Public Accounts Committees and Parliamentary Budget Offices.doc

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

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 has 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 identifies certain factors that may help PACs work effectively. This paper examines these factors in 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, 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 that that 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 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

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
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 three 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. 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 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

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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)
transportation” (personal interview).

**Figure 1:**

![Stages of the annual budget process](image)


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 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 is 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 variation, too, regarding the relationship between the auditor general and the PAC, the status of the PAC within

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

![FIDUCIARY OBLIGATION Diagram]

Source: Stapenhurst et al., (2005)

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 Accounts 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.

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.

What Factors Contribute to the Success of a PAC?

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

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

**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 government (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 government 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 That Consider Various Practices and Procedures “Very Important” to PAC Success, by Region

<table>
<thead>
<tr>
<th>Factor</th>
<th>Africa</th>
<th>Australasia</th>
<th>Canada</th>
<th>Caribbean</th>
<th>South Asia</th>
<th>United Kingdom</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comprehensive response from government</td>
<td>64</td>
<td>89</td>
<td>67</td>
<td>71</td>
<td>90</td>
<td>67</td>
</tr>
<tr>
<td>Close working relationship and research reports from legislative auditor</td>
<td>55</td>
<td>33</td>
<td>75</td>
<td>71</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Independent technical expertise and research support for hearings</td>
<td>70</td>
<td>67</td>
<td>33</td>
<td>50</td>
<td>86</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Stapenhurst et al., 2005

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 (2003, page 29) noted, quoting Burnell (2001, page 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.*

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, 2005 (2003? 2006?), 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.

**Parliamentary Budget Offices**

It is at this juncture that the need arises for a consideration of **Parliamentary Budget Offices (PBO)** because they are capable of providing significant value to legislative oversight of the budget process. For the purposes of definition, a PBO can be described as an independent office that produces non-partisan and impartial analysis on matters and policies pertaining to budgeting and finance, including the budget itself, for the consumption of legislators.

The PBO can generally be thought of as an ex ante oversight institution because it produces...
costings for political parties on policies that are at the drafting and legislative stages. This is especially true in jurisdictions such as in the state of New South Wales, where the PBO is specifically mandated to cost policies prior to elections (Parliament of NSW, 2010), and in the Commonwealth of Australia, where pre-budget costings are an integrated element within the Charter of Budget Honesty (Parliament of Australia, 1998). In such places, PBOs are mandated to play an ex ante role in the budget process by preparing budget-related documents for parliamentarians and public in anticipation of events such as the annual budget or elections. In this sense, the PBO can be seen as an ex ante institution that is complementary to the ex post public accounts committee.

However, if allowed, the PBO can be a more versatile organization with an ex post role as well. A PBO can conduct backward looking analysis of the implementation of government policies, in the audit phase of the budget process, particularly with regard to the variance in actual costs compared to the originally projected costs of policies. Such an ex post role has existed in the PBO of Canada (Chohan, 2013), as in 2008 when the PBO found that the government was significantly understating the costs of engaging in politically divisive policies such as the War in Afghanistan. In the United States, the CBO undertakes such ex post evaluation work, and also performs a specific function known as “scorekeeping,” wherein it tracks results of congressional action on individual appropriation and revenue bills against targets that are specified in concurrent resolutions (Joyce, 2011). In conducting ex post work, PBOs can reinforce the ex post role that PACs play in the annual budget process.

Like the PACs, PBOs can be seen as an institution that levels the playing field between government and opposition in the legislature. The ruling political party has a larger dispensation of budget tools, such as the Ministry of Finance and Treasury, and opposition parties by contrast have little in the way of recourse to institutionalised budget acumen. PBOs help to balance that disparity by serving the budget-related needs of opposition parties. In some jurisdictions such as New South Wales, PBOs have a mandate to serve the main opposition party (Parliament of NSW, 2010). Similarly, an amendment to the Australian Charter of Budget Honesty enshrines a role for the PBO to assist the opposition in budget tasks (Parliament of Australia, 2011).

The most integrated example of cooperation between the PAC and the PBO can be found in New South Wales, Australia. According to PBO legislation (Parliament of NSW 2010):

1. The PAC may monitor and review the operations of the PBO and report to parliament on any matter relating to the PBO
2. The PBO provides the PAC with a copy of the operational plan that the PBO will follow, and
3. The PBO provides the PAC with a report after each election, which may include recommendations by the PBO for the budget process and for future election-related budget details.

The NSW example shows that the PBO and the PAC can be integrated procedurally into the budget oversight process, by creating a reporting relationship between the two institutions.

Regardless of whether these institutions are linked by a statutory reporting relationship, they can nonetheless reinforce each other’s oversight work. In fact, a more effective budget oversight
process is only possible when the auditor general, the public accounts committee, and the budget office all engage in mutually strengthening oversight activity. A recent example of this comes from Canada, where in 2011 the Auditor General and the PBO independently assessed the costs related to the controversial F-35 Jet fighter procurement. The PBO was the first to cost the policy, and despite its analytical rigour, its numbers were rejected by the government (Chohan, 2013). However, the more powerful Auditor General’s assessment corroborated the PBO’s numbers and pointed to the deliberate understatement of costs by the government (Page, 2015). The independent analysis of these oversight bodies can help them to lend credence to one another and “change in public expectations” as “the public is more conditioned to receive more data points” (Chohan, 2013: 18).

**Diversity in PBOs**

Whereas the roles and functions of PACs do vary between countries, their variety is modest compared to that found among PBOs, which tend to diverge enormously in size, powers, mandates, and capacities. In fact, it is very difficult to make cross-country comparisons between PBOs precisely because they are so remarkably non-uniform. On one hand, certain PBOs are quite large, such as Australia’s which has 40 budget professionals and a budget of $7 million (Bowen, 2015). On the other hand, small PBOs are scattered throughout the developing world, often staffed by a handful of officials with limited budgets and a constrained capacity for budget analysis. Other PBOs such as Canada’s fall somewhere in between, with a budget of $3 million and only 12 staff members.

PBOs similarly differ the amount of access they have to the information necessary for budget analysis. In Australia, the PBO has signed memoranda of understanding (MoUs) that allow it access to necessary information; while in New South Wales, the PBO’s access to information is enshrined in its creation Act (Parliament of NSW, 2011). In Canada, although government departments have also hesitated to collaborate with the PBO, it has adopted creative techniques for interpolating budget information, such as by reaching out to international experts or by collaborating with budget offices in other jurisdictions (Chohan, 2013). By contrast, in many developing countries, PBOs can struggle to access even basic updated information on budget line items.

What are the causes of such enormous diversity among PBOs? Part of the question has to do with age. PACs date back to the mid-19th century, and many Commonwealth countries had Public Accounts Committees even before they became independent republics, such as Fiji (Nath, 2006). By contrast, PBOs are very much a 20th century invention and have only really found implementation in the past decade, often as a reaction to the 2008 global crisis (Debrun, 2011). Given the reactive nature of their very recent establishment, it is perhaps not surprising that they have taken on a multiplicity of forms and functions. PBOs are likely to homogenise as best practices transfer between them over time (Chohan, 2013), in particular by interaction between them as facilitated by international institutions such as the World Bank.
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 successful in closing the circle of financial accountability than those which have separate ex ante and ex post committees? PBOs aside, how can legislatures strengthen communication between the finance committee and the PAC or audit committee?
References


New References (PBO)