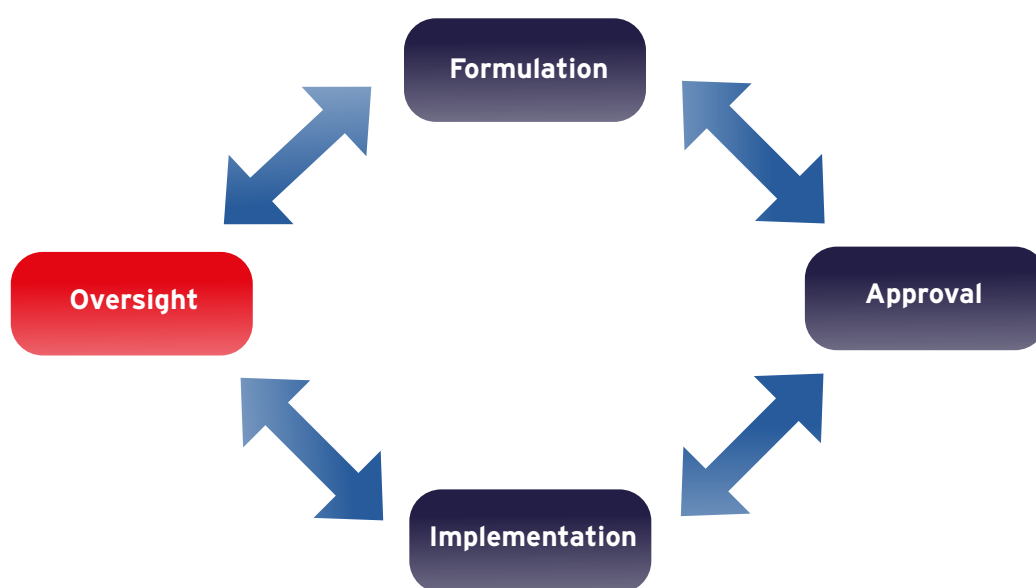
The paper was written by Geoff Dubrow, and peer-reviewed by Victoria Hasson, Carlotta Redi, David Thirlby, Rosie Frost, Petar Trajkov and Franklin De Vrieze. It was published in October 2020.

The views expressed in the paper are those of the author, and not necessarily those of or endorsed by the parliaments or institutions mentioned in the paper, nor of the UK Government.

Introduction

As part of Westminster Foundation for Democracy's (WFD) eight-part series on financial accountability, this brief focuses on how the Public Expenditure and Financial Accountability (PEFA) Framework can be used to assess the role of parliament in the budget process. This brief examines:

- how the PEFA can be used to assess parliamentary oversight capacity;
- the criteria used by the PEFA to assess the role of parliament in the approval and oversight stages of the budget;
- how to supplement this information with other data, with emphasis on the Open Budget Survey (OBS) data; and
- the PEFA treatment of gender responsive budgeting (GRB) (see Box 1, p4).



What is the PEFA and how is it relevant to assessing parliamentary oversight capacity?

The PEFA is a self-described framework for countries to assess and report on the strengths and weaknesses of PFM capacity at specific points in time. Initiated in 2001 by seven international development partners, the PEFA has been deployed more than 500 times in 150 countries.¹ In 2019, PEFA developed a set of supplementary questions to collect information on gender responsive (GR) PFM practices.² See Box 1 below.

1. PEFA Secretariat. 'PEFA Gender Module'. Draft for Public Consultation. February 2019, p. 4.

2. PEFA Secretariat. 'PEFA Gender Module'. Draft for Public Consultation. February 2019, p. 7.

Box 1: Proposed supplementary questions for assessing GRB practices during the approval and external scrutiny/audit phase

Given that 'gender responsive budgeting is grounded in the understanding that public budgeting decisions and PFM systems that underpin them can affect the economic and social outcomes for different genders', PEFA, in 2019, developed a set of supplementary questions to collect information on GR PFM practices. As the PEFA Secretariat indicated, 'a process of public consultation carried out to assess the new PEFA Framework identified gender responsiveness as a gap in existing PFM diagnostic tools that needed to be addressed'. Indeed, the 2016 PEFA Framework makes only two references to gender.

