



Bosnia and Herzegovina

SIGMA Peer Review of the Supreme Audit Institutions

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Contents

Executive Summary	4
1. Introduction.....	6
1.1. Background.....	6
1.2. Scope	7
1.3. Assessment criteria and methods used.....	8
1.4. Acknowledgments	9
1.5. Structure of the Report (Readers Guide)	9
2. Independence and Legal Framework	10
2.1. Introduction.....	10
2.2. Constitutional Framework.....	10
2.3. Laws on the Audit Offices.....	11
2.4. Conclusions.....	17
2.5. Recommendations.....	19
3. Management and Governance	21
3.1. Introduction.....	21
3.2. Coordination Board	21
3.3. Strategic/Operational Planning and Monitoring	24
3.4. Transparency and accountability	27
3.5. Ethics and conduct	28
4. Human Resource Management.....	30
4.1. Introduction.....	30
4.2. Human Resource Function	30
4.3. Human Resource Strategy/Policy and Procedures (Management).....	30
4.4. Human Resource Planning	32
4.5. Recruitment of staff	34
4.6. Training and Professional Development	36
4.7. Conclusions.....	41
4.8. Recommendations.....	41
5. Audit processes	43
5.1. Introduction.....	43
5.2. Auditing standards, policies, guidance and methodologies.....	43
5.3. Financial / compliance audits	45
5.4. Performance audits	53
5.5. Quality of Audit Reporting.....	58
5.6. Recommendations.....	60

5.7. Quality Assurance and Control	62
5.8. QA and QC practices	64
5.9. Assessment of QA and QC systems	66
5.10. Recommendations.....	68
6. Achievement of results.....	69
6.1. Introduction.....	69
6.2. Follow-up on implementation of audit recommendations.....	69
6.3. Timeliness of operations- conducting, reporting and publishing.....	72
7. Relations and Communication with main stakeholders.....	74
7.1. Introduction.....	74
7.2. Communication Function	74
7.3. Communication Strategy.....	75
7.4. Relations with Parliament	76
7.5. Ministries of Finance and Audited Entities.....	78
7.6. Relations with Citizens, Media and CSO.....	81
7.7. Conclusion	83
7.8. Recommendations.....	83
8. Way forward	84
Annex 1 – List of interviewees.....	86
Annex 2 - Analysis of Staff Of SAls – January 2012 And Mid 2019.....	90
Annex 3 - Detailed Analysis of the Answers on the Auditee Surveys.....	92

Executive Summary

This is the third peer review conducted by Sigma of the Audit Offices in Bosnia and Herzegovina (BiH) following previous reviews conducted in 2005 and 2012. This review commenced more than seven years since the previous peer review, and with the joint strategic development framework and the individual strategic development plans of each Audit Office due to expire in 2020 it was a good moment to take stock of the achievements of the Audit Offices and remaining challenges through a peer review.

The role of a Supreme Audit Institution (SAI) is to provide parliament, taxpayers and citizens with confidence that the funds they pay to the state are used meaningfully, rationally and efficiently, and that each member of the society receives quality services to which he or she is entitled. In doing so, an SAI both evaluates activities and makes recommendations on how to make improvements, which promote accountability, transparency, efficiency, economy and effectiveness. In order for an SAI to be effective in carrying out its role, and be an advisor that is trusted and listened to, it must lead by example. There are common international standards (the International Organisation of Supreme Audit Institutions (INTOSAI) Framework of Professional Pronouncements (IFPP)) to support the independence, credibility and trust in the work performed by an SAI which espouse principles that should be used by SAIs in delivering and developing their work.

The outcome of this peer review demonstrates that the Audit Offices have built on the outcomes of the previous peer reviews. They have continued to develop and are now generally in a position where they are relatively mature institutions and well placed to build on their achievements.

They have been clearly developing their practices in line with the expectations of the IFPP to build independent and credible institutions, delivering audit work that is of a reasonably high quality. The Audit Offices have undertaken a lot of work to develop their audit practices, including the development and implementation of sound audit manuals and methodologies and quality control guidance. From a regional perspective, they are leaders in developing and delivering audits compliant with the standards espoused in the IFPP.

A key issue for the Audit Offices continues to be their constitutional status. While the respective laws are reasonably well developed, and provide them with a satisfactory independent status, audit mandate, remit, and powers, the Audit Offices are still not anchored in the Constitution. As a matter of principle, this presents a potential threat, as their independence is not sufficiently protected. It also potentially undermines the status and importance of public external audit within BiH.

Aside this from the significant issue around the legal framework this peer review highlights a number of areas for further development across the Audit Offices. As already stated the audit practices are generally well developed, but there are still areas for further improvement. However, a key focus for the Audit Offices in their development should be their broader management practices, such as strategic and operational planning, monitoring and reporting, human resource management, communication and engagement with external stakeholders.

This report sets out a number of findings and recommendations for further development of the Audit Offices. Some of the key issues they should consider are the further development of their:

- collaboration through the Coordination Board
- strategic and operational planning and monitoring practices, and in particular performance management and reporting systems
- human resources function and policies, and the development of performance management and appraisal systems
- human resource capacity issues, particularly for the Audit Offices in the Federation and Republika Sprske
- the strategic approach to quality control and assurance to ensure that they can be effectively delivered within their limited resources
- reporting practices to increase the value and impact of their audit work, and
- communication and engagement with external stakeholders to encourage greater understanding of their work, and increase its relevance and impact

The recommendations of the peer review are intended to help the Audit Offices develop towards becoming fully effective SAIs in line with international standards and sound European practice, whilst taking into account the country's very specific circumstances and being fully responsive to their prevailing needs.

This process should provide an important contribution to the strengthening of the financial control system and public accountability in BiH. In particular, the recommendations of the peer review are intended to help the Audit Offices define the next steps for further strategic development.

1. Introduction

1.1. Background

In 2000 the Audit Offices of Bosnia and Herzegovina, the Federation and Republika Sprske were established and started operating. The

- Audit Office of the Institutions of Bosnia and Herzegovina (SAIBiH)¹;
- Audit Office of the Institutions in the Federation of Bosnia and Herzegovina (SAIFBiH)²;
- Supreme Office for the Republika Srpske Public Sector Auditing (SAIRS)³.

In 2007, the Office for Audit of Public Administration of the Brčko District of Bosnia and Herzegovina (SAIBD)⁴, was established covering all public bodies in the district.

On the basis of the respective Laws, the SAIBiH, SAIFBiH and SAIRS co-operate through the Co-ordination Board. The laws did not foresee the participation of the SAIBD in the Co-ordination Board, but it participates as an observer in the activities of the Coordination Board.

In 2005 SIGMA conducted the first peer review of the three existing audit institutions in Bosnia and Herzegovina (the “Audit Offices”). At the request the Chairman of the Coordination Board of the Audit Offices of Bosnia and Herzegovina, SIGMA undertook a second peer review in 2011-12 which this time included SAIBD. The peer review report made a number of recommendations mainly with regard to

- the legal framework, especially the strengthening of the independence of the Audit Offices;
- strengthening the role of the Coordination Board, and the staffing and management of the Audit Offices;
- development of strategic planning;
- strengthening the audit processes, through a more strategic approach, improved audit processes (including quality assurance) and reporting;
- reviewing and adapting the audit standards, manuals and methodologies;
- development of training and professional development needs assessment, planning and implementation;
- strengthened engagement with external stakeholders.

Since the 2012 peer review the Audit Offices have continued to develop and strengthen public external audit in Bosnia and Herzegovina (BiH). The Audit Offices have developed practices that are some of the strongest in the region. However some important challenges and areas for improvement remain.

The complicated and complex set-up of BiH has not changed since the last peer review and is still regulated by the Dayton Agreement. The country is subject to political, fiscal and economic challenges. The underlying reasons for major deficiencies in the governance system are the lack of respect for fundamental democratic tenets (individual political rights versus ethnic or group-based) and the disrespect of the law and existing institutions by major actors, whether they are parliament, the executive or the judiciary, or civil society and its organisations. These are matters of the democratic and legal cultures of BiH and the Audit Offices need to operate within these cultures. It is, therefore, **particularly important to acknowledge and consider** all the challenges that the Audit Offices are faced

¹ Ured za reviziju finansijskog poslovanja institucija Bosne i Hercegovine, Канцеларија за ревизију финансијског пословања институција Босне и Херцеговине

² Ured za reviziju institucija u Federaciji BiH

³ Главна служба за ревизију јавног сектора Републике Српске

⁴ Ured za reviziju javne uprave i institucija u Brčko distriktu BiH

with in their respective operating environments when reviewing the performance and the development of the Audit Offices in the country.

On 10 January 2019 the Chairman of the Coordination Board made a formal request to SIGMA to conduct another peer review. The Coordination Board indicated that it thinks it is necessary for all auditing institutions in BiH to engage in such a review process as a way to improve operating quality and to enhance the significance and function of auditing institutions in BiH. It is around seven years since the last peer review exercise and it is a good moment to take stock of the achievements and remaining challenges by means of a peer review.

In general the recommendations of the peer review are intended to help the Audit Offices to continue their path towards being fully effective Supreme Audit Institutions (SAIs) in line with international standards and good European practice, whilst taking into account the country's very specific circumstances and being fully responsive to their prevailing needs. The process should constitute an important contribution to the strengthening of the financial control system and public accountability in Bosnia and Herzegovina. In particular, the recommendations of the peer review are focused on helping define the next steps for further strategic development.

The team established for the peer review consisted of:

- Mr Joop Vrolijk, former Deputy Director, Dutch Court of Audit (Algemene Rekenkamer), SIGMA Senior Advisor and OECD Principal Administrator
- Ms Marita Salgrave, former Council Member and Audit Director of the State Audit Office of Latvia and currently an Advisor to the Auditor General of Latvia
- For SIGMA, Mr Alastair Swarbrick OECD Senior Policy Advisor, and former Auditor General of the Cayman Islands and Audit Director, Audit Scotland, was responsible for the project. The SIGMA project coordinators were Mrs Jane Birchall and Ms Elena Mitrovski.

1.2. Scope

The review was designed taking regard of the 2012 peer review and the request from the Audit Offices, while paying due regard to SIGMA's resource limitations and other work that has been carried out by SIGMA, specifically the SIGMA monitoring report on Bosnia and Herzegovina and ongoing communication project with the SAIBiH. It examined:

- **The legal framework, strategic planning, leadership and governance** of the Audit Offices. While not the primary focus of the peer review, the review examined the legal framework and its application, specifically in relation to independence, the role of the coordination board, strategic and operational planning, transparency, accountability and ethics
- **Human Resources and professional development**, with a focus on planning of staff requirements to fulfil mandates and strategic plans and the recruitment, retention and development of staff with the right skills and competencies
- **The audit process and quality**, both for financial and for performance audit, with a focus on practice, rather than on methodology
- **The engagement with external stakeholders**, including reporting and follow-up and the relations with Parliament and other stakeholders
- **The achievement of results**, focusing on the delivery of quality and timely outputs, that are publicly available and which have impact.

1.3. Assessment criteria and methods used

Standards and yardsticks applied

The standards and yardsticks applied in the peer review is the International Organisation of Supreme Audit Institutions (INTOSAI) Framework of Professional Pronouncements (IFPP), which include the INTOSAI Principles (INTOSAI-P's), the International Standards of Supreme Audit Institutions (ISSAIs) and INTOSAI guidance (GUIDs)⁵. Special attention has been given to the Guidelines on peer reviews (GUID1900). In addition the peer review team considered other guidance issued by INTOSAI and the INTOSAI Development Initiative (IDI) on areas such as strategic planning, human resource management, but in particular the SAI Performance Management Framework (SAI-PMF)⁶ developed by IDI.

The peer team has also used as an evaluation yardstick, what could be called “good” practices among the SAIs across Europe, based on knowledge and experience of the team. Important aspects of the management of a SAI are not always specified in professional pronouncements and standards, and the use of knowledge and experience is helpful in providing practical solutions to the SAI being reviewed.

Methodology

The fieldwork was carried out during three missions between May and July 2019. During the first mission the peer review team visited the Audit Office for the Institutions of Bosnia and Herzegovina (SAIBiH), and the Audit Office for the Institutions in the Federation of Bosnia and Herzegovina (SAIFBiH) in Sarajevo. In June we visited the Supreme Office for Republika Srpske Public Sector Auditing (SAIRS) in Banja Luka and in July we visited the Office of Brčko District (SAIBD) in Brčko. During the July mission we re-visited SAIBiH in Sarajevo. In the Audit Offices and all the Ministries and the other public organisations that we visited, we were able to meet with a large number of relevant stakeholders. We gathered information through extensive interviews (see Annex I) and analysed relevant laws, regulations, guidelines and official files and papers, including audit reports and documentation pertaining to technical assistance projects.

A peer review is an external independent assessment of the areas defined in the scope. The time-frame and resources available to the peers do not make it possible to fully substantiate all findings or investigate issues as deeply as would be required to be absolutely certain about the validity or representativeness of findings. To deal with this situation the peers used a contradictory procedure to confirm the accuracy and understanding of the facts. This report takes account of the observations made during the process.

Limitations

The report could not take into consideration the developments, which took place after the field missions. Considering the period of time available as well as the complexity of the arrangements in Bosnia and Herzegovina, only those aspects the peers deemed to be significant or essential are dealt with in this report. The report is therefore not intended to be a full description, nor an exhaustive view of all aspects of the organisation and work of the Audit Offices.

As noted above, the institutional framework adopted in the Dayton Agreement creates a number of challenges. As a result there are potential and important limitations on the peers' work and on the realism of the possible recommendations, which are not likely to be remedied by the reform of the Audit Institutions.

⁵ INTOSAI Framework of Professional Pronouncements <https://www.issai.org/>

⁶ SAI Performance Management Framework <http://www.idi.no/en/idi-cpd/sai-pmf>

1.4. Acknowledgments

We wish to express our warm thanks to the four Audit Offices, their management and staff, the four Auditors General; Messrs Vrankić, Nekić, Radukić, and Suljagic. We would in particular like to acknowledge the role of the late Mr Vrankić, whose contribution to the review was essential prior to his untimely and sad passing during the review. We feel very indebted to those who took care of the organisation of the review in each audit institution, especially to Ms Jasmina Galijasevic who was our main contact person and overall coordinator and Mrs Ivona Kristic (both SAIBiH). We would also like to thank the management and staff in the Ministries and other institutions for their contributions. Our special thanks go also to our interpreters, Ms. Alisa Uzunovic and Mr. Dejan Milinović who made it possible for us to understand our interlocutors and the documents and audit reports issued by the Audit Offices and other institutions.

1.5. Structure of the Report (Readers Guide)

The peer review report is organised into eight chapters. The situation is assessed in each chapter and followed by the peer review team's recommendations. After this introductory chapter, the report is organised as follows:

- ▶ Chapter 2 deals with the legal framework and independence of the Audit Offices
- ▶ Chapter 3 examines the governance and management of the Audit Offices, including the Coordination Board and the management of the Audit Offices; strategic and operational planning; accountability and transparency; and ethics
- ▶ Chapter 4 examines human resource management practice including professional development
- ▶ Chapter 5 assesses audit practices for both, financial and performance audit as well as audit quality assurance.
- ▶ Chapter 6 deals with the impact of the Audit Offices audit work
- ▶ Chapter 7 discusses engagement and communications with the main stakeholders of the Audit Offices.
- ▶ The eighth and final chapter discusses the way forward for all four Audit Offices and the Coordination Board.

2. Independence and Legal Framework

2.1. Introduction

The legal framework of a Supreme Audit Institution (SAI) is crucial to the functioning of an external audit institution. The Peer Review team looked at the Constitution, the Laws on the Audit Offices, and other relevant Laws, in order to get a picture of the legal framework under which the Audit Offices operate. This analysis of the legal framework has been carried out against the background of the INTOSAI Principles⁷, in particular INTOSAI-Ps 1 and 10, the Lima Declaration⁸ and the Mexico Declaration⁹, which amongst others lay down the principles and requirements for the independence of SAIs and the legal foundation thereof.

2.2. Constitutional Framework

The Lima Declaration states that SAIs can accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence.

According to the Lima Declaration the establishment of SAIs and the necessary degree of their independence should be guaranteed by the Constitution, with details further set out in legislation. In particular, adequate legal protection by a supreme court against any interference with a SAI's independence and audit mandate should be guaranteed. It also states that:

“The independence of Supreme Audit Institutions is inseparably linked to the independence of its members. Members are defined as those persons who have to make the decisions for the Supreme Audit Institution and are answerable for these decisions to third parties, that is, the members of a decision-making collegiate body or the head of a monocratically organised Supreme Audit Institution.”

The independence of the SAIs members should also be guaranteed by the Constitution. In particular, the procedures for removal from office should be included in the Constitution and should not impair their independence.

Finally, according to the Lima Declaration, the independence of SAIs provided under the Constitution and law should also guarantee a very high degree of initiative and autonomy, even when they act as an agent of Parliament and perform audits on its instructions. The relationship between the SAI and Parliament should also be laid down in the Constitution.

At present, the public external audit function or the institutions in charge of it are still not found in the Constitution of Bosnia and Herzegovina, or the Constitutions of the respective entities (FBH and RS). However the Statute of Brcko District provides for the SAIBD, although it does not specifically refer to the independence of the Auditor General or the Office¹⁰.

Neither the SAI Laws nor any other laws regulate the protection of the Audit Offices by a Supreme Court against interference in their independence.

As reported in the 2012 peer review report efforts were made during 2009 and 2010 to have provisions on the Audit Offices included in the constitution, including during a constitutional review. In April 2009 the SAIBiH, sent a request to the Parliamentary Assembly of Bosnia and Herzegovina – House of People -

⁷ The INTOSAI Framework of Professional Pronouncements <https://www.issai.org/>

⁸ INTOSAI-P-1, The Lima Declaration, The Founding Principles of SAIs

⁹ INTOSAI-P-10, The Mexico Declaration on SAI Independence

¹⁰ Statute of Brcko District Article 44, 21 December 2009, Official Gazette of the Brcko District of BiH No. 39/09

to incorporate provisions on the Audit Office into the Constitution. Following the discussion, the decision was made unanimously to acknowledge the request of the Office and to incorporate this request in other materials that the Constitutional-Legal Committee received in relation to the upcoming constitutional amendments. However, no agreement could be achieved about the amendments to the Constitution in general during this and subsequent attempts to change the Constitution. SAIFBiH has also made several requests (in 2013, and twice in 2016) to the “Constitutional committee” of both houses of Parliament, and was informed that during the “next review of the Constitution of the FBiH, this matter will be addressed.

There has subsequently been no progress in this regard and the Audit Offices still do not have a constitutional anchorage.

2.3. Laws on the Audit Offices

The current legal framework for public external audit in Bosnia and Herzegovina was created and adopted between 2005 and 2008 for the four levels of government. Four laws now govern the activities of the Audit Offices of Bosnia and Herzegovina

- Law on Auditing Institutions of Bosnia and Herzegovina 31 January 2006
- Law on Auditing the Institutions in the Federation of Bosnia and Herzegovina 22 March 2006.
- Law on Auditing of the public sector of Republic of Srpske 6 October 2005 and 2014
- Law on Audit of public administration and institutions in the Brcko District of Bosnia and Herzegovina, adopted on 18 September 2008 (2008, 2014 and 2016).

Independence

Although SAIs cannot be absolutely independent because they are part of the state apparatus, they should have the appropriate degree of functional and organisational independence required to undertake their work. The legal framework should clearly establish SAI independence.

As the Audit Offices of Bosnia and Herzegovina do not have a constitutional status, all requirements, especially with regard to their independence and protection against outside influence have to be covered by the laws that govern their establishment and work.

The laws of BiH, RS and FBiH specifically mention the independent status of the Audit Offices. According to Article 4 of those laws, the Audit Offices, in performing their duties and competencies in accordance with the Laws, are independent and not subject to management and control by any other entity or institution, unless otherwise stipulated by these laws. The laws of BiH, RS and FBiH additionally specify that the Audit Offices shall be non-political and shall not support any political party¹¹. The SAIBD law has the same formulation in its Article 4 (2). However its Article 4 (1) does not mention independence specifically and refers only to the fact that the Office shall not be subject to authority or control of any person or institution.

¹¹ SAI Laws, Article 3 (SAIBiH), Article 4 (SAIFBiH), Article 4 (SAIRS) and Article 24 (SAIBD)

The Independence of the Head of the SAI and its members

In line with the INTOSAI-Ps, legislation should specify the conditions for appointments, re-appointments, employment, removal and retirement of the head of SAI and members of collegial institutions. Legislation should provide that they are:

- appointed, re-appointed, or removed by a process that ensures their independence from the Executive;
- given appointments with sufficiently long and fixed terms, to allow them to carry out their mandates without fear of retaliation; and
- immune to any prosecution for any act, past or present, that results from the normal discharge of their duties.

The independence of the Auditors General (AG) is treated similarly in all laws. The laws¹² regulate the appointment and removal of the AG and the deputy AGs (DAG). Both are appointed by the respective Parliaments after a clearly defined application and election procedure for a non-renewable mandate of seven years. The appointment procedure involves a selection committee in parliament, and in the case of the entities also the president of the entity: parliament appoints on the proposal of the president, which is based on the ranking made by the parliamentary selection committee, which at the BiH level has to include two members from the opposition. For the SAIBiH and the SAIFBiH, the requirements for these positions include a university degree in economics or law and at least 10 years' experience in the area of accounting, audit, public finance or public administration. For the SAIRS and the SAIBD only graduated economists qualify with at least 10 years' experience in the area of accounting, audit, public finance or public administration.

They can only be dismissed by the respective Parliaments. For the SAIBiH, SAIFBiH and SAIRS, the reasons for removal are the same: written voluntary resignation, inability to perform their duties for more than six months or being sentenced for criminal offences and/or economic violations or actions not corresponding to their duties. The law on SAIBD however provides the possibility for removal of the AG and DAG if audit quality does not meet the audit standards¹³.

We note that the former Auditor General of the RS, Mr Snegota resigned from office in August 2017. This was following the publication of his report on the audit of the 2016 budget for RS, which attracted significant criticism¹⁴.

All laws oblige the AG and DAGs to carry out the functions of the Audit Office in an independent manner and in accordance with the INTOSAI standards, with the SAIFBiH and SAIRS also required to conduct its work in accordance with IFAC.

The laws provide all auditors in the Audit offices with certain indemnity and immunity, indicating that the Auditors are not responsible for deeds or omissions that occur in the performance of their duties¹⁵. However the provisions in the laws of the Audit Office do not clearly provide the Auditors General immunity from any prosecution for any act, past or present, that results from the normal discharge of their duties¹⁶.

¹² SAI Laws, Articles 23-25 (SAIBiH), Articles 23-25 (SAIFBiH), Articles 9-10 (SAIRS) and Articles 25-28 (SAIBD)

¹³ SAIBD Law, Article 27(1)b

¹⁴ <https://www.nezavisne.com/novosti/bih/Dodik-trazi-od-Snegote-da-podnese-ostavku/440835>
<https://www.nezavisne.com/novosti/bih/Dusko-Snegota-podnio-ostavku/441139>

¹⁵ SAI Laws, Articles 7 (the State SAI), Article 7 (the FBiH SAI), Article 38 (the RS SAI) and Article 39 (the BD SAI)

¹⁶ ISSAI 10:2 (I.e. the SAI / Head of SAI cannot be sued for expressing audit opinions. This criterion is considered met if the legislation states that the Head of the SAI shall not be subject to the direction or control of any other authority when carrying out their functions as prescribed by law.

Organisational independence

To ensure the independence and objectivity of the work of a SAI, it is fundamental that it has autonomy and full discretion in discharging its responsibilities. They should be able to manage their organisations and plan their activities without interference from the Legislature or the Executive in the

- organisation and management of their office, including the appointment of staff;
- selection of audit issues;
- planning, programming, conduct, reporting, and follow-up of their audits.

The laws give the AGs the power to define the internal organisation, systematisation of staff posts and all internal regulations without interference or approval of the government¹⁷. For decisions about the internal organisation, the AG has to consult with the deputy (or deputies in the case of SAIBiH). The laws for SAIBiH and SAIFBiH¹⁸ state that when determining the organisation of the Audit Offices, the AG shall define also the division of responsibilities between the AG and the deputies in an internal act. This relates to organisational as well as to audit related responsibilities.

With regard to SAIBiH the law foresees that the AG and the two DAGs are appointed from among the different constituent people of BiH. The law defines the distribution of responsibilities between AG and DAGs, stating that the AG is accountable for the SAI as its top manager, while the DAGs assist him. The AG has to consult with his deputies on annual audit planning¹⁹ and all internal regulations, rules and procedures necessary for the functioning of the Audit Office²⁰. For the SAIFBH the law foresees that the AG and the DAG are appointed from among the different constituent people of FBiH²¹.

The Audit Offices can decide independently on their audit work programmes, although they are required to submit the annual work programme to the respective parliament or to the competent body in parliament, for information²². All parliaments are entitled to request special audits. For BiH State the final decision is made by SAIBiH²³ whether or not to conduct such a requested audit. While for BD, the AG shall carry it out while taking into account the annual audit plan²⁴, which enables the AG of SAIBD with at least the opportunity to consider when they can undertake the audit. The regulation for the entities is different though. For the SAIFBiH the law²⁵ gives the right of decision about special audits to the Parliamentary committee and not the Audit Office, but they are required to provide funds for such special audits. The SAIRS law²⁶ is formulated in a way that seems to provide the AG with no possibility of not carrying out such a requested special audit, but the Parliament has to provide special funds for such audits. The SAIRS law also provides that the Government may request an audit but they require to be approved by the Parliament.

¹⁷ SAI Laws, Article 22 (SAIBiH), Article 22 (SAIFBiH), Article 7 (SAIRS) and Article 24 (SAIBD)

¹⁸ SAI Laws, Article 22(3) (SAIBiH), Article 22(3) (SAIFBiH),

¹⁹ SAIBiH Law, Article 12(2)

²⁰ SAIBiH Law, Article 22(2)

²¹ SAIFBiH Law, Articles 21 and 24(5)

²² SAI Laws, Article 12 (SAIBiH), Article 12 (SAIFBiH), Article 17 (SAIRS) and Article 12 (SAIBD)

²³ SAIBiH Law, Article 18(2)

²⁴ BDSAI Law, Article 15(2)

²⁵ SAIFBiH Law, Article 18

²⁶ SAIRS Law, Article 23

Financial independence

The Lima and Mexico declarations state that SAIs should have available, necessary and reasonable human, physical and monetary resources to undertake their role and mandate. They also indicate that the Executive should not unduly interfere with the SAI's budget proposal, and after the budget has been adopted by the Legislature, the SAI should be free to manage its budget, the allocation and disbursement without interference or control from the Executive. If required, they should also be entitled to apply directly for the necessary financial means to the public body deciding on the national budget i.e. the legislature or one of its commissions.

In terms of financial independence, apart from SAIBD, the Audit Offices have the power to directly submit a draft budget to the competent parliamentary body²⁷, which in principle allows for a positive consideration of the requests, without direct interference from the executive. However the law has not been respected by the FBiH Ministry of Finance (MoF), twice in the last three years. In 2016 the FBiH MoF directly changed the SAIFBiH's budget for 2017, with this being passed by the Parliament. More recently during the 2019 budget revision/rebalancing process in order to provide sufficient funds for the implementation of the Law on the Rights of Demobilized Veterans and Members of their Families, all budget users were requested to make a reduction in their budget. The MoF requested that the SAIFBiH make a budget reduction of 185,250 BAM. The SAIFBiH's management led by example and submitted to the MoF a budget reduction of 376,521 BAM, double the amount requested, based on budget savings that they had made. However, before submitting the Rebalance to the Parliament, the MoF made a further reduction to the SAIFBiH's budget in the amount of 395,220 BAM. The total budget reduction submitted to and approved by the Parliament was 771,741 BAM²⁸ and this was done without consulting the SAIFBiH. The actions of the MoF indicate that while on paper the SAIFBiH has financial independence in practical terms this is not respected by the Federation Government.

For the SAIBiH and SAIFBiH, according to their respective laws²⁹ the Auditor General approves the requests for payment of the Audit Office expenditures and submits them to the Ministry of Finance for execution, which means that all payments are realised through the Treasury. In practice this means that the MoF controls the execution of the SAIs budget and could decide to not execute a requested payment, although in practice this has not happened.

On a purely legal basis the SAIRS is in the best position with regard to financial independence, as according to its Law³⁰, the Auditor General "disposes with funds and approves payment of expenditures for the Supreme Audit Office. The funds which have not been spent will be transferred into the budget for the next year and will serve for the development and improvement of the Supreme Audit Office". In practice, all payments are realised through the Treasury, similar to the SAIBiH and SAIFBiH.

The Law³¹ on the SAIBD is less generous in allowing independence or autonomy as the preparation and approval of the budget follows the procedure for all budget-users.

For SAIBiH, the lack of harmonisation of other laws with the SAI law may impair the practical application of budgetary autonomy. For instance, the Law on Financing the Institutions of Bosnia and Herzegovina³² is applicable to the SAIBiH as one of these institutions. This law disregards the specific position of the SAIBiH and with the exception of the adoption of the annual budget, is treated the same as any other ministry or agency. Additionally any adjustments to the SAIBiH's budget during the year, even if that is just a transfer between the detailed functional budget lines requires the approval of the MoF, undermining its autonomy in managing its own budget.

²⁷ SAI Laws, Article 5 (SAIBiH), Article 5 (SAIFBiH) and Article 25 (SAIRS)

²⁸ Official gazette of the Federation of BiH no. 53/19 Parliament and adopted on the 26.7.2019

²⁹ SAI Laws, Article 5 (SAIBiH), Article 5 (SAIFBiH)

³⁰ SAIRS Law, Article 25

³¹ SAIBD Laws, Article 5

³² Law on Financing the Institutions of BiH, Article 2 b

For SAIFBiH and SAIRS human resources are a significant limiting factor. The SAIFBiH and SAIRS have staff systemisations of 140 and 95 staff respectively, but the actual staff in post is around 65 for both. While both Audit Offices have agreed plans with their respective parliaments to increase their staff numbers over the next three years, the limitations in human resources are an impediment to effectively delivering their audit mandates, and thus their independence.

The SAIFBiH, SAIRS and to a lesser extent the SAIBiH are also constrained by their current physical resources. The offices of SAIFBiH and SAIRS do not have the capacity to deal with increases in staff, and therefore act as another limitation on delivering their audit mandates. However the SAIRS has agreed additional resources with their Parliament to enable it to purchase suitable premises that will meet its future needs, and for SAIBiH pursuant to a conclusion from the BiH Parliament, the Council of Ministers has tasked the relevant authority to purchase premises for SAIBiH.

Broad Mandate

An SAI should have a sufficiently broad audit mandate, covering all (or most) public financial operations, including extra-budgetary funds. In fulfilling their mandate the SAI should also be empowered to carry out all relevant types of audit activity, including performance audit (value for money), and be free to choose the subjects or issues to be audited.

