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# **Peer Review Report of the Supreme Audit Institutions of Bosnia and Herzegovina**

**November 2012**

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## 1. INTRODUCTION

### 1.1 Purpose and scope

SIGMA conducted the first Peer Assisted Review for the three existing State Audit Institutions (SAIs) in BiH in 2005. Known as “Audit Offices”, they were: the Office for Auditing of the Financial Operations of the Institutions of Bosnia Herzegovina (SAI BiH)<sup>1</sup>, the Office of Budget Audit of the Federation of Bosnia and Herzegovina (SAI Fed)<sup>2</sup>, and the Supreme Office of the Republic of Srpska Public Sector Auditing (SAI RS)<sup>3</sup>. This exercise was highly appreciated by the SAIs and the Co-ordination Board (CB) of the SAIs in BiH, and helped strengthen the professional capacity of the three SAIs. The recommendations of the peer review report, issued in 2006, were taken into account for the joint Strategic Development Plan of the Audit Offices of Bosnia-Herzegovina for the period 2007-2012.

In September 2011, the Chairman of the Co-ordination Board of the Audit Offices of Bosnia and Herzegovina officially invited SIGMA to conduct a new Peer Assisted Review of the Audit Offices in BiH<sup>4</sup>. This time, the Co-ordination Board requested the peer review to also cover the Audit Office of Brcko District. The Co-ordination Board thought it necessary that all auditing institutions within BiH engage in such a review process as a way to improve operating quality, thereby enhancing their significance and functioning.

As more than five years have elapsed since the first Peer Assisted Review exercise, and as the current joint Strategic Development Plan of the SAIs is ending in 2012, as also is the mandate of the Auditor Generals and the Deputy Auditor Generals of SAI RS and SAI Fed (completing at the end of 2012), 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 Institutions 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 constitute an important contribution to the strengthening of the financial control system and public accountability in Bosnia-Herzegovina. In particular, the recommendations of the peer review are intended to help define the next steps for further strategic development.

A peer team was established, consisting of:

**Mr. Jan Pieter Lingen**, former Head of Cabinet to the Dutch Member of the European Court of Auditors;

**Mr. Philip Duncombe**, former Audit Director, National Audit Office, United Kingdom;

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

<sup>2</sup> Ured za reviziju budžeta/proračuna u Federaciji Bosne i Hercegovine

<sup>3</sup> Главна служба за ревизију јавног сектора Републике Српске

<sup>4</sup> Letter, Mr. Sego of 2 September 2011

**Mr. Joop Vrolijk**, former Deputy Director, Dutch Court of Audit (Algemene Rekenkamer), SIGMA Senior Advisor and OECD Principal Administrator.

For SIGMA, **Mrs. Bianca Brétéché**, former Senior Auditor, Court of Accounts of the State of Brandenburg (Landesrechnungshof Brandenburg), Germany, SIGMA Senior Advisor and OECD Principal Administrator, was responsible for the project.

The project assistant was **Mrs. Susanne Kleve-Guerinet** of the SIGMA Secretariat.

The review was designed on the basis of the peer review, 2005 and the request from the Audit Offices. It covered:

- **The legal framework**, and its practical application with special attention to the independence of the Audit Offices;
- **The Co-Ordination Board and the management of the Supreme Audit Institutions (SAIs)** (excluding human resource management); the development of professional skills and IT equipment;
- **The audit processes**, both for the financial and performance audits, focussed on practice, rather than on methodology;
- **The external communication**, including reporting, follow-up and the relations with Parliaments and other stakeholders.

The Peers have worked according to the methods and criteria described below.

## 1.2 Background

The peer review in 2005 covered only the SAIs of BiH, RS and the Federation. These three SAIs were established in 2000 and began operating in the course of that year. The peer review report gave recommendations mainly with regard to:

- Reforming the legal framework, especially in order to strengthen the independence of the SAIs;
- Reviewing and adapting the audit standards, manuals and methodologies;
- Designing a strategic development plan;
- Strengthening the (financial) audit process, mainly through designing a more strategic approach, an improved audit process, (including quality assurance), and better reporting;
- Improving the management of the SAIs.

Much has happened since the 2005 peer review which has needed to be taken into account during this new Peer Assisted Review exercise. New laws adopted in 2005/2006 slightly changed the names of the three Audit Offices and were designed to rationalise the legal texts of the three institutions; and bring improvements to the procedural framework, following five years of operation. The laws also changed the terms of the management (now seven years, not renewable) by making it possible for the management in place at that time to apply (as a transitory arrangement) for re-appointment.

