



Court of Audit



Fundamental principles for draft budget review



Publication of the Court of Audit
Brussels, September 2021

Preamble

The Belgian Court of Audit, as a budget advisor, reviews the draft budgets submitted by governments to parliaments before their adoption. This task gives rise to specific reports containing the Court's observations and comments resulting from its budget review. These reports aim to promote democratic scrutiny of budget proposals by providing parliamentarians with information to enable them to adopt draft budgets with full background knowledge, where appropriate after tabling amendments. Within this general framework, the Court's mission goes beyond simply reviewing draft budgets; it also consists of providing any information the Court considers useful for the democratic debate.

The budget review is not an audit as defined in section 1 of INTOSAI-P1, but an expert opinion as mentioned in section 12. To ensure the credibility and quality of such opinion, the Court decided to define its own fundamental principles, guidelines and organisational requirements. Its College has therefore adopted sui generis the following fundamental principles 1 to 38 to be applied to budget reviews.

The fundamental principles set out the requirements for budget reviews and help to develop a professional approach to budget reviews in accordance with the Court's mandate and regulations.

They are the common basis for all analyses related to draft budget review. They contain the organisational prerequisites for the proper functioning and professional conduct of the Court when examining draft budgets, in particular with regard to independence, transparency, ethics and quality control. Moreover, they define the professional principles, standards and guidelines for an effective and independent draft budget review.

They may be combined with more specific principles considering user expectations, existing regulations or any other criteria that may influence the mission. These more specific principles may not conflict with the fundamental principles.

The fundamental principles provide detailed information on:

- the **purpose** and the **scope** of the principles;
- the **framework** for the draft budget review and the methodology for carrying out this task;
- the **elements** of the draft budget review and of the methodology for carrying out this task;
- the **principles** to be applied during the draft budget review.

Content

Purpose and scope	4
Framework	5
Mandate	5
Objectives	5
Elements	7
The three parties	7
Subject matter, criteria and subject matter information	7
Types of engagement	8
Confidence and assurance in draft budget reviewing	9
Forms of providing confidence	9
Moderate level of assurance	9
Principles	10
Areas covered by the principles for draft budget reviewing	10
General principles	11
Principles related to the draft budget review process	15

Purpose and scope

1-3

- 1** The principles apply to all draft budget reviews carried out by the Belgian Court of Audit. They may not be contrary to national acts, decrees, ordinances or regulations.
- 2** The principles are the basis for the development of specific, detailed and operational manuals or guidelines as regards budget review. These manuals or guidelines are approved by the Court of Audit. They include the procedures for, on the one hand, meeting the normative specificities of the entities and, on the other hand, converting these principles at operational level (contingent factors such as the staff available to carry out the mission, internal skills, etc.). These documents take into account the fundamental principles in their entirety.
- 3** In its budget reports to the parliamentary assemblies, the Court states that the budget has been reviewed in accordance with the fundamental principles for budget review. To this end, it includes the following statement in its report:

We conducted our budget review in accordance with the fundamental principles established by the Court of Audit for draft budget review. These principles are available on the Court's website (www.courtofaudit.be).

Framework

4-6

Mandate

- 4** The Court of Audit has been entrusted with draft budget review by various legal provisions, depending on the entities audited. The scope or form of the review, as well as the reports on it, vary according to the mandate provided by the regulations and the expectations of the intended users.

Objectives

- 5** The draft budget review environment is that in which legislative assemblies authorise the governments to use resources derived from taxation or other sources in the delivery of services to citizens and other recipients. The review helps to create suitable conditions for the proper conduct of parliamentary debates preceding the adoption of draft budgets.

Comments and observations resulting from the draft budget review are communicated to the legislative assembly. The Court of Audit ensures that its comments and observations meet the expectations of the intended users, and in particular that they are sufficiently informative and written in clear language.

Comments and observations are also communicated to the responsible party and to the general public.

They should address at least the following points:

Budget sincerity:

- Are assumptions and revenue and expenditure estimates plausible?
- Are macroeconomic parameters used for drafting budgets plausible?
- Are assumptions regarding sustainability of draft budgets and debt plausible?
- Are operations from the budget balance on a cash basis to the budget balance on an ESA basis and, possibly, to the structural balance, in accordance with the known positions of the Belgian Institute for National Accounts, the Belgian High Council of Finance and Eurostat?

Transparency:

- Is the documentation provided in support of the draft budget complete?
- Is the information concerning the compliance with European obligations of high quality and substantiated?