Unfortunately, the GR questions are not integrated into the main PEFA assessment. Countries agreeing to complete a PEFA assessment are not required to complete the gender module.

The GR questions related to the approval stage of the budget are:

- whether parliament's review of the budget proposal includes a review of gender policies and impacts of the budget proposals on gender and gender equality, or both (Q. 15); and
- whether parliament's review includes public consultations that engage women on their specific issues, including arrangements to work with these women or gender equality expert groups, or committees that review the budget proposals from a gender perspective (Q. 16).

There is one question related to the *ex-post* oversight stage of the budget, based on the premise that parliament should be interested in the implementation and impact of policies on gender equality:

- Whether parliament conducts any hearings or publishes any reports that discuss the impacts of the budget or revenue policy decisions on gender equality (Q.22).

Created to 'facilitate dialogue between government and others about how to improve the effectiveness of fiscal policies',³ PEFA assessments can be used by governments, development partners, civil society organisations (CSOs) and others to assess overall PFM performance or hone in on a specific aspect of the PFM cycle. Development partners and CSOs can also use the PEFA to assess possible entry points for contributing to the budget process.

As is the case with WFD's programming in the Western Balkans, PEFA data can be used over time to track progress made with respect to the strengthening of parliament's role in the budget process (see Box 2).

As with any assessment tool, there are gaps in coverage, so accessing other data, such as the International Budget Partnership's Open Budget Survey (OBS) is helpful in obtaining a more comprehensive picture of parliament's role in the budget process.⁴

3. See [PEFA.org/about/history](https://pefa.org/about/history).

4. According to its website, the Open Budget Survey is part of the International Budget Partnership's Open Budget Initiative, a global research and advocacy program to promote public access to budget information and the adoption of inclusive and accountable budget systems. See <https://www.internationalbudget.org/open-budget-survey/about>.

The PEFA rests on seven pillars,⁵ which are outlined in Table 1, below.⁶ Column three outlines the PEFA 'dimensions' or characteristics related to parliament's role in the budget process, which takes place at the approval and *ex-post* oversight stages of the budget.

Table 1: Stages of the budget cycle, PEFA pillars and PEFA dimensions related to parliamentary oversight

Stage of budget	Pefa pillars	Pefa dimensions related to Parliamentary oversight
Formulation	Pillar I. Budget reliability	N/A
	Pillar II. Transparency of public finances	
	Pillar III. Management of assets and liabilities	
Approval	Pillar IV. Policy-based fiscal strategy and budgeting	17.3 Submission of budget to legislature; 18.1 Scope of issues covered in review by legislature; 18.2 Parliamentary procedures for budget scrutiny; and 18.3 Timing of budget approval.
Implementation	Pillar III. Management of assets and liabilities	18.4 Approval of in-year changes to budget.
	Pillar V. Predictability and control in budget execution	
	Pillar VI. Accounting and reporting	
<i>Ex-post</i> oversight	Pillar VII. External scrutiny and audit	30.2 Submission of audit reports to parliament; 31.1 Timing of audit report scrutiny; 31.2 Hearings on audit findings; 31.3 Recommendations on audit by parliament; and 31.4 Transparency of parliamentary scrutiny of audit reports.

5. The PEFA identifies 94 characteristics (dimensions) across 31 key components (indicators) of PFM in 7 broad areas of activity (pillars). See <http://pefa.org/about>.

6. Countries complete the PEFA on a voluntary basis and must agree to make the results public. The list of available PEFA assessments can be found online at: <http://pefa.org/assessments>.

How does the PEFA assess the role of parliament in ex-ante oversight and what are the gaps?

When it comes to the role of parliament in the approval stage, the PEFA is principally concerned with parliament's function as an efficient and predictable player in the budget process. It emphasises parliament's timely receipt and approval of the Executive Budget Proposal (EBP) so that the EBP can be returned prior to the beginning of the fiscal year. In this way, the efficiency of the PFM system is emphasised over the quality of democratic processes.