The Auditor Generals of SAI RS and SAI Fed were newly appointed at the end of 2005, thus assuring the continuity of operations of the still young Audit Offices. The appointment of the SAI BiH management was pending for more than two years and resolved only in 2008 with the appointment of the Auditor General in July 2008 together with one deputy; the second deputy was appointed in December 2008.

Since 2007, the Brčko District has had its own audit institution, the Office of Audit for Public Administration of the Brčko District of Bosnia and Herzegovina (SAI BD), covering all public bodies

in the district. SAI BD is managed by an Auditor General and two deputies. SAI BD is included in this peer review.

On the basis of the respective SAI laws, the SAI BiH, SAI Fed and SAI RS co-operate by means of the CB. The laws did not foresee the participation of the SAI BD on the CB, but the CB took the decision that SAI BD could participate in the CB meetings and activities. Amendments to the law in order to give this a legal status have been prepared, but not yet adopted. Over the years the CB has developed and adopted many documents dealing with many of the recommendations of the 2005 peer review.

In 2011, the CB prepared an analysis of the actions taken in respect of the recommendations made in the previous 2005 peer review, and presented this analysis for consideration to the Peers participating in the current review. The previous peer review provided thirty-one separate recommendations concerning the stage of development of the SAIs at that time. The analysis prepared by the CB demonstrates that it and the SAIs have, to a large extent, addressed many of the recommendations made by the Peers in 2005. However, this progress needs to be sustained. Sustaining the progress already made might be even more of a challenge in the future as the support the Audit Offices have received from the Swedish National Audit Office (SNAO) since 2000 comes to an end in 2012. This peer review will consider the CB analysis in the context of the findings made by the Peers in each area of the current review.

The complicated and complex governance system of BiH has not changed since the previous peer review and is still regulated by the Dayton Agreement. Especially, since the elections in 2010, however, the country has been subject to a deteriorating political situation and continuing fiscal difficulties. SAIs operate in an environment where respect for the rule of law and for existing institutions is limited or even absent, even amongst major actors such as parliament, the executive and the judiciary. These are matters of the democratic and legal cultures of BiH, and the SAIs need to operate within these cultures. They have, therefore, to be acknowledged when reviewing the performance and the development of the SAIs in the country.

### **1.3 Assessment criteria and methods used**

#### ***1.3.1 Standards and yardsticks applied***

The standards and yardsticks applied in the peer review are the Lima and Mexico Declaration of the International Organisation of Supreme Audit Institutions (INTOSAI) and the International Standards of Supreme Audit Institutions (ISSAIs). Special attention has been given to the Guidelines on peer reviews (ISSAI 5600).

The peer team has also used as an evaluation yardstick, what could be called “good” practices among the SAIs across Europe, based on the knowledge and experience of the members of the peer group. This may prove useful, as many important aspects of the management of an SAI are not specified in standards, and this type of input often helps generate the practical solutions to be offered to the SAI being reviewed.

#### ***1.3.2 Methodology***

The fieldwork was carried out during two weeks in November and December 2011. The time of the peers team was efficiently organised by the SAI BiH and the SAI Fed in Sarajevo in the first mission week. For the second week, we visited the SAI RS in Banja Luka and the SAI BD in Brčko. We also visited in that week the Tuzla regional office of SAI Fed and re-visited SAI BiH and SAI Fed in Sarajevo. In all the SAIs, and in all the Ministries and the other public organisations that we visited, we were able to meet with a large number of relevant speaking partners. 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.

Finally, discussions were held with the management of the Audit Offices and a selection of audit staff. Further discussions held with government officials, parliamentarians and the media helped the team to analyse the main areas of concern for the key actors in external audit in Bosnia and Herzegovina.

A peer review is rigorous in its approach but, 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 use a contradictory procedure to confirm the accuracy and understanding of the facts. This report will take into account the observations made during the process.

### **1.3.3 Limitations**

The report could not take into consideration the developments which took place after the field missions concluded. Considering the period of time available, as well as the complexity of addressing institutions like the Audit Offices of Bosnia and Herzegovina, only those aspects the Peers deemed to be significant or essential were 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 four Audit Offices.