Compliance with applicable legislation and regulations:

- Are the main budgetary principles (annuality, specification, unity and universality), the existing legal provisions as regards budget or other topics and the scope of the derogations complied with?
- Is the Special Finance Act relating to the financing of Communities and Regions complied with, considering the parameters used, notably the consistency of the amounts mentioned in the various draft budgets (at federal, community and regional level)?
- Is the documentation legally required and to be included in draft budgets complete?

Independently of these types of information, which relate to the strict review of draft budgets, the Court of Audit includes in its report any element of information that it deems useful to enable parliamentarians to cast a fully informed vote on draft budgets introduced by the government.

6

The Court of Audit plays an important role in strengthening the legislative power and public administration and emphasising the principles of transparency, accountability, governance and performance.

Draft budget review contributes to good governance by:

- providing the intended users with independent, objective and reliable information, based on sufficient and appropriate evidence;
- enhancing accountability and transparency, encouraging continuous improvement and sustained confidence in proposals for the appropriate use of public funds and assets;
- reinforcing the effectiveness of the legislative power and the bodies within the constitutional arrangement that exercise general monitoring and corrective functions over government, and those responsible for the management of publicly funded activities;
- creating incentives for change by providing knowledge, comprehensive analysis and well-founded recommendations for improvement.

Elements

7-20

- 7** Responsibility for the management of public resources in line with intended purposes is entrusted to the government, which acts on behalf of public interest. Draft budget review enhances the confidence of the intended users by providing information concerning deviations from accepted standards or principles of good governance.
- 8** Draft budget review implies the following basic elements: the auditor, the responsible party, the intended users, criteria for assessing the subject matter and the resulting subject matter information.

The three parties

- 9** Draft budget review involves three separate parties: the auditor, the responsible party and the intended users. The relationship between the parties should be viewed within the context of the specific constitutional or legislative arrangements for draft budget.
- The auditor: In draft budget reviewing, the role of auditor is fulfilled by the Head of the Belgian Court of Audit (General Assembly or Chambers) and by persons to whom the task of conducting the review is delegated (audit team members). The overall responsibility for the review remains as defined by the Court's mandate.
 - The responsible party: As regards draft budget, the relevant responsibilities are determined by constitutional or legislative arrangements. The government is responsible for providing draft budget information and managing it.
 - The intended users: The main intended users are legislative bodies (Parliaments). Reviews may also be used by organisations or classes thereof, oversight bodies, those charged with governance or the general public.

Subject matter, criteria and subject matter information

- 10** *Subject matter* refers to the information evaluated against certain criteria. An appropriate subject matter is identifiable and capable of consistent evaluation on the basis of sufficient and appropriate evidence to support observations. The subject matter considered in the fundamental principles is the draft budget and the economic and financial environment in which it is set.
- 11** The *criteria* are the benchmarks used to evaluate the subject matter. Each review should have criteria suitable to the circumstances. In determining the suitability of criteria, the auditor considers their relevance and understandability for the intended users, as well as their completeness, reliability and objectivity (neutrality and general acceptance). The criteria used may depend on the objectives of the budget review. Criteria can be specific or more general, and may be drawn from various sources, including laws, regulations, sound principles and best practices. They should be made available to the intended users to enable them to understand how the subject matter has been evaluated or measured.

- 12** In draft budget reviewing, *subject matter information* refers to the outcome of reviewing the draft budget against the criteria. It takes the form of a report which is transmitted to the legislative assembly and may have different characteristics depending on the entity concerned.

Types of engagement

- 13** In draft budget reviewing, the auditor evaluates the draft budgets against criteria. He selects the subject matter and the criteria taking into consideration the expectations of the intended users, the materiality of the forecast amounts and risks associated with sincerity, transparency and compliance, as well as the economic and financial environment in which they take place.

The outcome of reviewing the draft budget against the criteria is presented in the report transmitted to parliamentarians and may take the form of findings, observations, conclusions and/or recommendations (hereafter: review results). Draft budget reviewing may also lead to the provision of new information, analyses or indications.

- 14** The subject matter considered in the budget review is the draft budget, i.e. the “Exposé général/Algemene Toelichting” (document summarising the federal revenue and expenditure budgets), the draft revenue budget, the draft expenditure budget and the supporting documents in the broad sense. It also covers the general economic and financial environment of the draft budget. The review covers sincerity, transparency and compliance of the aforesaid documents and any elements that the Court considers useful for the parliamentary debate (see point 5 of the fundamental principles).