The laws³³ give the Audit Offices legal authority to carry out audits on all public bodies and institutions, as well as on companies in which the (state or entity) government has a majority stake. The mandate includes local government on the entity level³⁴. For each Audit Office there are a certain number of institutions that they have a legal obligation to carry out an audit on annually. Those are

- SAIBiH: the institutions of BiH, including Parliament, Presidency, Council of ministers and government-financed institutions as well as extra-budgetary funds (74 audits).
- SAIFBiH: the institutions of FBiH, including the Parliament, the Presidency, the FBiH Government and respective ministries, (20 audits).
- SAI RS: the National Assembly, the Parliament, the Presidency, the General Secretariat of the Government, RS government and respective ministries, the Tax Administration, the Pension and Disability Fund, the Public Fund for Children Protection and the Public Institution Employment Fund (26 audits).
- SAI BD: all public institutions and public enterprises

For SAIFBiH and SAIRS the obligation of an annual audit does not exist for local government, cantons, extra-budgetary funds and government financed funds, institutes, agencies and public enterprises, and it is up to the Audit Offices to decide on the selection of these auditees as part of their annual planning processes.

The mandates of all four Audit Offices also cover the external audits of funds provided by international bodies or organisations, either as loans or grants. This provision would in principle cover the use of EU funds by public institutions. Revenue is not explicitly mentioned in the SAI Laws, apart from revenue emanating from the sale of assets, privatisations and concessions.

While the mandates of Audit Offices are broad there are small number of institutions that fall between the Audit Offices and not are effectively covered. For example the indirect taxation collected by the Indirect Taxation Authority (ITA) is not subject to an effective audit. While a review is conducted of the percentage of the revenues distributed to the state and entities, there is no audit of the collection and completeness of the revenues. The audit of indirect taxation collection is governed by the Law on Indirect Taxation System³⁵, which leaves the decision on audit of collection and allocation of indirect tax revenues to the ITA Governing Board. SAIBiH has previously recommended to ITA Governing Board that

³³ SAI Laws, Article 11 (SAIBiH), Article 11 (SAIFBiH), Article 16 (SAIRS) and Article 11 (SAIBD)

³⁴ Cantons, cities and municipalities in the case of the SAIFBiH; cities and municipalities in the case of the SAIRS

³⁵ Law on the Indirect taxation System, Article 35

this situation should be addressed but no action has been taken. Other examples include the Central Bank, BHRTV, the Official Gazette, BiH Foreign Chamber of Commerce, SERC, ISO, the Deposit Insurance Agency and Elektroprenos d.d. Banja Luka.

The SAIFBiH and the SAIRS both have a very wide remit, covering over 2000 auditees in the Federation and over 900 in the Republika Srpske. The SAIFBiH have increased the number of financial audits it conducts each year. In 2019 83 audits will be conducted, whereas before 2016 only 50 were conducted annually. The RS have also sought to increase the number of audit it conducts annually and it will conduct 68 audits in 2019.

Comparing the number of mandatory annual financial audits, the number of realised financial audits annually and the size of the mandates of the SAIFBiH and SAIRS it is clearly challenging to plan and deliver a comprehensive work programme over the medium term that delivers effective accountability and transparency for public resources. Within their current resource profiles there are clear constraints on the ability of these Audit Offices to develop their work, for example in performance auditing, which has a negative impact on meeting the expectations and standards set out for SAIs.

All Audit Offices can carry out financial³⁶, compliance and performance³⁷ audits. The laws also enable the Audit Offices to conduct special audits, based on a request from the parliament or parliamentary commission³⁸. Apart from the SAIRS Law, the laws do not specifically mention compliance audit, but in all cases the provisions relating to compliance audit activities are included within the provisions related to financial audit.

All four SAIs have interpreted the financial audit provisions in the laws as meaning they should perform combined financial and compliance audits and as a result they issue two opinions, the first on the accuracy of financial statements, and the second on compliance with laws and regulations. The second opinion is based on audit procedures defined in ISSAI 4000³⁹. Our interpretation is that the laws provide more flexibility in applying the compliance audit element of the provisions, such as enabling separate compliance audit. We address this in more detail later in the report, but from a legal position it could be helpful if the laws provided more clarity about compliance audit and clearly provided the Audit Offices with flexibility to undertake it as a separate exercise as envisaged in ISSAI 4000. This is not a major issue but would help resolve any 'legal uncertainty' around compliance auditing.

Access to information.

To enable an SAI to effectively carry out its work it should be entitled to free, timely and unrestricted access to all documents, information and premises it might need for the proper discharge of its responsibilities. Specifically an SAI should have

- access to all the records and documents it needs, irrespective of the format in which they are held;
- the right of access to the premises of audited bodies for its staff;
- staff of audited bodies are required to provide the information and explanations requested by the SAI;
- enforcement mechanisms in place to ensure that information is provided on a timely basis.

The laws for all four Audit Offices⁴⁰ provide them with the free and unfettered access to documents, information and premises. The laws also clearly stipulate that staff of audited bodies are required to provide the information and explanations requested by the Audit Office.

³⁶ SAI Laws, Article 13 (SAIBiH), Article 13 (SAIFBiH) and Article 18 (SAIRS), Article 13 (SAIBD)

³⁷ SAI Laws, Article 14 (SAIBiH), Article 14 (SAIFBiH) and Article 19 (SAIRS), Article 14 (SAIBD)

³⁸ SAI Laws, Article 18 (SAIBiH), Article 18 (SAIFBiH) and Article 23 (SAIRS), Article 15 (SAIBD)

³⁹ ISSAI 4000 - Compliance Audit Standard.

⁴⁰ SAI Laws, Articles 39 to 44 (SAIBiH), Article 11 (SAIFBiH), Article 16 (SAIRS) and Article 11 (SAIBD)

In terms of what actually happens in practice, the Audit Offices indicated that there had not been any real issues in obtaining documents, information and access to premises or in the cooperation of auditees. However, there was one exception noted at the SAIFBiH, where for the first time they were not able to undertake the audit of an agency, as it refused to cooperate with the SAIFBiH or provide information/documents. As a result, SAIFBiH eventually had to report that it was not possible to conduct the audit, and informed the government, Parliamentary Committee and prosecutor's office, but nothing has subsequently happened.

The Law on Classified Data⁴¹ permits the head of an auditee to classify as confidential any document he or she considers appropriate, without any obligation to elaborate on the criteria for such an action. To review classified documents requires auditors to obtain the relevant security clearance from the Intelligence and Security Agency.

The right and obligation to report on their work.

SAIs should be free to report the results of their audit work to parliament and be required to report to parliament at least once a year. They should also be free to

- decide on the content and timing of their audit reports, and
- publish and disseminate their reports once they have been formally tabled or submitted.

All four audit offices are required to report the results of their audit work to parliament. The laws⁴² clearly articulate the requirements to submit the reports from their audits to parliament and set out the manner in which this should happen.

The laws also require that the Audit Offices make the reports public after they have been submitted to parliament. The only exception is in Brcko District where the reports have to be considered and voted on by the parliament, either in plenary or committee depending on the report, before the Audit Office can make them public.

In terms of the content and timing of the reports there are certain statutory requirements related to the mandatory annual audits, but apart from this, they are free to determine the contents and timing of their reports. The only restrictions relate to confidential information that should not be incorporated in a public reports, but can be included in reports to parliament.

2.4. Conclusions

The fact that the Audit Offices in BiH are not anchored in the Constitution does represent a potential threat to their independence. The fact that independence is adequately addressed in the Audit Office Laws does not affect this matter of principle, as primary legislation can be changed more easily than the Constitution. Therefore, the independence of the Audit Offices is not sufficiently protected in the current legal framework and the status and importance of public external audit within BiH is potentially undermined.

In general, the SAI laws are reasonably well developed, and to the extent that is possible for simple laws, they provide the Audit Offices with a satisfactory independent status, audit mandate, remit, and powers. There are areas which could be improved and clarified, and in practice there are issues that have or could the affect independence and autonomy of the Audit Offices.

If we systematically compare the eight principles of the Mexico Declaration (INTOSAI-P10) with the legal frameworks of the SAIs, we come to the following assessment:

⁴¹ Law on Classified Data

⁴² SAI Laws, Article 16 (SAIBiH), Article 16 (SAIFBiH), Article 21 (SAIRS) and Article 20 (SAIBD)

Principle 1: The existence of an appropriate and effective constitutional/statutory/legal framework and of de facto application provisions of this framework. While the laws provide a satisfactory framework, the fact that the Audit Offices are not anchored in the constitution means their independence is not adequately protected and the importance of public external audit within BiH is potentially undermined.

Principle 2: The independence of SAI heads and members (of collegial institutions), including security of tenure and legal immunity in the normal discharge of their duties. While the independence of the AGs and DAGs is not anchored in the constitution, the laws adequately provide for the independence of the AGs and DAGs, apart from for SAIBD.

In the case of SAIBD, there is a possibility of removal from office for not meeting audit standards, which is problematic and creates the risk that the AG's and DAG's independence is undermined. Reviews of an Audit Office against auditing standards should contribute to improving the quality of the Audit Office and not lead to the removal from office.

Principle 3: A sufficiently broad mandate and full discretion, in the discharge of Supreme Audit Institution functions. In principle this is generally complied with as the Audit Offices having a clear legal authority to audit all public and statutory funds and resources, bodies and entities. However, there are small number of institutions that fall between the Audit Offices and not are effectively covered, including indirect tax revenues.

In the entities, despite having a broad mandate, given the resources available the sheer number of potential auditees makes it impossible to carry out an annual audit of all those auditees, and challenging to deliver an audit programme that adequately ensures accountability and transparency of public resources. While the Audit Offices have taken steps to try and address this, it places constraints on the Audit Offices creating a risk to their credibility and perception of their independence.

The Audit Offices are able to decide on their work programme without interference from outside. The only exception to this relates to requests from the respective parliaments, which with the exception of the SAIBiH they are required to include in their work plans. While all Audit Offices are well advised to take requests for audits from Parliament very seriously, it should still be the Audit Office itself to decide whether or not to respond to such a request.

All Audit Offices have a mandate to conduct financial, compliance and performance audits, but increased clarity regarding compliance audit would be helpful in providing the Audit Offices with flexibility in determining how to undertake this and meet the requirements of ISSAI 4000.

Principle 4: Unrestricted access to information. The Audit Offices all have the appropriate legal authority to obtain access to documents, information and premises and, with one reported exception this is respected in practice.

Principle 5: The right and obligation to report on their work. The Audit Offices have the appropriate legal rights and obligations to report on their work, and apart from the SAIBD the appropriate rights to make their reports public. For the SAIBD the requirement that the reports require to be processed by the parliament creates risks that parliamentary delays could prevent the publication of audit reports.

Principle 6: The freedom to decide the content and timing of audit reports and to publish and disseminate them. While the Audit Offices are required to observe some specific statutory requirement in terms of the timing and content of mandatory financial audit reports, they have appropriate authority to determine the content and timing of their reports.

Principle 7: The existence of effective follow-up mechanisms on Supreme Audit Institution recommendations. The Audit Offices submit their reports to the Parliaments and the relevant committee and they have follow-up mechanisms in place. This is addressed in detail in chapter 7.

Principle 8: Financial and managerial/administrative autonomy and the availability of appropriate human, material, and monetary resources. Except for the SAIBD Law, the Laws satisfactorily provide for the financial independence of the Audit Offices. However, the law was not respected in the Federation in 2016 and 2019. Also with respect to budget amendments during the year and the execution of Audit Office payments the MoF plays a role and could potentially refuse the requests, in particular for SAIBiH and SAIFBiH. In the case of SAIBD it is treated in the budget preparation process like all other budget users.

The physical and human resources of the SAIFBiH and SAIRS also place constraints on the ability of them to effectively deliver their audit mandates.

There are clear risks to the financial independence of the Audit Offices and in some instance these risks are materialising as the Executive take actions in breach of the laws.

2.5. Recommendations

The recommendations of the Peer Review Team with respect to the independence are:

- ▶ When there is a review of the constitutional set-up of Bosnia and Herzegovina, we recommend the issue of public external audit be incorporated within its scope. This should cover not only the establishment as such of the Audit Offices but also some fundamental issues like the function and tasks of external audit, and the basic conditions of appointment and terms for the management of the Audit Offices, and provide for the protection of the independence of the Audit Offices by the supreme court.
- ▶ In the law for SAIBD the possibility of removal from office of the AG or DAG where audit quality does not meet the audit standards should be removed.
- ▶ For SAIBiH it has to be made sure that it is not considered as any other budget user under the law on financing the institutions of BiH. For SAIBD the law on this Audit Office should be changed, to harmonise provisions on funding of SAIBD with those of the SAIBiH, SAIFBiH and SAIRS, thus making sure that SAIBD is entitled to apply directly for the necessary financial means to the competent parliamentary body.
- ▶ The requirements of the SAI laws with respect to financial independence should be respected by the Executive and effectively implemented. All Audit Offices should be able to use and manage their approved budgets as they see fit, without any interference, or requirement for approval, by the respective MoFs. In particular the Federation MoF's ability to directly adjust the SAIFBiH's budget should be curbed. All Audit Offices need to engage with their MoFs and relevant parliamentary committees to reinforce these principles and ensure they are enforced, and develop strategies for engaging with other stakeholders to support them in this.
- ▶ The laws for SAIRS and SAIFBiH should be reformulated in the same way as the relevant regulation in the law for SAIBiH, giving the SAI the right of decision on whether or not, to follow up a request for a special audit.
- ▶ Agreement on the competence and authority of the Audit Offices to undertake the audits for the small number of institutions that fall between them needs to be reached, and if necessary relevant provisions should be included in any future amendment of the laws.

- ▶ Effective audit arrangements require to be established for the annual audit of the revenues collected by the Indirect Taxation Authority as this represents a significant gap in accountability and transparency of the public finances in BiH. The ITA Governing Board should in cooperation with the Audit Offices ensure that such arrangements are established in accordance with Law on Indirect taxation System or the responsibility for auditing such revenues should be included in the mandates of the Audit offices.
- ▶ When the SAI Laws are subject to review, without diminishing the exiting level of independence they provide, they should be reformulated to specifically mention compliance audit and clearly provide the Audit Offices with the ability to implement compliance audit flexibly, including as separate audits in line with ISSAI 4000.
- ▶ While there are clear challenges in substantially increasing the Audit Offices' resources, strategies need to be developed to address the challenges caused by the comparative size of their remits and resources. Strategies to be considered in regard to this include a more flexible implementation of compliance audit on the basis of risk, increased joint working between the Audit Offices to create synergies and efficiencies, examining mandatory requirements and taking a top down sectoral approach to assessment of risk and selection of audits.

3. Management and Governance

3.1. Introduction

The governance and management of an SAI is important for its effective functioning and meeting its objectives. An SAI needs to be proactive in establishing its strategic direction and objectives, and put strategies and plans in place to achieve them, and monitor and report on their achievement. An SAI also needs to lead by example in adopting and implementing policies or practices which promote ethical behaviour, transparency, accountability and overall good governance, which help to promote trust and confidence in the work of the SAI and its staff. The Peer Review team examined the role of the Coordination Board, along with the strategic and operational planning, performance management, transparency and accountability, and ethics arrangements in the Audit Offices.

3.2. Coordination Board

The Audit Offices co-operate by means of the Co-ordination Board (CB). The establishment and responsibilities of the CB are laid down in of the Law on the SAIBiH⁴³. These are to:

- establish consistent guides and instructions based on INTOSAI auditing standards
- exchange professional experiences
- organise and co-ordinate development activities
- assign auditing responsibility for common activities
- define representation in international bodies.

The CB consists of the AGs and DAGs from SAIBiH, SAIFBiH and SAIRS. The Law on the SAIBiH did not foresee the participation of the SAIBD in the CB, but the Board's Rules of procedure adopted in 2010 provide for representatives of the SAIBD to attend the meetings of the CB as observers, without the right to vote. The Board is chaired by the Auditor General of the SAIBiH and the decisions of the Board require the consensus of the Audit Offices. The CB is financed from the budgets of the three Audit Offices that formally comprise the Board. The secretariat is entrusted to the SAIBiH.

The CB currently has an annual decision on the financing of the CB, there is the Rulebook (Rules of Procedure) and Guidelines for the Operations of the CB. However it does not currently have annual plans or longer term (three year) financial plans in place.

The CB has established several working groups composed of staff appointed by each Audit Office to define the way forward in specific areas and present a co-ordinated and harmonized solution that is appropriate for each Audit Office. The CB has been an important vehicle for the joint development of audit standards and guidelines through the working groups. Following adoption by the CB each Audit Office is responsible for the implementation of the documents and, if necessary, adapt the policies and working practices to suit their own particular circumstances. Since 2012, the CB, and the Audit Offices, have adopted the following documents:

- Strategic Development Framework 2013 to 2020
- Handbook on Performance Auditing 2013
- Financial and Compliance audit Guide 2016
- Handbook for Quality Assurance in performance auditing
- Education Plan
- IT Development plan

⁴³ SAIBiH Law, Article 46

The CB has provided an effective mechanism since it was established for helping to develop and coordinate public sector external audit in Bosnia and Herzegovina. Despite the limited resources available over the years it has provided a good forum for discussing and harmonising views on international standards, and it has produced good tangible results, with the development and adoption of guidelines and coordinating activities such as training. However more recently, the impact of the CB has become more marginal as there have been difficulties in reaching consensus about the activities of the CB, for example in the preparation and adoption of consistent guides/guidelines and instructions. As a result the working groups are not functioning as effectively and harmonisation across BiH is decreasing.

All offices continue to recognise the value of the CB. However the current situation reflects different views and interpretations of what the law enables and how this translates into the role and activities of the CB. There are diverging views about the authority of the CB to prescribe “consistent” guidelines, membership of INTOSAI, and how the CB operates including who it is chaired and staffed by. For example a view expressed is that the CB can adopt a decision that the Audit Offices should comply with ISSAIs but cannot prescribe the actual guidelines, as the Audit Offices are independent institutions. Another view is that the chair of the CB should be rotated amongst the Audit Offices, particularly as the entity Audit Offices have larger mandates. However, the current legal framework clearly articulates that the AG of the SAIBiH shall chair the CB (although there is no clear provision for who chairs the CB when there is no AG in post) and that the SAIBiH shall provide professional and administrative services to the CB. It also clearly articulates that the development of consistent guides and instructions based on INTOSAI auditing standards are within the competence of the CB. The Statutes of INTOSAI⁴⁴ (and EUROSAI) also prescribe clear membership criteria and the Audit Offices have no role in deciding who can become a member. As a result significant elements of the Co-ordination Board’s work has stalled.

We recognise the unique role that each Audit Office has within its own political environment but in line with the assessment in our 2012 peer review report, SIGMA continue to see significant value in the role of the CB in supporting the development and coordination of activities across BiH. Given the limited resources of the Audit Offices it provides a good mechanism to maximise the intellectual capital of all Audit Offices for the benefit of public sector external audit in BiH.

SAIs do not work in isolation and there are broad range of areas and issues where enhanced effective cooperation can greatly enhance the quality and impact of their work. Following the good work it has previously carried out, in our view the CB still provides a good vehicle to support the effective implementation of the INTOSAI Professional Pronouncements framework, through the development of consistent guidelines and practices in accordance with the legal framework and the competences of the CB, which the Audit Offices can clearly adapt to their own circumstances. Further with the development of technological solutions to support audit work, such as audit management systems and digital audit tools effective cooperation can provide significant economies of scale in enabling the Audit Offices to enhance the quality and impact of their audits.

The CB also provides a good mechanism for monitoring of the results of implementation of practices, highlighting problem areas and providing potential solutions that can be applied by all Audit Offices. While the Co-ordination Board have been able to oversee progress at its regular meetings there is little or no systematic monitoring of the results of the implementation process at a working level. There is an opportunity for the CB to establish systematic monitoring mechanisms to support the Audit Offices in the implementation of the strategies and methodologies.

With respect to the question of quality assurance the CB provides an opportunity to share and exchange experiences and make effective use of limited resources through conducting quality assurance activities jointly. It also provides a potential mechanism for the Audit Offices to increase the impact and value of their audits, for example through cooperative/parallel or joint audits.

⁴⁴ INTOSAI Statutes, September 2019, Article 2

SAls need to pay attention to and respond to developments in their external environment if they want to ensure they have impact and are relevant, and to minimise the risk of problems in the future. Such issues include reforms and developments in the areas of: public internal financial controls and internal audit; public procurement; programme budgeting; and the adoption International Public Sector Accounting Standards (IPSAS) and accruals accounting. While some of these initiatives may take some time to be implemented there are others that are more immediate. It is important that the Audit Offices can contribute their views around certain issues and in some cases also respond through their work. The CB can provide an effective forum for the Audit Offices to express their views, consistently and at the right time, on all proposed reforms or changes that might impact on their audit requirements, and also respond consistently after the reforms are implemented.

An effective CB also provides a good mechanism to assist the Audit Offices when external pressure is brought to bear on them. The CB is in a good position to monitor the situation in respect of each Audit Office and help to develop a common approach to any issues that arise, such as when there are challenges to aspects of their independence.

While again recognising the unique position and independence of each Audit Office, we consider that the role of, and the resources available to, the CB should be strengthened to help ensure that it is able to drive improved consistency within and between Audit Offices. We are not proposing that the responsibilities of the individual Audit Offices should be diminished in any way but we consider that the further development of the CB would help to increase the impact and value of their audits and outputs, and thereby help to strengthen the governance, accountability and transparency of each audited institution and the government.

Strategic Development Framework

On 10 March 2014 the CB adopted a Strategic Development Framework for the period 2013 to 2020, aimed at directing the development of the Audit Offices in Bosnia and Herzegovina in line with the accepted ISSAI framework and best EU practices, The framework took into account development needs of all Audit Offices in Bosnia and Herzegovina and articulated strategic directions based on the respective mandates, legislation and need assessments of individual Audit Offices in BiH, recommendations given in 2012 SIGMA Peer Review Report, as well as international professional requirements

The strategic development directions endorsed by the CB were as follows:

- Strengthening public trust
- Institutional development
- Professional development of staff
- Professional cooperation
- International role
- Ensuring audit impact

The document provided a framework for each individual Audit Office to define their own, strategic development plans and performance monitoring, depending on their own need assessments. The framework recognises that the individual Audit Offices have the primary role for the monitoring the results and progress they make in achieving their strategic objectives, but the framework indicates that all monitoring and evaluation activities, including mid-term evaluations, final evaluations and evaluation of achieved results, should involve coordination and cooperation between all Audit Offices in BiH.

Since its initial adoption the strategic development framework has not been updated, and there is no indication of coordination and cooperation in monitoring and evaluation activities.

Recommendations

The recommendations of the Peer Review Team with respect to the CB are:

- ▶ The legal framework articulates the role of the CB to develop consistent guides in line with INTOSAI standards. The CB should consider how it takes forward the development of the various guides to ensure that they can be adopted and provide a consistent framework for the Audit Offices in developing their own internal processes and procedures.
- ▶ The CB should consider developing a suitable, systematic review mechanism to establish the progress being made by the Audit Offices with the various adopted methodologies and to ensure that any variations are justifiable.
- ▶ The Audit Offices should consider increased cooperation through the CB for example through the development of joint quality assurance mechanisms and conducting parallel or joint performance audits.
- ▶ The CB should evaluate the progress in achieving the directions set out in the Strategic Development Framework, including the results of the peer review, and start the process for developing a revised strategic framework. Within this the CB should establish clear strategic priorities for the CB to provide a framework for the operational planning of its activities.
- ▶ The CB should also consider updating their strategic framework on a regular basis. Within this context it might also consider implementing a rolling strategic development plan updated at least once a year, with regular review by the CB of the activities undertaken and goals achieved.

3.3. Strategic/Operational Planning and Monitoring

An SAI should implement a strategic plan, which identifies its priorities and strategic objectives, taking into account the culture and the vision, mission and values of the SAI. To facilitate implementation of its strategic plan, an SAI should also implement an annual/operational plan. Within this context an SAI should ensure:

- its work is guided by a clear vision, mission and values
- strategic planning identifies the desired future state the SAI is aiming at, assess the current situation, recognise risks, and identify the organisation's development needs.
- the strategic planning process engages the whole organisation and includes the involvement of external stakeholders.
- the SAI's objectives, plans and targets flow from its vision and strategy.
- the strategy is supported by an annual/operational plan prioritises activities on the basis of an informed assessment and provides sufficient flexibility to respond to emerging issues.
- the annual/operational plan articulates projects, activities, timelines, and resources required, estimated budget, outputs, responsibility for projects and risks involved.

With the exception of SAIBD, the Audit Offices developed their own strategic development plans (SDPs) using the strategic development framework approved by the CB. The SAIBiH and SAIRS plans are for the period 2014-2020 and SAIFBiH plan is for the period 2017-2020. SAIBD indicated they use the strategic development framework developed by the CB.

The SDPs set out the vision, mission and values of the Audit Offices to guide their work. To a greater or lesser extent they all provide an assessment of the Audit Office's situation and environment, their strengths and weaknesses as well as the opportunities and threats, which to a degree provides an assessment of risks. The strategic objectives defined also elaborate the development needs of the institutions.

The SDPs were generally developed with broad input across the departments within the Audit Offices before being formally adopted by the relevant AG. However there was no external stakeholder input to the SDP development.

With the exception of the SAIFBiH 2017-2020 SDP Action Plan, the SDPs are not presently complemented by an implementation matrix or similar document which identifies and prioritises the projects that need to be undertaken to achieve the goals and objectives of the strategic plan, and which identify risks to achievement of the strategic plan.

The SDPs have not been updated since their initial adoption. The Audit Offices have not developed and approved clear procedures and processes for developing and updating the strategic plan, which clearly defines the responsibilities, processes and timetables for developing organisational plans.

Operational Planning

The objectives set out in an SAI's strategic plan should be operationalised in an annual/operational plan. The SAI's annual/operational plan should:

- facilitate implementation of its strategic plan, defining general activities for each goal and objective
- prioritise activities based on an informed assessment and provides sufficient flexibility to respond to emerging issues
- articulate projects, activities, timelines, and resources required, estimated budget, outputs, responsibility for projects and assessment of risks and constraints to the delivery of the plan.
- cover of all the SAI's main support services.

All four Audit Offices prepare an annual plan. The annual plans include the planned audit activities, and to a varying degree also address the broader institutional activities including support services.

The main focus of the annual plans is the annual audit programme. With respect to financial audit, the SAIBIH and SAIBD have a fixed programme each year so the planning relates to the resources to be allocated to each audit and the deadlines to be achieved. For SAIFBiH and SAIRS, apart from mandatory audits the plan articulates the discretionary financial audits. The selection of discretionary audits is based on a bottom-up risk assessment. Audits are developed by teams, sectors and department heads and then discussed and agreed with management. The Audit Offices have criteria to help drive the initial selection

With respect to performance audit across all Audit Offices the process is bottom-up with auditors suggesting topics, with further refinement and analysis within the team and by the department heads, with prioritised list of potential audits then presented then to the management for discussion and agreement. Criteria are used to help select and rank the audits.

Presently there is no formal top down guidance outlining senior managements strategic priorities provided at the commencement of annual planning to guide and provide a focus to teams when they are developing their suggestions for audits and topics. The strategic focus is provided through meetings with senior management towards the end of the planning process.

To an extent the annual plans appear to translate the strategic objectives into annual activities, although this is not clearly articulated. The main challenge identified in reviewing the plans is that they don't clearly identify what is being done to achieve the strategic objectives, and they are activity rather than output/outcome based. In particular for support services they mainly detail activities that would be described as business as usual and not development activities. The annual/operational plans also do not also articulate the timelines, resources required, estimated budget, outputs, responsibility for projects and assessment of risks and constraints to the delivery of the plan.

The Audit Offices have not developed and approved clear processes for developing the annual plan, which defines the responsibilities, processes and timetables for its development.

Monitoring performance

An SAI should monitor its performance and evaluate the implementations and achievement of its strategic and annual plans. An SAI should

- have in place a system for measuring and monitoring its performance.
- performance indicators to measure outcomes and outputs rather than activities.
- findings arising from any sort of independent external scrutiny of the SAI (e.g. audit of its accounts, Quality Assurance reviewed) are acted on.

Currently the only real monitoring of progress in achieving the SDPs objectives is through the annual activity reports, and not in a specific section on monitoring implementation of the SDP but throughout the various sections of the reports. There are no clear results frameworks and the plans lack performance indicators to assess whether and how the strategic goals and objectives are being achieved.

With respect to the annual plans, monitoring of progress in delivering the audits is conducted to ensure that the deadlines are achieved. However there are no formal systematic processes in place to monitor progress, assess resources used for individual projects against budgets and monitor risks to achieving the plan.

The Audit Offices need to design performance management and reporting systems, clearly defining intended performance. Apart from being a key element in demonstrating the integrity and credibility of their planning and reporting system, it is important in enabling the Audit Offices to demonstrate their impact and provide accountability for their work.

Recommendations

The recommendations of the Peer Review Team with respect to the Strategic/Operational Planning and Monitoring are:

- ▶ In developing their strategic plans for the period from 2021 the Audit offices should ensure they include a clear assessment of the risks they face and engage external stakeholders in the process. The Audit Offices should also consider a process where the strategic plans are regularly updated for example through a rolling strategic development plan updated annually, with regular review of the activities undertaken and goals achieved.
- ▶ The Audit Offices should complement their next strategic plans with an implementation matrix or similar document which identifies and prioritises the projects that need to be undertaken to achieve the goals and objectives of the strategic plan.
- ▶ The Audit Offices should develop and approve clear procedures and processes for developing and updating the strategic and annual plans, which clearly defines the responsibilities, processes and timetables for developing them.
- ▶ In conjunction with the bottom up annual planning processes, the Audit Offices should consider implementing formal top-down strategic guidance outlining senior managements strategic priorities at the commencement of annual planning to guide and provide a focus to teams when they are developing their suggestions for audits and topics.
- ▶ The Audit Offices should ensure that operational/annual plans clearly demonstrate what is being undertaken to achieve the strategic objectives, and they are focused on outputs and outcomes. They should also ensure they articulate the timelines, resources required, estimated budget, outputs, and responsibility for projects, and an assessment of risks and constraints to their delivery.

- ▶ As a key element of their planning and reporting systems, the Audit Offices should design and implement performance management and reporting systems, clearly defining intended performance, to monitor strategic and operational performance. At a strategic level a clear results framework including performance indicators should be developed. With respect to operational/annual plans the systems should enable the monitoring of progress and resources used for individual projects against targets and budgets and the risks to achieving plan objectives.

3.4. Transparency and accountability

SAIs have a fundamental role in promoting the accountability and transparency in the use of public resources. Therefore, it is extremely important that they lead by example in demonstrating they are accountable and transparent in undertaking their work. International standards clearly articulate these expectations, particularly through INTOSAI-P12⁴⁵ and INTOSAI-P-20⁴⁶. Key expectations for SAIs include

- transparency about their role, responsibilities, mandate, strategy and plans
- report the outcomes of their audits publicly
- report publicly and held accountable for their own performance
- communicates widely on their activities and audit results
- subject to independent assessments and audit which are publicly reported

In later chapters some of these issues are dealt with in detail including communicating with the external stakeholders and achievement of results.