The five dimensions of the PEFA directly relevant to assessing *ex-ante* parliamentary involvement in the budget process are represented in Figure 1, below. The text in red provides additional commentary, which is also described in the following paragraphs.

Figure 1: PEFA dimensions related to ex-ante approval of the budget by parliament

17.3 Submission of budget to legislature	18.1 Scope of issues covered in review by legislature	18.2 Legislative procedures for budget scrutiny	18.3 Timing of budget approval	18.4 Approval of in-year changes to budget
<ul style="list-style-type: none"> At least two months prior to FY. Actual time spent by parliament scrutinising budget not considered. 	<ul style="list-style-type: none"> Should cover fiscal policies, medium-term fiscal forecasts, and medium-term priorities, as well as details of expenditure and revenue. Breadth of budget documentation provided by the executive branch also important (see dimension 5.1). 	<ul style="list-style-type: none"> Approval procedures agreed to in advance and adhered to. Should include arrangement for public consultation. Emphasis on predictability of procedure over robustness of legislative review. OBS contribution includes question on committee review and published committee report as well as defining parameters of public consultation. 	<ul style="list-style-type: none"> Approves budget prior to start of FY. 	<ul style="list-style-type: none"> Clear rules need to exist that set strict limits for budget adjustments by the executive after the legislature has approved the budget. OBS questions focus on requirement for legislative approval to (115) shift funds between administrative units, (116) spend beyond limits approved by parliament; and (117) reduce spending owed to revenue shortfalls..

Submission of the budget to parliament:

Indicator 17 is related to the budget preparation process, and has three dimensions, the latter of which (17.3) is the submission of the Executive Budget Proposal (EBP) to parliament (17.3). According to the best practices, the executive branch should submit the EBP to parliament at least two months before the start of the fiscal year.

This dimension focuses on whether parliament has adequate time prior to the start of the fiscal year to consider the budget, but does not address the actual quantity of time spent by parliament in scrutinising the budget.

Scope of issues covered by parliamentary review:

Indicator 18 has four dimensions, of which the first three are pertinent to *ex-ante* parliamentary scrutiny of the budget. 18.1 addresses the types of budget issues reviewed by parliament. The best case scenario is that parliament's review covers: fiscal policies; medium-term fiscal forecasts; and medium-term priorities; as well as details of expenditure and revenue. Unfortunately, in PEFA country reports, it is seldom clear how these budget issues were discussed (in plenary or budget committee, for example).

Arguably, the scope of issues covered depends on the quality of the budget documentation provided by the executive branch. This is covered in PI-5.1 and can form part of any parliamentary assessment.

Parliamentary procedures for budget scrutiny. PI-18.2 focuses on the extent to which review procedures are established and should be adhered to, including:

- whether procedures are in place for hearings by parliamentary committees;
- technical support such as research staff; and
- arrangements for public consultation.

While this dimension focuses on the extent to which review procedures are established and should be adhered to, the aspect that is omitted is the robustness of the parliamentary review. Emphasis is placed on the predictability of procedures over the depth of parliament's scrutiny. Similar to PI 18.1, whether one or more committees of parliament review the budget is not considered, nor is the amount of time spent on parliament's scrutiny of the budget. These could be helpful additions.

To supplement the information provided in the PEFA assessment, the OBS questions whether a specialised budget or finance committee in parliament has examined the EBP. It is recommended that the committee has at least one month to examine the EBP, and that it publishes a report with findings and recommendations prior to the budget being adopted.⁷ The OBS also examines whether sectoral committees such as health, education and defence examine relevant portions of the EBP under its remit. Importantly, these questions provide for a more robust understanding of parliament's role in the budget approval stage.