- 15** In draft budget reviewing, the auditor should obtain sufficient and appropriate evidence to evaluate whether:

- (a) the most plausible assumptions used by the government, on which the forecast financial information is based, are reasonable and whether potentially used theoretical assumptions are consistent;
- (b) the forecast financial information is correctly drawn up on the basis of the assumptions used;
- (c) the forecast financial information is correctly presented and whether all material assumptions are adequately provided;
- (d) the forecast financial information is drawn up in accordance with the historical financial statements on the basis of appropriate accounting principles.

- 16** The review also covers the compliance of financial and non-financial information relating to the subject matter (see points 5 and 11 of the fundamental principles). In this case, it is relevant for the auditor to demonstrate compliance with the defined and standardised benchmarks.

Confidence and assurance in draft budget reviewing

Need for confidence and assurance as regards reasonableness

- 17** The major intended users (legislative bodies) wish to be confident about sincerity, compliance and transparency of the information they use as the basis for taking decisions (adopting, amending or rejecting draft budgets). Draft budget reviews should therefore provide information based on sufficient and appropriate evidence, and the auditor should perform procedures to reduce or manage the risk of reaching inappropriate observations or comments. The auditor should provide transparent information on the reasonableness of budget forecasts. However, given the forecast nature of draft budgets, a budget review never provides absolute assurance.

Forms of providing confidence

- 18** The auditor provides the users with the necessary degree of confidence by explicitly explaining how findings and criteria were developed in a balanced and reasoned manner, and why the combinations of findings and criteria result in the comments in the reports transmitted to the legislative assemblies.

Moderate level of assurance

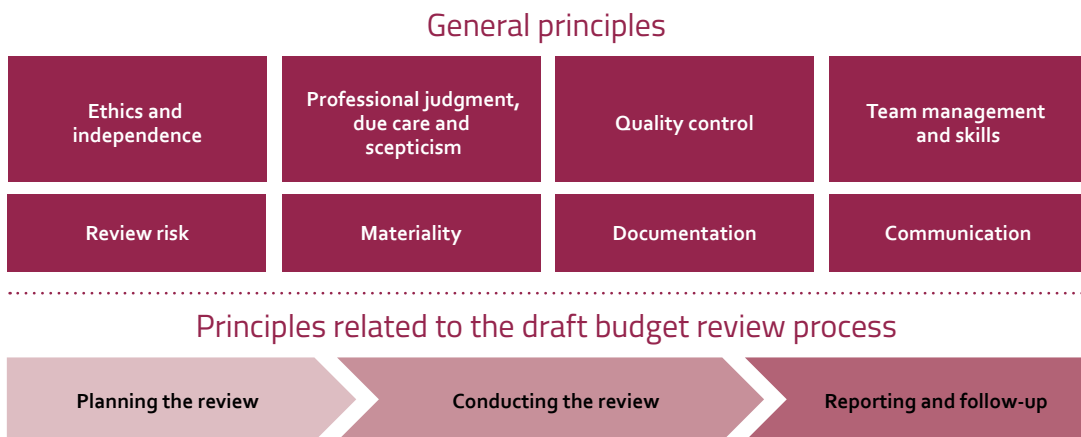
- 19** The information in draft budgets relates to measures and events that have not yet occurred and may not occur. Although some evidence is available to substantiate the assumptions on which this information is based, it is generally forward-looking and therefore speculative in nature; this differs from the evidence generally available in an audit of historical financial information.
- 20** When the auditor reports on the reasonableness of the assumptions used by the government, he can only provide a moderate level of assurance. However, when he considers that he has reached a sufficient level of assurance on certain assumptions, he may formulate a positive conclusion with respect to them.

Principles

21-38

- 21** The principles detailed below are fundamental to review draft budgets. The review is a cumulative and iterative process. However, for the purposes of presentation, the fundamental principles are grouped in the following categories:
- principles related to the Court’s organisational requirements;
 - general principles that the Court should consider prior to beginning the draft budget review and continuously apply during the process;
 - principles related to specific steps in the review process.

Areas covered by the principles for draft budget reviewing



Organisational requirements

- 22** **The Court of Audit establishes and maintains appropriate procedures for ethics and quality control.**

The Court of Audit establishes and maintains procedures for ethics and quality control on an organisational level that will provide it with reasonable assurance that the Court and its personnel are complying with professional standards and the applicable ethical, legal and regulatory requirements.