In broad terms the Audit Offices have been making significant efforts to be transparent. Their websites for example provide information about their roles, responsibilities and mandate. Their strategic development plans, annual work programmes are published and available. All the financial and performance audit reports are published along with the annual reports on the execution of the budget, presented to the respective parliaments and made available on their websites.

The laws⁴⁷ all require the Audit Offices to submit their annual activity reports, which provide information on their activities and performance during the year, along with their financial statements (or budget execution report) to their respective parliaments. The Audit Offices comply with this requirement and publish them on their website. With the exception of Brcko District, the laws also place the responsibility for the review of the Audit Offices activity reports and financial statements with the relevant parliamentary committee. The Laws for SAIBiH and SAIFBiH also require the committee to appoint independent auditors to audit the Audit Offices financial statements. Since the 2012 Peer Review none of the Audit Offices' financial statements have been subject to independent external audit (SAIBiH was subject to a financial audit covering 2007 and 2008), although for example SAIBiH has made repeated requests to the Parliament for a financial audit to be conducted, but with no success. As the Audit Offices should be leading by example, particularly in terms of financial accountability and transparency, it is important for their credibility that they are proactive in ensuring they are regularly subject to independent external audit which is publicly reported.

The Audit Offices have been subject to two previous peer reviews, which have both been published. They have also been subject to various assessments by external parties including PEFA and SIGMA's Assessments against the Principles of Public Administration, which have been reported publicly.

⁴⁵ INTOSAI-P-12, The Value and Benefits of Supreme Audit Institutions – making a difference to the lives of citizens

⁴⁶ INTOSAI-P-20, Principles of Accountability and Transparency

⁴⁷ SAI Laws, Article 6 (SAIBiH), Article 6 (SAIFBiH), Article 26 (SAIRS) and Article 7 (SAIBD)

Recommendations

With respect to the elements of transparency and accountability covered in this section the peer review team would recommend that the Audit Offices need to take steps to ensure that they are leading by example, and as a result are subject to independent external audit annually. The respective parliaments should support the Audit Offices and take the lead role in establishing this, but in the first instance the Audit Offices will need to proactively engage with the relevant committee to try and drive this forward. However, if no progress can be achieved the Audit Offices should be proactive in seeking out other solutions.

3.5. Ethics and conduct

SAI are held to high standards in how they conduct their work and are expected to lead by example. As a result they are expected to promote a culture of integrity, ethical behaviour and professional conduct throughout their organisations. This includes SAls developing a code of conduct or ethics in line with ISSAI 130 (updated in 2016), which are implemented and complied with, and publicly seen to be complied with.

All the Audit Offices have developed and implemented codes of conduct and/or ethics, which support the values of the offices. The SAIBiH's Code of Ethics was updated during 2019 in consultation with staff, and it was formally adopted in October 2019. SAIBiH also implemented a code of conduct in 2019. SAIFBiH implemented a revised code of ethics in 2017. The SAIRS implemented its current code of conduct in 2014 and SAIBD its code of ethics in 2009. They generally meet the expectations of international standards⁴⁸, although the SAIBD's code only in very broad terms. The only clear exception is with regards to external contractors who conduct work on behalf of the Audit Offices. While this is not an issue for the Audit Offices currently, it is not clearly articulated in the codes that they apply to external contractors undertaking work on their behalf and that they should be required to commit to the Audit Office's ethical requirements, with the exception of SAIFBiH's code. All of the codes with exception of SAIBD are publicly available on the websites

To support the policies established in the Code of the Ethics the Audit Offices should have clearly established procedures to support them in identifying potential independence issues or conflicts of interest, and also provide reasonable assurance that it is notified of any breaches of the Code of Ethics. It is also good practice to ensure that a senior manager has overall responsibility for ethics management, acting as a focal point for all independence and ethics reporting, monitoring and management.

The Audit Offices require all staff to complete declarations annually where they confirm they understand and comply with the code, and also make declarations of any potential conflicts of interest. On the basis of these declarations decisions are made to mitigate the risks of any conflicts. At the end of each individual audit engagement staff are also required to confirm that they had no issues in terms of their independence in conducting the audit. International standards indicate that at the commencement of each individual engagement the audit team should confirm their independence related to that engagement, which is something the Offices are now doing.

Apart from the annual declarations and the requirements at the commencement of individual audit engagements, it is important that there are procedures in place for staff to report any issues that may arise during the year which cause them to have an independence issue, or for any suspected breaches of the code of ethics to be reported. The Audit Offices currently do not have such documented procedures, although there are rulebooks in place setting out procedures for internal reporting of corruption and disciplinary responsibility of employees. The overall responsibility for managing ethics is also not clearly defined in the Audit Offices.

⁴⁸ ISSAI 130, Code of Ethics

It is also important that staff awareness related to ethical requirements and issues is maintained and continually developed. It is therefore an important elements of any Audit Offices continuous professional development. At present not all the Audit Offices have systemic professional development activities in place with respect to ethics. However, SAIBiH indicated that they intend to place ethics related questions higher on their agenda and SAIFBiH indicated it is a theme at each internal workshop.

The rotation of staff between audit engagements is also important for reducing the independence risks to Audit Offices and this should be articulated in a rotation policy. SAIBiH has a rotation policy in place with financial audit team members rotated every five years, while members within performance audit teams are rotated at least every two years. SAIFBiH and SAIRS also indicated that their staff are also rotated regularly⁴⁹.

Recommendations

The recommendations of the Peer Review Team with respect to ethics and conduct are:

- ▶ All Audit Offices should ensure that their Codes of Ethics are updated to reflect the requirements of the updated ISSAI130 in consultation with their staff. As a matter of course all Audit Offices should ensure that the codes are subject to regular review.
- ▶ The Audit Offices' systems and processes for ethics management should include clear procedures for staff to report any issues that may arise during the year which cause them to have an independence issue, or to report to any suspected breaches of the code of ethics. These procedures should be clearly communicated to all staff.
- ▶ The Audit Offices should clearly define who is responsible within their institutions for managing ethics.
- ▶ The Audit Offices should ensure that professional development activities systematically include training and awareness raising on ethics and ethical issues.

⁴⁹ Information provided in interviews with the Audit Office

4. Human Resource Management

4.1. Introduction

INTOSAI principles and standards require that *‘SAIs should have available necessary and reasonable human, material, and monetary resources,’* that *‘the members and the audit staff of SAIs shall have the qualifications and moral integrity’* and that they *‘maintain and develop skills and competencies needed to perform the work to achieve their mission and meet their responsibilities’*.⁵⁰

The Peer Review team examined the state of play in Human Resource Management (HRM) in the four Audit Offices. Specifically we examined and analysed the human resource function, human resource management policies and procedures, human resources planning, and training and professional development.

4.2. Human Resource Function

INTOSAI P140⁵¹ states that the human resource (HR) function of a SAI has the responsibility for the development and maintenance of human resources strategy and policies, the maintenance of a competency framework, performance appraisal system, personnel files, and for the provision of guidance and consultation on human resource related matters for the SAI and scheduling of suitable professional development.

In the Audit Offices the HR function is generally positioned within the Department for Legal, Financial and General Affairs (DLFGA). These departments have a limited number of staff and only one staff member responsible for HR management. The organisation of internal training is generally the responsibility of the methodology and quality control departments.

Since 2012 the HR function of the Audit Offices has developed further, but due to the limited number of staff available for HRM the focus of their work is on personnel administration. As a result not all responsibilities and tasks of a modern HRM function have been developed and implemented to their full extent, as will be illustrated and elaborated in the following paragraphs.

4.3. Human Resource Strategy/Policy and Procedures (Management)

SAIBiH is the only Audit Office that has defined an HR Strategy⁵² based on the Policy for Human Resource Management and Competence Development in Audit Offices that the CB in co-operation with the SNAO developed in 2005. SAIBD has transposed it in to its own HR policy. In the other Audit Offices the SDPs⁵³ cover HR issues but these mainly relate to the professional development of audit staff. HR issues are also regulated in the SAI laws and labour laws, several rulebooks such as Rulebooks on Systemisation and Organisation, Work/Operations and Professional Development.

The HR Strategy of SAIBiH covers the main elements of HR policy and is aligned with the overall objectives of the SAIBiH. It describes the responsibilities of the AG and DAGs for policy-making and the implementation role of the DLFGA for: HRM policies; internal organisation and staff establishment plan; recruitment; improving competences; conflict management; professional development and training; and requirements (action plan) arising from the HR strategy.

⁵⁰ INTOSAI-P 1, Lima declaration, sections 8 and 14, and INTOSAI-P-20, Principles of Accountability and Transparency section 6

⁵¹ ISSAI-140, Quality Control for SAIs, page 10

⁵² SAIBiH, Human Resources Management and Competence Development Policies, 2 February 2017; SAIRS HR Strategy.

⁵³ SAIBiH SDP 2017-2020, paragraphs 4.2 and 5.3; SAIRS SDP 2014-2020, paragraphs 5.2.1, 5.2.2, and 5.2.3

The staff members of the Audit Offices are not Civil Servants⁵⁴. Their rights and duties are regulated in the SAI laws.⁵⁵ The Rulebooks on Systemisations cover the organisation of the Audit Offices and the job descriptions of all functions. The Rulebooks on Work/Operations cover rules on employment, recruitment, probation, insurance, terms of labour contract, duties and rights of employees, promotion, internal transfer, education, working time, paid and unpaid leave, safety at work, protection of women, earning of fees, performance appraisal, and recording staff information. Besides the Rulebooks the Audit Offices have many detailed rules and procedures for all kind of HR subjects such as the discipline and accountability of employees, rulebook on the procedure for reporting internal corruption and rulebook on the official identity card. The Rulebooks are well-designed and the rights and duties of staff are clearly defined and guaranteed.

Remuneration of the Audit Office staff members is regulated in the SAI laws⁵⁶, the Laws on Salaries and Remuneration, many Council of Ministers decisions (SAIBiH) and Rulebooks on Salaries and Remuneration of Employees of the Audit Offices.

Criteria for promotion are laid down in the Rulebook for Operations (SAIRS)⁵⁷, specific criteria for promotion (SAIFBiH)⁵⁸ or Rulebook on Salaries and Remuneration (SAIBiH). There should be a vacant position, good performance and compliance with requirements of the job description. SAIFBiH has defined different criteria for job positions (depending on type of audit and seniority of the staff member) and promotion is initiated by an expert collegium⁵⁹. The number of years of experience is another criterion. The expert collegium prepares proposals for promoting auditors based on their performance and potential to perform at a higher level (SAIFBiH).

In SAIRS, if auditors have passed the certification exams and gained appropriate audit experience, they can be promoted to auditor and senior auditor. There were no promotions in 2018 and 2019 in SAIRS because the appraisal system of the institution did not function as intended and had to be re-evaluated.

Promotion within the Audit offices appears to be based on performance and the potential to perform on a higher level. But only SAIFBiH has a defined a promotion criteria for each function and type of audit

HRM Gaps and Challenges

Retention: There is not a formal policy on retention of staff. The Audit Offices also do not feel the need to develop such a policy because the turnover of staff is very low. Job security and good salaries are the main reasons for staff not changing jobs.

Staff appraisal system: The Audit Offices do not have formal staff appraisal or performance management systems that are operational mainly because the Rulebooks on performance monitoring and evaluation, which were developed in 2016, did not function in practice as intended. At the SAIFBiH the fairness of the system was questioned and the procedure needed to be updated and refreshed. The Rulebook of Operations of SAIRS⁶⁰ includes evaluation and assessment of staff. However, in 2019 the Rulebook of Operations⁶¹ was amended and now indicates that *"Evaluation and promotion of employees in(SAIRS)... shall be carried out on the basis of a special Rulebook"*. The management of the SAIRS decided to suspend the clauses of the Rulebook of Operations because in practice these clauses appeared to be too complex to implement. The challenge is that people are reporting to more than one team leader during the year with differing opinions as a result. Another experience was that everybody used to get the top

⁵⁴ SAI laws. Article 28.2 (SAIBiH), Article 28.2, (SAIFBiH), Article 27.1 (SAIRS)

⁵⁵ SAI laws. Article 29 and 30, (SAIBiH) Article 29 and 30 (SAIFBiH), Articles 28 and 29 (SAIRS)

⁵⁶ SAI laws. Article 37 (SAIBiH), Article 37, (SAIFBiH), Article 37 (SAIRS)

⁵⁷ SAIRS Law, Articles 97-100

⁵⁸ SAIFBiH, Criteria and procedures for promotion of employees.

⁵⁹ The Expert Collegium exists of the AG, the DAG and heads of departments and units

⁶⁰ SAIRS, Rulebook on operations, Articles 73 - 96

⁶¹ SAIRS, Rulebook of operation, Article 73

score so the system was not really useful for measuring good and bad performance. Therefore the AG of the SAIRS decided to establish a working group to develop a new Rulebook on appraisals, which should be ready at the end of 2019. The other Audit Offices had similar experiences with their appraisal systems.

In practice, managers monitor and supervise staff on quality of performance, the workload and the variety of tasks. The perception of the Audit Offices' management is that auditors are honest and hard working. From interviews with auditors SIGMA experts concluded that they are ambivalent towards performance appraisal. They see that it could be helpful to support them developing and improving themselves (acting as a benchmark for themselves), but they argued that promotion for example does not only depend on staff appraisal systems, with feedback on performance provided through other mechanisms.

Welfare policy: The Policy for Human Resource Management and Competence Development in Audit Offices of 2005 included also objectives and activities on well-being and satisfaction of employees but this policy has not really been implemented. In general, the management of the Audit Offices try to accommodate work environment needs, but within financial constraints. Occasionally there are surveys among staff to identify needs for budget purposes (procurement), but these surveys are not directed to measure the well-being of the Audit Office staff.

HR Performance indicators: The Audit Offices analyse a few HR indicators such as sickness and absence but this is ad hoc. The small size of the institutions and HR functions make it difficult to systematically monitor and evaluate the planning and implementation of HR policies and procedures.

The HR function is part of the Legal, Financial and General Affairs departments and is covered only by one or two staff members, which have other tasks too. Implementation of the HR function as intended by the INTOSAI Principles is therefore not optimal. For example a performance management system and a staff welfare policy are not developed yet. Staff appraisal is not embedded in the current HRM systems of the Audit Offices. The appraisal systems developed appear to have not been practical and are not used at present. Audit Office staff members can bring forward views and requests and, if possible, AGs act upon these views, but mainly on material or logistical issues. A system for monitoring implementation of HR planning and performance does not exist, and in practice the Audit Offices monitor only a few HR indicators.

4.4. Human Resource Planning

The HR planning of the Audit offices is based on the Rulebooks on systemisation and organisation⁶² and available budget. As part of their annual budget proposals the SAIBiH and SAIFBiH develop each year an annual employment plan. The plans detail job descriptions, required competencies, experience, and qualifications. They also include the need for staff and requirements for training and remuneration, and need for leaders. For each grade it states the number of persons required⁶³. The planned and granted funds for additional human resources differ over the years and by Audit Office. For 2018 SAIBiH did not receive additional budget for recruiting new staff but SAIFBiH received budget for an extra seven staff. On the other hand for 2016 SAIFBiH requested budget for an extra 17 staff and was not granted any funds for new employment⁶⁴.

⁶² In the job descriptions of Head and associate of DLFGA of SAIFBiH Articles 12.1 and 12.3 and in the job description of Head of SAIRS VII-Article 20 and appendix 1, Article 6.1

⁶³ Text based on interviews. SIGMA has not been provided with employment plans; only SAIFBiH has submitted an overview of planned and real recruitments in the period 2016-2019.

⁶⁴ Information from SAIBiH and SAIFBiH

The SAIRS financial plan submitted to the MoF annually includes the number of (new) staff. There is no needs analysis but the AG discusses with managers the need for new staff, considers the financial resources and then decides how many new staff should be recruited and the priorities for each audit area.

Both, the Parliamentary Budget Committee of the Federation and the Audit Board of RS have agreed on increasing the staff numbers respectively for SAIFBiH and SAIRS during the next three years. SAIFBiH will be allowed to recruit 21 new employees over the three years (7 a year), while SAIRS is allowed to increase its staff with 31 new employees. The plan is to recruit 8 people in 2019, 15 in 2020, and 8 in 2021. However, both institutions have to take into account the physical capacities and other limitations (premises and equipment) when recruiting a substantial number of new staff⁶⁵. The SAIFBiH planned to recruit three additional employees in 2019.

SAIFBiH has started to engage external experts in the audit process. The institution has launched a public call for public procurement experts, and so far has engaged two experts in the audit processes. In practice, it proved to be a good experiment as the experts were competent and had considerable experience. The SAIFBiH intends to use the external experts to train auditors in Public Procurement. The institution plans to hire external experts for other areas, based on necessity and demand e.g. construction experts. In 2015 SAIFBiH engaged a construction expert in the audit of several construction projects to ensure correct positions in the audit were taken.

The management of the Audit Offices indicated that they are generally content with the performance and competency of staff conducting financial and performance audits.

Compared with 2012, the number of staff has increased (for detailed information see Annex 2), with SAIFBiH having 63 now in post compared to 46 in 2012 (an increase of 37%). SAIFBiH has 66 staff (2012: 61), SAIRS has 65 staff (2012: 57) and SAIBD has 13 staff (2012: 13). Annex 2 shows that the staff of the Audit Offices are very well-educated, with each Office having over 85% of staff with university degrees, primarily in economics (in 2012 over 80%).

At the same time, the numbers of staff with formal qualifications in law or IT are very low. In general, each Audit Office has only one or two in each specialism, except for SAIFBiH which has four staff members with a legal background.

In 2012 SIGMA signalled some concern by auditees about the legal skills of the auditors. Auditors were seen as being knowledgeable in audit, accountancy and economics, but were perceived as lacking legal skills. This was reflected by the limited number of legally-qualified staff in the Audit offices. SIGMA concluded that further legal training for audit staff would benefit the Audit Offices by demonstrating that their staff have the full range of skills necessary to implement all aspects of the audit methodology.

During the review the Audit Offices indicated that they have legal expertise and that they are able to discharge their responsibilities and assess legal issues. However they indicated that legal expertise still needs to be further developed. Only one (SAIRS) or two (SAIFBiH and SAIBD) staff members have a legal background. Auditors are economists with accounting or financial background. The Audit Offices acknowledged that legal expertise specifically is needed when there are differences of opinions in compliance audits and it is not always well positioned to review compliance audit outputs. The lawyers present are mainly supporting contract drafting, procurement, logistics, appeals and lawsuits. The two lawyers of SAIFBiH provide advice to the AG and support auditors during the audit process and at the end of the audit process but their involvement is limited. Legal issues are supposed to be covered by the Department for development, methodology and quality management of SAIFBiH. The SAIRS lawyer provides some unofficial legal advice for auditors but SAIRS does intend to boost the legal expertise and recruit two more legal staff members.

⁶⁵ Information from SAIFBiH and SAIRS

The planning of human resources is based on two pillars: systematisation and budget. In practice, the total employed staff is much lower than the total needed according to the systematisation, especially in SAIFBiH and SAIRS. Exhibit 1 compares the systemised positions with the actual staff numbers in 2018. Both institutions have a very broad mandate and experience problems with fulfilling their mandate with the limited resources. Over the years, human resource planning consisted of budget requests for extending the human resources in order to bring the number of employees into line with the systematisation. These requests were either rejected or only partly honoured. Only in 2019, did Parliamentary bodies of both Audit Offices agree on increasing the number of staff considerably during the coming three years.

Exhibit 1 – Systemised staff position and actual staff numbers 2018

Audit Office	Systematisation 2018	Employed staff 31/12/2018
SAIBiH	92	59
SAIFBiH	144	66
SAIRS	94	69
SAIBD	15	13

Source: Systematisation and vacancies Audit Offices

All in all, at present human resource planning of the Audit Offices focuses mainly on increasing the number of staff in line with the legal framework of the Audit Offices and not really on the future perspective of the institutions. Functional reviews of the current organisation and staffing have not been carried out. Although SIGMA has not evaluated the reliability of the systematisation of the total numbers of employees and the defined functions needed. SIGMA would have expected that the human resource planning would have expressed views on the need of defined functions and their total number of staff. A procedure for forecasting staffing levels and potential workload over a period of five years would be beneficial, rather than simply relying on increasing staff numbers as funds permit.

From its experiences in other countries SIGMA learned that reviewing the added value of the existing functional organisation can be beneficial in keeping the SAI focussed on their main objective to deliver quality products for the minimum cost. SIGMA would like to acknowledge that the environment under which the Audit Offices have to work implicitly means that inbuilt inefficiencies are unavoidable.

A procedure for forecasting staffing levels and potential workload over a period of, say, five years would be beneficial, rather than simply relying on staff increases, as funds permit. Such a procedure would assist the Audit Offices in addressing staff shortages in the annual work plans.

4.5. Recruitment of staff

The SAI laws⁶⁶ and the Rulebooks on Works/Operations⁶⁷ govern the recruitment processes of the Audit Offices. After receiving approval for budget funds recruitment procedures are initiated. The starting point is an AG decision on defining the number of staff to be recruited. He establishes a committee established, which adopts rules of procedure (in fact the Rulebook on Labour stipulates the procedures). The vacancy is advertised in three (SAIBiH), two (SAIFBiH) or one (SAIRS) publications and on the web page of the Audit Offices⁶⁸. The vacancy announcements include the required qualifications, skills and

⁶⁶ SAI laws. Articles 28 and 32-34, (SAIBiH) Articles 28 and 32-34 (SAIFBiH), Articles 31-33 (SAIRS)

⁶⁷ SAIFBiH section IV General and Special conditions for recruitment, SAI RS section III Employment of Working Relations

⁶⁸ The SAI laws only require at least in one daily newspaper

years of experience in the working area⁶⁹. The Audit Offices do not make use of social media in the recruitment process due to a lack of capacity of their HR functions.

The public recruitment procedures of SAIBiH, SAIFBiH and SAIRS are more or less the same, although there are some small differences.

For SAIFBiH the public recruitment procedure lasts 30 days but SAIBiH and SAIRS do not have a time limit. The committee sifts applications after a factual check and selects the candidates to be interviewed. SAIFBiH requires to interview all candidates that meet the basic criteria but in SAIBiH not all candidates that meet the basic criteria will have to be interviewed. Selected candidates are then interviewed by a panel that checks knowledge of legislation governing area the job deals with, audit law and code of ethics. The selection panel draws up a shortlist with a ranking of candidates and sends a proposal in writing to the AG for approval. SAIFBiH gives rejected candidates the opportunity to submit a complaint.

SAIRS interviews all candidates who have submitted proper and complete application forms and meet the job criteria such as public sector experience, audit knowledge and experience, motivation, and ability to perform the job. The interviews are carried out on the basis of criteria and instructions (questions to be asked and evaluation) that AG issues for each recruitment process. Candidates are evaluated by points. There is no minimum threshold on points for selection. There are also no formal tests on audit knowledge and audit skills; the selection of candidates is solely interview based. The committee report is not narrative. It only includes a ranking list based on points awarded and a recommendation for recruitment.

Prior to starting the job new staff members are briefed about the Code of Ethics. They have to sign a statement on the Code of Ethics, which basically means that they take a formal oath on this through a signed declaration. Breaches of the Code result in disciplinary procedures.

SAIBiH and SAIFBiH have a probation period of up to six months depending on the function. In SAIBiH the responsible manager makes a proposal at the end of the period to the AG on whether the new staff member should be granted a permanent appointment. The AG will always ask HR for advice. In SAIFBiH a special committee monitors knowledge, skills, etc. of the new staff members. The committee also evaluates if the behaviour of the new staff members is in line with the Code of Ethics. The committee also facilitates the transition of the new staff members effectively into the organisation, especially concerning the implementation of ISSAIs. Once the probation period is over the committee will report to the AG on the performance of the new staff members. The AG will then decide on granting permanent appointments. During the probation period each new staff member has two mentors, i.e. their manager and a member of the committee. Under certain circumstances the probation period can be extended, but this opportunity has only been used a few times by SAIFBiH.

SAIRS has no probation period. New staff members are directly offered a permanent position. There is only a formal induction programming for performance audit for newcomers (15 days). The induction and orientation of new staff members is taken care of by the Head of Sector. He or she introduces new staff members to colleagues. Usually junior level staff are recruited, who are given time to read up on their job.

SAIFBiH has a 100% success rate so far in probations because the selection procedure is very stringent. The stringent recruitment procedure causes a problem though. It creates a challenge to recruit staff, especially performance auditors

In practice, the Audit Offices find it challenging to recruit performance auditors. For performance audit there is no requirement to be certified (which is requirement for financial audit). The Audit Offices also see the need to develop performance audit skills internally and thus have an increased need for continuing professional development for performance audit.

⁶⁹ Basis: two announcements.

SAIFBiH has launched procedures to recruit interns and volunteers, who possibly could be recruited later on as new young auditors. SAIFBiH has also engaged with a university, to promote themselves as an employer and encourage students/graduates to apply for jobs at SAIFBiH. SAIRS has tried to recruit accountants from the public sector.

The design of the recruitment procedure is thorough and in line with the legal framework. In practice it could turn out to be cumbersome as all eligible candidates are interviewed in SAIFBiH and SAIRS. As auditors are involved in the recruitment process, time spent on recruitment procedures will impact time available for auditing. The HR function, which is responsible for recruiting new staff members is only indirectly involved in the recruitment process. The bar for appointing new staff is also high, which means that many candidates are not regarded good enough and have to be rejected, which can prolong the recruitment procedure. The positive side of this recruitment approach is that after the probation period hardly anyone's employment contract is ended.

Although recruitment is successful, simplifying the procedure and involving audit staff at a later stage in the selection procedure, when only a few candidates are left, could free up time for audit activities. HR functions should then take the lead in the recruitment procedure.

Further, the recruitment procedure could gain strength if not only knowledge is tested by means of interviews but also skills are tested by means of performing assignments or testing. For example English language skills is a requirement of each job description but except for SAIFBiH these skills are not effectively tested in recruitment procedures.

The legal framework of the Audit Offices on recruiting staff, the announcement of the vacancies and the selection procedure give assurance that recruitment of staff is merit based, although in practice an important element of merit based recruiting, i.e. testing skills, is not executed and AG's make the final recruitment decision. .

4.6. Training and Professional Development

INTOSAI principles and standards require that SAIs *"should promote continuing professional development that contributes to individual, team and organisational excellence"*⁷⁰ and should strive for service excellence and quality. As a part of its quality management *"an SAI should establish policies and procedures designed to provide it with reasonable assurance that it has sufficient resources (personnel) with the competence, capabilities and commitment to ethical principles"*⁷¹.

It is expected that SAIs establish and implement appropriate professional development and training plans for each of its three audit disciplines: financial, compliance and performance audit.

The SAI laws⁷² requires that Audit Offices support employees in career advancements and professional development through training and other means. The SAIRS law requires that audit staff will be certified by a commission of seven members⁷³. Rulebooks define the organisation, duties and rights of employees, types of training and record keeping of the employees. The professional development should be laid down in an annual Education Plan that should be based on a needs assessment. The development of the plan is the task of the DLFGA and the Department for Development, Methodology and Quality Control but in SAIBiH and SAIFBiH senior international cooperation and communication officers are also involved⁷⁴.

⁷⁰ INTOSAI – P 12, The Value and Benefits of Supreme Audit Institution , principle 12

⁷¹ ISSAI 140, Quality Control for SAIs, element 4

⁷² SAI laws. Article-30, (SAIBiH) Article 30 (SAIFBiH), Article 29 (SAIRS)

⁷³ SAIRS law, Article 38a

⁷⁴ Rule book on Professional Development and Training of the employees of SAIFBiH, Article 8.3

Employees are entitled to reimbursement of costs related to taking professional exams, including exams that are set as special requirement for some jobs and certificates (civil service exam/public exam, PC certificate, English proficiency certificate etc.)⁷⁵. Further, criteria for selection of training candidates are defined along with provisions for absence and meeting the costs of professional development and training (employee is entitled to paid leave during training, paid costs of professional development and training, daily allowances and travel costs)⁷⁶. The Audit Offices encourage and foster cooperation with educational and other institutions pursuing activities of interest for the Audit Office⁷⁷.

Internal training in SAIBiH is organised by the Methodology and Quality Control department for financial audit. This department is also responsible for quality control and takes part in audits. In SAIRS the Development Sector is responsible for training and continuous professional development. The Sector submits reports to the AG on performed trainings. In SAIFBiH the Department for development, methodology and quality organises the internal training.

In the period 2000 – 2013 the Audit Offices have received substantial support of the Swedish National Audit Office (SNAO) in the development of the audit knowledge and skills.

Training and Education Plans

The training and development plans of the SAIBiH and SAIFBiH are included in the Office annual work programmes. SAIRS now prepares a separate annual education programme which was produced in 2018 for the first time.

The training plans consist of four pillars:

- External education, which is organised by external audit companies and institutions and includes certification of financial auditors and continuing professional development by means of attending seminars, workshops, study visits;
- Joint education, when the four Audit Offices exchange experiences, mostly organised in the periods January to February or September;
- Internal training;
- Self-education, which is mandatory for audit staff.

The 2019 training and education plans are fairly comprehensive, in particular for SAIRS. The SAIRS training plan included 13 possible external trainings organised by the Association of Accountants and Auditors, of which six are earmarked by SAIRS management and in which 44 employees will participate and cost approximately 6500 KM. The non-earmarked external training activities are presented as activities of which management will decide after the call for the training depending on content, lecturer and cost. Auditors are also supposed to attend other external trainings on (changes in) legal affairs. It includes 12 internal trainings, with 3 activities in each quarter. It also includes 1 Joint training activity.

The SAIBiH and SAIFBiH training and education plans also appear reasonably comprehensive although to an extent they do have the character of wish-list and activities are also concentrated in February. Also it is not clear that they are being driven by a clear strategy for the education and training of staff.

The plans are focused on training and education for accounting and auditing, and they are not well developed to support wider areas such as management development training or training for non-audit staff.

⁷⁵ Rule book on Professional Development and Training of the employees of SAIFBiH, Articles 12.3 and 14.1

⁷⁶ Rule book on Professional Development and Training of the employees of SAIFBiH, Article 22

⁷⁷ Rule book on Professional Development and Training of the employees of SAIFBiH, Article 24

The development of activities in the training and education plans are based on needs assessments by the Audit Offices. In SAIBiH and SAIFBiH the Heads of Departments ask the employees to submit suggestions for training, after which these suggestions are evaluated by the Heads of Departments and the DLFGA. The Development Sector of SAIRS gathers information from auditors for defining training needs by means of a questionnaire sent to all auditors and responses from Heads of Departments. The SAIRS also gathers information from external organisations about training they will be undertaking, e.g. from the Association of Accountants.

While the plans that result from the assessments of needs look like they are covering sensible areas, ultimately they are not the result of a comprehensive assessment of the needs of individual staff and organisational needs.

