



# Show Me the Money: Improving Financial Oversight.

GPG's Guide to Parliaments series explores the key processes and functions of parliaments around the world. The Guide highlights the main elements affecting design and delivery of effective parliamentary strengthening projects. This paper will discuss the vital function of Parliament in scrutinising and overseeing financial matters, in particular:

- How Parliaments undertake their financial oversight functions and why it matters.
- The key roles played respectively by parliamentary committees, independent oversight bodies, parliamentary staff and the public.
- Why financial scrutiny should be an essential aspect of international parliamentary strengthening programmes and the types of support donors and implementers can provide in this domain.

## 1. Introduction

Oversight and control of public money is a critical factor in any democratic society, but particularly in new democracies. Calling government to account for its finances is one of parliament's oldest functions, and it is central to almost every domestic argument about policy priorities and provision of services to voters. Yet it is also a role parliaments tend to perform inadequately and presents a particular challenge for parliaments in developing countries, where limited processes, organisational capacity and influence can hinder effective oversight. This paper examines the different aspects of this core function, why it matters, what needs to

be in place for a parliament to properly oversee government and how international support might aid this process.

## 2. Why Financial Scrutiny Matters: Reasons to Seek Improvement

Parliaments have many important functions within the governmental and political system: to make laws, to hold government accountable for its actions and to represent the interests of the people. But Parliament's scrutiny and oversight of financial matters are a vital area. Parliament's financial oversight functions range from authorising the Executive to raise revenue through taxes and duties, giving government permission to spend that money on public services and to ensure that public money has been well spent.

- The 'Power of the Purse' - the long-standing principle of many parliamentary systems that a government must seek and obtain permission from Parliament before it can levy taxes on the nation or spend the money that it has raised - in theory at least - ensures **Parliament can control the central activities of government**. Indeed, a government which fails to obtain parliamentary approval for its budget or spending plans will be severely weakened or may even fall.
- Parliament has a responsibility, on behalf of the public, to **scrutinise and question the Government's financial**

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**plans and decisions.** To achieve this, Parliament should make sure that Government provides full information about its policies and activities and explain clearly why it has chosen one course of action over another.

- Furthermore, Parliament has a crucial **oversight role to hold government accountable for the money it has spent.** Effective oversight can build Parliament's reputation as a champion of the people by ensuring that public money delivers value for money. Financial scrutiny is also essential as a means to check probity in the public finances and deter or identify corruption.

Given that every individual, organisation and business is directly affected by money and finance, parliamentary scrutiny of taxation and expenditure is fundamental to the relationship between Parliament, the Executive and the public. Therefore, every Parliament should look closely at how it operates and, if necessary, make changes to ensure that it undertakes financial scrutiny work as effectively as possible.

### 3. What is Financial Scrutiny? Definitions and Descriptions

Financial scrutiny can be divided into two broad phases: scrutiny and approval of government plans for raising revenue and authorising forthcoming public expenditure (ex ante) and the oversight and monitoring of past expenditure (ex post). Many individual Parliaments often have greater powers, or work more effectively, on one part of these two distinct phases. The main features within financial scrutiny include:

#### 1. The Budget

The Budget process can encompass a wide range of different procedures, including:

- To provide parliamentary approval for the government to levy taxation and approve its revenue raising settlement.
- Presentation of a statement of the total annual budget of money raised and available to be spent, including specifying the amounts to be spent by individual ministries and any other sub-headings of expenditure.
- The granting of powers to allow the government to spend money.
- Specifying the procedures to enact and implement the budget.