With respect to public hearings, the OBS criteria state that parliament should not play a role in determining which citizens or CSOs can testify. Rather, participation should take place on a first-come first-served basis. The OBS sets out suggested focus areas for public consultation for parliament and the finance committee:

- macroeconomic issues
- revenue forecasts, policies and administration
- social spending policies
- deficit and debt levels
- public investment projects
- public services⁸

Timing of budget approval:

PI-18.3 focuses on the ability of parliament to approve the budget before the start of the fiscal year. As the PEFA notes, 'the deadline is important so that budgetary units know at the beginning of the fiscal year what resources they will have at their disposal for service delivery'.

7. Open Budget Survey Questionnaire 2019. Question 112.

8. Open Budget Survey Questionnaire 2019. Question 138.

In-year changes to budget:

Looking beyond the approval stage, PI-18.4 assesses whether clear rules exist that set strict limits for the executive branch to modify the budget once it has been approved by parliament (this is known as the Enacted Budget). While the PEFA focuses on the action that can be taken by the executive branch without parliament, the OBS asks whether there is a legal requirement for the executive branch⁹ to seek:

- approval from parliament prior to shifting funds between administrative units that receive explicit funding in the Enacted Budget;
- permission from parliament to spend funds exceeding the amount approved by parliament and if this is done in practice; and
- approval from parliament to reduce spending below levels in the authorised in the approved EBP owing to revenue shortfalls during the fiscal year.

Are there other key areas related to ex-ante oversight that are not covered by the PEFA?

Pre-budget debate:

The PEFA Framework does not address the role of parliament in the formulation phase of the budget.¹⁰ As OBS Question 107 implies, significant value can be added by debating the government's broad budget priorities and fiscal framework either in plenary, or in a parliamentary committee before tabling the EBP. This is often presented in a Pre-budget Statement (PBS).¹¹

Research capacity:

While arrangements for 'technical support' form part of PI-18.2, the PEFA does not provide any details regarding the type of technical support to be provided. The quality of analysis available to parliament by an in-house research unit or Parliamentary Budget Office is not considered. Yet the absence of research support can undermine the quality of parliament's scrutiny of the EBP. The 2019 PEFA Assessment of the Federal Democratic Republic of Ethiopia (FDRE) is a case in point. Ethiopia scored an 'A' for PI-18.2, partly as a result of the fact that 'procedures also include the option to ask for technical support'. However, a WFD assessment of the FDRE House of Representatives in January 2020 found that a lack of research support is a major impediment to the effective work of the Budget Committee.

How does the PEFA assess the role of parliament in ex-post oversight?

Compared to the *ex-ante* oversight, the PEFA treatment of *ex-post* oversight delves further into the robustness of parliament's role. In particular, it provides criteria for in-depth committee hearings, the role of parliament in issuing recommendations and the standards for public access to committee hearings.

9. Open Budget Survey Questionnaire 2019. Questions 115-117.

10. More information on the role of parliament in the formulation phase of the budget is provided in the WFD brief entitled 'Influencing the Budget during the Formulation Stage' (Brief number 7 in the eight-part series on financial accountability), published October 2020.

11. OBS questions 54 to 58 cover the contents of the PBS.

The five dimensions of the PEFA directly relevant to assessing *ex-post* parliamentary involvement in the budget process are represented in Figure 2. The text in red provides additional commentary, which is also described in the paragraphs that follow.

Figure 2: PEFA dimensions relevant to assessing *ex-post* parliamentary involvement

30.2 Submission of audit reports to the legislature	31.1 Timing of audit report scrutiny	31.2 Hearings on audit findings	31.3 Recommendations on audit by the legislature	31.4 Transparency of legislative scrutiny of audit reports
<ul style="list-style-type: none"> • Within three months from the receipt of the financial reports from the government. 	<ul style="list-style-type: none"> • Audited version of the annual financial reports is completed by the legislature within three months from receipt of the reports from the SAI. 	<ul style="list-style-type: none"> • Whether in-depth hearings on key findings of audit reports take place regularly with responsible officers from all audited entities which received a qualified or adverse audit opinion or a disclaimer. • Emphasis only on financial audits only. Does not address review of performance audits • Does not specify committee review. 	<ul style="list-style-type: none"> • Whether the legislature issues recommendations to be implemented by the executive and systematically follows up on their implementation. 	<ul style="list-style-type: none"> • Public hearings except in rare and defined circumstances; • Committee reports debated in the full chamber of the legislature; and • Committee reports published on an official website or by other means easily accessible to the public.