Certification of auditors

Auditors have to be certified. The SAIRS law⁷⁸ define general requirements for certification. While the laws of the other Audit Offices do not include clauses on certification, the Rulebook on Internal Organisation create an obligation for auditors and senior auditors in financial audit to be certified. Rights and duties of auditors on training are regulated in the Labour laws in the Institutions of BiH, in Rulebooks on Work/Operations⁷⁹ or in specific rulebooks on Public sector auditor certification and Professional Training Program for Public Sector Auditor Qualification.

In 2005 the CB developed an education plan for certifying public auditors. This plan has never been adopted. At present, certification of financial auditors of all Audit Offices is organised through the Associations of Accountants and Auditors. As an external certification system for performance auditors and legal advisors of SAIs does not exist and an internal certification system for them has not been established, these audit staff members are not certified.

New staff members are mostly appointed as junior assistants or assistant auditors. For promotion they need to be certified, requiring first the Certified Accountant certificate to be promoted to auditor or junior auditor. They then need the Certified Audit certificate for promotion to senior auditor/team leader. There is no time limit for obtaining certificates. That means that staff members can spend their entire life as a junior assistant if they don't want to undergo certification.

The staff members are entitled to have paid leave when sitting exams and reimbursement of tuition, exam costs and travel⁸⁰. However, during the review audit staff of SAI RS informed us that they have to pay the tuition fees for their certification, and sitting any of the exams. SAIBiH covers the cost of the first sitting of the exam, whereas an employee will pay if he or she is repeating the exam.

In order to keep their certification auditors are supposed to spend at least 40 hours a year on continuous professional development. In practice, some of the training sessions by the Association of Accountants for maintaining the certification are paid for by the Audit Office on a rotational basis in SAIRS. However, staff generally pay for attending the seminars organised by the association themselves but they are granted paid leave for attending the seminars. The selection of staff for training depends on the topic. Sometimes the training is attended by everybody, sometimes only team leaders attend. Seminar material is shared on shared folders. Besides attending external seminar or workshops the audit staff are also expected to spend time on self-education. .

⁷⁸ RS SAI law article 38a; SAIBiH, Strategic plan of education of auditors for the period 2016-2019

⁷⁹ SAIBiH, Decision on the manner and procedure of exercising of the right to reimbursement for education and professional development in the institutions of Bosnia and Herzegovina, and Rulebook on Salaries and Remunerations, SAIFBiH, Rules on Work articles 3.5 -3.9, SAIRS Rules on Operations articles 63-72

⁸⁰ SAIBiH, Rules on Work article 6.3, SAI RS Rules on Operations, article 71.

Joint and internal trainings

Joint training sessions with the four Audit Offices were frequently organised in the period that the SNAO provided assistance to the Audit Offices and were considered very useful. At present, joint trainings are rarer now. In 2018 there were two sessions and in 2019 only one event was programmed.

SAIBiH consider joint trainings to be more effective than external training. For example audit staff members learn more from their colleagues about topics such as materiality in compliance audit, formulating findings, and quality control methodology in financial audit than when they attend seminars of private companies.

The Audit Offices organise internal training which are detailed in education plans which present the topics and the period when they will be carried out. SAIBiH and SAIFBiH concentrate these trainings in February, and SAIRS throughout the year. Actual dates are announced around ten days beforehand. The staff are expected to attend some of the training events. For the SAIRS internal trainings cover around five to seven days a year.

SAIRS indicated that internally organised trainings and self-learning have contributed most to the development of auditing in the institution. Moreover, there is limited commercially available experience in BiH, especially in the performance audit area. That means that the Audit Offices have to be self-reliant and maintain good cooperation with the Associations of Accountants.

During the Peer review some audit staff expressed their satisfaction with the opportunities offered for professional development; some of them however were not satisfied and would like to have more opportunities to increase their professional development. Invitations for participating in conferences or seminars abroad cannot always be accepted due to budget constraints but certainly also due to the language barrier. Foreign language skills of audit staff members are still underdeveloped.

Monitoring results

The Rulebooks require that the responsible department for training should record attendance at training events and report to the management of the Audit Offices.⁸¹ The Methodology department of SAIRS reported in January 2019 on the 2018 Education Programme in terms of number of activities carried out. The Audit Offices do not have a system to monitor the quality of the training, or the capacity and skills to evaluate the quality of the training and trainers.

The Association of Accountants monitor the observance of the 40 hours on training. For SAIRS staff this generates pressure on audit staff to renew their certification licence and implicitly on the continuous development of their professional knowledge and skills.

Challenges

The management of the Audit Offices recognise that the continuing professional development of the competences and skills of their human capital is key for the development of the institution. All Audit Offices have defined some key challenges. The greatest focus in the coming years will be in developing performance audit staff. Financial auditors have or will become certified accountants and auditors. Performance audit auditors are not licenced but the Audit Offices are considering the development of their own certification scheme for performance audit, because the academic world or private institutions do not provide performance audit education.

Another challenge is the implementation of risk based auditing. Three years ago SAIBiH started intensively to work on risk based audit. The institution invested much time in training, however, it was concluded that more time is needed for this model to be implemented. The assertions based risk assessment has still to be improved. There is a need for teams to focus more on risk areas and less on

⁸¹ SAIBiH Rules about internal organization and systematization Article 12; SAIFBiH Rulebook on Professional Development and Trainings of employees Article.21.

non-material components and to place more reliance on internal control. The other Audit Offices indicated similar experiences with introducing risk-based auditing.

Other topics for improving the knowledge and skills of the audit staff are:

- management training for heads of departments and team leaders
- issuing of two separate audit opinions (financial and compliance)
- IT auditing (data security)
- accounting standards
- reviewing Internal Audit
- procurement audit
- fraud indicators
- communication and report writing skills
- foreign languages.

The main elements of professional development are included in the legal framework of the Audit Offices. Taking into account the limited (human and material) resources Audit Offices have available for professional development, the policy of relying on external partners for certification of their accountants and auditors and continuous professional development is logical and sensible. Organising internal training with a focus on specific public sector subjects is also a sensible element of the professional development policies of the Audit Offices. Unfortunately, joint training is not organised as regularly as they were in the past, but this type of training could be of great value for staff members of all Audit Offices and provide efficiencies in its delivery.

Although only limited HR resources are available for facilitating staff members in their professional development, the main elements of the legal framework are implemented. Auditors are involved in developing education programmes, although the Audit Offices organise needs assessments in different ways. Education programmes for external and internal training are developed on an annual basis. The organisation of certification and CPD are guaranteed. However, there are still elements which are not completely or not at all developed according to the legal framework:

- the education programmes focus on audit skills rather than on soft skills. The education programmes do not include trainings for management and training for non-audit staff;
- the education programmes refer to general target groups (financial or performance audit) and could be more precise, especially for internal education. In fact, this part of the education programme is more or less announcement of training and not well-thought through programmes for future events (with dates, lecturers, specific target group, number of days);
- the high workload together with the CPD requirement for certified accountants and auditors and individual interests require a more individual approach. Personal development plans do not exist however. The staff members are not selected based on competences. Monitoring of the professional development of individual staff members is not performed either;
- induction programmes for new staff members do not exist. Induction of new staff is left to Heads of departments. They are supposed to introduce newcomers in the organisation and in auditing;
- although the legal framework for professional development regulates the rights of staff members to be facilitated (paid leave, reimbursement of cost of tuition and exams, travel cost), in practice these rights could be more harmonised are not always completely honoured by the management of all the Audit Offices.

4.7. Conclusions

The legal framework for employees of the Audit Offices is in place and well structured. Due to a lack of human resources involved in the implementation of the legal framework and policies, some main elements of the HR function such as performance management system, appraisal system and well-being policies are not developed yet.

The Audit Offices define and plan their staffing needs to fulfil their mandates and achieve their objectives according to their legal framework. The HR annual planning systems of the Audit Offices meet these purposes and function accordingly in practice. However, the HR planning mainly focuses on increasing the quantity of the staff members and less on the quality of the organisation and the needs for delivering good products at minimum cost. The quality of functions supporting the audit task of the Audit Offices such as HRM, legal advice, and professional development is indispensable for facilitating the management and functioning of the Audit Offices.

The Audit Offices have open and transparent recruitment processes, but due to the limited resources available for HRM, audit staff are considerably involved in the selection process too. Many candidates do not comply with the (formal) severe selection criteria, which impacts the length of the selection process. Once candidates are employed as Audit Office staff members they turn out to be motivated and good employees.

The Audit Offices have structural training programmes based on needs assessments but only for audit staff. Certification of accountants and auditors and CPD programmes for maintaining licenses are offered by the private sector. Internal education programmes are generic and do not focus on the needs of groups or individual staff members specific needs. The professional development policy of the Audit Offices focuses on groups of staff members (including management) and not on individual staff members. That means that staff members do not have individual development plans, they are not selected for training on the basis of competences and needs, there are no official induction programmes for new staff members, and the progress made by individual staff members due to their professional development is not monitored and evaluated.

4.8. Recommendations

The recommendations of the Peer Review Team with respect to human resource management are:

HR Function, Policy and Planning

- ▶ The Audit Offices should review the effectiveness and efficiency of their organisational structures taking into account the current and future human resources needs of the institutions for auditing and for supporting processes and not take the systematisation as a given.
- ▶ The Audit Offices should review the roles and responsibilities of their HR functions and foster the development of a human resource management function, focused on developing human resource management systems that facilitate the engagement, development, retention and motivation of staff, carries out advisory tasks related to the personnel strategy and policy for the management of the Audit Office.
- ▶ The Audit Offices should re-introduce the performance appraisal system but tailor-made to the organisational structure and needs of each institution. Performance appraisal systems are an important tool for assessing the performance of staff, identifying employee potential and development needs and providing justification for promotions.

Recruitment

- ▶ The Audit Offices should reconsider the effectiveness and efficiency of the recruitment process. For example the quality of the selection process could be improved by including a test of skills of the candidates and the efficiency of the process could be improved by involving less (audit) staff in the selection process.
- ▶ The Audit Offices should consider increasing the reach of the vacancy announcements by using other channels than newspapers and website for recruiting such as the academic world, social media and professional organisations.

Professional development

- ▶ The Audit Offices should develop a professional development policy with focus on the professional development of individual staff members (audit and non-audit staff).
- ▶ The Audit Offices should develop HR capacity which should be specifically responsible for developing, organising, monitoring and evaluating the professional development policy and programmes
- ▶ The Audit Offices should develop a staff training and development plan based on a broader needs assessment of what the Institution wants to accomplish, how it wants to do it, what competencies the staff have and need, and the development needs to each staff member, including management development, IT, ethics, and soft skills.

5. Audit processes

5.1. Introduction

The SAI Laws give the Audit Offices the legal authority to carry out audits on all public bodies and institutions under their jurisdiction, as well as on companies in which the government has a majority stake. The mandate includes local governments on the entity level (cantons, cities and municipalities in the case of the SAIFBiH; cities and municipalities in the case of the SAIRS). The mandates of all four Audit Offices also cover funds provided by international bodies or organisations, either as loans or grants. For a certain number of institutions the Audit Offices have the legal obligation to carry out financial audits on an annual basis, while financial audits for other institutions and performance audits are done based on a risk assessment.

5.2. Auditing standards, policies, guidance and methodologies

Adoption of ISSAI as authoritative public sector auditing standards

All four laws stipulate that the Audit Offices have to apply International Standards for Supreme Audit Institutions (ISSAIs) and adopt, and publish those standards⁸². Adoption of ISSAIs is carried out collegially by the CB. In April 2018 the CB issued a decision adopting the INTOSAI Framework⁸³. The decisions by the CB are regularly updated when the INTOSAI Framework is modified by INCOSAI.

This demonstrates that BiH has opted for the adoption of ISSAI as authoritative public sector auditing standards in BiH, instead of developing their own national standards based on INTOSAI auditing principles⁸⁴. The above choice is properly reflected in the audit opinion templates, which stipulate - “*We conducted our audit[s] in accordance with the International Standards of Supreme Audit Institutions*”⁸⁵.

The decision-making, for the adoption and application of international auditing standards is clear, understandable and legally appropriate, with one slight exception. *The Law on Accounting and Auditing of BiH (Law on Auditing)* stipulates that the auditing standards to be applied in all territories of BiH shall be the: International Standards of Auditing (ISA), Code of Ethics for Professional Accountants, and any related instructions, explanations and guidance issued by the International Federation of Accountants (“IFAC”)⁸⁶. The *Law on Auditing* further requires that IFAC standards should be applicable to all private and public enterprises and other legal entities headquartered in BiH⁸⁷.

The *SAIBiH Law*⁸⁸ and *SAIFBiH Law*⁸⁹ also insist that IFAC standards are used for public companies audit, while *SAIBD Law* and *SAIRS Law* do not impose such a requirement but just generally refer to INTOSAI and IFAC standards as applicable ones. In the case of SAIBiH and SAIFBiH, this causes a ‘legal uncertainty’ on the standards to be applied, when auditing public enterprises, namely – whether Practical Notes to ISA are applicable during the financial audits and whether ISSAIs 300, 4000, 3000, 3100, 3200 and 4000 are applicable during compliance and performance audits of public enterprises.

⁸² SAI Laws, Article 10 (SAIBiH), Article 10 (SAIFBiH), Article 15 (SAIRS) and Article 10 (SAIBD),

⁸³ CB decision on accepting of ISSAI framework in BiH 25/04/18.

⁸⁴ ISSAI 100 -Fundamental principles of public sector auditing, Article 8

⁸⁵ ISSAI 100 -Fundamental principles of public sector auditing, Article 8

⁸⁶ Law on Accounting and Auditing of Bosnia and Herzegovina, Official Gazette 42/04, Article 1.2b),

⁸⁷ Law on Accounting and Auditing of Bosnia and Herzegovina Article 4.

⁸⁸ SAIBiH Law, Articles 10.2 and 10.3

⁸⁹ SAIFBiH Law, Article 10.3.

Adoption of auditing guidelines by the Coordination Board

The *SAIBiH Law* entrusts the CB with the mandate to establish consistent guides and instructions, based on the ISSAIs⁹⁰. The laws for *SAIBiH*, *SAIFBiH* and *SAIRS* do not oblige the respective Audit Offices to apply the guides and instructions adopted by the CB. The only Audit Office that is legally obliged to apply the guides and instructions adopted by the CB is SAIBD⁹¹. As a consequence – for example, SAIBiH Annual Programme⁹² correctly refers to SAIBiH Law, ISSAIs and Office's audit methodology as the basis for its audits, without any reference to guidance adopted by the CB. The CB has adopted the following guides:

- Public Sector Financial Audit Guide (2009)
- Public Sector Financial Audit Guide (2016)
- Audit Quality Control Guidance (for financial audits only) (2009)
- Principles of Performance Auditing (2009)
- Performance Audit Guide (2013)
- Performance Audit Quality Assurance Guide (2013)
- IT Audit Guidance (2006).

The Public Sector Financial Audit Guide was substantially modified in 2016. The most important modifications related to introduction of two audit opinions – on fair presentation of a financial statement and on compliance with laws and regulations, as suggested by the previous peer review. The Guidance is well developed, however, generally focuses on auditing of individual budget users, while specifics of consolidated statements, for example, auditing cantons could require more sophisticated methodology, including audit criteria. The same applies to financial statements of governments. In 2018, the 2016 version of the Guide was once again modified, introducing Key Audit Matters⁹³ and scrutiny of reporting practices. However, the 2018 modifications have not been approved by the CB.

Furthermore, a working group considered updating the Performance Auditing Guidance during 2018 – 2019. It was concluded that the 2013 version was ISSAI compliant, while the level of detail (possible supplements) would have to be decided by each SAI. Said decision had neither been considered in the CB meetings, nor approved by the CB. The Audit Quality Control Guidance was updated in 2016, but still have to be approved by the CB. The Audit Offices use the updated guidance to the extent considered to be appropriate. For example, SAIBiH and SAIFBiH used the updated Public Sector Financial Audit Guidance (2018) for auditing financial statements in 2018.

Delays in approval by the CB of updated guidance raise questions regarding the role of the CB. We believe that the CB can have a crucial and positive role in promoting common public auditing practices in the country, facilitating exchange of experiences and joint audits, and leading to faster professional development of the Audit Offices. However, if the CB will just have an advisory role, consideration should be given to modifying the *SAIBD Law* by removing mandatory obligation to follow the CB adopted guides. This would avoid the situation, where the SAIBD has a difficult choice between basing its work on outdated guides to remain legally compliant, or to proceed with updated methodologies and breaching the law.

⁹⁰ SAIBiH Law, Article 46,

⁹¹ SAIBD Law Articles 47 and 48

⁹² Program Rada Ureda Za Reviziju Institucija BiH ZA 2018.

⁹³ ISSAI 2701 – Communicating Key Audit Matters in the Independent Auditor's Report

5.3. Financial / compliance audits

Financial / compliance audit process

All Audit Offices follow the same process for auditing the annual financial reports dividing the audits into two phases: the interim audit and the final audit. The interim audit, among other things, includes an assessment of the implementation of recommendations from the previous year, and is generally conducted from September to December in the current budget year. After the interim audit, a management letter is sent to the auditee, which identifies errors and weaknesses that need to be corrected or eliminated prior to the preparation of the final financial statement. During the final audit, the measures taken by the auditee are evaluated. Final audits are generally completed by the end of June, except for the SAIFBiH, where the audits are completed by the end of September. The process is appropriate for any Audit Office performing financial/compliance audits and is described clearly in the Public Sector Financial Audit Guide (2016). However, internal processes (which structural unit/staff member is doing what throughout the process) in the individual Audit Office, depending on organisational setup and systematisation acts, are not fully formalised by Audit Offices as internal regulations, with the existing internal processes fragmented, and sometimes outdated⁹⁴.

Financial audit – subject matter

Financial audit focuses on determining whether an entity's financial information is presented in accordance with the applicable financial reporting and regulatory framework⁹⁵. Without an acceptable financial reporting framework, the management has no appropriate basis for preparing the financial statements and Audit Offices lack suitable criteria for auditing them⁹⁶. At present, there is no objective and authoritative basis that has been generally recognised globally for judging the acceptability of general purpose financial reporting frameworks. In the absence of such a basis, financial reporting standards established by organisations that are authorised or recognised to promulgate standards (e.g., IPSAS, IFRS) are presumed to be acceptable for general purpose financial statements⁹⁷.

In BiH, the national financial reporting framework is used as the audit criterion for performing financial audits. For example, auditees of SAIBiH apply rules which are available on the BiH Ministry of Finance and Treasury (MFT) website, which the MFT itself considers to be only partially in line with International Public Sector Accounting Standards (IPSAS). There are other gaps between the national financial reporting framework and IPSAS, for example, budget formulation and execution are based only on administrative and economic classification, and there is a lack of adequate accounting policies at the level of the BiH institutions leading to differing treatment of expenditure in different institutions⁹⁸ and non-comparable recording⁹⁹. Among the state and entity government levels in BiH, the charts of account are not harmonised and legal grounds for presenting consolidated budget data to parliaments have not been established. In some cases the non-disclosure of comparative data for the previous year in the income statement reports on execution of the budget and the cash flow statement is another departure from IFRS¹⁰⁰.

⁹⁴ For example, –“Instruction on drafting and delivery of financial audit report 2010 and template and submissions of audit report 2010” developed by SAIBiH serves as a good example for developing internal processes.

⁹⁵ ISSAI 200, Financial Audit Principles, Article 4.

⁹⁶ ISSAI 200, Financial Audit Principles, Article 21.

⁹⁷ ISSAI 200, Financial Audit Principles, Article 16.

⁹⁸ Report No. 82646-BA, Bosnia and Herzegovina Public Expenditure and Financial Accountability Assessment (PEFA), May, 2014.

⁹⁹ European Commission, European Economy Occasional papers 158: 2013 Economic and Fiscal Programs of Albania and Bosnia and Herzegovina: EC Commission's Overview and Country Assessment (July 2013).

¹⁰⁰ Report on financial audit of Consolidated annual financial report for users of the Republika Srpske budget 2017, No. RV031-18, 31.08.2018.

Where a country has not adopted IPSAS or other internationally recognised standards and/or frameworks, the first step for an auditor is to evaluate, whether the accounting framework that is applied provides acceptable criteria against which to evaluate the subject matter of the audit (the financial statements). If this is not the case, the auditor may conclude that the preconditions for an audit established by the ISSAIs on financial audit are not in place¹⁰¹. This can result in the specific formulation of the audit opinions, being prohibited from making references to ISSAIs and using the phrases '*present fairly, in all material respects*', or '*give a true and fair view*'¹⁰².

The Public Sector Financial Audit Guidance (2018) and Financial Audit methodologies of Audit Offices fail to include advice to auditors on how to assess the acceptability of the financial reporting framework and thus select an appropriate formulation of the opinion. Consequently sampled audit opinions / reports refer to 'true and fair view' and 'in all material aspects' without evidence that the framework itself was assessed.

Notwithstanding the above, some Audit Offices¹⁰³ correctly modify their opinions due to non-compliance of national financial reporting framework with internationally recognised standards, which is a good incentive for the governments to move towards establishing acceptable financial reporting frameworks.

Financial audit as a combined – financial/compliance audit

Under the SAI laws all four Audit Offices are required to undertake (mandatory and discretionary) financial audits annually, and provide an assessment of the fair presentation of financial statements (or budget execution reports), resulting in a standard financial audit opinion as per ISSAI 200. In addition, under the financial audit articles the *SAI Laws*¹⁰⁴ specifically require the Audit Offices to assess whether institutions complied with laws and regulations, ensured the proper use of funds in accordance with the planned objective on an annual basis, and consider the financial management, internal audit and internal control systems of institutions,.

All four Audit Offices implement these requirements through conducting combined financial and compliance audits of all entities that are subject to financial audit each year. The compliance audit element of these combined audits involve more audit work than required under the financial audit ISSAIs, in particular - ISSAI 2250¹⁰⁵. They are performed in compliance with ISSAI 4000 and result in a separate compliance opinion providing reasonable assurance that '*operations of the audited entity are, in all material aspects, compliant with the laws and regulations defined as the criteria for the audit*'¹⁰⁶.

We recognise the significant effort that has been invested in drafting and updating the Public Sector Financial Audit Guidance (2018). Except for the effect on quality of financial/compliance auditing in BiH of the matters described below, we appreciate the quality and level of detail of financial/compliance audit guidance and, in particular – informal annexes to the guidance. We believe that after eliminating the identified weaknesses, BiH public sector auditors will be provided with a good basis for an ISSAI compliant 'tool-kit' for performing financial/compliance audits of high quality and added value. We also recognise the effort invested by all Audit Offices to develop a financial/compliance audit guide in a situation, where relevant ISSAIs (4200) are not applicable anymore, as the INTOSAI Framework undergoes significant reform¹⁰⁷ and INTOSAI standard-setting bodies are in the process of developing new standards and GUIDs. However, with regard to compliance audit element, the Guidance still seems to be too general to serve as a helpful tool for auditors.

¹⁰¹ ISSAI 2200 Articles 8 and 18, and ISSAI 2210 Articles 6-8.

¹⁰² ISSAI 2210, Article 19 b) (ii),

¹⁰³ E.g. SAIFBiH, SAIRS.

¹⁰⁴ SAI Laws, Article 13 (SAIBiH), Article 13 (SAIFBiH), Article 18 (SAIRS) and Article 13 (SAIBD)

¹⁰⁵ "Consideration of Laws and Regulations in an Audit of Financial Statements".

¹⁰⁶ Public Sector Financial Audit Guidance 2018, developed by SAIBiH and SAIFBiH, Annex 21

¹⁰⁷ Migrating to IFPP (INTOSAI Framework for Professional Pronouncements).

Revised ISSAI 200 on financial auditing stipulates that *‘in the public sector, the auditor should distinguish between the scope of work performed to verify compliance with the laws and regulations for the needs of issuing the opinion on the financial statements, and the audit work performed to verify other compliance issues for the needs of issuing a compliance audit opinion and/or report’*¹⁰⁸.

The *Guidance* is modest in defining the ‘demarcation line’¹⁰⁹ between fulfilling the requirements of ISSAI 2250 (review of compliance aspects for the needs of financial opinion) and ISSAI 4000 (review of compliance aspects for the needs of compliance opinion). The *Guidance* is rather general regarding compliance audit criteria, which is the core of the compliance audit. The ‘compliance part’ of the *Guidance* also seems to be ‘financial audit driven’ suggesting that both – financial audit ISSAIs (2003-2810) and compliance audit ISSAI (4000) should be followed simultaneously, which in certain occasions would appear to be quite challenging¹¹⁰. Moreover, the *Guidance* fails to include any templates and examples.

SAIBiH has tried to compensate the above weaknesses of the *Guidance* by well elaborated (informal) annexes to Public Sector Financial Audit Guidance 2018, which comprise templates e.g. for risk assessment, determining materiality, substantive procedures, tests of controls, calculation of audit samples, audit plan and strategy, detailed audit programmes, audit report and opinion, etc.¹¹¹. However, the issue of the ‘demarcation line’ still needs further explanation since

Some Audit Strategies reviewed by peers do not distinguish between the scope of verifications leading to financial audit opinion and scope of verifications leading to compliance audit opinion¹¹².

During our review a variety of views were expressed regarding this issue. Some auditors confirmed that guidance and methodologies could be clearer as regards the ‘demarcation line’ between verifying legal assertions for the needs of financial opinion and auditing compliance (including regularity) for the needs of the compliance opinion. Others indicated that the demarcation line is quite clear with ISSAI 2250 (Consideration of Laws and Regulations) not being considered when issuing financial opinions, with all compliance (including regularity) issues considered for the compliance opinion, but with a much broader scope than required by the ISSAI 2250. This is indicative of a lack of clarity in the *Guidance* and the need for further explanatory guidance. SAIBiH insists that the updated *Guide* is clear with regard to ‘demarcation line’ and scope of verifications auditors must perform for issuing either financial or compliance opinion. However, since peers as ‘qualified third party’ were not able to obtain a reasonable assurance of the above, combined with the signals received from auditors during interviews, it is suggested that a tailored training is delivered to auditors, to further explain provisions of the updated *Guide* (2018).

Additionally developed (informal) annexes foresee that the professional judgement on compliance audit opinions is based on compliance criteria, which refer to nine mandatory laws on budget, public sector salaries, income tax (for FBiH and RS), civil service, employment, public administration, financing public institutions, public procurement, internal audit and related by-laws. Depending on the audited entity, the list of criteria is supplemented with sector-specific laws and by-laws¹¹³. Provisions of the relevant laws and by-laws are further detailed in auditors’ work/review programmes, where guidance is provided to auditors defining situations, where an unmodified opinion is appropriate, as well as ‘grading’ weaknesses leading to either modified or adverse opinion, or disclaimer¹¹⁴.

¹⁰⁸ Updated ISSAI 200, Financial Audit Principles, Exposure Draft, Article 51

¹⁰⁹ Public Sector Financial Audit Guidance 2018, Article. 2.2.1., Part III,

¹¹⁰ Public Sector Financial Audit Guidance 2018, Part III,

¹¹¹ Public Sector Financial Audit Guidance 2018, Annexes 1-26

¹¹² SAIRS, Audit Strategy, MoH and Social Protection (RV-017-19); Audit Strategy, Agrarian Payment Agency (RV-028-19).

¹¹³ SAIBiH Financial Audit Methodology, Part II ‘Audit Report, Annex 21,

¹¹⁴ Public Sector Financial Audit Guidance 2018, Framework criteria for compliance opinions on 2018 financial reports

The list of laws, serving as compliance audit criteria form an integral part of the audit opinion and report¹¹⁵, which reduces the risk of auditors, when giving reasonable assurance on compliance with laws and regulations. However, sector-specific laws added as audit criteria depending on sectors, are not defined in Public Sector Financial Audit Guidance (2018), or in the Financial Audit Methodologies of the Audit Offices. Since national economy sectors tend to be quite complicated, involving many interrelated laws and by-laws, the ambition to give a 'reasonable assurance' on compliance of operations of auditees with those laws and regulations, seems to be ambitious and involve high audit risks. For example, compliance audit criteria for auditing the Federal Ministry of Labour and Social Policy include laws on social protection, pension and disability insurance and premature retirement¹¹⁶. In combination with comparatively modest staffing, lack of resources, lack of practices to involve external experts and legal counsellors, the audit risks could become intolerable. Furthermore, the description of compliance materiality in the Guide and methodologies is rather broad and general.

In reviewing the mandates of the Audit Offices in their laws¹¹⁷, in addition to providing assurance on whether financial statements 'give a true and fair view' they require auditors to verify whether the funds have been used for intended purposes¹¹⁸. However, while there was no clear consensus on how this should be done, the Audit Offices indicated that it was not currently feasible to verify the achievement of goals, as reporting by auditees does not provide this information. They also indicated that such work is currently considered through performance audits. Consequently, compliance audit opinions issued by the Audit Offices within financial audits confirm only compliance/non-compliance with laws and regulations, and do not address the achievement of goals. A key reason for this not being feasible at the moment could be *'the budget planning system, which at all levels mostly reflects just the categories of expenditure within the available budget envelope, rather than strategic targeting of the resources towards social and economic development objectives. This results in BiH not using results-based budgeting in the budget planning process'*. However, the Audit Offices should clarify this particular aspect of audit work and consider how they tackle it when it is feasible or suggest modifications to chapters on financial auditing in their laws, if and when the laws are 'opened' for modifications..

The issues identified create challenges in effectively reporting the results of audits, in respect of the opinions and the long form report of the findings. Specifically in separating the issues between those that impact the financial audit opinion and report from those impacting the compliance audit opinions.

As indicated earlier the Audit Offices have implemented the provisions of the laws through conducting combined financial and compliance audits of all entities that are subject to financial audit each year. It is clear that the laws prescribe the Audit Offices carry out financial audit and compliance audit annually. However, our view is that the laws, except the one for SAIRS, do not provide a stipulation that the compliance audit requirements need to be part of each financial audit conducted, and that there is potentially some flexibility in how the Audit Offices could approach the compliance audit elements. Additionally, the financial audits conducted are attestation engagements and the compliance audit elements are direct reporting engagements and the expectations for reporting are different in both cases.

While the laws are not explicit our view is that they provide the Audit Offices, except the SAIRS, with sufficient flexibility to consider a variety of options in addressing the compliance audit requirements and use the limited resources of the Audit Offices to increase the impact of their work. Specifically, we see opportunities to: undertake more focused combined financial/compliance audits; programme separate risk based programme of compliance audits annually; and undertake some annual financial audits focused only those compliance issues relevant to the opinion on the financial statements.

¹¹⁵ Public Sector Financial Audit Guidance 2018, Annex 21 to updated

¹¹⁶ Federal Ministry of Labour and Social Policy, Financial Audit Strategy, Article 3.2,

¹¹⁷ SAI Laws, Article 13 (SAIBiH), Article 13 (SAIFBiH), Article 18 (SAIRS) and Article 13 (SAIBD).

¹¹⁸ "... koriste sredstva za odgovarajuće namjene".