There is no single method of parliamentary budget process. The procedures used are often determined by the powers over budget making and approval that the particular Parliament holds.<sup>1</sup> These can be broadly categorised as:

- **Budget-making:** This model involves the ability to amend or to reject the Executive's budget proposals and instead to present a budget of its own. The most well known example of this model is the United States of America.
- **Budget-influencing:** This model involves the capacity to amend parts of (or perhaps reject) the Executive's proposals, but no realistic ability to replace it with its own budget. Some Scandinavian legislatures such as Sweden are in this category.
- **Budget-approving:** In this model, powers are limited to simply approving or (much more rarely) rejecting Executive proposals. Parliaments cannot usually amend the Executive's proposals, nor can they create their own budget. The main focus of the parliamentary process is on scrutiny and debate on the government's priorities and plans. Examples include 'Westminster model' legislatures such as the United Kingdom and Canada.<sup>2</sup>

Irrespective of the different budget powers and procedures in place, parliamentary scrutiny should seek to shed light on some common features within the budget, including:

- The amount of revenue forecast to be raised and whether this is realistic.
- What are the sources of government income? What types and levels of taxation and duties will be used to raise this income?
- Will there be any expected surpluses or deficits?
- What are the government's priorities and targets, how is money to be allocated to different ministries or spending headings?
- What period does the budget cover?

In total, the Budget process should provide Parliament with the opportunity to question fully the Executive about its budget proposals and allocation, to raise public concerns and to make the case for changes in both the overall budget settlement and to the various components within the budget.

## 2. Financial Legislation

There is also a financial scrutiny dimension to the legislative process. In many legislatures, the annual budget must be enshrined in legislation and passed by the Parliament to allow all its provisions to be enacted. Additionally, other pieces of legislation, for example involving financial regulation and the wider economy, will be debated, scrutinised and enacted.

## 3. The Oversight Role

Scrutinising government expenditure is one of the most important functions that Parliament can undertake, looking at issues such as:

- How wisely and appropriately has money been spent?
- How effective are the outcomes of that spending?
- Has value for money been achieved? If not, why not? What can be done to rectify the situation?
- Have funds been spent on the purposes for which they were requested?
- Providing a watchdog role to deter, prevent and identify corruption and misuse of public money.
- Ensuring that government accounts are checked by an independent Supreme Audit body, with its reports submitted to Parliament for review.

The oversight role can provide Parliament with the opportunity to make a real impact and to act on public concerns. In fact, some Parliaments have much more impact on the oversight role than on the budget role. This situation is particularly marked in some Westminster model legislatures which have relatively limited budgetary powers.

The parliamentary oversight role can be carried out in a number of different ways, including written and oral questions to ministers and debates in the plenary session. However, the most effective scrutiny work generally takes place within committees.

## 4. The Importance of Parliamentary Committees

Financial scrutiny and oversight can be undertaken by a range of parliamentary committees, including those committees which have a specific financial focus (e.g. finance or budget committees) as well as those with a ministerial remit (e.g. health, education, transport).

Committees represent a way for MPs from different parties or blocs to work together on issues of the public interest and attempt to achieve a less partisan and more collegiate approach to financial scrutiny.

Committees are able to look in depth at the Executive's budget and spending plans and at the outcomes of government spending. Their work may include: questioning ministers, officials and experts in oral session; requesting written memorandums and audit reports; undertaking inquiries and producing reports.

### Public accounts committees

In many countries, the prime location for financial accountability is the Public Accounts Committee (PAC) (or its equivalent). The PAC may have a close relationship with the Supreme Audit Institution (SAI) and will use the SAI audit reports as the basis for their own inquiries. The World Bank Institute has identified some aspects of an 'ideal' Public Accounts Committee and suggested ways to improve effectiveness:

- The Committee should be relatively small, with 5-11 members, none of whom should be government ministers.
- A senior opposition figure should chair the committee.
- The Chair should be a senior parliamentarian, fair minded and respected by parliament.
- The Committee should be appointed for the full term of parliament, be adequately resourced, with experienced officials and expert support.
- The Committee should meet frequently and regularly; have hearings which are open to the public; full verbatim transcripts should be made available for public distribution.
- Witnesses questioned by the Committee should include senior public officials who are responsible for the issues under examination.
- The Committee should strive for consensus in its reports.
- The Committee should have established procedures with the government for following up its recommendations and should be informed about what, if any, action has been taken.
- Parliament should hold an annual debate on the work of the Committee.<sup>3</sup>

One model is the United Kingdom Public Accounts Committee (PAC), the world's first PAC dating from 1861. Most of the PAC's work consists of examining the reports of National Audit Office (NAO) (the Supreme Audit Institution). The NAO's main focus is to assess whether the accounts of a ministry or public body are accurate. It also looks at value for money issues, to assess whether a policy or project has been carried out efficiently but it does not look at the merits of the policy or whether the Government was right to introduce the policy.