Timely submission of auditor’s report on the annual financial statements¹² to parliament.

PI-30.2 assesses whether the Supreme Audit Institution (SAI) has submitted its report in a timely manner.¹³ The SAI needs to submit its audit of the annual financial statements to parliament within three months from the receipt of the government’s financial reports. What is assessed here is whether the SAI has submitted its report in a timely manner. This is out of parliament’s hands.

Timely scrutiny of auditor’s reports on the annual financial statements:

PI-31.1 focuses on the length of time parliament takes to scrutinise the audited version of the annual financial statements. It is recommended that parliamentary scrutiny be completed within three months from the time the reports are received from the SAI.¹⁴ PEFA guidance acknowledges that committees could be backlogged in reviewing SAI reports and suggests that first priority be given to audit reports covering the last completed reporting periods and those audited entities with a poor history of compliance.¹⁵

12. The audit products conducted by Supreme Audit Institutions are defined in the WFD brief entitled ‘Are Supreme Audit Institutions fit for purpose in the age of COVID-19 and beyond?’ (Brief number 1 in the eight-part series on financial accountability), published October 2020.

13. More information on Supreme Audit Institutions is provided in the WFD brief entitled ‘Are Supreme Audit Institutions fit for purpose in the age of COVID-19 and beyond?’ (Brief number 1 in the eight-part series on financial accountability), published October 2020.

14. A lesser score is provided if scrutiny of the reports is completed within six or twelve months.

15. 2016 PEFA Framework, p. 83.

In-depth hearings on audit reports:

PI-31.2 focuses on whether in-depth hearings on key findings of audit reports take place regularly with responsible officers from all audited entities receiving either: a qualified audit opinion, adverse audit opinion, or a disclaimer.¹⁶ The quality or robustness of 'in-depth' hearings is also defined by the presence of SAI representatives to 'explain the observations and findings' as well as representatives from the audited entity to 'clarify and provide an action plan to remedy the situation'.¹⁷ These are indeed important criteria. It is not, however, specified whether these hearings should take place in committee or in plenary. The OBS does specify, however, the need for committee review of the annual audit report, which is more likely to be effective than a hearing in plenary.

PI-31.3 focuses on whether parliament not only issues recommendations to be implemented by the executive, but also follows up systematically on their implementation.¹⁸

PI-31.4 focuses on the transparency of parliamentary scrutiny of audit reports. This includes:

- public hearings except in rare and defined circumstances;
- committee reports debated in plenary; and
- committee reports that are published on an official website or by other means easily accessible to the public.

- WFD has been active in the Western Balkans since the early 2000s. WFD's Western Balkans Democracy Initiative (WBDI) works with eight parliaments, public institutions, political parties and CSOs across six countries to improve representation of women, young people and persons with disabilities in political processes that impact on their lives. WFD has six offices in the region.
- Given WFD's work in strengthening parliamentary oversight in the region, tracking the PEFA scores has been a helpful tool in: developing project baselines; assessing the progress (or in some cases regression) made by its partner institutions; monitoring and reporting on results; and identifying and sharing regional best practices as well as progress made.
- For example, Kosovo's overall score reflecting the scope of parliament's scrutiny of the annual budget law improved between March 2009 and January 2016 with the submission to parliament by the government of the Medium-Term Economic Framework (MTEF). Kosovo has also improved its score for parliamentary scrutiny of audit and external audit reports. In 2007, no in-depth hearings were conducted by parliament on the Office of the Auditor General's (OAG) annual budget execution reports. By 2016, the formation of a Public Finance Oversight Committee (PFOC) resulted in hearings with audited entities as well as the issuing of recommendations by the PFOC along with a request to audited entities to report back on unimplemented OAG recommendations.
- In the case of Bosnia and Herzegovina, a federation, the 2014 PEFA assessment provided comparative information on the federal and SNG levels. For example, with respect to the extent to which parliament holds hearings on key findings reported by the Auditing Office of Institutions of Bosnia and Herzegovina, the PEFA concluded that the BiH subnational Assembly was holding regular hearings with responsible officers from audited entities that are the subject of significant criticism, while the Republika Srpska subnational Assembly was only holding hearings occasionally.