All four Audit Offices audit consolidated financial statements of governments, which generally include reports on execution of the budget. Neither Public Sector Financial Audit Guidance, nor any other methodology describe the process of auditing the consolidated statement. This includes necessary guidance on co-operation between the Group auditor and Component auditors (be they other departments of the same Audit Office or external) as per ISSAI 2600. The SAIBiH is aware of the above challenge and plans to develop a tailored methodology for auditing the consolidated financial statement¹¹⁹.

The CB has adopted the Plan for Development of IT Systems (2016-2020), which envisages development of joint audit software. Significant work has been undertaken in the planning phase for the development of the software but the development and implementation of the software had still to take place at the time of the peer review. The development of this software should hopefully ensure more efficient electronic data processing and mitigate potential audit risks.

Statistical sampling is still not being used by Audit Offices. The SAIBiH indicated that it has plans to conduct a pilot audit to test statistical sampling in the near future.

The last, but not least issue for financial/compliance audits is involvement of legal expertise in auditing and/or quality control. The situation in Audit Offices differ – in some of the Audit Offices Legal affairs departments are supposed to contribute to financial/compliance audit strategies and reports, however sometimes it is not possible for them to provide adequate input. In some Audit Offices Legal affairs departments are not even supposed to be involved in auditing or quality control. Compliance audits in BiH Audit Offices are mostly regularity audits requiring good knowledge of the legal framework, the hierarchy of laws and the capacity and skills to interpret laws. Sufficient expertise is still lacking at the moment.

Audit remit and financial/compliance audit capacity of SAIBiH

The Law requires the SAIBiH to issue opinions on execution of budget for all the budget users annually as already highlighted in chapter 2¹²⁰. Based on a risk assessment SAIBiH may also audit institutions other than those above¹²¹.

In 2018, SAIBiH completed and reported on the financial audits for the 2017 fiscal year in 74 institutions (37 large entities (above 2,000,000 KM) and 37 smaller entities). Out of 74 opinions issued, 13 were unmodified; 56 were unmodified but contained 'emphasis of matter' paragraphs; four opinions were modified, while in one case the scope of audit was limited, thus a disclaimer was given. Total execution of the budget of audited institutions for 2017 amounted to 915,978,414 KM¹²². Audited financial statements of 2018 included the same 74 entities, with total expenditure up to 923,351,000 KM. For small audited entities, audit procedures involve direct substantive testing, without an assessment of the internal control system, that is, a risk assessment at the level of assertions and testing of controls¹²³.

Financial audits are mainly carried out by three financial audit departments comprising 22 auditors. The Quality Control Department also performs six of the financial audits. Auditing 74 entities with these audit resources, with the ambition to give a 'reasonable assurance' on compliance issues seems to be a challenging task, imposing high risks on quality of outputs.

¹¹⁹ SAIBiH Annual Programme for 2019, Article 2.2. .

¹²⁰ SAIBiH Law Article 13.4.

¹²¹ SAIBiH Law Article 13.6 and 13.7

¹²² SAIBiH Law Annual Activity Report for 2018.

¹²³ ISSAI 2330.

SAIBiH started applying the Public Sector Financial Audit Guide¹²⁴ (2016) during the audit of the 2016 financial statements, which promoted a risk-based audit approach, including placing reliance on the internal controls of the audit entity, focusing on significant risks and key issues and reducing the extent of the detailed substantive testing in audited entities where the internal controls were functional¹²⁵. However, a review of sampled audit strategies and plans revealed that application of tests of control and analytical procedures could be enhanced¹²⁶. Interviews with auditors confirmed that they still did not feel comfortable with the risk based approach.

For the audit of the 2018 financial statements, the SAIBiH applied the updated Public Sector Financial Audit Guide 2018, although it is not approved by the CB. We consider this approach to be appropriate and legally compliant. We also recognise the quality of the templates¹²⁷ developed by SAIBiH for the needs of its auditors. While they are not formalised as annexes to SAIBiH's own methodology, they enable a qualified third party to understand the philosophy and the approach to developing compliance opinions within financial audits.

Audit remit and financial/compliance audit capacity of SAIFBiH

As highlighted in Chapter 2 the mandate of SAIFBiH covers auditing of the FBiH Parliament, Presidency, government and respective ministries, extra-budgetary funds foreseen in the Law, all public funds, institutes and agencies, cantons, municipalities and cities in the territory of FBiH, all budget institutions directly financed from the budget adopted by parliament, assemblies of Cantons and municipal councils, loans or grants to any institution or project in FBiH ensured by international agencies and organisations, funds ensured from the budget for any other body, and companies where state holds a majority of shares¹²⁸.

Altogether there are more than 2000 auditees under the competence of the SAIFBiH, out of which 20 are subject to annual mandatory financial audits. A total of 81 final financial audits for the fiscal year 2017 were completed and reported in 2018. At the central FBiH level all budget users (ministries, agencies) are audited each year, while only a few of the 80 cities and municipalities can be audited each year, which include Federation-wide state owned enterprises (SOEs, including companies in the ownership of municipalities and cities) with the largest financial turnover (railway, post office, gas)¹²⁹. There are auditees, which have not been audited by the Audit Office for 10-15 years.

We recognise that the selection of entities to be audited in a particular year is based on clear criteria (including financial significance, complexity of structure and transactions, previous financial audit opinion, previous compliance audit opinion and business risk) and prioritised accordingly¹³⁰.

Financial audits for 2017 covered:

- Report on the execution of the FBiH Budget for 2017 with the total expenditures and expenses amounting to 2,417,874,272 KM and financial statements of 25 FBiH Budget users with total expenditures and expenses in the amount of 2,226,463,888 KM¹³¹ (annual financial audits of 19 FBiH budget users are mandatory¹³², while others are optional);

¹²⁴ Public Sector Audit Guide

¹²⁵ SAIBiH Annual Activity Report 2018.

¹²⁶ For example, SAIBiH Audit Strategy and Plan Ministry of Defence, 2018.

¹²⁷ Public Sector Financial Audit Guidance 2018, Annexes 1 to 26

¹²⁸ SAIFBiH Law Article 11

¹²⁹ Report No. 82646-BA, Bosnia and Herzegovina, Public Expenditure and Financial Accountability Assessment (PEFA), May, 2014.

¹³⁰ Criteria for ranking audited entities, SAIFBiH.

¹³¹ Financial audits performed by the Sector for financial audit of the FBiH Institutions, SAIFBiH.

¹³² SAIFBiH Law Article 13 (4)

- five cantons, 11 cantonal ministries and five municipalities with total expenditures and expenses in the amount of 1,423,099,612 KM¹³³ (optional);
- 19 institutes, funds, agencies and public institutions with expenditures and expenses effected in the amount of 2,606,829,712 KM¹³⁴ (optional); and
- 14 majority state-owned companies with the total expenditures effected in the amount of 1,797,871,866 KM¹³⁵ (optional).

Out of all aforementioned auditees, 41% were audited for the first time¹³⁶. This represents 92% of the approved FBiH budget for 2017 (2,697,426,725 KM)¹³⁷. Out of 83 financial audit opinions there were 5 disclaimers, 11 adverse, 32 qualified and 35 unqualified opinions. Out of 83 compliance audit opinions there were no disclaimers, 11 adverse, 58 qualified and 14 unqualified opinions.

The annual financial statements on the execution of the Federation state budget include full information on revenue and expenditure, and also about financial assets and liabilities. The statements cover only central government ministries. The revenue and expenditure of the Federation-wide Pension Fund, the Health Fund, and the roads maintenance company, which account for about twice the expenditure of the central government ministries, are excluded, although they are fully controlled by the government¹³⁸.

For auditing 2018 financial statements, SAIFBiH already applied the Public Sector Financial Audit Guidance 2018, although not approved by the CB. Peers consider this approach to be adequate and legally compliant. In addition to the above Guidance the SAIFBiH has developed three separate methodologies – for State owned enterprises, non-profit organisations and other budget users.

The above audits are carried out by 36 auditors across four departments. However, given the significant mandate of the Audit Office, and that the financial audits include providing a “reasonable assurance” opinion on compliance issues, there are clear risks to audit quality and providing adequate coverage of material audited entities on a regular basis. Such challenges have a knock effect to effectively delivering broader objectives such as performance audit.

Audit remit and financial/compliance audit capacity of SAIRS

The mandate of SAIRS covers auditing of the Parliament, Office of the President, General Secretariat of the Government, Council of Peoples of the Republika Srpske, ministries and other republic bodies, all other budgetary institutions funded from the budget, funds and extra-budgetary funds foreseen in the Law, municipalities and cities, loans or grants to RS ensured by international agencies and organisations, funds ensured from the budget for any other body, companies where RS holds direct or indirect ownership shares¹³⁹. Financial audits of 21 of the above institutions along with the financial audit of consolidated financial statement of RS must be performed annually¹⁴⁰, while the number of other entities, self-governments and SoEs to be audited annually is based on risk assessment and left to the discretion of the SAIRS¹⁴¹. Annual financial statements include complete information about the revenues and expenditures, as well as financial assets and liabilities.

¹³³ Financial audits performed by the Sector for financial audit of the institutions of the cantons, cities and municipalities, SAIFBiH.

¹³⁴ Financial audits performed by the Sector for financial audit of institutes, funds and agencies, SAIFBiH.

¹³⁵ Financial audits performed by the Sector for financial audit of public companies, SAIFBiH

¹³⁶ 2018 annual activity report of the audit office for the institutions of FBiH, no: 04-05-1-627/19, march 2019, chapter 1.

¹³⁷ 2018 annual activity report of the audit office for the institutions of FBiH, no: 04-05-1-627/19, march 2019, Article 2.1,

¹³⁸ 2018 annual activity report of the audit office for the institutions of FBiH, no: 04-05-1-627/19, march 2019, chapter 2.

¹³⁹ SAIRS Law, Article 16

¹⁴⁰ List of auditees subject to financial audits by SAIRS (СПИСАК СУБЈЕКТА РЕВИЗИЈЕ ЗА ФИНАНСИЈСКУ РЕВИЗИЈУ).

¹⁴¹ SAIRS Law, Article 18.4 and 18.7.

There are approximately 800 budget users, 63 municipalities and 149 public companies operating in RS¹⁴². In 2018 SAIRS performed 63 financial audits, which included 11 local self-governments, 4 social and health insurance funds, 39 budget users (this includes the Consolidated Annual Financial Statement) and 9 public health centres¹⁴³. The audit of the annual consolidated report on the budget execution of the Republika Srpske covers the segments of the budget spending which are not covered by the above stated audits of individual entity financial statements¹⁴⁴.

The Financial Audit Department includes a total of 34 auditors¹⁴⁵. Again given its mandate and that they are providing a “reasonable assurance” opinion on compliance issues, there are clear risks to audit quality and providing adequate coverage of material audited entities on a regular or annual basis.

SAIRS has developed its own comprehensive and detailed ‘in-house’ financial audit methodology¹⁴⁶ with annexed templates and forms.

Audit remit and financial/compliance audit capacity of SAI BD

The SAIBD mandate covers the auditing of the BD Assembly, public and judicial institutions, public funds and other institutions funded by the BD budget, state owned enterprises (companies where the state holds 100% of shares), loans or grants to any institution or project in BD ensured by other governmental levels and international agencies¹⁴⁷. SAIBD is obliged to annually audit all public institutions and (semi-) public enterprises. For local governments and (semi-) public enterprises the obligation of an annual audit does not exist, and it is up to the Audit Office to decide on the selection of these auditees.

In 2018 the SAIBD performed 29 audits of 2017 financial statements, which included the audit of the BD financial statement, 20 audits of budget users and eight audits of extra budgetary users. Audits were performed by four financial audit teams (8 staff members). Out of 29 audit opinions there were no disclaimers, 3 adverse, 15 qualified and 11 unqualified opinions¹⁴⁸.

Review of the sampled audit reports revealed no distinction between financial and compliance audit criteria¹⁴⁹. The related audit plan¹⁵⁰ provided limited information about compliance audit approach raising concerns about the application of audit methodology and ability to give a reasonable assurance opinion.

SAIBD indicated that the 2016 Guidance is used rather than the updated 2018 guidance. This is understandable, as SAIBD would breach its law¹⁵¹ if it used the 2018 Guidance as it is not approved by the CB. Sampled audit strategies, plans and reports reviewed indicate that the SAIBD applies a different financial audit approach than that applied by SAIBiH and SAIFBiH, and proposed by updated Public Sector Financial Audit Guide. Audit plans focus on the type of documents to be reviewed, rather than type of verifications (control tests, or analytical procedures, or substantive tests, etc.)¹⁵². Therefore it is challenging to assess audit efficiency.

¹⁴² SAIRS SDP 2014-2020, Art. 2.3

¹⁴³ SAIRS, Annual Activity Report for 2018, February 2019.

¹⁴⁴ SAIRS SDP 2014-2020, Article 3.3.4. Development strategy for the period 2014-2020.

¹⁴⁵ SAIRS SDP 2014-2020, Article 2.3, Development strategy for the period 2014-2020.

¹⁴⁶ Methodology for Financial Audit, 2015.

¹⁴⁷ SAIBD Law, Article 11.

¹⁴⁸ SAIBD Annual Activity Report 2018, February 2019.

¹⁴⁹ SAIBD 2018 Financial audit report, Public company " PUTEVI BRČKO" doo, No. 01-02-03-13- 260 /19.

¹⁵⁰ SAIBD Audit Plan for Public company " PUTEVI BRČKO" doo. (Plan revizije JP Putevi 2018).

¹⁵¹ SAIBD Law, Article 48

¹⁵² SAIBD, Audit Plan for Public company " PUTEVI BRČKO" doo. Chapter 3

5.4. Performance audits

Performance audit guidance and methodologies

In 2009 the CB adopted the document “Principles of Performance Auditing” which gave an overview of the “what and how” of performance audit, with a description of the main phases, from strategic planning to follow-up and quality control. In 2013 the CB adopted the Performance Audit Guide¹⁵³. The Guide elaborates on the INTOSAI performance audit pronouncements (ISSAI 300, ISSAI 3000, GUID 3910, and GUID 3920), and offers practical examples. There are no templates or other documents attached to the Guide, which could be useful for further interpreting the guidance and ensure a common approach. Given the general nature of the Guide, there is a need for Audit Offices’ to have their own methodologies and internal processes, where the provisions of the Guide are further developed and processes of the individual Audit Office described.

The SAIRS has developed its own Performance Audit Methodology¹⁵⁴, while SAIBiH and SAIFBiH applies the Performance Audit Guide approved by the CB¹⁵⁵. This may be explained by the fact that SAIBiH and SAIFBiH expected the joint Performance Audit Guide to be updated and approved by the CB.

The SAIRS has developed and uses a number of instructions, for example. “Instruction for performance audit planning”¹⁵⁶, and template for “Selection process of audit themes for the next audit cycle”¹⁵⁷; furthermore SAIRS formalises decisions on commencing pre-studies and audits by the Decree of the Auditor General¹⁵⁸. While the SAIFBiH also formalises decisions on commencing pre-studies and audits by Decree of the Auditor General, the SAIBiH and SAIFBiH currently have a more informal approach. They have developed some templates, which are useful for auditors and management¹⁵⁹. However, due to informal nature of the documents, we were not able to get assurance, whether, when and how they are used. SAIBD has not elaborated and does not apply methodologies and templates, other than the CB approved Guide.

In late 2018 the working group (under the auspices of the CB) identified the need for updating the Performance Audit Guides, however, this has not been done yet. This once again causes a legal challenge for the SAI BD limiting its chance to apply updated guidance.

Performance audit process

Performance audit process in all four Audit Offices generally follows INTOSAI pronouncements¹⁶⁰ starting with a pre-study phase, the results of which are evaluated, sometimes leading to some changes in the scope of the audit, or cancelling the audit.

Selection of performance audit themes is carried out differently in the Audit Offices. All four apply a ‘bottom-up’ approach, where audit ideas come from field auditors. *In SAIBiH* each year auditors suggest performance audit topics (supported by explanatory notes), and based on criteria they are prioritised by the management of Performance Audit Department. Auditors also have a chance to evaluate each other’s topics. In parallel, the Performance Audit Methodology and Quality Control Sector systematically carries out pre-investigations of potential audit topics. The final decision on topics is then taken by the Collegium. There are no strategic directions or a framework for identifying performance audit topics defined at the Office level, partly due to the lack of government sectoral strategies. However, as from

¹⁵³ Performance Audit Guide, Feb 2013.

¹⁵⁴ SAIRS Performance Audit Methodology, March 2015.

¹⁵⁵ Performance Audit Guide, Feb 2013.

¹⁵⁶ SAIRS Instructions for Performance Audit Planning, 01/0803-372 /18, 15.08.2018.

¹⁵⁷ SAIRS Performance Audit Themes in the Audit Cycle 2018/2019

¹⁵⁸ E.g. SAIRS Decision, 01/0803-436/18, 01.10.2018.

¹⁵⁹ E.g. Description of audit theme, SAIBiH (Obrazloženje teme), Summary of audit themes to be further considered.

¹⁶⁰ INTOSAI GUID 3920, the performance auditing process.

2016 a number of management decisions on performing certain audits were made, for example, series of public procurement audits (planning, contract execution and legal protection), Sustainable Development Goals (SDG) audit or avoiding audits in security sector. Yet, more consistent strategic planning would be preferable to provide guidance for auditors in their topic identification. SAIBiH faces some challenges with selection of topics due to the nature of entities within its mandate, with audits of the implementation of policy in areas such as health, education and agriculture within the mandate of the entity Audit Offices.

Conversely the SAIFBiH and SAIRS have a wide range of auditees which cover a broad range of topics and policy implementation areas. As a result they have broad range of potentially complex areas from which to identify and develop horizontal and vertical performance audit topics. SAIFBiH also applies a 'bottom-up' approach in the selection of audit topics. Every performance auditor proposes at least two topics supported by justification, all of them are presented to the Auditor General for further discussion. After discussion in a collegium the AG makes a formal decision and nominates the audit teams. Similarly, **in SAIRS** each auditor suggests a few topics to the Head of the Performance Audit Sector, who evaluates proposals against criteria. The proposals are prioritised by the Head of Sector and submitted to the AG and DAG. The decision is made by AG/DAG and Head of Sector. The AG then issues a decision on pre-studies and nominates the audit teams.

In SAIBD, the only performance auditor proposes three topics each year to the AG to select one. The following criteria are used: the topic derives from financial audits, it is interesting for the public, and other Audit Offices have performed a similar audit and thus the audit approach is already available. Having in mind the lack of performance audit capacity in SAIBD, this is considered to be a productive approach.

Summarising the modalities of performance audit planning in the four Audit Offices, the process seems to be logical and well thought through. However, this assessment is generally based on interviews, since with exception of SAIRS, the SAIs have not formally established and documented their processes for performance auditing. For example there are no clear audit trails on selection of audit topics.

There also seems to be no clear guidance from the 'top', which would assist auditors in the process of topic selection. The exception is SAIRS, where the Auditor General issues strategic directions to audit teams to guide them in developing audit topics¹⁶¹. ISSAIs suggest that Strategic Plans of Audit Offices prioritise actions to ensure that the goals are achieved in the most efficient and effective manner. We would advise AGs of the Audit Offices to ensure that Strategic Plans include priority audit areas/subject matters or directions the auditors must follow, when proposing audit topics.

Appropriate audit criteria are considered to be the core of performance auditing. Peers obtained assurance that the Audit Offices understand the concept of performance audit criteria and apply the concept accordingly, with some Offices looking to follow the practices of the EU member states, when developing criteria (SAIBiH). However, there is a room for improvement in the process of explaining the criteria to auditees. In some instances they are not communicated and explained through face to face discussion with auditees when good practice requires at least a meeting to explain the criteria to auditees. This facilitates obtaining agreement from auditees during the reporting phase and motivates auditees to implement recommendations.

The audit procedure ends with a contradictory procedure with the auditee discussing the draft audit report. As with financial audits, comments from the auditees are then solicited and taken on board in as far as is considered appropriate. The contradictory process differs between the Audit Offices:

- SAIBiH, SAIFBiH and SAIBD: auditee provides comments on draft of audit report within 15 days after reception of the latter; all three SAIs are obliged to consider the comments, and in cases of disagreements, to incorporate the comments into final report¹⁶²;

¹⁶¹ ИНСТРУКЦИЈА ЗА ПЛАНИРАЊЕ РЕВИЗИЈЕ УЧИНКА, Број: 01/0803-372 /18, Датум: 15.08.2018. године

¹⁶² SAIBiH Law, Article 15.2; SAIFBiH Law Article 15.2; SAIBD Law, Article 16.2.

- SAIRS: auditee provides comments on draft of audit report within 15 days after reception of the latter; SAIRS is obliged to consider the comments, however, only accepted comments must be incorporated and the report modified accordingly¹⁶³.

The process of submission of performance audit reports also differs between Audit Offices. SAIBIH and SAIFBiH are obliged to deliver performance audit report both to the auditee and the Parliament within 30 days after completion of the audit¹⁶⁴, SAIRS must submit a report to the auditee and stakeholders no later than 30 days following the completion of the audit¹⁶⁵, while SAIBD submits the final report to the auditee and stakeholders within 15 days from the date of submission of auditee's comments¹⁶⁶.

There seems to be no rationale behind the differences and the above examples demonstrate unnecessary diversity even in technical aspects of audit work, which could be avoided so as not to confuse users of audit reports in BiH.

The SAIRS has implemented the use of focus groups to share the outcomes of the performance audits prior to submitting the draft report to the audited entities for comment. The focus groups enable the Audit Office to present the key findings and recommendations of the performance audit to the audited entities and get feedback and agreement on the findings, and ultimately contribute to improving the quality of the report.

The Audit Offices do not practice as a matter of course 'contradictory' or 'clearance' meetings with auditees after their comments on draft audit report are received, which is good practice and would help to better explain the position of the Audit Office, provide motivation for the implementation of recommendations and contribute to the credibility and reputation of the Audit Office.

Audit remit and performance audit capacity

All four Audit Offices are mandated to carry out performance audits in the same auditees that are subject to their financial and compliance audits¹⁶⁷. However, the number and range of auditees significantly vary between Audit Offices. The Audit Offices also have differing obligations regarding the number of mandatory annual financial/compliance audits, therefore the balance between the number of financial and performance auditors is different.

- SAIBiH employs 13 performance auditors and 22 financial auditors. This means that there is 1 performance auditor for 2 financial auditors.
- SAIRS employs 10 performance auditors per 34 financial/compliance auditors, 1 performance auditor for 3.5 financial auditors.
- SAIFBiH employs 8 performance auditors and 36 financial auditors, which means that there is 1 performance auditor for 4 financial auditors.
- In practical terms there is just 1 performance auditor in SAI BD, while financial/compliance audits are performed by 8 staff members.

There is no right answer, or 'good practice' on the proportion of performance to financial auditors in SAIs. This depends on mandates of SAIs with regard to mandatory audits and availability of financial resources. This also depends on the level of development of national economies and public service values. However, as performance audit can have a significant impact on the use of public resources, and provide real insights to all stakeholders about how public resources are being used, the Audit Offices should be looking to develop their performance audit capacities to the extent possible.

¹⁶³ SAIRS Law, Article 20.1

¹⁶⁴ SAIBiH Law Article.5, SAIFBiH Law Article

¹⁶⁵ SAI RS Law Article.5

¹⁶⁶ SAIBD Law, Article 17.1

¹⁶⁷ SAI Laws, Article 11(SAIBiH), Article 14, (SAIFBiH), Article, (SAIRS), Article 11 (SAIBD)

Audit practices

SAIBiH carries out 4 to 5 performance audits annually. During 2018, five performance audit reports were published. The topics varied from public procurement and job classification to customs clearance of used motor vehicles. For 2019, there is a plan to start and finish all 5 audits in a year. We consider a 12 month period for a performance audit to be well balanced and appropriate (to have a thorough review, while not to lose the momentum'). SAIBiH has opted for performing (1) narrowly focused audits and (2) 100% follow-ups, which will be performed annually.

Performance audits are done not only by Performance audit sector, 2 out of the 5 performance audits are carried out by the Performance Audit Methodology and quality control sector. The latter always takes care of follow-up audits.

There are different opinions on whether quality controllers should be engaged in auditing themselves. We believe that as long as the Audit Office ensures segregation of tasks (controls are performed by staff members other than those having performed the particular audit), such a practice is beneficial, as it enables the controllers to maintain hands-on audit practice instead of becoming too theoretical.

We examined a sample of Performance Audit Work Programmes and Audit Reports. Work Programmes generally comprise all the information required by ISSAIs including audit questions and audit criteria, reasoning for selected sample of auditees, methods for data collection and processing, etc.¹⁶⁸. Audit reports are well structured and demonstrate good understanding of the area¹⁶⁹. However, in order to attract and keep the reader's attention SAIBiH need to consider producing audit reports, in particular Executive Summaries, in a more user-friendly format and look to use more extensively techniques that visualise the data, i.e. using graphs, charts, infographics. Users of the reports would also expect a clear answer on the main audit question, while the list of findings could serve as a justification for the answer. The same issues relate to audit reports of other three Audit Offices.

In 2018 **SAIFBiH** carried out three performance audits in 89 entities¹⁷⁰ on "Transparency of Employment in Public Companies", "Efficiency of Water Loss Management in Water Supply Companies" and "Performance Efficiency of Municipal Courts". In addition SAIFBH also carried out 2 follow up audits and one pre study (for which the audit was finalised in 2019).

The pre-study memorandum and work programme for the performance audit "Efficiency of managing water losses in water utilities¹⁷¹" generally complied with ISSAI requirements, the design matrix was well elaborated and the audit criteria were clear. The related audit report¹⁷² is well structured with clear findings, the rationale behind conclusions is understandable. However, there is the same issue of 'user-friendliness' of audit reports.

SAIFBiH is the only Office that has started to engage external experts in its audits. It plans to continue this practice. We would encourage the other Audit Offices to explore opportunities for involving sectoral/technical experts, as complex performance audits usually require specific knowledge and skills, which it is not efficient to develop in-house.

SAIFBiH has not opted for narrowing the focus of performance audits. Based on practice, auditors always analyse the root cause of identified weakness, which usually requires expanding of the scope. Ultimately it is up to the individual Audit Office to scope their audits according to their circumstances.

¹⁶⁸ SAIBiH Performance Audit Plan, Management of Public Procurement Contracts, Feb 2018.

¹⁶⁹ SAIBiH Performance Audit, Management of Public Procurement Contracts BIH, No. 05-16-1-985/18, Nov. 2018.

¹⁷⁰ 2018 Annual Activity Report of the Audit Office for the Institutions of FBiH, No: 04-05-1-627/19, March 2019.

¹⁷¹ SAIFBiH pre-study memorandum with the performance review plan on the efficiency of water loss management in water supplies, No. 10-14-5-1306-3/17, January 2018.

¹⁷² SAIFBiH audit report on the efficiency of water loss management in water supplies, No. 01-02-10-14-5-1306-25/17, September 2018.

SAIRS completed three performance audits in 2018 on "Collection of Tax Debt", "Technical equipment of firefighting units" and "Elementary School Resource Management". Another three audits, to be completed in 2019 have been initiated - "Prevention of Malignant Disease", "Protection of children without parental care" and "Centralised public procurement in health sector"¹⁷³.

Pre-study memorandum and work programme for the performance audit "Prevention of malignant diseases"¹⁷⁴ generally complied with ISSAI requirements, the design matrix is well elaborated and audit criteria are clear. The related audit report¹⁷⁵ is well structured with clear findings, the rationale behind conclusions is understandable. Annexes include graphs. Again there is the issue of the 'user-friendliness' of audit reports that needs to be considered.

SAIBD employs 1 performance auditor carrying out 1 performance audit a year, from July to July. SAIBD also lack resources to attract external experts. In 2018 a performance audit "Expenditure for court disputes and out-of-court settlements during 2012-2017" was completed and an audit "Managing employment and temporary work contracts by the government during 2016-2018"¹⁷⁶ launched.

Pre-study memorandum and work programme for the performance audit "Expenses for litigation and extrajudicial settlement for the period 2012-2017"¹⁷⁷ generally complied with ISSAI requirements, the design matrix is well elaborated and audit criteria are clear. The related audit report¹⁷⁸ is well structured with clear findings, the rationale behind conclusions is understandable, though again there are issues with the 'user-friendliness'.

Generally the Audit Offices strive to follow ISSAI principles and one could clearly see the commitment to good performance audit by the Audit Offices. However, there are a number of similar challenges in all Audit Offices, to be addressed as priority issues.

The principle of 'delivering the message' should be embedded in Audit Offices' operations. Simple and user-friendly language in audit reports, summaries, press releases; infographics instead of text, charts instead of tables, pictures, additional informative materials 'translating' audit reports to meet the needs of different target audiences.

Executive summaries should start with the answer on the main question (economic? efficient? effective?) and then be 'told' as stories, justifying the answer by going through the points (answers to sub-questions).

The concept of materiality in performance auditing should be further developed, namely defining the thresholds for the assessment for example effective, partially effective or not effective. For instance where relevant sectoral strategies and policies exist, do we tick 'yes' or do we require to consider whether they are mutually consistent, based on reliable data, based on needs assessment, etc..

As for the financial audit reports, some performance audit reports reviewed also include recommendations not only to the direct auditees, but also other parties. We understand that, in order to address issues or weaknesses, there could be a need for certain actions beyond the mandates of audited entities to be reported. However, these should not be classified as audit recommendations if an Audit Office wishes to issue ISSAI compliant performance audit reports. ISSAI 3000 requires recommendations

¹⁷³ SAIRS Annual Activity Report, February 2019

¹⁷⁴ SAIRS pre-study memorandum with the performance review plan Prevention of malignant diseases, No. PY006-17, August 2018.

¹⁷⁵ SAIRS Performance Audit Report on prevention of malignant diseases, No. RU006-17, December 2018.

¹⁷⁶ SAIBD, Annual Activity Report 2018, February 2019, Article 5.2.

¹⁷⁷ SAIBD pre-study memorandum and plan, Expenditure on litigation and out-of-court settlements for the period 2012-2017", November 2017.

¹⁷⁸ SAIBD Performance audit Report, Expenditure on litigation and out-of-court settlements for the period 2012-2017, No. 01-02-03-13-337/18, 14.8.2018.

to be addressed to the audited entity that has the responsibility and competence for implementing them¹⁷⁹.

Whom recommendations are addressed to needs to be resolved. In order to solve the issue, the Audit Offices could opt to include the Cabinet of Ministers and MFT as auditees in the audit (this can be done even during the reporting phase, when drafting the report), or to include suggestions to non-auditees in separate letters addressed to them and inviting them to contribute to solving the issue. Where certain actions are to be performed by the Cabinet of Ministers, Audit Offices could ask their parliaments to use their powers and instruct the government to implement the required reforms.

If the Audit Offices wish to follow ISSAI 12, in particular the ‘lead-by-example’ principle, development of their own methodologies and internal processes is considered a ‘must’. Methodologies should further detail the provisions of CB adopted Guidance, ‘placing’ them in the environment of each individual SAI. Descriptions should refer to templates, excel sheets for calculations with built-in formulas, which should then be attached to methodologies as integral parts. Internal processes should describe ‘who is doing what, when and how’ in the Audit Office throughout the whole audit cycle, starting from strategic planning, and ending up with follow-up on recommendations.