Using the NAO's report, the PAC will then normally take oral evidence in public from the ministry officials or other experts. The PAC then publishes its own report, setting out its own conclusions about how the Government has spent public money and usually makes recommendations for improvement. The PAC will often return to an issue to make sure that any failings have been rectified and lessons learned.<sup>3</sup>

### Impact and Effectiveness: Making a difference

As financial scrutiny has such importance to the political process, and to wider society, Parliament should ensure that its work has impact. It is important for all those involved in parliamentary financial scrutiny, in particular committees, to adopt guidelines and principles for their financial scrutiny work and determine what they want to achieve:

**Purpose:** Committees should aim to be a 'critical friend' to the Executive and be challenging and robust about financial matters while at the same time maintaining a dialogue and constructive working relationships with the Executive.

One objective could be described as developing a 'Culture of Explanation and Accountability'. Ministers and Officials should be aware that it is possible – even likely – that they will have to account for their decisions and actions. The prospect of parliamentary oversight should encourage transparency and deter impropriety.

**Priorities:** Committees should set financial scrutiny priorities for a parliamentary session, recognising that they have a finite resource of time and work. This may include developing an annual strategic plan for the Committee and producing annual reports summarising the work and achievements of the Committee against this plan. Committees should aim to achieve a balance between scrutiny of the macro-effects of finance and budgets while also looking in more detail at certain targeted areas (e.g. education, health or welfare).

**Preparation:** is vital for effective financial scrutiny. Detailed preparation will mean that the committee will be taken much more seriously by the Executive. An ill-informed and disorganised Committee can be easily brushed aside. A crucial factor is ensuring that work is based on evidence, statistics and research.

**Follow Up:** The publication of a financial scrutiny or oversight report does not represent the end of the process. In fact it is the start of a new and important phase. Follow up may be particularly important in

relation to reports which have highlighted corruption or impropriety or serious maladministration. To ensure maximum impact, some questions should be asked:

- Has the Executive responded adequately – or even responded at all?
- Has the Executive committed to make changes and has it actually carried these out?
- Have any changes actually made a difference and led to improvement?

A Committee may decide to hold a follow-up meeting or to reissue the report with additional paragraphs summarising what has or has not happened since the report was first published.

## 5. National or Supreme Audit Institutions (SAIs)

SAIs play a crucial role in strengthening parliamentary financial scrutiny. SAIs are often headed by the Office of an Independent Auditor General (AG), whose role is usually to audit all government accounts, as well as any non-governmental bodies which spend public money. Many AGs are formally officials of the Parliament. Although the structures and powers of individual SAIs may vary, they are likely to share some common activities:

- Undertaking an annual audit of the public expenditure of individual government ministries and of total government expenditure.
- Drawing attention to discrepancies or concerns within the audit's findings.
- Assessing the efficiency and effectiveness by which the Executive has spent public money.
- Shining a spotlight to identify impropriety, fraud or corruption. The knowledge that an independent and expert body will closely scrutinise accounts may also act as a deterrent to prevent or reduce fraud or corruption from occurring.
- Supporting the work of Parliament and its committees; for example, by seconding staff and by providing oral and written information.
- Ensuring parliament's credibility by being independent, impartial, expert and publicly accountable.<sup>5</sup>

## 6. Parliamentary Staff: Resources and Support

Members of Parliament, on the whole, are not financial experts and cannot be expected to be. They therefore require the best support, information and access to expertise if they are to successfully carry out their work on financial and budget

issues. A range of different staff support will strengthen the work of Parliamentarians, including:

- Core staff working for committees. These may include staff with knowledge of parliamentary procedure and practice in relation to financial matters as well as specialist staff with direct financial knowledge and experience. Their role may involve collecting and analysing financial data and statistics; preparing briefings and research papers, drafting reports and liaison with external bodies.
- Research and Library Services to provide a wide range of factual and statistical information.
- Expert advisers who may work on individual subjects or inquiries.
- Seconded staff from universities, research institutions or bodies such as the Supreme Audit Institution.