As noted above, it is clear that some of the drawbacks in the current arrangements result partly or totally from the institutional framework adopted in the Dayton Agreement. This has created by nature an important limitation on the Peers' work and on the realism of the possible recommendations: such situations are not likely to be remedied by the reform of the Audit Offices on their own.

## **1.4 Acknowledgments**

We wish to express our warm thanks to the four Audit Institutions, their management and staff, the four Auditor Generals: Messrs Ibrahim Okanovic, Boško Čeko, Milenko Šego and Ms Dzevida Hodzić. We feel very indebted to those who took care of the organisation of the review within each Audit Institution, especially to Mrs. Ivona Kristic, who was our main contact person and overall co-ordinator, and Ms. Jasmina Galijasevic (both SAI BiH) who helped her with this task. We would also like to thank the management and staff in the Ministries at the State, Entities and BD levels and other institutions for their contributions. We are also grateful to the Swedish technical assistance project, namely to Mr. Tony Angleryd, and to Mr. Hazim Sabanovic. Our special thanks go also to our team of interpreters: Aida Spahic, Djermana Seta, Bjanka Osmanovic and Lejla Efendic who made it possible for the Peers to understand their interlocutors and the documents and audit reports issued by the SAIs and other institutions.

## **1.5 Reader's Guide**

The peer review report is organised in seven different chapters with several subchapters each. The described situation is assessed in each chapter and followed by recommendations from the peer team.

After this introduction, the report rather briefly – as this was not the main focus of the review - highlights some issues regarding the legal framework of the four SAIs. The following chapters reflect the main focus of this peer review:

- Chapter three deals with the CB and the management of the SAIs.
- Chapter four describes and assesses the audit practices for both financial and performance audits, as well as for audit quality assurance.
- The fifth chapter discusses support processes such as trainings in IT developments and IT audit.



- The relations and communications of the SAIs with their main external stakeholders are dealt with in the sixth chapter.
- The seventh and final chapter brings together the recommendations of the peer team and indicates the way forward for all four SAIs and the CB.

It is inherent within the nature of the situation and work of the SAIs, that some issues are discussed in more than one chapter as they need to be seen from different perspectives. Cross references to other parts of the report are therefore included in the text to cover such an aspect.

## **2. LEGAL FRAMEWORK**

### **2.1 (Missing) Constitutional Anchorage of External Audit**

As described already in the 2005 peer review report, the Lima Declaration of INTOSAI 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. With this in view, they must be invested with the necessary functional and organisational independence. The independence of SAIs is inseparably linked to the independence of its members. Members are defined as those persons who have to make the decisions for the SAI 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 SAI. The heads of the four Audit Offices of BiH are the Auditor Generals for their respective Audit Offices.

According to the Lima Declaration, it is the establishment of the SAIs and the necessary degree of their independence that shall be laid down in the Constitution; details may be set out in legislation. In particular, adequate legal protection by a supreme court against any interference with an SAI's independence and audit mandate shall be guaranteed. The independence of the members, shall also be guaranteed by the Constitution. In particular, the procedures for removal from office shall also be embodied in the Constitution, and may not impair the independence of the members.

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 upon its instructions. The relationship between the SAI and Parliament shall also be laid down in the Constitution according to the conditions and requirements of each country.

At present, neither the public external audit function nor the institutions in charge of it are yet to be found in any of the Constitutions of the four components in BiH.

In April 2009, however, the Audit Office of the Institutions of Bosnia and Herzegovina, sent a request to the Parliamentary Assembly of BiH – House of People - to incorporate provisions on the Audit Office into the Constitution. The request refers to the Resolution of the Presidents of the SAIs of Central and Eastern European Countries and the European Court of Auditors that was adopted in Prague in October 1999, with the purpose of achieving harmonisation with the international supreme audit standards, based on which the: 'Supreme Audit Institution must have a permanent, sound and applicable legal basis, set in the Constitution and law, and complemented with other regulations, rules and procedures.'

In February 2010, on the occasion of a review of the Constitution, the SAI BiH, addressed a reminder to the Parliamentary Assembly asking it to put the incorporation of provisions on the Audit Office of the Institutions of Bosnia and Herzegovina on the agenda for the following discussion on constitutional amendments. In February 2010, the Audit Office received feedback from the Parliamentary Assembly, according to which the Constitutional-Legal Committee of the House of Representatives considered this request of the SAI BiH. Following the discussion, the decision was made unanimously to acknowledge the request of the SAI BiH and to incorporate this request into other materials that the Constitutional-Legal Committee received in relation to the upcoming constitutional amendments.