Looking at the development of performance audit topics across BiH there is an opportunity for the Audit Offices to undertake cooperative (parallel and joint) audits. While two parallel audits supported by the Swedish National Audit Office have been conducted across the region, no cooperative audits have been undertaken between the Audit Offices of BiH which could increase their individual and collective impact.

5.5. Quality of Audit Reporting

Audit reports are the main way that SAI’s communicate the results of audits to stakeholders, others responsible for governance and the general public. Their purpose is also to facilitate follow-up and corrective action. Therefore it is fundamentally important that they are designed to have impact.

The form and content of a report will depend on the nature of the audit, the intended users, the applicable standards and legal requirements, and the expectations for audit reporting are set throughout the IPPF, and in particular the ISSAIs. Apart from the expectations around the format and content of reports for different types of audits and engagements, the standards also articulate certain characteristics that should reports should strive to achieve. ISSAI 100¹⁸⁰ clearly articulates that reports should be easy to understand, free from vagueness or ambiguity and complete. They should be objective and fair, only including information which is supported by sufficient and appropriate audit evidence and ensuring that findings are put into perspective and context. ISSAI 300¹⁸¹ states that Auditors should strive to provide audit reports which are comprehensive, convincing, timely, reader-friendly and balanced.

Principle 4 of INTOSAI P-12¹⁸² “Reporting on audit results and thereby enabling the public to hold government and public sector entities accountable” states that SAIs should report objective information in a simple and clear manner, using language that is understood by all their stakeholders, make their reports publicly available in a timely manner, and facilitate access to their reports by all their stakeholders using appropriate communication tools.

We reviewed a small sample of financial/compliance and performance audit reports from the Audit Offices during the course of the peer review. While we highlight findings and issues related to audit reporting throughout the report in this section we summarise our key findings. Our review focused on the audit reports for individual institutions and performance audit reports, but we also considered the annual audits reports on budget implementation and the annual audit reports prepared by the Audit Offices and the findings also have relevance for these reports.

¹⁷⁹ ISSAI 3000 Performance audit standard Article 128

¹⁸⁰ ISSAI 100 Fundamental Principles of Public-Sector Auditing, Article 51

¹⁸¹ ISSAI 300 Performance Audit Principles, Article 39

¹⁸² INTOSAI P-12 The Value and Benefits of Supreme Audit Institutions – Making a Difference to the Lives of Citizens

Financial/Compliance Audit Reports

The Financial/Compliance audit reports of the Audit Offices reports include audit opinions and long form reporting of findings and recommendations. The reports provide two separate opinions: one on whether the financial statements present fairly the financial position and performance of the institution (financial audit opinion); and second on whether the institution complies with relevant laws and regulations (compliance audit opinion).

The financial audit opinion templates are based on the ISSAIs for financial audit, and the compliance audit opinion reflects the requirements of ISSAI 4000¹⁸³. The format of the opinions and the formulations used for expressing the opinions are soundly developed and in line with the standards.

Following the opinions the reports include a long form report covering a wide range of issues including internal control, elaboration of the institutions expenditures and revenue, procurement and court cases. A number of observations, which we have on the reporting

- The reports in general have a number of audit findings and recommendations and it is not clear to the average reader, which are related to financial audit opinion and which to compliance audit opinion. ISSAI 200 on financial auditing stipulates that 'in the public sector, the auditor should distinguish between the scope of work performed to verify compliance with the laws and regulations for the needs of issuing the opinion on the financial statements, and the audit work performed to verify other compliance issues for the needs of issuing a compliance audit opinion and/or report'¹⁸⁴
- Significant use has been made of matters of emphasis, reporting on a range of findings, which is unusual. It is not always clear that they relate directly to the financial statements as required in the standards.
- There are a range of findings reported and it is not necessarily apparent which ones are the key issues, and whether some of them relate to the financial audit and should those have been presented as 'Key matters' (according to ISA 701/ISSAI 2701), as important information for the user of the financial audit opinion.
- The sections on internal control are general, focus on process and do not really provide an assessment of the risks related to compliance or the financial statement. The Internal Audit section tends to also focus on process information, but not conclude on whether reliance can be placed on internal audit.
- The reports tend to provide a lot of information on expenditures and transactions of the institutions being audited. This is information that should be reported in the financial statements of the institution and is not the role of the Audit Offices, apart from to comment generally on the institutions overall financial position, performance and sustainability.
- Public procurement is reported in every report and the question is if it is efficient and effective to pay attention to this in each report. The Audit Offices, in particular SAIBiH, however, insists that the extent of corruption, the expectations of the public and materiality are the key arguments for annual verifications.

In summary, while the two opinions presented are generally well formulated and in line with standards, the current reporting on financial audit and compliance audit is not concise, clear and easily understandable, particularly in relation to information which relates to the financial or compliance audit. The reports generally do not clearly articulate the significance of findings and contain extraneous information which is not necessary for effective reporting.

As mentioned earlier in the report the current approach of conducting combined financial and compliance audit contributes to the challenges in effectively reporting the results of audits, in respect of the opinions and the long form report of the findings. Specifically in separating the issues between those that impact the financial audit opinion and report from those impacting the compliance audit opinions.

¹⁸³ Revised guidance on compliance audit conducted as part of financial audit is being developed under the IPPF

¹⁸⁴ Updated ISSAI 200, Financial Audit Principles, Exposure Draft, Article 51

While this is the case in our opinion, the Audit offices need to consider how they can adapt their financial and compliance audit reporting to ensure that it address the issues highlighted.

Performance Audit Reports

The performance audit reports of the Audit Offices that we reviewed indicate that they are generally structured in line with international standards. The reports are well structured and generally demonstrate good understanding of the area being audited and the rationale behind the conclusions are understandable. However, in order to attract and keep the reader's attention the Audit Offices need to consider producing audit reports, in particular Executive Summaries, in a more user-friendly format, including using understandable language, and look to use more extensively techniques that visualise the data, i.e. using graphs, charts, infographics. Users of the reports would also expect a clear answer on the main audit question, while the list of findings could serve as a justification for the answer.

5.6. Recommendations

The recommendations of the Peer Review Team with respect to the Audit Processes are:

- ▶ When there is the next review/modification of the SAIBiH Law and SAIFBiH Law, we recommend that the ISSAIs are defined as the authoritative standards for auditing public companies.
- ▶ The Audit Offices should agree on the status of audit and audit-related guidelines approved by the CB. They should consider whether they are binding for Audit Offices with their own methodologies built-on CB approved guidelines, or CB approved guidelines serve as recommendations, while Audit Offices' practices may deviate, if and when deemed to be appropriate.
- ▶ The SAIBD Law should be modified by removing mandatory obligation to follow the CB-approved guides, given the current situation with the approval of guides at the CB.
- ▶ The Audit Offices should perform an inventory of their internal regulations, decisions and decrees to avoid fragmentation and gaps, and ensure that the financial, compliance and performance audit related tasks are clearly delegated to relevant structural units/staff members, with the sequencing of tasks and interfaces reflected and deadlines for performing the tasks clearly defined. The same relates to selection of audit topics and quality assurance and control. We recommend that the processes are described in one document, which includes references to templates to be filled-in and other supporting documents. This would enable staff members to understand the process, the role each of them plays, and get easy access to templates to be used, if and when appropriate.
- ▶ The link between CB-adopted guidelines and Audit Offices' own audit methodologies should be demonstrated and clearly described, namely – to what extent the CB-adopted guidelines are applied and where, and how Audit Offices' own methodologies supplement the guidelines.

Financial and Compliance Audit

- ▶ The Audit Offices should supplement their financial audit methodologies by including a mandatory task for auditors to evaluate, whether the accounting framework that is applied provides acceptable criteria against which to evaluate financial statements and whether the preconditions for an ISSAI-compliant financial audit are met. The assessment can be performed once and by one audit team, while other audit teams may rely on said assessment in their future audits, as far as the financial reporting framework remains unmodified.
- ▶ The Audit Offices should further elaborate the financial audit guidance in regard to the audit of consolidated or group financial statement to take account of the specific requirements of ISSAI 2600.

- ▶ The Audit Offices should modify financial/compliance audit methodologies by specifying 'demarcation line' between verifications to be performed for the needs of financial audit opinion and those for the compliance audit opinion.
- ▶ The Audit Offices should consider whether a 'limited assurance' approach to the compliance part of financial audit, or limit the compliance audit scope (only few selected laws or provisions of laws, or few transactions or projects) to be able to give a 'reasonable assurance' opinion, while at the same time maintaining the quality of work and reducing audit risk to an acceptable level.
- ▶ More broadly the Audit Offices should review the options for undertaking the compliance audit requirements of their mandate within the context of using their limited resources to increase the impact of their work. Specifically, we see opportunities to: undertake more focused combined financial/compliance audits; programme separate risk based programme of compliance audits annually; and undertake some annual financial audits focused only those compliance issues relevant to the opinion on the financial statements.
- ▶ The Audit Offices are encouraged to consider organising additional and, to the extent possible, practical training in application of risk-based financial auditing. Options for strengthening bi-lateral cooperation with ISSAI-compliant SAs should be explored.
- ▶ The Audit Offices to consider options for involving legal expertise in financial / compliance audits either as audit team members or as quality controllers, to provide assurance over adequacy of compliance opinions.
- ▶ The financial audit teams should consider undertaking clearance meetings with auditees after they have received draft reports. This should be considered as a part of the contradictory process for finalising draft reports, to provide the auditees with a direct opportunity to discuss the findings and recommendations and for the Audit Offices to explain why the auditees' comments are or are not taken into consideration.

Performance Audit

- ▶ The Audit Offices should consider developing strategic directions or guidance outlining senior management's strategic priorities at the commencement of annual planning, to guide and provide a focus auditors in identifying performance audit topics.
- ▶ The Audit Offices should consider planning and undertaking performance audits on a multi-annual basis, as they do not need to be constrained by financial years and can be implemented or reported at any time during the year. Planning should be considered on the basis of resources, scale of the audits etc. rather the financial year.
- ▶ The Audit Offices are encouraged to consider taking the opportunity to undertake cooperative (parallel and/or joint) audits, which could address issues of relevance to all citizens of BiH and increase the individual and collective impact of the Audit Offices.
- ▶ The performance audit teams should consider organising meetings with auditees during the planning phase to introduce and explain audit criteria, and 'contradictory' or 'clearance' meetings with auditees during the closure phase to explain, why their comments are or are not taken into consideration.

Reporting

- ▶ Audit reports should be produced in a more user-friendly format including easy to understand Executive Summaries, visualisation of data, i.e. using graphs, charts, infographics, and producing informative materials for different stakeholders (target audiences).
- ▶ The Audit offices should review their financial and compliance audit reporting and consider the following (This will also be affected by any modifications to the financial and compliance audit approach):

- using executive summaries or other methods to clearly highlight those key matters that are significant and relevant to the stakeholders.
- consider the approach to reporting less significant issues, such as using appendices to the reports or separate management letters to the management of institution
- clearly delineate those findings and issues which impact on the financial audit opinion and the compliance audit opinion.
- develop clear guidance on the use of matters of emphasis in the audit opinion
- the value of including in the reports a lot of information on expenditures and transactions of the institutions being audited, and shift the focus to discussing the financial performance, position and sustainability of institutions.
- reporting on areas such as internal control should be focused on the level of assurance provided by them
- ▶ The Audit Offices should consider developing thematic reports on particular audit subjects. For example the key issues related to public procurement arising from the individual audits could be reported thematically in one report.
- ▶ The Audit Offices should consider terminating the practice of including recommendations in audit reports that are out with the mandate of the particular auditee and seek alternative methods of making such recommendations (elaborated further in chapter 6).

5.7. Quality Assurance and Control

The Laws¹⁸⁵, require Audit Offices to establish and implement quality control and assurance systems, to ensure their work is in accordance with auditing standards, rules and regulations.

SAIs wishing to claim ISSAI compliance are required to follow ISSAI provisions regarding quality assurance (QA) and quality control (QC). However, the ISSAIs are rather general and sometimes controversial with regard to explaining the scope of both concepts. The terminology used by Audit Offices in their activity reports and also in guidance¹⁸⁶ serves as the evidence that the concepts are sometimes interpreted differently and require some fine-tuning. For example, the title of the Performance Audit Quality Assurance Guidance (2013) is a bit misleading as the content covers both QC and QA, and not just QA. We would suggest correcting the title, if and when updating the Guidance, since auditors must properly understand the above concepts and embed them into their everyday work.

QA and QC standards, policies, guidance and methodologies

We reviewed the QA and QC systems in the four Audit Offices against the basic provisions of the INTOSAI IDI Performance Management Framework (PMF), which require that an SAI's QA and QC systems include:

- **policies** designed to achieve the goals of the quality control and assurance system and
- **procedures** necessary to implement the policies and monitor their implementation. Procedures include:
 - quality control and assurance **methodologies** (*how?*) and
 - internal processes (*who and when?*).

¹⁸⁵ SAIBiH Law, Art. 2, SAIFBiH Law Art. 10.5, SAIRS Law Art. 15.3, SAI BD Law Art. 10.3

¹⁸⁶ Performance Audit Quality Assurance Guidance (2013).

At the moment only *methodologies*¹⁸⁷ are developed and applied by Audit Offices, while QA and QC policies and internal processes seem to be lacking (except for SAIRS), thus limiting the opportunities of management to decide on consistent measures in cases of for example, a lack of human resources for auditing and controlling. This also makes it difficult for auditors to understand the ‘stakeholders’ of particular QC and QA processes, keep deadlines, etc.

*The Audit Quality Control Guidance*¹⁸⁸ (for financial audits only) describes quality requirements for audit products in different phases throughout the project cycle (e.g. audit strategy and plan, audit evidence, audit report), and suggests different options for performing QA and QC measures¹⁸⁹. This imposes that each and every Audit Office, in addition to the Guidance, must develop its own quality control and assurance methodology and internal processes, where the particular QA and QC approaches are described and competences of staff defined. Nevertheless, the Audit Quality Control Guidance includes QC check-lists for audit team leader and audit manager (head of sector) for all audit phases, which is a good and supportive tool for the Audit Offices.

The Performance Audit Quality Assurance Guidance (2013) describes quality requirements for audit products in different phases throughout the project cycle (e.g. pre-study memorandum, audit plan, audit evidence, audit report), and suggests lists of verifications to be further included in quality control (and assurance) check-lists. However, the lists of verifications do not distinguish between the verifications to be made by audit managers (heads of sectors), team leaders and any other controllers ‘external’ to the audit teams. This is understandable and appropriate, because the four Audit Offices have different organisational structures and job positions. However, this also imposes that each and every Audit Office, in addition to the Guidance, must develop their own quality control and assurance methodologies (and check-lists), where the competences of controllers (who checks what?) are defined and working processes described.

Only the SAIRS has developed its own quality control methodology (covering both – financial and performance audits)¹⁹⁰, which is being regularly updated¹⁹¹. This may be explained by the fact that other SAs expected the common Quality Control and Assurance Guides to be updated and approved by the CB, as well as by differing perception of the role of the CB. The SAIRS methodology includes references to check-lists to be used by controllers in different phases of audit cycle. SAIFBiH also uses formal quality control check-lists for each audit phase and SAIBiH uses ‘non-formalised’ check-lists. As for internal processes, SAIBiH and SAIFBiH have developed procedures for the audit closure phase, on drafting and disseminating audit reports (for both – financial and performance audits)¹⁹². SAIRS has developed the procedure for the whole audit cycle - “Process (procedure) for performing quality control measures in SAIRS”¹⁹³. At the time of fieldwork SAIRS was the only one that had produced a formal report on quality control and assurance measures performed during the previous year¹⁹⁴, although subsequently SAIFBiH reported on the outcomes of cold reviews¹⁹⁵.

¹⁸⁷ Audit Quality Control Guidance (for financial audits only) (2009) and Performance Audit Quality Assurance Guidance (2013).

¹⁸⁸ Audit Quality Control Guidance (for financial audits only) (2009).

¹⁸⁹ E.g. Chapter 4.2.2 on three QA options.

¹⁹⁰ Quality control methodology.

¹⁹¹ E.g. Update No.050512/142-19 of 11.02.2019.

¹⁹² Instructions on drafting, approving and disseminating audit reports (Audit Office of the Institutions of BiH), approved by AG’s Decree on January, 2010.

¹⁹³ No. 05/0109-171/19, 28.02.2019.

¹⁹⁴ Report on implementation of quality control measures, No.05/0512-140/ 19, 11.02.2018.

¹⁹⁵ Quality Control Findings and Quality Assurance Recommendations, October 2019

5.8. QA and QC practices

SAIBiH has 2 Methodology and Quality Control Sectors, one for financial/compliance audits and one for performance audits.

For financial/compliance audits, QC ('hot reviews') includes every audit and all audit phases and is performed at two levels, team leader controls the team members, while the audit manager controls the work of team leader and team members. The Financial/compliance Audit QC sector performs review of draft financial/compliance audit reports as the reviewer external to audit teams. As an example, the 74 draft financial/compliance audit reports were reviewed by the sector. However, due to lack of resources Financial/compliance Audits QC sector fails to get assurance that all the valid comments are incorporated into final drafts. The process is quite unmanageable also because checklists seem not to be used, with all the comments provided (by all layers of controllers) through 'track changes' in the audit files. Consistent audit software seems to be a crucial precondition for raising the impact of quality control.

The Financial/compliance Audit QC sector also drafts a QC ('hot review') report¹⁹⁶ as a summary of the reviews performed, which is considered by peers to be a good practice. In parallel the Financial/compliance Audits QC sector itself is involved in auditing. It performs 6 financial/compliance audits, while other ('standard') audit teams cover 11 audits each. Peers were re-assured by the SAIBiH that the Financial/compliance Audit QC sector is not involved in quality controlling the audits they perform, and their audit 'products' are checked by other audit sectors.

The Financial/compliance Audit QC Sector also performs QA activity ('cold review'). The last one was performed for a sample of 2016 audits. The Financial/compliance Audit QC Sector starts with the QA Plan¹⁹⁷ identifying and justifying the sample and is completed by issuing the QA report¹⁹⁸. QA verifications are comprehensive and cover all audit phases and elements including risks, materiality, sampling, reliance on IA, etc. Both the QA plan and the report comprise sufficient information, are understandable and the report includes good recommendations for improving the system. However, the last QA intervention was performed in 2017 and it seems that the further QA activity was postponed due to other priorities. In 2018 it was planned to perform a cold review of a sample of 2017 audits (one audit from each Audit Section), but these were not carried out.

For performance audits, the Performance Audit Department performs their 'internal' quality control measures – draft pre-study plans, pre-study reports, work plans and audit reports are verified by the Team leader and Head of Department. Afterwards drafts undergo 'external' quality control review by the Performance Audit QC sector.

Performance Audit QC sector conducts QC reviews during all phases of performance auditing - selection of audit topics, decision on launching pre-studies, draft work programmes, draft and final audit reports¹⁹⁹. In 2018, all five performance audit reports underwent 'external' quality control²⁰⁰. QC checklists are not being used by Performance Audit QC sector during QC interventions. Instead, the comments of reviewers are provided in 'track changes' in the audit file, supplemented by general comments in a covering e-mail. Sometimes the draft performance audit reports are sent for comments to financial audit teams. Internal processes describing who is doing what and when do not exist. Peers did not get evidence of any QA measures performed in performance auditing.

SAI BiH pursues the policy of continuous rotation of audit staff between audit engagements. The staff are rotated after 3 to 5 years.

¹⁹⁶ Quality control statement of the reporting phase for 2017 ("hot" review).

¹⁹⁷ Independent internal plan ("cold" overview) of the 2016 financial statements.

¹⁹⁸ Financial audit quality control report for 2016, 12.12.2017.

¹⁹⁹ Art. 2.4, SAIBiH Annual Programme 2018; 05.07.2019. Interview with the Head of PA sector.

²⁰⁰ Activity Repot 2018, SAIBiH.

SAIFBiH has one Methodology and Quality Management Sector²⁰¹ for both audit types financial/compliance audits and performance audits, which is supposed to perform QC ('hot reviews') for all draft and final financial/compliance audit and performance audit reports.

For financial/compliance audits - SAIFBiH has drafted and adopted the internal process (procedure), which describes circulation, reviewing (quality controlling) and improving draft financial audit reports²⁰², which brings a clarity in the potential cooperation between the audit team and reviewers external to the audit team (Methodology and Quality Management Department). However, due to the shortage of staff, the QC measures ('hot reviews') have never been launched and supporting guidance (e.g. quality control check-lists) has not been elaborated. Instead, after completion of interim audits, audit teams meet with Audit Office's management to present audit strategies and plans (materiality, risks, sampling, time schedule, etc.). As for audit reports, the drafts are disseminated by the audit team to audit manager (head of sector), other audit managers (heads of other sectors), quality control manager, Auditor General and Deputy Auditor General, and joint meetings are held to discuss comments²⁰³. Those quality control procedures are therefore of rather informal nature and the audit trail of different inputs to draft reports could be challenging.

The last QA ('cold review') interventions were performed in 2017 over financial/compliance audits reports for 2016. The financial/compliance audit QA is launched by the Decree of AG identifying the criteria for selection of the sample, sample itself and responsible reviewers²⁰⁴. Peers reviewed the filled-in QA check-lists²⁰⁵. They are quite detailed and reflect the rationale of reviewers sufficiently. In 2018 the Sector did not perform planned QA intervention due to the lack of resources as all available audit personnel were engaged in the implementation of 2017/2018 Audit Programme²⁰⁶.

As for the QA and QC measures performed over PA processes, SAIFBiH has developed an internal process (procedure) describing circulation, reviewing (quality controlling) and improving draft performance audit reports. However, this has not been formally approved yet. After being validated by the head of relevant audit department, draft performance audit reports are subjected to quality control by the Methodology and Quality Management Sector and subsequently reviewed by the Collegium consisting of the Auditor General, Deputy Auditor General and heads of audit departments. Comments by different control layers are performed in track changes and saved by applying 'cloud' storage and backup technology. However, finalisation, approval and communication to the staff of the relevant internal process (procedure) would enhance the efficiency of the process by strengthening accountability lines, clarifying the sequence of interventions and imposing certain deadlines on control layers.

In SAIRS the quality control system is monitored at the level of individual engagements and at the level of institution. Quality control at the level of individual engagements are ensured by auditors (team leaders) and audit (sector) managers (for financial audits and performance audits).

For financial/compliance audits, the audit manager is quite heavily engaged in the QC process during the audit planning phase. Draft audit strategies and plans are reviewed to verify that plans are adequate, analytical and substantive procedures are in line with the audit objectives, sample size is correct, and audit approach is adequate²⁰⁷. This is confirmed by filled-in and signed check-lists, which are the part of SAIRS's own methodology.

²⁰¹ 5 staff members on 31.12.2018.

²⁰² Procedure for submitting, considering and drafting a financial audit report, No: 01-02-3-664/2019, 29.03.2019.

²⁰³ 11.06.2019 e-mail from SAIFBiH.

²⁰⁴ Decision on control of quality assurance (cold review) of financial audits for 2016, in 2017, No. 12-14-1307-1 / 17, 13.10.2017.

²⁰⁵ Quality Assurance Checklist-Cold Review.

²⁰⁶ Article 4, 2018 Annual Activity Report of the Audit Office for the Institutions of FBiH, No: 04-05-1-627/19, March 2019.

²⁰⁷ Report on implementation of quality control measures, No.05/0512-140/ 19, 11.02.2018 (.

All audit work is reviewed by the team leader and then reviewed by the Head of Sector who both complete checklists. The team leader prepares the report, which is submitted to the Head of Sector who reviews and completes a checklist. Head of Sector then sends it to the AG and DAG who will provide comments on the report.

SAIRS also prepares an annual report identifying weaknesses in quality of audit work and submits it to the DAG for information. Those reports provide details and justification for QC modalities, including any weaknesses and omissions, and thus are useful for the management²⁰⁸. At present it is focused on audit process rather than substantive audit judgements. Furthermore for financial/compliance audit ‘products’ are verified by the Methodology and quality control sector. In the upcoming period, SAIRS plans to develop a register of QC and QA recommendations to facilitate monitoring of the status of implementation²⁰⁹.

For performance audit the head of sector is involved in selection of audit topics, planning of individual audits, implementation phase of the audit, reporting phase and the follow-up. Through this interaction he completes a QC checklist.

Peers did not receive filled-in and signed check-lists for sampled QC and QA measures, therefore cannot provide assurance that both QC and QA measures planned were adequately implemented.

SAIBD has developed a procedure envisaging that audit teams are obliged to adhere to the methodology and deadlines. There is no separate QC and QA sector in SAIBD, which is understandable bearing in mind the size of the office. QC measures throughout audit planning, execution and reporting are performed by separate audit teams, one team performs QC over the product of the other team²¹⁰.

SAIBD has also developed QA and QC guidance, covering all quality management aspects and defining competencies of staff members in QA and QC processes²¹¹.

For financial/compliance audits sampled filled-in QC check-lists by audit team leaders, which were reviewed by peers sufficiently reflect the rationale of team leader, when verifying the work of team members²¹². SAIBD has informed peers that at the end of each year the QA interventions (‘cold reviews’) are done, where 1 audit report out of 7 is sampled for this reason; and QA findings are summarized in 1-2 page reports. However, there is no documented evidence of the above. We would agree that QA measures in a small size SAIs could appear to be inefficient and such SAIs could apply just QC measures provided they are performed accordingly.

For performance audits - pre-study, draft plans and reports are discussed with financial auditors, then they are checked by the DAG, and after that by the AG; there are focus groups with external experts, where draft plans and reports are discussed. However, those processes are not documented; therefore peers did not get assurance on QC and QA measures performed over the PA process.

5.9. Assessment of QA and QC systems

ISSAI require that SAIs should establish policies and procedures designed to promote quality as essential in performing all of its work²¹³ and establish systems to consider the risks to quality which arise from carrying out the work²¹⁴. Although there are comprehensive guides developed and approved by the CB describing different QA and QC aspects and offering a number of options for QA and QC interventions, there seem to be no clear **QA and QC policies** defined in individual Audit Offices. Audit Offices work in

²⁰⁸ Report on internal quality controls carried out in 2018, Jan 2019.

²⁰⁹ Report on internal quality controls carried out in 2018, Jan 2019.

²¹⁰ Decision on financial and performance audit planning and staffing No. 01-02-386/18, 7.9.2018. .

²¹¹ Audit Quality Control Guide, Brčko, October 2009.

²¹² Checklists - JP Roads 2018.

²¹³ Pg.5, ISSAI 40.

²¹⁴ Pg. 8, ISSAI 40.

differing environments and encounter differing risks in their work, which logically results in a necessity to consider differing controls in the most risky operations (audit phases), requiring certain resources, some hard decisions and a readiness to tolerate certain risks.

The ISSAIs suggest basic QA and QC principles and provide some flexibility and options in application. QA and QC policies should adapt these principles and options to their individual circumstances, by assessing the risks faced and providing direction for the QC and QA measures to manage (avoid or mitigate, or tolerate) certain risks in the short, medium and long term. For example, experiencing a lack of staff, which limits the opportunity to implement QC measures in an adequate manner and leads to the situation, where quality control activities are being performed in parallel with the audit work, without effective documentation and clear trails of how comments have been addressed makes the impact of QC questionable. Audit Office management might consider, in the short-term, to start with minimum QC and QA measures, but perform them properly in order to enhance audit quality gradually and avoid putting its own staff under pressure. Even if ISSAIs foresee more controls, the AG could develop a medium term strategy recognising the awareness of the controls required, but demonstrating a path on how to get there gradually.

There are **QA and QC methodologies** developed and adopted by the CB. However, the methodologies are very general, and provide for a number of options which could serve as methodologies for each individual Audit Office. The Audit Offices need to develop their own methodologies consistent with the CB approved guidance, but adapted to the needs and policies of the individual Audit Office.

ISSAIs require that the **QA and QC procedures** (processes) are in place, including these authorising reports to be issued²¹⁵. Although some Audit Offices have issued separate instructions regulating certain parts of the audit phases, well described and mutually integral processes (who is doing what) do not exist. We consider internal processes to be a precondition of good governance, moreover keeping in mind that SAIs should lead by example also in terms in managing its own institution. Audit Offices might opt for developing their own methodologies and internal processes as one integrated document.

ISSAIs require that SAIs document the processes of reviews, including any differences in opinions within the SAI²¹⁶. Although general guidance is in place and checklists are sometimes filled-in, in principle, the processes are not documented in a manner, which would ensure an adequate audit trail of all the inputs (comments) to draft documents. As a result the process is not well formalised and dilutes the responsibilities of the parties involved. We understand that documenting could be much easier, if adequate audit software was in place. However, clear thinking about developing adequate documentation should take place in the meantime.

Since QA and QC processes should be mutually harmonised, irrespective of the type of audit and be based on one single QA and QC policy of the SAI, the Audit Offices might consider developing their own financial/compliance and performance audit QA and QC methodologies as one single document

When developing methodologies and procedures, the management of the Audit Offices are invited to carefully consider control benefits *versus* costs of controls and try to balance controls by avoiding overlapping, adding value and keeping in mind existing resources. Auditors subjected to controls often see them as an additional burden, if the rationale for internal control is not well communicated by the management or controls are formal, unbalanced and not adding value.

²¹⁵ Page 12, ISSAI 40.

²¹⁶ Pages 11-12, ISSAI 40.

5.10. Recommendations

The recommendations of the Peer Review Team with respect to Quality Assurance and Control are:

- ▶ We recognise that the resources of the Audit Offices are limited and quality control and assurance interventions are expensive, however the Offices should consider developing a medium-term QA and QC strategy, recognising awareness of the controls required by the ISSAIs, while envisaging step-by-step implementation. This should start with the minimum quality control and assurance measures required to address the highest risk areas, which are performed properly in order to enhance quality and avoid putting their own staff under stress.
- ▶ The Audit offices should document and file QC interventions, to ensure the audit trail and facilitate 'learning from mistakes'; educating and training the staff on benefits of adequate quality control should be seen as the pre-condition of the exercise.
- ▶ The Audit Offices should consider the opportunities to work cooperatively on QA, and even establishing it as a joint function. The Audit Offices are in a unique situation to implement such an approach.

6. Achievement of results

6.1. Introduction

Audit reports are the key outputs of SAIs and it is important that they are relevant to their stakeholders and have impact. An SAI should deliver good quality and timely outputs, that are publicly available and which have impact. To support achieving this SAIs should ensure that:

- Audits are completed and the reports submitted to the appropriate authority in line with the statutory requirements and/or in a timely manner to ensure that they are relevant.
- It publishes its reports and other outputs in timely manner, in accordance with the prescribed legislation and in a manner that is easily accessible to a variety of stakeholders.
- Has processes and systems in place for following up on whether audited entities or other responsible entities take appropriate action based on observations and recommendations made by the SAI.
- It reports on implementation of its recommendation and the impact of its work.