Some Parliaments make use of a form of Parliamentary Budget Office. This Office will undertake functions such as analysing the government's fiscal plans and its annual budget proposals and providing committees and MPs with financial analysis of policy proposals. One example is the United States Congress Congressional Budget Office (CBO) which was founded in 1974, to provide Congress with:

- Objective, non-partisan analyses of programmes in the federal budget.
- Providing committees with estimates and projections for the budget process.
- Analysis on the financial impact of laws (both ex ante and ex post).
- Seeking external expert advice such as advisers from government agencies and industry groups.<sup>6</sup>

#### **United Kingdom House of Commons Scrutiny Unit**

Established in 2002, the Scrutiny Unit, consisting of about 20 staff, provides specialist help for committees such as evidence-based briefings, guidance notes and statistical analysis, gives presentations and training to committee members and their staff, and identifies examples of best practice. It works with committees in pressing the Executive to improve the quality of the financial information.<sup>7</sup>

### **7. Engaging With the Public and Accessing Expertise**

Financial scrutiny is carried out by Parliament on behalf of the public that it represents. Parliament should aim to incorporate the views and experiences of those outside Parliament and, as far as possible, reflect public concerns. To

encourage consultation and communication with the public, Parliament should produce information that is easily accessible and readily available. Straightforward information is especially important given that the layperson will generally regard government finance, taxation and public expenditure as technical and complex subjects.

Furthermore, the information and data that external bodies can provide to Parliament is crucial in ensuring that committee inquiries are based on evidence and independent analysis. A range of different types of external consultation can be used:

- Consultation with Civil Society and Individual Citizens: One way to build a systematic engagement strategy is to draw up a register of a civil society and representative groups which should be invited for their views according to the subject under consideration.
- Consultation by sector: To reflect the perspectives and impacts on different sectors within society (e.g. gender, elderly or youth, social group or geographical region).
- Consultation with Experts: Seeking external expertise from: International Institutions, (e.g. International Monetary Fund, World Bank), Central Banks, audit institutions, ombudsmen and regulators, business groups and the private sector, academia and research institutions.
- Using the Media: The media (print, broadcast, online) can be used to communicate with and to engage the public. Parliament should devise strategies so that financial scrutiny is not seen as a dry, technical subject. Instead it should highlight when, for example, the parliamentary process has safeguarded the public's money or identified fraud or corruption. It should also make clear links between budgets and finance being discussed in Parliament and the impact on the lives of individual citizens.

### **8. International Support to Parliaments**

Given the importance of financial scrutiny in reinforcing the democratic process by strengthening accountability, transparency and participation, support to the legislature's financial oversight and scrutiny role is increasingly becoming an essential aspect of international parliamentary strengthening programmes.

Parliamentary support programmes can be designed to help finance committees, MPs and parliamentary staff to:

- make more effective use of their financial scrutiny powers through the use of oversight mechanisms such as parliamentary questions and inquiries.
- gain access to external expertise and identify trustworthy sources of financial and economic information.
- be involved in all stages of the budget process, ensuring that drafting and approval of the budget is followed up with ongoing scrutiny and monitoring of actual expenditure.
- involve the public in the oversight role through consultations with experts, civil society and the media.
- create relationships between committee staff and staff of the Audit Bureau, the Central Bank and Ministries.
- establish a “Scrutiny Unit” consisting of specialist research staff in parliament.