ISSAI 130 - Code of Ethics and the Court’s Code of Ethics apply to all Court’s members and staff. They encourage practices and behaviours in accordance with the values of the institution.

Quality control of draft budget reviews is carried out by analogy to the points contained in ISSAI 140 - Quality Control for SAIs.

General principles

Ethics and independence

23 Auditors should comply with the relevant ethical requirements and be independent.

Ethical principles should be embodied in an auditor's professional behaviour. Auditors should remain independent so that their reports will be impartial and seen as such by the intended users.

The Court's Code of Ethics specifies the value of independence:

"Members and staff shall carry out their tasks in complete independence from the audited entities and free from any external pressure. They shall not take any action which could threaten their independence and therefore avoid any conflict of interest, i.e. any situation in which they have, by themselves or someone else, an interest that could influence the impartial and objective exercise of their function or create a legitimate suspicion of such influence."

Professional judgement, due care and scepticism

24 Auditors should maintain appropriate professional behaviour by applying professional scepticism, professional judgment and due care throughout the draft budget review.

Auditors' attitude should be characterised by professional scepticism and professional judgement, which are to be applied when forming decisions about the appropriate course of action. Auditors should exercise due care to ensure that their professional behaviour is appropriate.

Professional scepticism means maintaining professional distance and an alert and questioning attitude when assessing the sufficiency and appropriateness of evidence obtained throughout the draft budget review. It also entails remaining openminded and receptive to all views and arguments.

Professional judgement implies the application of collective knowledge, skills and experience to the draft budget review process.

Due care means that auditors should plan and conduct draft budget reviews in a diligent manner. Auditors should avoid any conduct that might discredit their work.

Quality control

25 Auditors should perform the draft budget review in accordance with professional standards on quality control.

Auditors' quality control policies and procedures should comply with the Court's professional standards and international best practices, the aim being to ensure that draft budget reviews are conducted at a consistently high level. Quality control procedures should cover matters such as the direction, review and supervision of the review process and the need for consultation in order to reach decisions on difficult or contentious matters.

Auditors can find further information in ISSAI 140 - Quality Control for SAIs. Budget manuals or instructions explain the organisational requirements for budget reviews as regards quality control.

Management and skills

26 Auditors should possess or have access to the necessary skills.

Auditors should collectively possess the knowledge, skills and expertise necessary to successfully complete the draft budget review. This includes an understanding and practical experience as regards budget review, familiarity with the applicable standards and legislation, an understanding of the entity's operations and the ability and experience to exercise professional judgement.

It is needed to recruit staff with suitable qualifications, offer staff development and training, prepare manuals and other written guidance and instructions concerning the conduct of draft budget reviews, and assign sufficient resources for this purpose.

Auditors should maintain their professional competence through ongoing professional development.

Where relevant or necessary and in line with their mandate and the applicable legislation, auditors may use the work of internal auditors, other auditors or experts.

Auditors' procedures should provide a sufficient basis for using the work of others. Moreover, auditors should satisfy themselves as far as possible of the other institutions' competence and independence and the quality of the work performed. However, auditors have sole responsibility for any report they might produce with respect to draft budget review; that responsibility is not reduced by the use of work done by other parties.

As appropriate, draft budget reviews may require specialised techniques, methods or skills not available within the Court of Audit.

Review risk

27 Auditors should manage the risks of providing a report that is inappropriate in the circumstances of the review.

The review risk is above all the risk that the auditor's report on the draft budget review may mention inappropriate observations or comments. An observation or comment is inappropriate when it contains an unjustified remark on sincerity, compliance or transparency of draft budgets.

The review risk also covers the risk that an appropriate observation or comment would not be included in the auditor's report, although it would have been necessary for the Parliament to understand the estimated revenue and expenditure as well as the budget situation.

Auditors perform procedures to manage or reduce as much as possible the risk of formulating inappropriate observations or comments or the risk of not including appropriate observations or comments. In this respect, auditors should notably take into account the inherent risk (i.e. the risk that a particular budget heading or a category of budget operations contains errors or misstatements) and the risk of non-control (i.e. the risk that internal controls do not prevent or detect and correct certain errors or misstatements).

In addition, auditors recognise that the limitations inherent to all budget reviews mean that such a review can never provide absolute certainty.

