



V EUROSAI/OLACEFS CONFERENCE

“FISCAL SUSTAINABILITY, PRESENTATION OF ACCOUNTS AND ACCOUNTABILITY”

CONCLUSIONS AND RECOMMENDATIONS

The V EUROSAI/OLACEFS Conference gathered in Lisbon, on 10 and 11 May 2007. Representatives of SAIs from 52 countries shared ideas and experiences on Fiscal Sustainability of State systems and policies and their role as audit institutions in auditing and promoting that sustainability.

1. Expressing their views and opinions through presentations, written contributions and debates, the participants in the Conference concluded that fiscal sustainability is today a wide international challenge. This requires **States to pursue sustainable economic development, social cohesion and the maintenance, improvement or even expansion of social protection to citizens and, at the same time, to reduce expenses and indebtedness.**

This effort is needed to limit the burden on present and future tax-payers and also to comply with external commitments to creditors and donors or, as in the case of the European Monetary Union, to respect inter-States fiscal stability agreements.

To face this challenge, States have been adopting **reforms in the public sector**, aimed at: improving the level and quality of available information to produce better fiscal and management decisions; at making the best possible use of the present resources and at restraining expenditures and debt growth.

These reforms have focussed in the following main areas:

- **Budgetary reforms**, including the previous definition of priorities for the elaboration of budgets, the preparation of budgets within economic medium-term perspectives and

the introduction of constraints on the preparation, approval and execution of budgets, such as balance requisites, savings targets, expenditure ceilings and/or indebtedness limits;

- **Accounting reforms** so that decisions are prepared and public accounts are presented on accrual basis rather than cash, thus allowing to understand and forecast the actual financial situation of State and public bodies, including their commitments for the future. These new methods imply the use of harmonised and consolidated data;
- **Public management reforms** based on the development of information systems and electronic government, on the adoption of performance models, that emphasize the clear assignment of roles and responsibilities, the optimal use of resources, the quality and effectiveness of spending and the achievement of strategic quantified goals, on increased transparency and on stronger financial control, resulting in reduced corruption and misuse of funds;
- **Reforms of public pension, health and education systems**, redesigning them to reinforce contributory financing schemes and funding alternatives, such as the use of public private partnerships.

2. The SAIs gathered in the Conference recognized that **fiscal sustainability is a natural challenge for audit institutions** that strive for the better use of public assets, confronting them with the need to introduce changes in their activities and resources, such as the following:

- **SAIs, according to their mandates, may decide to audit new issues and issue special reports:**
 - Appraising achievement of fiscal objectives and assessing compliance to fiscal and indebtedness constraints;
 - Disclosing the actual size of public debt, implicit liabilities, guarantees and future costs and benefits of policy commitments;
 - Assessing the actual economic situation of the State and of public bodies, certifying and/or drawing up balance sheets and the changes in their net worth over time;

- Evaluating new instruments and mechanisms used for funding public deliveries and their related future liabilities and costs (credit operations, advanced revenues, securitisation of liabilities and receivables, granting of guarantees, public private partnerships, etc.);
 - Monitoring economy, efficiency and effectiveness of public management in achieving strategic targets and goals and making the best use of resources;
 - Appraising the quality of social public services provided by alternative providers;
 - Auditing the good governance of environmental changes and protection;
 - Checking the independence and accuracy of national statistics, macroeconomic, budgetary and social systems forecasting and of the methods, data and indicators used.
- **SAIs may include, in their current audit activities, sustainability perspectives and recommendations.** Experiences shared during the Conference showed that some SAIs auditing social sector activities made relevant recommendations to Governments. This led to a reduction in current expenditure, the adoption of policies and control procedures to reduce tax evasion, more accurate evaluation and better management of assets, liabilities and guarantees, adequate funding and more efficient use of resources and the adoption of mechanisms to reduce the risk of corruption in social programmes;
 - **SAIs may assess the accountability** of public managers and governments **in new ways** such as their contribution to sustainable development, social responsibility, good governance principles and intergenerational equity;
 - **SAIs need to adapt themselves to new systems and procedures**, such as electronic information systems, within which audits are performed and accounts are rendered, new types of auditees, new budgeting and accounting rules, internationally harmonised accountancy and statistical standards. Thus, they may have to develop skills and methodologies to be able to analyse these new features of public finances, including national accounting, econometrics, statistics, IT, etc;
 - **SAIs may need additional resources to these activities**, obtaining them in a way that doesn't put at risk their financial independence.

3. In view of the above, the V EUROSAI/OLACEFS Conference recommends that SAIs:

- Closely **watch and monitor** the development of budget, management, accounting and social **reforms** in their countries, and **stimulate**, when appropriate, **their implementation** as a means of encouraging sounder fiscal management;
- Consider **intensifying the audit** of fiscal restraints, policies and practices in view of their sustainability, paying special attention to decentralised revenue and expenditure discipline, fiscal balances, credit mechanisms and liabilities and to the evolution of social expenditure, funding and level of service;
- **Inform** Parliament and citizens of the **results of their assessments** on the development and results of public sector reforms, on the sustainability of policies and decisions and on the accountability managers and users of public funds for their responsibilities on development, governance principles and sustainable resources;
- Systematically **follow-up on audit findings** taking into account their previous recommendations, sanction illegal conduct, when having powers to do so, and evaluate if their recommendations and action were actually effective to achieve intended goals;
- Promote **development of adequate audit procedures and skills** related to public fiscal management and the new rules, procedures and technologies;
- Within their mandates and when appropriate, **provide expert advice or express their views** on fiscal legislation and policy decisions to be taken by the Parliament and/or the Government and/or on individual programmes having a major bearing on the budgets.
- **Exchange information** with their counterparts in other countries about fiscal sustainability issues, international reform trends and audit developments in the field;
- **Continue to share experiences, methodologies and results** between each other in this area.