### Financial Scrutiny, Anti-Corruption and Development Programmes

For recipients of international support, effective financial scrutiny is also critical to ensure development aid is used for the purposes intended and crucially, is not diverted or misappropriated. The causes of corruption affecting development programmes, and the methods by which money is diverted or inappropriately spent, are many and various and the methods required to deter and identify corruption need to be equally multifaceted.<sup>8</sup>

There have been a number of initiatives which have identified the importance of in-country systems including parliamentary scrutiny to ensure that development programme aid is effectively used and has sustainable outcomes.<sup>9</sup> Parliaments have a key role in working with the Executive and all other relevant bodies, such as donor countries, civil society and international institutions, to ensure a broad based, multi-agency system of oversight is embedded.<sup>10</sup> In addition, Parliament itself can take specific initiatives to give a high priority to dealing with corruption, including:

- Reviewing Parliament’s powers, procedures and practices in relation to oversight of development programmes, identifying areas for improvement and introducing necessary reforms.
- Introducing a core duty that all relevant committees (e.g. Public Account Committees, Finance or Budget Committees, committees with oversight responsibility for development programmes e.g. Health, Education, Services and Infrastructure) should undertake a required level of oversight on development programmes during the course of a parliamentary session.
- Increasing the number of staff, the resources available and recruiting

advisers and specialists for the relevant committees which have a role in identifying corruption or impropriety.

- Establishing a designated Aid and Development Committee to provide a strategic overview of oversight issues.
- Establishing a Parliamentary Budget Office or Scrutiny Unit to provide specialist support for Committees and individual MPs on oversight of development programmes.
- Building closer links with Supreme Audit Institutions and ensuring that, as a matter of course, with and without notice, SAs undertake a regular programme of audit on aid and development funds.
- Ensuring parliamentary involvement in the setting of strategies and targets for development programmes. Using the targets as a tool to undertake oversight of the implementation and delivery of programmes to determine whether goals have been achieved and seek explanation and accountability if this has not happened.
- Ensuring regular debates in the Chamber and regular special question times with Ministers to ensure that development oversight remains on the plenary agenda.
- Convening regular meetings in Parliament with civil society, journalists and media outlets, international bodies and all others with an interest in combating corruption to provide a high profile location for discussion of these issues.

## 9. Conclusion

Financial scrutiny matters to the public. People are acutely aware of how much they pay in taxes. The public services that are funded by their taxation affect almost every aspect of society on a daily basis, from health, education, defence to pensions.

One of Parliament’s most important functions is to grant permission to the Executive to raise taxation from the public and to hold it accountable for the way that it subsequently spends the money raised. These functions are central to the democratic control of government.

It is a responsibility and duty of Parliament to make sure that the public’s money is appropriately raised, used and well spent. Parliaments should ensure that they discharge these responsibilities and duties as effectively as possible and make any necessary changes so that this actually happens.

## Endnotes

<sup>1</sup> Parliament in the Twenty First Century, A Guide to Good Practice, Inter-Parliamentary Union, (2006)

<sup>2</sup> Parliament, The Budget and Gender, Wehner, J, and Byanyima, W, (Inter Parliamentary Union, United Nations Development Programme, The World Bank Institute and United Nations Fund for Women), (2004); See also Who Controls the Budget, The Legislature or the Executive? Lienert, J, International Monetary Fund (2005)

<sup>3</sup> The Overseers: Public Accounts Committees and Public Spending, The World Bank Institute (2002); Strengthening Parliaments, Strengthening Accountability, The World Bank Institute's Parliamentary Strengthening Program Retrospective, The World Bank Institute (2007).

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<sup>5</sup> For further information, see the International Organisation of Supreme Audit Institutions -

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<sup>7</sup> For further information on the Scrutiny Unit, see and

<sup>8</sup> Independent Commission for Aid Impact; DFID's Approach to Anti-Corruption and Its Impact on the Poor (October 2014); ( )

<sup>9</sup> For example, The Paris Declaration on Aid Effectiveness (2005) and Accra Agenda for Action (2008)

<sup>10</sup> The Role of Parliament in Curbing Corruption, Stapenhurst, R., Johnston, N., Pelizzo, R., (Ed.) The World Bank (2006); Engaging and Supporting Parliaments Worldwide, Strategies and Methodologies for EC action in support to parliaments (2010), European Commission

+44 (0) 207 549 0350  
gpgovernance.net  
hello@gpgovernance.net

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