However, as no agreement could be achieved about the amendments to the Constitution in general during the discussions and the following attempts to change the Constitution, the SAI BiH, in common with all the SAIs in BiH, still does not have a constitutional anchorage for its position.

### **Assessment**

The Peers hold the same opinion as was expressed in the 2005 peer review report. The fact that none of the Audit Offices in BiH are anchored in the Constitution represents a potential threat to the independence of the SAIs. This matter of principle is not significantly affected by the fact that the independence issue is addressed in the Audit Office Laws because legislation is more easily changed than the Constitution. As a consequence, the independence of the SAIs is not protected enough in their present legal position. Beyond the problem of (non-) compliance with the international standards, this situation does not do justice to the legitimate importance of the public external audit function within a constitutional State. It is, however, clear that the external audit issues alone would not justify amending the Constitutions of Bosnia-Herzegovina. However, the necessity for anchoring the Audit Offices in their respective Constitutions should be kept in mind in case such a process is initiated in the future.

### **Recommendations**

*The Peers recommend that:*

- *In case of a review of the constitutional set-up of Bosnia-Herzegovina it is recommended to incorporate the issue of public external audit within its scope. This should cover not only the establishment, as such, of the Audit Offices, but also some fundamental issues such as the function and tasks of the external audit, and the basic conditions of appointment and terms for the management of the SAIs; adhering to what is currently the case for a number of comparable countries notably within the region.*

## **2.2 Laws on SAIs**

External audit in Bosnia and Herzegovina was initially based on three distinct laws passed between 1998 and 2000: the Law on Audit of Financial Operations of Institutions of Bosnia and Herzegovina (BiH), the Law on Budget Audit of the Federation of Bosnia and Herzegovina (FBiH) and the Law on Public Sector Audit of Republika Srpska (RS). All three laws were drafted with World Bank assistance, and the drafts had identical provisions. However, some changes occurred during parliamentary deliberations, with the result that the adopted laws differed to a certain degree in terms of structure and content.

A new legal framework was created and adopted nearly at the same time for the three levels of government in 2005-2006. Three new laws now govern the activities of the SAIs of Bosnia and Herzegovina (adopted respectively on 6 October 2005 for RS as Law on Auditing of the Public Sector of Republic of Srpska, on 31 January 2006 for the State level as Law on Auditing Institutions of Bosnia and Herzegovina, and on 22 March 2006 for the Federation as Law on Auditing the Institutions of the Federation of Bosnia and Herzegovina).

The initial plan was that the new law would also have enabled the SAI BiH to become the external auditor of the Brčko District, which before had lacked a specific public external audit function. However, district authorities took the initiative of creating a specific body, called the Brčko SAI and modelled it on the SAI BiH structure and legal framework. It is based on the Law on Audit of Public Administration and Institutions in the Brčko District of Bosnia and Herzegovina, adopted on 18 September 2008.

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, at present, have to be covered by the respective laws that govern the establishment and work of the Audit Offices.

### **2.2.1 Functional and organisational independence**

Although State institutions cannot be absolutely independent because they are part of the State as a whole, SAIs should, in accordance with international standards, have the functional and organisational independence required to accomplish their tasks.

#### **Status of the Audit Offices and their officials**

The laws of BiH State, RS and Fed specifically mention the independent status of the Audit Offices. According to Art.4, 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 law..

The independence of the Auditor General (AG) is also treated similarly in all laws: Arts. 23-25 of the law on SAI BiH and SAI Fed, as well as Arts. 9-10 of SAI RS and Arts. 25-28 SAI BD, 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, the President of the Entity as well. Parliament appoints the Auditor General and Deputy Auditor Generals based on the proposal of the President, which is based on the ranking made by the parliamentary selection committee. For the SAI BiH and the SAI Fed, the requirements for these positions include a university degree in economics or law, and for the SAI RS and the SAI BD only graduates in economics qualify.

Auditor Generals and Deputies may only be dismissed by their respective Parliaments. For the SAIs of BiH, Fed and RS, the reasons for removal are the same: a written voluntary resignation, the inability to perform their duties for more than six months or a violation of the provisions in law stating that the AG and DAG must not be subject to criminal proceedings or a sentence to imprisonment for criminal acts (Art 25 (1) SAI BiH and SAI FBiH, Art 10 (4) SAI RS. The law on SAI BD, however, provides for the possibility of the removal of the AG or DAG additionally if the quality of the audits does not meet auditing standards (Art. 27 (1) b) BD law).