6.2. Follow-up on implementation of audit recommendations

Compared to audit planning, execution and closure phases, the IFPP fails to impose elaborate requirements regarding monitoring of audit recommendations and following up audits. However, follow-up is one of the most crucial tasks of an SAI since the main added value and impact from audits is the implementation of audit recommendations. There is no point in an SAI in conducting more audits, if it fails to facilitate the implementation of previous recommendations.

An SAI should have a system for following up on whether audited entities or other responsible entities take appropriate action based on observations and recommendations they make, and an SAI should report on implementation of its recommendation and the impact of its work. INTOSAI-P10²¹⁷ and ISSAI100²¹⁸ clearly set out the importance of follow-up in the work of the SAI. This includes:

- formal mechanisms exist requiring to report how audited bodies are responding to the SAIs recommendations;
- having appropriate procedures, criteria and methodologies for deciding on and conducting its follow-up work;
- monitors the implementation of recommendations by audited bodies and reports as appropriate;
- SAI analyses its follow-up work and other appropriate information to assess the impact of its work;
- reports on the results it has achieved - e.g. value of savings generated by implementing audit recommendations.

Agreeing deadlines and how the Audit Office's recommendations will be implemented is the next step after the formulation and issuing of recommendations. The *SAIBiH*, *SAIFBiH* and *SAIRS Laws*²¹⁹ require the auditee to deliver a response (action plan) to the Audit Offices and other stakeholders within 60 days from the receipt of final audit report, indicating the activities undertaken by the auditee in order to

²¹⁷ INTOSAI-P10, Mexico Declaration on SAI Independence

²¹⁸ ISSAI 100 Fundamental Principles of Public Sector Auditing

²¹⁹ SAIBiH Law. Article. 16.3, SAIFBiH Law Article. 16.3, SAIRS Law Article 19.4

overcome the weaknesses, irregularities and violations identified in the audit report. The *SAIBD Law*²²⁰ requires the auditee to react in 30 days.

We consider those deadlines to be too long and do not see the underlying rationale. According to the best practice the corrective actions and their deadlines should be agreed before issuing and publishing audit reports to enable the Audit Office to assess the adequacy of actions and avoid potential misunderstandings between the auditors and auditees in future. The Audit Offices should consider this issue, if and when modifying relevant laws.

The percentage of implemented recommendations in all Audit Offices is rather low, ranging from 25% to 60%. The Audit Offices believe they have no effective mechanisms in place to ensure that their recommendations are implemented, if they want to be ISSAI-compliant and follow the ISSAIs philosophy that while recommendations are not binding they are professional and add value so that the auditees are willing to implement them. We believe that there are a number of options that the Audit Offices could consider in order to enhance the implementation of recommendations, for example, by establishing more close partnership with parliaments, who depending on their rules of procedures could use the Audit offices findings to issue their own findings and recommendations, thus making them binding for the government. However, in order to implement this or any other solution the Audit Offices must ensure that the recommendations are professional, relevant, cost efficient and material.

Including in audit reports recommendations that are out with the mandate of the particular auditee serves as another reason for low level of implementation of audit recommendations. This is a widespread practice in the Audit Offices, since they believe that the auditee will then be motivated to approach the relevant bodies and request corrective actions. The Audit Offices' own analysis show that the recommendations requiring action just by the particular auditee are generally being implemented, while those lying beyond the auditee's mandate are not. The approach currently applied by the Audit Offices could be demotivating for auditees, firstly as the audit reports are public, a high number of recommendations reduce their reputation as the public generally does not understand the lines of responsibility but just the number of recommendations. Secondly, public institutions often do not have any tools to affect the operations of for example the government, unless they are very powerful. Moreover, Audit Offices must be aware that such an approach is not compliant with ISSAIs²²¹, which stipulate that recommendations must be addressed to audited entities.

In line with the laws, all four Audit Offices prepare *Annual audit reports on the most significant findings and recommendations*.

For the financial/compliance audits in 2017, *SAIBiH* issued 573 recommendations to the BiH institutions, and their impact is being assessed during 2018 financial/compliance audits. The latest analysis of the degree of implementation of the recommendations reveal that about 60% of the recommendations were implemented or implementation is in progress. The trend compared to the previous periods reveals a slight increase. However, when considering the percentage one has to take into account the weight and the relevance of recommendations.

Monitoring of audit recommendations is performed 100% for all audits. Some recommendations are checked during the interim audit, the rest during final audit²²².

As for performance audit, *SAIBiH* performs a follow-up audit every year, which usually covers two or more performance audit reports published in previous years. In the last three years, implementation of recommendations was monitored for 12 performance audit reports in total, published in 2013 and 2014. In total 110 recommendations were issued, out of which 8% are not implemented, while 92% are implemented or in progress.

²²⁰ SAIBD Law, Articles 17.3 and 17.4.

²²¹ E.g. Art. 128, ISSAI 3000.

²²² SAIBiH Annual Activity report 2018.

SAIBiH regularly maintains and updates the Registry of Recommendations on its web page²²³, which includes the information on the status of implementation of each individual recommendation²²⁴. At the time of peer review, the register was not updated to include the audits conducted on the 2018 fiscal year. SAIBiH also maintains the register of performance audit recommendations.

SAIFBiH also follows-up of financial/compliance audit recommendations - during the 2017 financial/compliance audits, the implementation of recommendations issued in the previous years was assessed. However, only the recommendations addressed to the auditees, which are once again included in the Audit Office's financial/compliance audit plan for the next year are being followed-up during interim and final financial/compliance audits.

The follow up of recommendations was assessed in 41 auditees, and only 209 out of 839 recommendations were implemented. The assessment had similar results in previous years, therefore some corrective action by the Audit Office must be seriously considered. Another significant issue is that some auditees are already ignoring the Audit Office by not responding within 60 days after the receipt of the final report as required by the law, and thus not defining the actions to address the weaknesses, irregularities and offences identified in the audit reports. For example, for 2017 financial/compliance audits seven important auditees failed to respond to final audit reports, including cantons and municipalities, and the Securities Commission of the FBiH. The FBiH government and Ministry of Finance also did not react to the consolidated FBiH budget execution report for 2017²²⁵.

The above problem is serious, because the 2000 auditees of SAIFBiH account for 65% of the overall public expenditure in BiH.

The Register of recommendations²²⁶ for the audits carried out annually was published on the website for the first time in 2018²²⁷.

As for performance audit, in 2018 the decision was made to perform a follow-up audit of the implementation of recommendations from two previous performance audit reports²²⁸, rather than conducting any new performance audits, as was originally planned. Similar to the financial/compliance audits, the follow-up reports revealed a failure to fully implement most of the recommendations. Moreover, the parliament and the government of FBiH failed to take actions based on performance audit reports, namely pass decisions that would bind the institutions to implement the recommendations²²⁹. Follow-up reports are published on the web page of SAIFBiH.

In 2018, SAIRS audited 309 recommendations made to audit entities in the previous period (170 recommendations regarding financial statements and 139 related to compliance)²³⁰. SAIRS maintains a register of financial/compliance audit²³¹ recommendations, which is regularly updated, and at the time of the review already included information about the 1st quarter of 2019.

SAIRS and SAIBiH are maintaining and regularly updating follow-up reports on implementation of PA recommendations (with exception of the year 2018). Apart from the implementation status of recommendations these reports also describe the actions performed by the auditee. We consider such kind of reports to be a good practice.

²²³ Register of financial audit recommendations, 01.01.2015.-31.12.2017.

²²⁴ SAIBiH Annual Activity Report for 2018.

²²⁵ SAIFBiH Annual Activity Report for 2018, No: 04-05-1-627/19, March 2019.

²²⁶ Register of financial audit recommendations, 01.01.2016.-31.12.2018.

²²⁷ SAIFBiH Annual Activity Report for 2018, No: 04-05-1-627/19, March 2019.

²²⁸ Support to Development of Small and Medium Enterprises in FBiH“(published in 2013); Energy Efficiency Improvement in FBiH Institutions“(published in 2015).

²²⁹ SAIFBiH Annual Activity Report for 2018 Article. 3.2.

²³⁰ SAIRS Annual Activity Report 2018, , Feb 2019

²³¹ SAIRS Register of financial audit recommendations, 01.01.2013.-30.04.2019.

Analysis of the data reveals that ministries and other public sector institutions are sometimes reluctant to propose action plans for implementation of recommendations. In 2018 SAIRS did not perform follow-ups on implementation of PA recommendations, one of the reasons being lack of resources in the SAIRS²³².

In 2018 SAIBD performed 29 financial/compliance audits and issued 364 recommendations. During these audits the implementation of the previous year recommendations were followed up. Auditees had implemented 50% of the recommendations, which cannot be considered a satisfactory level of implementation²³³. Where the recommendation arises from a finding that affects the financial/compliance audit opinion, the recommendation is repeated and monitored. For the last three years SAIBD has included a separate chapter in the audit report on the implementation of recommendations.

SAIBD also maintains register of financial/compliance audit ²³⁴ recommendations, which is regularly updated. For performance audit no register of recommendations is maintained and published on webpage. Moreover, the implementation of recommendations is not monitored.

We consider follow-up of recommendations to be one of the weaker parts of the Audit Offices operational practices, except for financial/compliance audits conducted by SAIBiH, where recommendations are 100% monitored during the next year financial/compliance audits. We appreciate that a lack of resources for follow-ups could be a significant issue, however the Audit Offices, should at least, require regular implementation reports from auditees and provide more illustrative presentation of 'non-implementation by auditees on the Audit Offices' webpages.

The Audit Offices should also consider changing their approach and follow the ISSAIs in terms of addressing audit recommendations exclusively to auditees.

6.3. Timeliness of operations- conducting, reporting and publishing

An SAI should deliver good quality and timely outputs, that are publicly available and which have impact. The IFPP indicates the importance of timely reporting throughout the professional pronouncements. This includes ensuring:

- statutory deadlines for completing and reporting audits are at met (assuming other parties have met their obligations);
- statutory deadlines for publishing reports and other outputs are met;
- where audit reports are prepared at the SAI's discretion they should be produced to ensure that the findings are relevant and up-to-date. They should also be made public in a timely manner;
- Published reports and outputs are made easily available to various stakeholders through a variety of communication channels.

The Audit Offices generally follow the deadlines for financial/compliance audits, since they are stipulated by the law, and Audit Offices do not practice prolongation for financial/compliance audits. Performance audits, on the contrary, sometimes undergo extensions, basically for the reason that originally the required inputs into the audit have been underestimated. There is a good tendency to try and shorten the timescale for undertaking performance audits which is positive. Peers suggest to carefully assess the complexity of individual performance audits when drafting pre-study memorandum and/or work programme. The practice of extending the timeframe of performance audits should be minimised as it misleads auditees and stakeholders, and affects credibility of the Audit Offices.

²³² Annual Audit Report for 2018, 5/17/2019

²³³ SAIBD, Annual Activity Report 2018, Article 5.3, February 2019.

²³⁴ Register of financial audit recommendations, 01.01.2016.-31.12.2018.

Financial/compliance audit and performance audit reports are published on the websites of Audit Offices as soon as they are approved and enter into force. Audit Offices also prepare press releases, and in some cases also meet with the press. In the case of financial/compliance audit, some Offices (e.g. SAIBiH) issue press release at the end of all annual audits. SAIFBiH issues press releases after all mandatory audits and one after all other non-mandatory audits are completed. Press releases are also issued after completion of all performance audits. SAIBiH publishes all 74 reports on their website at same time and issue one press release. One month later they publish the report on consolidated statements which is accompanied by a report on main findings and press release. No press conferences are held.

Some of the Audit Offices are considering developing communication strategies, which is very much supported by peers, since perceptions of society regarding the receipt of information has changed considerably and the Audit Offices should supplement communication channels and adapt their messages to target specific audiences in order to increase the impact. The next chapter elaborates on the current communication of the Audit offices with their key counterparts.

Recommendations

The recommendations of the Peer Review Team with respect to Achievement of Results are:

- ▶ The Audit Offices should consider terminating the practice of including recommendations in audit reports that are out with the mandate of the particular auditee. Such a practice is not necessarily fair to auditees, demotivates them and contradicts the ISSAIs. Instead, the Audit Office could consider closer co-operation with Parliamentary Committees, requesting them to issue so-called 'horizontal' recommendations, addressing them to the government, thus making them binding for the latter.
- ▶ If and when SAI Laws are modified, inclusion of the obligation for the auditees to submit to Audit Offices the activity plan for implementation of recommendations within 30 calendar days, as from receipt of the final audit report, should be considered. SAI Laws should potentially comprise the obligation of auditees to submit to the Audit Offices their activity within the deadlines set by the Audit Offices.
- ▶ In the meantime, the Audit Offices should consider negotiating with the relevant parliamentary committee the possibility for the committee to set deadlines for submission of activity plans and activity reports by auditees immediately after publishing of audit reports, as well as deadlines for Audit Offices to provide feedback on activity plans and reports.
- ▶ The Audit Offices should ensure they follow-up all financial/compliance and material performance audit recommendations – even at the costs of reducing the number of audits; we are of the view that there is no point to invest in new audits, if we are not able to ensure that recommendations from the previous ones are implemented.
- ▶ The pre-condition for raising the percentage of implemented recommendations and the ability of Audit Offices to follow-up on 100% recommendations is the quality and added value of the recommendations. Therefore we recommend Audit Offices to consider the existing practices of issuing recommendations, not only in terms of correct addressees, but also in assessing the likelihood of implementation, in terms of weighing costs against benefits and avoiding a vast number of irrelevant recommendations.
- ▶ The Audit Offices should consider requiring regular implementation reports from auditees and provide more illustrative presentation of 'non-implementation' by auditees on the Audit Offices' webpages.

7. Relations and Communication with main stakeholders

7.1. Introduction

The INTOSAI Principles require that SAIs communicate about their roles, responsibilities and results of their work. For example they should have good relations with Parliament, Government and the administration²³⁵ and be empowered to publish their findings annually and independently to Parliament or any other responsible public body²³⁶ and the public.²³⁷

In order to be effective SAIs should ensure good communication with audited entities and other related stakeholders, and provide the legislature, its committees, or audited entities' management and governing boards with relevant, objective and timely information²³⁸. SAIs should communicate timely and widely on their activities and audit results through the media, websites and by other means in order to facilitate communication with the citizens²³⁹.

SAIs should also engage with stakeholders, recognising their different roles, and consider their views, without compromising the SAI's independence and periodically assess whether stakeholders believe the SAI is communicating effectively²⁴⁰. How SAIs could meet these requirements is laid down in an INTOSAI guideline.²⁴¹

In this Chapter we examine the state of play on communication and relations with main stakeholders in the four Audit Offices. We describe and analyse the internal communication function, communication strategies, relations with Parliament, Ministries of Finance and audited entities and relations with citizens, CSO's and the media.

7.2. Communication Function

Where it exists the communication function of the Audit Offices is located in small units for International and Public Relations of one or two staff members positioned under the Cabinet. Their tasks are laid down in the Systemisation regulations. The tasks vary from organising, coordinating and performing activities for public and media about the scope and results of the work of the Audit Offices, to preparing publications, newsletters and brochures and ensuring the consistency of the messages, language and graphics in documents and information that are presented to the Parliament and the public.

Besides communicating and promoting the Audit Offices work and results the units are also responsible for the answering questions of media or citizens, updating daily the intranet with newspaper articles and news that are or may be relevant for the Audit Offices work, monitoring Audit Office reports in the media by means of press clippings and new developments in the international audit environment.

The communication function of the Audit Offices is not completely developed yet. SAIRS²⁴² does not have a specific function for communication with key stakeholders. SAIBiH²⁴³ and SAIFBiH have only one

²³⁵ INTOSAI – P 1 LIMA declaration, section 8 and 9

²³⁶ INTOSAI – P 1 LIMA declaration, section 16

²³⁷ INTOSAI – P 20 Principle 7

²³⁸ INTOSAI – P 12 Principle 3

²³⁹ INTOSAI – P 20 Principle 8

²⁴⁰ INTOSAI – P 12 Principle 6

²⁴¹ INTOSAI Guideline “Communicating and Promoting the Value and Benefits of SAIs”

²⁴² Table overview of systemized , fulfilled and free workplaces in the main public service auditing service of the Republic of Srpske, 18 November 2018

²⁴³ The systemisation of SAI-BiH is 2 staff members for communication and international relations

staff member that is responsible for external communication and national and international relations. While their tasks are comprehensive, in practice they lack time to fulfil all their responsibilities properly. The Audit Offices acknowledge that the engagement with Parliament and other key stakeholders should be improved. Their SDP's formulate objectives on communication but not all of these objectives have been achieved yet as the rest of this chapter will show.

7.3. Communication Strategy

The SDPs of the Audit Offices present objectives for developing communication strategies but none of them has developed one. The SDP's recognise that external communication should be improved. SAIBiH and SAIFBiH define as weakness the communication with external actors in terms of raising the level of understanding of the basic messages communicated through audit reports (Parliament, media, general public, etc.). SAIRS recognizes as weaknesses an underdeveloped process of active communication with the authorities, lack of awareness about the real role and achievements of external audit, and an inappropriate website presentation. All Audit Offices have defined strategic objectives and programmes to improve the communication with external stakeholders such as Parliament, auditees, media, NGO's and citizens.

The SAIBiH and SAIFBiH programmes are

- promoting the principles of public accountability, transparency, good governance and legal and effective use of public resources
- raising the level of audit recommendation implementation
- improving relations with the media, the citizens and other institutions
- improving and building new models of cooperation with the Parliament
- improving cooperation with civil society organisations operating in the network of anti-corruption and similar activities.

SAIRS have similar programmes but defined in more detail. Their programmes are:

- active support to the process of educating the public about the role and importance of external audits conducted by the Supreme Audit Office
- the formalisation of cooperation with the academic community
- the formalisation of cooperation with professional and other relevant non-governmental bodies
- the development of a modern website of the Supreme Audit Office
- defining the rules and procedures of communication with the media, NGOs and the like
- the improvement of cooperation with the Parliamentary Audit Committee
- the improvement of cooperation with internal audit in the public sector
- the precise positioning and establishment of rules and principles for the participation of management of the Supreme Audit Office in the work of the CB
- improving cooperation with other external auditors

Only SAIBiH has started to develop a communication strategy. With external support it started in 2018 a project for the development of such as a strategy. In that year two focus groups/workshops were held, one with representatives of the media and one with representatives of civil society. The goal was to discuss the role and work of the SAIBiH, the usefulness of its work and reports for them, and whether the SAIBiH is communicating satisfactorily. As a follow-up activity the SAIBiH organised a consultative meeting with CSOs on the annual performance audit plan at the end of 2018. In 2019 two further workshops were held, one with representatives of auditees aimed at receiving information on their experiences with and expectations of the SAIBiH, and a workshop with staff members of the SAIBiH aimed at raising the quality of internal communication. Based on the input of the consulted key

stakeholders²⁴⁴ the SAIBiH aims to define objectives for a communication strategy that should be finalised in 2020.

The input of consulted key stakeholders has already led to changes in the communication. In order to improve the quality of SAIBiH reports, the reports are more accessible for users, with visual and graphical solutions introduced, and each report has a branded cover page related to the content of the report. Further, a SAIBiH twitter account has been opened.

The SAIFBiH and SAIRS have also made some progress in improving the communication with key stakeholders, although without external support. The new management of SAIFBiH opened up to the media in 2016. It has lots of media requests around the dates of publication of audit reports and it has taken the opportunity to meet and engage with them. On an ad hoc basis SAIFBiH has contacts with CSO's. SAIFBiH actively participates in opportunities to raise awareness (round tables). The website has been used as the main communication tool and it has published a video as well as other media coverage of performed audits on its website on the role of the Office. The SAIFBiH has also tried to shorten reports and make them more user friendly, but there is still a reluctance among auditors to shorten reports. The SAIRS in completing and finalising its performance audit reports has introduced the use of focus groups, where the key findings and issues from the audits are presented to auditees and other relevant stakeholders, and discussed and tested.

Due to limited human resources it is challenging for SAIFBiH and SAIRS to pro-actively engage with key stakeholders. They are also not active on social media.

Internal regulations on who engages with Parliamentary Committee or media do not exist in any of the SAls.

The SAls recognise the need to improve their communication with their key stakeholders and have defined related objectives in their SDP's, but a strategic approach on how to engage towards each of their stakeholders is missing. All communication activities carried out are certainly useful and needed but they are not part of a broader engagement concept. This ad hoc approach is understandable when the limited resources available for communication are taken into account. The project that the SAIBiH started in 2018 made clear that at present that it is very challenging for the Audit Offices to develop a broader and stakeholder targeted communication strategy without external support. The project highlighted the benefits of such a targeted approach. The input of the consulted stakeholders could immediately be used for improving SAIBiH's products and communication on them.

7.4. Relations with Parliament

For each Audit Office the relationship with Parliament is of paramount importance. INTOSAI principles give significant attention to the communication and relations with Parliaments.

INTOSAI-P1, section 16 requires that SAls shall be empowered and required by the Constitution to report its findings annually and independently to Parliament or any other responsible public body and that this report shall be published. Generally, the annual report shall cover all activities of the Supreme Audit Institution. INTOSAI-P 10, section 8 requires that the SAI should have a very high degree of initiative and autonomy, when they act as an agent of Parliament and perform audits on its instructions and that the relationship between the SAI and Parliament shall be laid down in the Constitution. INTOSAI-P20, principle 7 requires that SAls should report publicly on the results of their audits and on their conclusions regarding overall government activities and maintain a strong relationship with relevant parliamentary committees to help them better understand the audit reports and conclusions and to take appropriate action. INTOSAI-P12, principle 3 requires that the SAls provide the legislature, its committees, or audited entities' management and governing boards with relevant, objective and timely information.

²⁴⁴ Members of the Budget Committee of the SAI BiH Parliament could not be consulted; this committee was not established yet at the time workshops with key stakeholders were held.

It is important that the Parliament perceives the SAI as a relevant partner in the oversight of the Executive. They are mutually dependent on each other when exercising the oversight function. The Legislature must rely on the SAI to scrutinise the accounts and the use of public funds. The SAI on the other hand needs support from the Parliament in holding representatives of the Government to account. Therefore, the capacity of the Parliament to read and make use of the Audit Office's reports is essential for the SAI's effectiveness.

All SAI laws have clauses on the relations with Parliament. The clauses vary from reporting to Parliament on reporting on finances²⁴⁵ to reporting on audit results to the auditee and Parliament, the annual report²⁴⁶ and submitting additional reports to Parliament if the Audit Office thinks it necessary²⁴⁷.

All Audit Offices comply with their legal requirements. In their annual reports they inform the parliament and any interested reader on the audits carried out, i.e. combined financial and compliance audits, performance audits and special audits. The annual reports also present information on mission, role and mandate of the Office; independence; audit framework; state of play of the SDP; role of Coordination Board; audit strategy; quality and fundamental values; communication and reporting; and organisational matters.²⁴⁸

The Finance and Budget Committee of the Parliamentary Assembly of BiH, the Joint Committee in charge of Audit for the Parliamentary Assembly of the Federation, the Audit Board of the National Assembly of the RS and the Budget Committee of the Assembly of the BD have internal regulations on handling SAI reports.

In practice, the Audit Offices have established good solid cooperation with the Parliamentary Committees, although the RS Committee expressed critical remarks too.²⁴⁹

The SAIBiH and SAIRS Committees discuss the Audit Offices' audit reports in hearings with auditees and produce reports with recommendations that are based on the work of the Audit Offices. The MP's question the auditee and the Audit Offices act as observers. In the Federation, however, SAIFBiH has to present their report, then the auditee answers and the Parliamentary Committee reacts on the auditee's answers. In the Federation the Parliamentary Committee submits its own reports to the Parliament and not the SAI reports. The RS Audit Board receives all reports submitted by SAIRS but in practice only discusses the reports with negative opinions mainly because the negative reports will have to be tabled on the agenda of the Parliament (is obligatory).

The Assemblies of the BiH and the RS draft conclusions on the Audit Offices' financial audit findings and make recommendations for auditees to take into account.

SAIBiH representatives regularly attend sessions of the Parliamentary Committees for Finance and Budget and others, as needed, of both houses of the Parliament of BiH, as well as sessions of committees, which have points referring to the work of the SAIBiH on the agenda.

In 2018, the representatives of the Office participated in 10 sessions of the Budget and Finance commissions of the Parliamentary Assembly of BiH, and six sessions of the House of Representatives and two sessions of the House of Peoples of the Parliamentary Assembly of BiH.

²⁴⁵ SAIBiH law article 6; SAIFBiH law article 5 and; SAIRS law article 25

²⁴⁶ SAIBiH law article 16; SAIFBiH law article 16 and; SAIRS law article. 21

²⁴⁷ SAIBiH law article. 17; SAIFBiH law article 17; and SAIRS law article. 22

²⁴⁸ SAIBiH 2018 Annual report

²⁴⁹ The SIGMA experts have not been able to meet representatives of the Parliamentarian Committees of SAIBiH and SAIFBiH.

SAIFBiH is not invited to cantonal or municipality council meetings when they are considering audit reports²⁵⁰. The institution generally just receives a conclusion of the discussion at the cantonal or municipality council meeting. As a debate with the cantonal or municipal councils is lacking, the SAIFBiH had decided to approach self-governments individually and inform the councils that the institution is available to participate in hearings.

In 2017 SAIFBiH engaged actively with the Federation Parliament, but much less in 2018. The 2017 audit reports have not been addressed by Parliament yet because after the elections the Parliamentary Committee was not formed.

Representatives of the Auditing Board of RS Parliament expressed very differing views on the functioning of the SAIRS, mainly motivated by political perspectives. They indicated that the relationship with the Audit Office could be improved and that there is need for some awareness raising from the Office about its role and work. For example, it could provide presentations to new Board members after Parliamentary elections on the role and tasks of Office, how the Board and Office can work together and what the Office can do for the Board. The Audit Office could also consult more with stakeholders and with the Board before the annual planning process starts.

In 2018 there was only one session of the Audit Board covering 4 or 5 reports. The Board did not review them in detail or with auditees. At the time of the review elections had recently been held and the membership of the Board had recently been established. At that time no meetings had been held and they were just starting to receive audit reports relating to the audit of 2018.

It is difficult to present a general analysis of the relations of the Audit Offices with the Parliamentary Committees. First, these relations differ and secondly we did not have the opportunity to consult committees of all entities about their perception of the mutual relations. None of the Audit Offices have undertaken surveys to gauge the opinions of parliamentarians on the functioning of Audit Offices and their relations with them. On the other hand we have the impression that relations with Parliamentary Committees can be improved. The roles and responsibilities of the Audit Offices as required by the INTOSAI principles are not completely introduced and working. An example is the role that the SAIFBiH plays in hearings, which until 2017 looked like as if the Audit Office is the subject of discussion and not its findings on the auditees. Since then the situation had been improved. Another example is the focus of the BiH and RS committees on negative opinions and not on the functioning of the whole of government institutions, on which the Audit Offices report. The perception of representatives of the Parliamentary Committees of RS and BD that SAIs can be used for political reasons is a sign that the roles and work of SAIs are not necessarily well understood yet by Parliamentarians.

7.5. Ministries of Finance and Audited Entities

INTOSAI-P12, principle 3 requires that SAIs 'ensure good communication with audited entities and other related stakeholders' and 'keep them well informed during the audit process of the matters arising from the SAI's work'. SAIs should also 'provide audited entities' management and governing boards with relevant, objective and timely information'. INTOSAI-P12, principle 6 requires further that 'SAIs should communicate in a manner that increases stakeholders' knowledge and understanding of the role and responsibilities of the SAI as an independent auditor of the public sector' and 'SAIs' communication should contribute to stakeholders' awareness of the need for transparency and accountability in the public sector'.

The communication on auditing is laid down in the audit manuals of the Audit Offices. In principle, the Audit Offices announce an audit and ask for documents. During the audit the auditors keep auditees up to date throughout audit process. After the interim audit the Audit Office present an Interim letter to the entity with findings. At the end of audit the Audit Offices have a discussion with auditee about the findings and then draft a report which is sent to the entity.

²⁵⁰ It is not prescribed in the SAIFBiH law.

At the opening and final meetings usually the minister and assistant ministers, secretary and audit team attend, at the final meeting the DAG may attend. Comments of auditees on Audit Office reports are incorporated in final audit reports. The Audit Offices always draft reports in due time and it will provide auditees feedback on their comments.

In general, the communication of the Audit Offices with the auditees on audit findings and recommendations is good. However, during the interviews auditees expressed their disappointment on the contradictory procedure. They perceive that their comments are not seriously taken into account, and it is not possible to have meetings or discussion on their comments. The AG of SAIBiH acknowledged that the last phase of reporting could be improved. He stated that his auditors do everything to please auditees but the last phase is very time constrained and the auditors have very little time to discuss the comments of the auditees. The deadline is 31 May and the reports should be sent to Parliament before 1 August each year. The auditees of SAIRS also complained about the contradictory procedure. They indicated that SAIRS listens to them, but don't always take into account their comments.

The co-operation of the Audit Offices with the Central Harmonisation Units (CHU) of the MoFs differs. The Head of the CHU of the MoF of RS has regular communications with the SAIRS and the SAIRS supports the CHU of RS. SAIRS has contributed to the improvement of internal audit over the last 10 years, and the SAIRS has supported the CHU of RS with training.

The CHU of the MoF of the Federation has in principle good relations with the SAIFBiH but they indicated they could be improved. They felt that the SAIFBiH should have a wider perspective on the role of the CHU and see the bigger picture, rather than focusing on completing specific checklists. The CHU of the MoF of BiH indicated there was good co-operation on training but like the CHU of the Federation the findings on the annual financial audit or performance audit do not taken into account the unique position the CHU has in the development of financial management and control, and internal audit.

In order to obtain more profound views of the auditees about the role and work of the SAIs, and how they communicate, SIGMA conducted a survey among auditees of SAIBiH, SAIFBiH and SAIRS. Additionally, SIGMA organised a 'Focus' group meeting with representatives of the auditees of SAIBiH for the communication strategy project, and met with a number of Audit Office auditees during the peer review.

With respect to the responses to the auditee survey 37 out of the 74 SAIBiH auditees surveyed responded, a response rate of 50%. The response rate of SAIFBiH was much lower with 13 out of 69 of the Ministries, Cantons, Municipalities, Institutes, Funds and Agencies, and Public Companies surveyed responding, a response rate of 18%. The response of SAI RS was better with 24 out of 44 auditees surveyed responding, a response rate of 55%. While the response rate for the SAIFBiH is not really representative for the whole population of audit subjects it does provide an indication of auditees' perspective and the results are included in the following analysis.