Materiality

28 Auditors should consider materiality throughout the draft budget review process.

Materiality is relevant in all draft budget reviews. A matter can be judged material if knowledge of it would be likely to influence the decisions of the intended users, starting with parliamentarians. Determining materiality is a matter of professional judgement and depends on the auditor's interpretation of the users' needs. This judgement may relate to an individual item or to a group of items taken together.

Materiality is often considered in terms of value, but it also has other quantitative as well as qualitative aspects. The inherent characteristics of an item or group of items may render a matter material by its very nature. A matter may also be material because of the context in which it is set.

Materiality considerations affect decisions concerning the nature, timing and extent of draft budget review procedures and the evaluation of review results. Considerations may include parliamentarians' concerns, public interest, regulatory requirements and consequences for society.

Documentation

29 Auditors should prepare review documentation that is sufficiently detailed to provide a clear understanding of the work performed, evidence obtained and comments formulated.

Review documentation should include a draft budget review strategy and plan. It should record the procedures performed and evidence obtained, and support the communicated comments and observations. Documentation should be sufficiently detailed to enable an experienced auditor, with no prior knowledge of draft budget review, to understand:

- the nature, timing, scope and results of the procedures performed;
- the evidence obtained in support of review results mentioned in the budget report;
- the reasoning behind all significant matters that required the exercise of professional judgement, and the related comments.

Communication

30 Auditors should establish effective communication throughout the draft budget review process.

Throughout the review, communication should consist of obtaining information on draft budgets in a timely manner from the responsible party.

It is essential that the responsible party be kept informed of principles, process and results of the draft budget review. This is key to developing a constructive working relationship. In this regard:

- The fundamental principles on which the review performed by auditors is based, are published on the Court's website;
- Auditors identify and communicate with the appropriate contact person(s) within the responsible party's governance structure about the subject matter (scope) and the planned review schedule;
- In the course of work, auditors validate their findings during discussions with the responsible party. These exchanges are intended to avoid the risk of material error or misinterpretation of budget data. Communication does not oblige auditors to take account of the opinion of the responsible party, nor does it require auditors to include potential comments or reservations of the latter in the budget report sent to the parliamentary assembly. A communication is made to the legislative assembly following the draft budget review. Auditors ensure that their comments and observations meet the expectations of the intended users, in particular, that they have sufficient information value and that they are drafted in a manner appropriate to the level of knowledge of those users.

Comments and observations are communicated to the responsible party after having been submitted to the parliamentary assembly.

Principles related to the draft budget review process

Planning a review

31 Auditors should ensure that the terms of the draft budget review have been clearly established.

Draft budget reviews are provided for in the various legislations (laws, decrees and ordinances). In all cases, auditors shall independently determine, in accordance with the existing legal framework, how to complete the budget review, in particular: the review process, the roles and responsibilities of the individual team members during the mission, and the content of the report that will result from the review.

Auditors endeavour to reach a consensus with the responsible party (the government or its representatives) on the practical arrangements for the budget review, such as the identification of contact persons, the conduct of the budget review (transmission of working documents, timing and nature of the information to be obtained in relation to the objectives of the review), or the deadlines within which the requested data must be transmitted.

32 Auditors should obtain an understanding of the nature of the entity/programme to be audited.

For this purpose, auditors should understand policy objectives, economic, policy, social and regulatory environment, budget and policy business processes, and research the potential sources of evidence. Knowledge can be obtained from regular interaction with the administration and the government. Auditors may also consult external sources and examine documents (including earlier studies and other sources) in order to gain a broad understanding of the subject matter to be audited and its context.

33 Auditors should conduct a risk assessment or problem analysis and revise this as necessary in response to the budget review findings.

Auditors should consider and assess the risk of different types of deficiencies, deviations or misstatements that may affect sincerity, transparency and compliance of the draft budget. Both general and specific risks should be considered. This can be achieved through procedures that serve to obtain an understanding of the entity or policies and their environment, including measures taken by the responsible party to manage the risks.

In draft budget reviewing, auditors should consider actual indications of problems or deviations from what should be or is expected. They should take into account the risks identified and their impact on the review. Particular attention should be paid to the follow-up of findings from previous reviews.

34 Auditors should identify and assess the risks that draft budgets may misinform the intended users.

Auditors should make enquiries and perform procedures to identify risks that draft budgets, due to non-compliance with the principles of sincerity, transparency and completeness, undermine the proper information of the intended users. In particular, they need to identify inappropriate budget constructions, abuse of the provision mechanism, manipulation of the budget perimeter, and highlight obvious misjudgements of revenue and expenditure forecasts.