16. A lesser score is provided if hearings are held with 'most' or 'few' of these entities.

17. 2016 PEFA Framework, p. 83.

18. 'Systematic' follow-up is defined as 'a system for tracking recommendations exists and it is used to record recommendations and to record action or lack of action taken on recommendations, and where for every recommendation, the executive and parliament is notified during subsequent hearings whether recommendations have or have not been implemented. While "most" is not defined, "few" is defined as "between 10 and 25 percent (of value) of government units with qualified, adverse or disclaimer opinions'. See 2016 PEFA Framework, p. 83.

Are there other key areas related to ex-post oversight that are not covered by the PEFA?

Types of audits reviewed by parliament. The PEFA assessment only emphasises parliamentary review of the audited financial statements, omitting other types of audit products provided by the SAI. This is problematic for a number of reasons. First according to the PEFA assessments, financial statements are often incomplete, submitted late, and do not comply with international standards. For these reasons, the audited financial statements may often be of marginal use to parliament. Table 2, below, outlines a sample of 51 PEFA scores taken since 2016, demonstrating the incompleteness of financial statements and lack of compliance with international standards.¹⁹

Table 2: Sample of PEFA scores related to PI-29, annual financial statements

Score	29.1 Completeness of financial statements	29.2 Submission of reports for external audit	29.3 Compliance with international standards
A (highest)	8	13	4
B	10	17	3
C	25	7	33
D (lowest)	8	13	11
NR	0	1	0
Subtotal	51	51	51

Second, the assessment does not cover the parliamentary review of performance audits, which examine whether governments have implemented programmes with due regard to economy, efficiency, and effectiveness. Whether or not performance audits are conducted by the SAI is covered in a separate PEFA pillar. However, consideration is not given to whether parliament actually reviews the performance audits.²⁰

19. The sample was generated by downloading scores from PEFA assessments at pefa.org/assessments/batch-downloads, using the following criteria: All regions, all countries, 2016 PEFA Framework only, national-level PEFA assessments, and final versions of PEFA only.

20. Covered in PI 8-4. See page 29 of 2016 PEFA Framework.

Conclusion



As a comprehensive PFM assessment tool, the methodology and published results from the PEFA Framework can be used for a multiplicity of reasons. This includes honing in on parliament's role in the budget process, both *ex-ante* and *ex-post*.

While helpful for assessing parliamentary scrutiny of the EBP, PEFA's approach to assessing *ex-ante* approval of the budget appears principally concerned with parliament's role as an efficient and predictable player in the budget process. Information regarding the actual time spent by parliament scrutinising the EBP - and the manner in which this scrutiny is conducted - is required.

It should also be noted that the PEFA Framework does not address the role of parliament in the formulation phase of the budget: namely, scrutiny of the PBS. Additionally, given the technical nature of budget documents, a better understanding of the research support provided to parliaments would be helpful. In the absence of research support, the likelihood of parliament's effective review of the budget is severely diminished.

With respect to *ex-post* oversight and the review of the SAI reports, the PEFA is more prescriptive. Criteria for *ex-post* budgetary review includes in-depth committee hearings, as well as issuing recommendations to audited entities and standards for public access to committee hearings. One improvement to supplement the information provided in the PEFA would be to look beyond the audited financial statements to other types of audit reports such as performance audits, which can provide a more robust analysis of governments' service delivery.

Finally, it should be noted that the new PEFA gender module is the PEFA Secretariat's first attempt to incorporate GRB into a PFM assessment. Unfortunately, given that the gender module is not integrated into the main PEFA assessment, countries and subnational units can opt out of the gender module.



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