The survey was classified in seven sections:

1. Awareness of role and position of the Audit Office (questions 1-3)
2. Usefulness of the Audit Office work and reports (question 4)
3. Quality of presentation of work in reports (question 5)
4. Relevance of the Audit Office work (questions 6 -7)
5. Quality of communication and website (questions 8-11)
6. Quality of programming, audits and reporting (question 12-14)
7. Feedback by the Audit Office (questions 15-17)

The answers of the auditees are in general very positive (a detailed analysis of the questions is presented in Annex 2). The auditees are aware that the main role of the Audit Offices is to hold the Government accountable. The work and the reports of the Audit Offices are regarded as very useful. The presentation of the results of Audit Offices' work is considered to range from reasonable to excellent and the financial audit reports are regarded as most useful, although the respondents of SAIBiH regarded the report with the main findings and recommendations as most useful. The Audit Offices are mostly seen as

contributing to better financial management and compliance of laws by the Government. The communication of the Audit Offices with auditees did not highlight any real problems. The websites are seen as a very good source for information. The auditees are positive about the quality and professionalism of Audit Office staff, relations with the Offices, exchange of information on the progress of audits, the quality of audit reports and that the reports are generally seen as focusing on the important issues. However, the auditees are less satisfied with the possibilities to influence the design of the audits, the impact of the Audit Offices' audits on their daily work, the Audit Offices consideration of their comments in the final audit report and the possibilities to discuss the annual programme with them. The auditees were also very clear that the Audit Offices do not have in place mechanisms to systematically evaluate their own performance, such as regular requests for or surveys on the quality of their audits²⁵¹.

Meetings with representatives of SAIBiH auditees during the communication project and the interviews with auditees during the Peer review confirm the above general conclusions, except for the performance audits. The meetings with the representatives of SAIBiH auditees provided a less positive picture of performance audits. They indicated that they do not know what criteria are used in the performance audits until they see the audit report, and often the recommendations are beyond the mandate of the institutions for example recommendations addressed to the Government or recommendations with relation to a central IT system which should be followed up by the owner of that system not being the auditee, unrealistic (not implementable) and too general so that no one knows who has to implement what.

The respondents to the surveys, SAIBiH auditee focus group and auditees interviewed during the peer review are all generally positive about the functioning and working of the Audit Offices. The appreciation for the Audit Offices work could be improved though if the institutions engage auditees in the programming cycle and the design of individual (mainly performance audit) audits and further by improving the findings and recommendations of its reports. Last but not least, the Audit Offices should carefully listen to the feedback of auditees on the results of their audits and communication during and after audits.

The Audit Offices do not fully recognise the critical observations of the auditees. SAIBiH is of the opinion that considerable attention is given to the formulation of audit recommendations in order to ensure they are correctly addressed, implementable and specific, to the extent allowed under the audit standards. It emphasises the fact that institutions never addressed the said issues in their feedback to draft reports, nor have they ever contacted SAIBiH, after the publication, to ask for clarification of recommendations in order to better understand them and implement them consistently. Therefore, SAIBiH is of the opinion that institutions are attributing poor implementation of recommendations to vagueness in the recommendations. The SAIFBiH stated that it holds meetings at the request of auditees (the AG/DAG managers and team lead may be present depending on who is requested) and that auditees were never turned down for a meeting.

It should be noted that the Audit Offices' own analysis show that the recommendations requiring action just by the particular auditee are generally being implemented, while those lying beyond the auditee's mandate are not. The practice of addressing recommendations to auditees out of the mandate of the particular auditee is done on purpose since the Audit Offices believe that the auditee will then be motivated to approach the relevant bodies and request corrective actions²⁵².

Having impact is crucial for Audit Offices, which implies the need for an open and accepted two-way communication of the Audit Offices with auditees on their products is of paramount importance. The above discrepancy in perceptions of how the Audit Offices are communicating with auditees gives reason for reconsidering the current communication policies.

²⁵¹ SAIBiH organised in 2016 a survey among auditees on if their financial audit was in line with ISSAI 40. There were positive and negative reactions. In 2019 SAIBiH organised again a survey among all institutions. SAIFBH conducted a survey of auditees for the first time for 2018 financial audits, results were shared with its staff in detail.

²⁵² See also 4th paragraph of 6.2 –page 69

7.6. Relations with Citizens, Media and CSO

A SAI should be perceived as a credible source of independent and objective insight and guidance to support beneficial change in the public sector²⁵³. Distributing audit reports widely can promote the credibility of the audit function²⁵⁴. SAIs should communicate openly with the media as a main channel of communication or other interested parties on their operations and audit results, and be visible in the public arena. SAIs should encourage public and academic interest in their most important conclusions. Their reports should be available and understandable to the wider public through various means (e.g. summaries, graphics, video presentations, press releases)²⁵⁵. In order to know if their work is effective and contributes to improvements in the public sector SAIs should periodically consult stakeholders such as media, CSOs and citizens.²⁵⁶

Communication with citizens, media and CSOs: SAIs perspective

The communication with the media, CSO's and citizens is organised and maintained by the small units on Communication and Public relations in the Audit Offices. Written procedures for handling media requests are part of the 2006 Communication Plan that was adopted by the CB, but they need to be updated. In practice, media requests are addressed and responded to within 24 hours. In particular, each year in May when audit reports are published and in June when the consolidated reports are published, the Audit Offices receive many requests for information from the media. The Audit Offices announce their reports through press releases, but they do not generally organise press conferences.

The web site is the main source for communication for all Audit Offices. Audit reports are, in their entire form and without delay, available to the public through the websites of the Offices. The Audit Offices also report on their own activities and their roles and responsibilities on their websites. Whenever possible the Audit Offices actively participate in events to raise awareness such as roundtables organised by external parties. SAIFBiH published a video on the role of the SAI on its website. The Audit Offices are not active on social media, although SAIBiH launched a twitter account in 2019.

SAIRS has established cooperation with the academic community that enables the SAI to promote their audits (especially performance audit) at the various study programs and different levels of studies.

The Audit Offices monitor systematically the coverage of their reports in the media. For example the unit for Communication and Internal Relations of SAIBiH publishes daily press clippings (printed and electronic media) about the Audit Office's work or that may be relevant for their work on the intranet page. The annual report contains statistical information on media coverage, i.e. the number of relevant articles posted on the intranet and number of them directly referring to the Audit Office's work.

Recognising the need to improve communication with relevant actors in terms of developing mechanisms for two-way communication, the SAIBiH, with external support, started in 2018 a project for the development of a communication strategy. As a result of this project SAIBiH already improved the presentation of their results in the audit reports and annual activity report. As a follow-up activity of the project the SAIBiH organised in late 2018 a consultative meeting with CSOs to familiarise them with how they prepare the annual performance audit plan, as well as providing them with the possibility of providing input to that plan²⁵⁷.

²⁵³ ISSAI - 12 - 7

²⁵⁴ ISSAI - 300-41

²⁵⁵ ISSAI 20 - 8

²⁵⁶ ISSAI 20 - 7

²⁵⁷ SAIBiH, 2019 annual plan,

Communication with citizens, media and CSOs: their perspective

As part of the 2018 project with SAIBiH a survey was conducted among media and CSOs in order to obtain more profound views of these stakeholders about the role and work of the SAs. Focus group meetings were also held with media and CSO representatives. The questions were broadly the same as presented to the auditees (see section 7.5).

The responses to the CSO survey were reasonable (6 out of 9) but the response to the media survey was limited (2 out of 10).

The answers of the media and the CSOs were in general very positive. Like the results of the auditee survey showed, they are aware that the main role of the SAIBiH is to hold the Government accountable. The work and the reports of the SAIBiH are regarded as very useful. The presentation of the results of SAIBiH work is reasonably presented, and the website is a very good source for information for them. The media and the CSOs regard the SAIBiH as the most important and reliable source of information on the functioning of the executive.

However, the media and CSOs did have critical remarks too. CSOs would like the SAIBiH to promote its role and work better. CSOs feared that the credibility of the SAIBiH would vanish due to not achieving any changes in improving public administration (recommendations are not followed up). They also had mixed feelings about the relevance of the SAIBiH's work for the citizens. The CSOs would like to be engaged in the SAIBiH work for example by mutual exchange of information, providing input to the audit programming and being consulted about SAIBiH audits. Assisting the Audit Office in audit work was however not favoured. The presentation of reports could be improved by simplifying text and use less technical language. Visual solutions in presentation of findings, more charts, graphs, tables and infographs could also improve the user-friendliness of the reports. The CSOs were divided about the relevance of the SAIBiH's work but they concluded that citizens should be educated in Audit Office matters (the public is poorly informed), the chosen topics (for performance audits) should be understandable for citizens and the Audit Office should focus on systemic key issues of the citizens.

There was no general consensus among CSOs on the communication between them and SAIBiH as it depended on their individual experience with the SAIBiH. The CSOs would like to be engaged in the SAIBiH work by mutual exchange of information, providing input to the audit programming and being consulted about SAIBiH audits.

The media were less outspoken about the SAIBiH. As the main provider of news they would like to have timely information on a very detailed level. Further, if they have questions they would like to have direct contact with auditors. The media were very positive about the SAIBiH reports: the information is easy to find, presentation of content etc. is excellent and reasonable and the SAIBiH website is excellent and reasonable. SAIBiH could make use of modern techniques such as infographics. But the general tenor of the answers was: no need for dramatic changes.

The CSOs and media also made some recommendations. The **CSOs** recommended for example:

- be open for cooperation with CSOs and build partnership in order to understand relations with society;
- intensify cooperation in the form of consultative meetings and round tables;
- promote publicly SAIBiH activities including the clarification of the role and scope of audit. Generally the public is not aware that a SAIBiH report has been published;
- improve quality of publications and public presentation of audit reports;

The media suggested to

- educate journalists on its role and function;
- be open for the submission of media inquiries;
- publish more timely information on its activities (planning of work, PA's Seminars etc.).

During the Peer review we also met with a number of representatives of the CSOs and media. Their experiences with all the Audit Offices corresponded to the results presented above from the SAIBiH survey of CSOs and media. The media encouraged the Audit Offices to expand their SoE audits, since companies do not release much information about themselves and audit reports are the only source of information.

In summary, the Audit Offices have been more passive than active in their communication with citizens, media and CSOs. On the one hand this could be caused by the limited capacity available for communication and public relations, on the other hand it could be a conservative approach towards communication with stakeholders. The Communication and Public Relations units do what they can to keep the citizens, media and CSOs informed about the work of their Offices but mainly on an ad hoc basis. A clear communication policy is lacking and does not only affect the work of those units but also affects the impact the work of the Audit Offices have in society. The results of the survey's, focus groups and interviews indicate that CSOs and media like auditees appreciate very much the work of the Audit Offices and regard the Audit Offices as the most reliable source of information on the functioning of Government operations. That is an asset that the Offices should cherish but should also be a call to action that they should continue with improving their communication with their main stakeholders. The introduction of a two-way communication by means of listening to key stakeholders, involving them in Audit Office work and being more visible in the society, as far as that does not interfere with their independence, will bring the Audit Offices work closer to one of their main stakeholders and improve the impact of their work.

7.7. Conclusion

The communication function of the Audit Offices are underdeveloped and communication strategies do not exist. The relations of the Audit offices with their Parliamentary counterpart are different for each Office but ultimately the relationship is not good enough for any of the Audit Offices. However, auditees, CSOs and media are all positive about the functioning and working of the Audit Offices. The communication with auditees, CSOs, and media can be improved if the institutions engages these stakeholders in the programming cycle and open up and built relationships with them. A two-way communication will create a win-win situation for all involved parties.

7.8. Recommendations

With respect to communication with stakeholders the peer review recommends that as a first step the Audit Offices should develop a communication strategy with a focus on improving the relation with Parliament and the establishment of a two-way communication with auditees, CSO's and media.

The communication strategy should at least cover:

- the need for and the extent of formalising the cooperation and communication with Parliament, auditees, law-enforcement bodies and CSOs;
- the advantages and disadvantages of establishing two-way communication with each of the other main stakeholders: auditees, CSO, media and citizens;
- raising awareness on Audit Offices role and work among citizens;
- the need for policy on the use of the media as communication tool;
- the need for introduction of new products;
- the need for diversification of communication channels
- the mechanisms for obtaining feedback from different stakeholders
- the role and position of the communication function within the Audit Offices
- the development of reporting to increase impact.

8. Way forward

The Audit Offices in Bosnia and Herzegovina are relatively mature public institutions. The quality of external audit in the country is quite high. The management of the Audit Offices are also committed to securing further institutional and professional development, which is demonstrated by the request for this peer review and their development following the previous peer reviews in 2005 and 2012.

The strategic development framework and the individual SDPs of the Audit Offices, which are due to expire at the end of 2020, broadly set as objectives the consolidation of achievements made in the areas of institutional strengthening, professional development of staff, and securing further audit impact. In all of these areas, the Audit Offices continue to face resource constraints, which impede further development. However, thus far, not all of the existing opportunities to use resources more efficiently and effectively by means of greater co-operation through the CB and its working groups or improving the efficiency and effectiveness of the audit process have been seized. The new SDPs for the period from 2021 should exploit the opportunities that exist in this respect and provide suitable strategies for sustaining the progress that has already been achieved. The SDPs should be supported by implementation matrices or actions plans, and annual operational plans, which define the specific and detailed activities required, along with systems for monitoring and reporting on progress.

Since its establishment, the CB has adopted key audit methodologies and strategies for the development of the Audit Office but this has been more challenging recently. This needs to be addressed to ensure the continued development of all the Audit Offices. Co-operation between the Audit Offices under the umbrella of the CB is important to the development of the Audit Offices in each area: professional development and training, audit quality control, communication with stakeholders, strengthening the image and position of external audit, and the efficient use of resources. With the forthcoming technical assistance project to support the Audit Offices in developing a computerised audit documentation and management system effective cooperation and collaboration will be extremely important in order to develop a system that is fit for purpose for all the Offices. This will also require the Audit Offices to ensure they all have clearly documented processes and procedures to support the well-developed audit methodologies and guidelines.

There are challenges in ensuring external stakeholders have an adequate understanding of the role of the independent external audit in the public sector, and make effective use of the Audit Offices' reports. This fundamental issue needs to be focused on to ensure that the work of the Audit Offices has relevance and impact. There is room for developing and improving stakeholder engagement. This is undoubtedly challenging, as it is for all SAIs, but there is room for improving the content and communication of the reports of the Audit Offices to ensure the message is better understood and has increased impact. There is also room for further developing the relationships with the respective Ministries of Finance and other government actors, to promote and stimulate sound financial management and control.

Support functions such as human resource management and professional development are indispensable for facilitating the management and functioning of the Audit Offices. As a result of limited resources, the development of human resource management has been challenging, and there is room to develop and improve their human resources management functions, including human resource planning and policies, and professional development and training.

Therefore, in terms of strategic directions for the coming years, the peers recommend to invest in strategic thinking, programming and planning, including drafting strategies, to look for options for saving resources, increasing efficiency and impact, developing human resource management and in better communication and engagement. It is clear for the peers that with limited resources the Audit Offices face challenges, and it will not be an easy task to implement the recommendations made in the report.

The Audit Office will receive support through the previously mentioned technical support project to develop a computerised audit document and management system. However, taking into account the broader issues covered in this report, the Audit Offices should reflect on the potential options for external support they would benefit from and which they would have sufficient capacity to absorb. The CB and Audit Offices should explore the alternative sources of advice and support that are possible to help consolidate and maintain the considerable advances already achieved. Furthermore, external support will help to ensure that the priorities identified in the peer review report are set in train at the earliest opportunity and, thereby, bringing the benefits of a modern, effective, public sector external audit service to the governments and peoples of BiH.

Annex 1 – List of interviewees

Institutions of BiH

SAIBiH

Mr. Dragan Vrankić, AG
Mr. Ranko Krsman, DAG
Mr. Jasmin Pilica, DAG
Ms. Ivona Krištić, Head of the Office of the AG
Ms. Jasmina Galijašević, Head of International Cooperation Unit

Methodology Department

Mr. Dragoljub Kovincic, Head of Dept.
Ms. Nataša Timotija, Senior Auditor
Mr. Nermin Hamzagic, Senior Auditor

MoD Audit Team

Ms. Munevera Baftic, Head of Financial Audit Dept.
Ms. Nataša Avdalovic, Senior Auditor
Mr. Srđan Krajisnik, Financial Auditor
Ms. Seida Kapo, Financial Auditor
Mr. Sadmir Teskeredezic, Auditor for Legal Affairs
Mr. Slaviša Vukovic, Head of IT Audit Unit

Statistics Agency Team

Ms. Snjezana Bastinac, Senior Financial Auditor, Team Leader,
Ms. Fatima Mehanovic, Financial Auditor
Mr. Adnan Muharemagic, Financial Auditor

Legal Affairs

Ms. Anka Seslija, Head of Legal Department

Performance Audit

Mr. Radivoje Jeremic, Head of Methodology, Quality Control and Planning of Performance Audit
Mr. Eldin Subasa, Performance Auditor
Mr. Hrvoje Tvrtkovic, Head of Performance Audit

Central Harmonisation Unit

Mr. Ranko Sakota, CHU *

Ministry of Finance and Treasury

Mr. S. Maric, Head of Office of the Minister*
Mr. D.Saric, Expert Advisor to the Minister*

Parliament

Ms Muhameda Humačkić*

Ministry of Defence

Mr Muhamed Smajić*

Civil Service Agency*

Ms Amra Suljić
Mr Milinko Kovača*

PARCO

Mr Kenan Avdagić*

Prosecutors Office

Ms Ivana Skakavac*

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Ms Voljenka Bašić*

Ministry of Justice

Ms Mubera Nefić*

General Secretariat of the Council of Ministers

Mr Nemanja Gojković*

Mr Alvid Hubijar*

Presidency

Ms Aida Pašalić*

Ms Zorica Jovanović*

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Ms Ervina Samardžić*

* Interviewed as part of the Communication Project with SAIBiH

Federation of BiH**SAIFBiH**

Mr. Dževad Nekić, AG

Mr. Dragan Kolobarić DAG

Ms. Mia Buljubasic, Senior Auditor for International Cooperation and Communications

Legal Affairs

Ms. Selima Agić, Head of legal, HR and general facilities department

Methodology Dept

Mr. Munib Ovčina, Head of Sector for development, methodology and quality management

Financial Audit

Mr. Sead Čorbo Head of Sector for financial audit of cantons, cities, and municipalities

Ms. Mirsada Janjoš Head of Sector for financial audit of institutions of the Federation BH

Mr. Danko Buhač, Senior auditor

Mr. Mirko Mišić, Senior auditor

Performance Audit

Ms. Aida Đozić, Coordinator for Performance Audit

Ms. Dubravka Barbarić, performance auditor

Ms. Irena Vuković, assistant PA

Canton Sarajevo

Mr. Sanel Gazija, deputy minister of treasury

Mrs. Kadira Halilović, Head of internal audit

Federation Ministry of Finance

Ms. Fatima Obhodžić, Deputy minister – Central harmonisation unit

Federation Ministry of Health and Social Policy

Mr. Benjamin Mešak- Internal auditor

Ms. Džana Kilić –head of finance

Republia Sprske

SAIRS

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Ms. Božana Trninić, Deputy Auditor General
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Ms. Renata Čajić Kužet, Head of Department for methodology, development and quality control
Mr. Vedran Stanetić, Senior Auditor, Ministry of Health and Social Welfare Audit Team Leader
Mr. Goran Četojević, Assistant Auditor, Ministry of Health and Social Welfare Audit Team
Ms. Milena Šikman, Auditor, Ministry of Health and Social Welfare Audit Team
Mr. Vladimir Grahovac, Junior Auditor, Rural Payments Agency Audit Team
Mr. Nenad Dmitrović, Senior Auditor, Rural Payments Agency Audit Team (team leader)
Mr. Milovan Bojić, Head of Sector, Performance Audit
Mr. Bojan Dragišić, Team leader Performance Audit
Mr. Momir Crnjak, Auditor, Performance Audit

Ministry of Finance

Ms. Zora Vidović Minister of Finance
Ms. Jelena Ljuboja
Ms Sonia Toprek

Ministry of Health and Social Welfare

Mr. Alen Šeranić, Minister of Health and Social Welfare
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Ms. Maja Gajanović, Head of finance and Accounting

Rural Payment Agency

Mr. Savo Minić, Director
Ms. Aleksandra Tomišić, Head of Finance and Accounting
Ms. Spomenka Vujasinović, Internal Auditor
Mr. Ljubinko Kecman, Deputy Director

RS Parliament – Audit Board

Mr. Igor Sekulić, Secretary of Committee
Mr. Tomica Stojanović, Chairman
Ms. Željka Stojičić (Chair of the Budget and Finance Committee)
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Mr. Mato Lucic, Director

Brcko District Parliament Committee for Monitoring the Government

Mr. Adnan Drapić, Chairman
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Other**Media**

Mr Emir Skenderagić, Reporter from Al Jazeera

Mr Ervin Mušinović, Reporter from www.Klix.ba

Ms. Vedrana Kulaga, Reporter, Glas Srpske

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Transparency international

Ms. Ivana Korajlic, the Executive Director

Swedish National Audit Office

Hazim Sabonovic, Liaison Officer for the Western Balkans

Annex 2 - Analysis of Staff of SAls – January 2012 And Mid 2019

Audit Office	Staff Numbers 2012	Staff Numbers 2019	Academic Qualifications	No. 2012	No 2019	Area of Responsibility	No. 2012	No. 2019
SAI BiH	46	63	University Degrees:			Top Management	3	3
			- Economics	33	42	Support to top management	2	6
			- IT	2	2	Financial Auditors	21	25
			- Law	1	5	Performance Auditors	6	9
			- Misc	2	5	Quality Control	3	8
			- Total	38	54	IT Auditors/Technical	3	2
			High School Dipls.	8	9	Legal etc. Services	8	10
			Other	-	-			
			Grand total	46	63	Total (By Area)	46	63
SAI FED	61	66	University Degrees:			Top Management	2	2
			- Economics	43	51	Support to top management	1	2
			- IT	-	-	Financial Auditors	37	38
			- Law	5	3	Performance Auditors	7	8
			- Misc	2	6	Quality Control	-	5
			- Total	52	60	IT Auditors/Technical	2	3
			High School Dipls.	7	5	Legal etc. Services	12	8
			Other	2	1			
			Grand total	61	66	Total (By Area)	61	66

Audit Office	Staff Numbers 2012	Staff Numbers 2019	Academic Qualifications	No. 2012	No 2019	Area of Responsibility	No. 2012	No. 2019
SAI RS	61	66	University Degrees: - Economics - IT - Law - Misc - Total High School Dipls. Other Grand total	45 1 1 4 51 4 2 57	53 2 1 2 58 7 - 65	Top Management Support to top management Financial Auditors Performance Auditors Quality Control IT Auditors/ Technical Legal etc. Services Total (By Area)	2 1 33 11 - 2 8 57	2 - 38 11 3 2 9 65
SAI BD	13	66	University Degrees: - Economics - IT - Law - Misc - Total High School Dipls. Other Grand total	7 1 1 - 9 - 4 13	- - - - - - -	Top Management Support to top management Financial Auditors Performance Auditors Quality Control IT Auditors/ Technical Legal etc. Services Total (By Area)	3 - 7 1 - - 2 13	

Sources: Information provided by respective SAI

Annex 3 - Detailed Analysis of the Answers on the Auditee Survey' s

1. Awareness of role and position of Audit Offices

Most of the auditees (>75 %) are aware of role and mandate of the Audit Offices but 32 %²⁵⁸ of SAIBiH, 16% of SAIFBiH and 25% of SAIRS respondents regard assisting law enforcement bodies as the main task of the SAIBiH.

In summary, the auditees seems to generally have a good understanding of the role and mandate of the SAIBiH.

2. Usefulness of Audit Office work and reports

Usefulness, relevance of work and chosen topics and quality of reports, all score well to excellent (7/8 out of 10). For SAIFBiH 50% rated the quality 5/6²⁵⁹. The respondents on the survey of SAIBiH had a few critical comments (three institutions), which relate to not taken into account comments of the auditee in the final report; the need for more specific, feasible proposals to support improvement, and too much attention on minor issues instead of important and key matters.

In summary, the work and reports of the Audit Offices are regarded as very important for the auditees but comments received should be seriously considered.

3. Quality of presentation of work in reports

The respondents on all surveys regard the presentation of the content, style, visuals, etc. of Audit Office reports more than reasonable (95%). The comments of the respondents on the SAIBiH survey are also positive such as “ the report includes relevant information, e.g. information on identified shortcomings or flaws, as well as clear recommendations that institution should adhere to in order to remove or mitigate the said shortcomings” or “The reports present findings in a smooth, clear and fluid manner” Two critical comments concern the inconsistency in opinions (“Different institutions receive different auditor’s opinions on the same matter”) and lack of conciseness of reports (“.. they could be less abstract and more specific”). The Focus group had different views: some people were very pleased with SAIBiH reports, which were of an appropriate length and concise and understandable language but it depends on the audit team. Others were of the opinion that sometimes recommendations do not match with findings, are not realistic, too general or cannot be implemented by the institution (are not within their mandate).

In summary, the quality of the presentation of the work in reports is regarded as good but the comments received should be seriously considered

4. Relevance of Audit Office work

The auditees consider the Financial Audit reports as important (51% of SAIBiH respondents, 62% of SAIFBiH respondents and 73% of the SAIRS respondents) but the annual report on findings and recommendations scores even higher (68%)²⁶⁰, which is motivated by “ in order to address the obstacles and introduce improvements in our operations, we think that emphasis should also be placed on the main findings and recommendations provided by the SAIBiH” and “ Information comprised in the Annual

²⁵⁸ It appeared that some auditees of the SAI BiH survey have chosen for two options instead of one.

²⁵⁹ The limited number of respondents impact the score of the questions.

²⁶⁰ It appeared that some auditees have chosen for two options instead of one

Audit Report on Main Findings and Recommendations are important and useful to improve public finance management, and make it more transparent and cost-effective". The survey found that respondents did not regard PA reports as interesting (only 3 respondents of SAIBiH respondents and none of the SAIFBiH and SAIRS respondents). However, the participants of SIGMA's meetings with SAIBiH auditees and the interviews with auditees during the peer review valued PAs highly but also concluded that the impact of the PAs is still low.

The auditees of all Audit Offices are of the opinion that they contribute more positively to traditional aspects of governmental operations such as "increased compliance with laws etc." and better financial management" followed by "improved financial reporting" for respondents of SAIBiH and SA RS and "reduced fraud and corruption" for SAIFBiH. The Audit Offices contribute less to the more challenging aspects of governmental operations such as "increased focus on citizens, better use of IT, supporting innovation and increased focus on outcome".

In summary, the answers on the questions on the relevance of the Audit Office work are very interesting and give food for thoughts on programming, developing and promoting the activities of the Audit Offices.

5. Quality of communication and website

The communication of auditees with the SAIBiH is in general very good (100% indicate it is reasonable to excellent). The comments of SAIBiH respondents are positive: "Communication with SAIBiH is open and timely, and audit teams are always available for any information institution may need" and "Efficient and appropriate communication and good professional relations". However, there are also critical remarks. Good communication depends sometimes on the audit team: "Communication could be better, depending on an audit team" and "Depending on the audit team, communication can be very good" (SAIBiH and SAIRS). Other critical remarks are: "All audit teams do not share identical approach to the institution and its problems in work; therefore it is necessary to review all aspects of business/work processes, both internal and external" and "When performing an audit in a specific institution, it would be desirable to reduce the amount of document copying (SAIBiH and SAIRS). A respondent of SAIFBiH identified that the opinion given (positive, negative or reserved) in the reports prepared by the Audit Office in some instances were not objective, and did not reflect the content of the Report.

SIGMA's meetings with SAIBiH auditees and interviews during the peer review confirmed the good relationship of the SAIBiH with the auditees.

The websites of the SAIs are regarded very well ("Web page has a good layout and is user-friendly").

In summary, the communication of the Audit Offices with the auditees and their website are perceived as very good, although there are some critical remarks about the communication of audit teams with auditees.

6. Quality of programming, audits and reporting

The auditees of all Audit Offices agree that they have good working relationships with audit staff, who is regarded competent and professional. One respondent recommended the SAIBiH to include several professions in an audit team, not only economists but also include law and governance-related professions.

In general, the audit staff inform the auditees on progress, although 33% of the respondents of SAIFBiH were not satisfied²⁶¹. The reports are clear and relevant with focus on important issues and sound recommendations, and are of an appropriate length. However, in the SAI BiH survey doubts were expressed on the aspect of relevance ("too much attention is given to the less relevant things") and length of the reports ("the reports are too extensive"). The SAIBiH contradictory procedures are

²⁶¹ Again, the limited number of respondents impact the score of the questions

appreciated. Some participants of SIGMA's meetings with SAIBiH auditees were also critical on the relevance of all reported findings ("too detailed").

Auditees are less satisfied with their involvement in the programming of audits with only 43% of SAIBiH respondents, 50% of SAIFBiH and SAIRS respondents indicating satisfaction with opportunity to discuss or comment on the aims, methodology, timing and communication of the audit at kick-off meetings. Further, they did not agree that the planning and execution of the audit causes minimal unnecessary disturbance to their institution. They were also not convinced that their comments are fairly considered and incorporated in the final reports. ("We do not have a feedback whether the comments are considered in a fair and objective manner and whether they are incorporated or not. The only information we received was that our comments, although justified, were not accepted. The manner of consideration was never mentioned nor whether it was in place at all"- SAIBiH). Participants of SIGMA's meetings with SAIBiH auditees and the interviewed auditees confirmed that the Audit Offices are not involving them in the programming of (mainly PA) audits and informing them why their comments on findings and recommendations are not taken into account. Letters explaining reasons are sometimes received but there is no explanation on auditee's comments, which are not taken into account.

However, another comment in the survey of SAIBiH was more balanced on how office usually works: "We think that our comments to draft reports are taken into consideration, but it is not a guarantee that they will be incorporated into the final reports".

In summary, auditees regard the quality of programming and executing audits, and reporting on audits more than satisfactory. However, the involvement of auditees in programming of audits in general and of individual audits in particular is not well appreciated. The contradictory procedure is appreciated but some auditees and participants of the auditee meeting expressed their doubts about whether their comments are fairly considered and incorporated in the final reports. These aspects of communication needs special attention by the management of the Audit Offices.

7. Feedback on the work of the Audit Offices

The respondents to the surveys of all Audit Offices and the participants of SIGMA meetings with SAIBiH auditees were fairly unanimous in their opinion on the question about whether the Audit Offices seek feedback from their institution on the quality of its work, staff and systems. Around 80% answered NO. Although as indicated earlier, it should be noted that in 2017 SAIBiH organised a survey among their auditees and is at the end of 2019 was in the process of conducting another one.

In summary, the feedback mechanism does not work yet and need the specific attention of the Audit Offices management

8. Overall opinion of auditees (question 18)

Some of the respondents expressed their opinion. Most of them were positive about the co-operation with and professionalism of the Audit Offices management and staff. However, there were also some negative views and suggestions for improvement, concerning

- Conciseness of the findings and recommendations
- The relevance of the audit topics.
- The disclosure of institutions included in audits.
- The involvement in Audit Office programming.
- Timing of audits.

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SIGMA (Support for Improvement in Governance and Management) is a joint initiative of the OECD and the European Union (EU), principally financed by the EU. SIGMA has been working with partner countries on strengthening public governance systems and public administration capacities since 1992.

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