35 In the planning stage, auditors should plan their work to ensure that the audit is conducted in an effective and efficient manner.

Planning for the draft budget review should take into consideration strategic and operational aspects.

Strategically, planning should define the scope, objectives and approach of the draft budget review.

The *scope* relates to the subject matter and the criteria which auditors will use to assess and report on the subject matter, and is directly related to the objectives.

The *objectives* refer to what the draft budget review is intended to accomplish.

The *approach* will describe the nature and extent of the procedures to be used for gathering evidence. The review should be planned to reduce audit risk to an acceptably low level.

Operationally, planning entails setting a timetable for the draft budget review and defining the nature, timing and extent of the review procedures. In the planning stage, auditors should assign the members of their team as appropriate and identify other resources that may be required.

Planning for the draft budget review should be responsive to significant changes in circumstances and conditions. It is an iterative process that takes place throughout the review.

Conducting the draft budget review

36 **Auditors should perform procedures that provide sufficient appropriate evidence to support the budget report.**

Auditors' decisions on the nature, timing and extent of draft budget review procedures will impact on the evidence to be obtained. The choice of procedures will depend on the risk assessment or problem analysis.

Evidence is any information used by auditors to determine whether the subject matter complies with the applicable criteria. It may take many forms, such as electronic and paper records of transactions (historical data), written and electronic communication with outsiders, observations by auditors, and oral or written testimony by the audited entity. Methods of obtaining evidence can include inspection, observation, inquiry, confirmation, recalculation, reperformance, analytical procedures and/or other research techniques.

Evidence should be both sufficient (quantity) to persuade a knowledgeable person that the findings are reasonable, and appropriate (quality) – i.e. relevant, valid and reliable. Auditors' assessment of the evidence should be objective, fair and balanced. While respecting auditors' autonomy, preliminary findings may be presented to and discussed with the audited entity. In this case, auditors should take into account the response of the audited entity when avoiding an inappropriate comment or observation.

Auditors should respect all requirements regarding confidentiality.

37 **Auditors should evaluate the evidence and formulate comments.**

After completing the draft budget review procedures, auditors will review the documentation in order to determine whether the subject matter has been sufficiently and appropriately audited. Before formulating their comments, auditors reconsider the initial assessment of risk and materiality in the light of the evidence collected and determine whether additional draft budget review procedures need to be performed.

Auditors should evaluate the evidence with a view to formulating comments. When evaluating the evidence and assessing materiality of findings, auditors should take both quantitative and qualitative factors into consideration.

Based on the findings, auditors should exercise professional judgement to reach observations or comments on the draft budget or draft budget information.

Reporting and follow-up

38 Auditors should prepare a report based on the findings.

The draft budget review process involves preparing a budget report to communicate review results to the intended users, principally parliamentarians. The purpose is also to provide parliamentarians with information to enable them to adopt the draft budgets with full background knowledge. The budget report may facilitate follow-up and corrective action.

The report should contain review results usable by the intended users, particularly in terms of their materiality.

It should be easy to understand, free from vagueness or ambiguity, and complete.

It should be impartial, only including information supported by sufficient and appropriate evidence and ensuring that comments are put into perspective and context.

Any limitations on the scope of the review should be mentioned, including those resulting from the lateness or absence of government responses to the auditors' requests. Similarly, the report should indicate, where applicable, that the fundamental principles could not be fully complied with.

The form and content of the report should be tailored to its main recipients, i.e. parliamentarians.

In the case of the fact-finding mission on draft budgets, the budget report should include comments on whether the related information is, in all material respects, free from misstatement and/or whether the report is, in all material respects, drawn up in accordance with the established criteria.

The report may also include recommendations and additional information about criteria, methodology and sources of data.

Auditors should inquire about the actions taken by the responsible party in response to the comments and observations in the budget report. The follow-up aims mainly to verify whether the responsible party (the government) has properly addressed the issues identified. If the measures taken by the responsible party are neither sufficient nor satisfactory, auditors may, where appropriate, refer to this in a subsequent report.



The Dutch and French versions of this publication are available online.



LEGAL DEPOSIT

D/2022/1128/13

ADDRESS

Belgian Court of Audit
Regentschapsstraat | rue de la Régence 2
1000 Brussels

TEL.

+32 2 551 81 11

MAIL

international@cckek.be

www.courttofaudit.be