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 auditing standards (additionally IFAC and RS standards for RS).

#### **Assessment**

To the extent that this is possible for simple laws to uphold, the SAI laws provide the Audit Offices with a satisfactory independent status.

Apart from BD, the AGs and DAGs have a satisfactorily protected independent status. Removal from office of AGs and DAGs by a parliamentary decision that is only possible on the basis of the conditions set forth by law, serves as a certain – though not absolute – guarantee against arbitrary decisions. In the case of BD, however, the possibility of removal from office due to failing to meet audit standards is problematic. In particular, the Parliament of BD has requested, so far, two reviews of SAI BD using local private sector capacity. The results of such reviews, may only be recognised as a reliable evaluation of whether the Office adheres to standards and contributes to improving the quality of the SAI, if the contracted firm is sufficiently knowledgeable in the area of public sector auditing. This kind of evaluation should not lead to the removal of the AG or DAG of SAI BD. (See also under “quality review”)

#### **Recommendations**

*The Peers recommend that:*

- *The provision in the law for SAI BD which states that it is possible to remove the AG or DAG from office if it is deemed that the audit quality fails to meet audit standards should be removed.*

## **Internal Organisation**

The division of labour between the AGs and their deputies had been a matter of concern in the 2005 peer review. It is now clarified in the laws that it is the AG who manages the Audit Office and is responsible for the duties and powers established by the law (Art. 6 for SAI RS). The deputies assist the AG and are required to take instructions from him.

The laws give the AGs the power to define the internal organisation, systematisation (complement) of staff posts and all internal regulations without the interference or approval of the government (Art. 7 RS law, Art. 22 BiH and Fed BiH law and Art. 24 BD law). For decisions about the internal organisation, the AG consults with the deputy (or deputies in the case of SAI BiH). Art. 22 (3) for SAI BiH and SAI Fed states that when determining the organisation of the Audit Offices, the AG shall define 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.

In this regard SAI BiH is in a unique situation. The law foresees that the two DAGs and the AG are appointed from among the different constituent peoples 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 are assisting him. The AG, after consultation with his deputies, decides on annual audit planning (Art. 12, (2) SAI BiH law) and all internal regulations, rules and procedures necessary for the functioning of the Audit Office (Art. 22 (2)). Previously, the internal responsibility for financial audit was divided between the two DAGs with audit reports signed by the AG and one of the DAGs. From discussions, the Peers understood that the plan is now to have all audit reports signed by all three members of management. This procedure would demonstrate that an audit opinion is indeed supported by the entire management team which represents all the constituent peoples of BiH.

## **Assessment**

The division of responsibilities outlined in the four laws seems sufficiently clear with regard to the roles of the AG and the DAGs. All laws follow a clear AG model, which is characterised by a monocratic organisational structure and reporting line, with the AG being the manager and final decision maker of the SAI. There have been discussions within BiH, which also draw upon the related recommendations of the 2005 peer review, – questioning whether in order to keep a balance between the three constituent peoples of BiH, it might be more appropriate to put the AG and the DAGs on a more equal footing within the SAI BiH. This could be accomplished by instituting a more collegiate type of management or a rotating chairmanship, as already exists in other institutions of BiH. However, the peer team is of the opinion that the practice of SAI BiH over the past ten years has shown that the Auditor General model, as it is defined by the laws of SAI BiH, is indeed appropriate for the country. The clear leadership role of the AG seems to be suitable for maintaining a professional approach and for assuring timely decision making and reporting, as well as the general management and the representation of all SAIs in BiH. Therefore, the Peers do not see reasons for changes in the law itself. It should be up to the AG to define, in more detail, the functions, obligations and authorisations of the DAGs as the laws prescribe. Internally, however, these functions, obligations and authorisations need to be described very clearly, especially when it comes to the responsibilities of the DAGs with regard to the audit work of the SAI. The DAGs must have clear assignments for audit work that are transparent for all auditors as well, in order that everyone involved in an audit task knows precisely who from the DAGs will be involved. This can be done in the schedule of responsibilities for financial audits and in the annual audit plan for performance audits.

A clear decision should also exist for the reporting line and the signatures required for each audit report. This needs to be decided in advance, either in the rules of procedures or in the annual audit plan. When it comes to the representation function, especially the presentation of audit reports in Parliament, it may be decided internally to delegate this function to one of the DAGs. The decision that all audit reports require the signatures of the entire management, meaning the AG and the DAGs, would certainly give an indication to the auditees and to Parliament that the audit opinion or the

conclusion of a performance report is supported by all three representatives of the constituent peoples of BiH. However, in that event, methods must be found to ensure that none of the three are able to block a decision on an audit report. It should be taken into consideration, that even in the SAI models that follow a collegiate organisation, audit reports usually only require the signature of two of the members. Typically, more signatures are required for the annual report only.

Another option would be to keep the previous arrangement where audit reports needed the signature of only one DAG and the AG, and at the same time require that the second DAG is responsible for an ex-post quality review of a given audit and report. This plan would ensure the participation of the DAG, who had not been involved thus far in the given audit.

### **Recommendations**

*The Peers recommend that:*

- *For the internal organisation, no changes are needed with regard to the laws on SAIs. Consideration could be given to more clearly define the responsibilities of the DAGs, especially in SAI BiH when it comes to their involvement in the audit work. Such decisions need to be made transparent within the SAI, especially in the annual audit plan, in order to provide all auditors with the necessary information describing who of the DAGs will be involved in a particular audit.*

### **Quality Review**

The SAI laws all include provisions for the evaluation of the quality of work performed by the SAIs. (Art. 10 (6) BiH State and BiH Fed law, 15 (4) RS law) The respective Parliaments are to initiate such an evaluation or peer review every four years, and it should preferably be carried out by the SAI of another country and be funded from the budget. In Brčko District, however, the provision [Art. 10 (4)] reads differently, as it foresees the appointment of an external reviewer by the District Assembly every three years. Additionally, according to Art. 27 (1) b) of the BD law, the AG and DAG may be removed if the audit quality does not meet the audit standards. This links the quality review to a potential reason for removal of the AG (see 2.2.1 Status of the Audit Offices and their officials) . In practice, the District Assembly contracted a private sector audit firm to carry out the three-year quality review on two occasions, with the most recent one being in 2011.

In both, BiH State and in the BiH Federation, the respective parliamentary committees consider the SIGMA peer reviews to be an adequate instrument for assessing the quality of performance of the SAIs. In Republika Srpska the competent parliamentary body shares this view, but Parliament as a whole is still considering the contracting of a private audit firm to carry out a quality review.

### **Assessment**

The initiative to undertake a peer review should normally come from the Audit Office itself. Parliament should not interfere and certainly should not have the legal obligation to initiate a peer review. The recent history with regard to the implementation of this Article shows that it is not only unrealistic in terms of resources, but also in terms of the interest generated from Parliament. The fact that – apart from BD – none of the Parliaments has actually initiated a peer review, exposes the ineffective nature of such a provision, which is anyway basically unenforceable.

The possible dismissal of the AG as a consequence of such a quality review, as foreseen by the law in BD, is a rather uncommon, even unique, feature to the Peers' knowledge. There is certainly a risk that such a procedure could be used to remove a professional AG for political reasons, in the case that he/she might become disagreeable to political stakeholders because of his/her objectivity and for publishing critical audit reports. Given the fact that all audit laws already limit the mandate of the AGs and DAGs to seven years indicates that there is no need to provide Parliament with the possibility of dismissing an AG during his mandate for performance related issues.

Additionally, as is stated in Art. 10 (5) (for SAI BiH, SAI BD and SAI Fed) and 15 (3) (for RS) the Audit Offices must implement a quality control system, ensuring compliance with auditing standards, rules and regulations within auditing operations, including mechanisms to ensure the quality of auditing business. This fact, together with the requirement for publishing audit reports and annual reports, gives the Parliament the possibility to oversee the performance of the SAIs, which should be a sufficient guarantee for the Parliaments that the Audit Offices perform well.

Finally, the Peers are not aware of regular peer reviews occurring in the public sector audit in other countries. Even if the process of punctual peer reviews has begun to develop over the last few years, it still remains limited and is always on the basis of a volunteer request from the SAI.

### ***Recommendations***

*The Peers recommend that:*

- *The mandatory, regularly scheduled peer review or external professional evaluation based on the request of the Parliamentary committees should be removed from all laws at the next opportunity.*

### **Decision on audit work**

The SAIs can decide independently on the audit work programmes, although the SAIs are required to submit the annual work programme to the respective Parliament(s) or to the competent body in Parliament for information only (Art. 12 for SAI BiH and SAI Fed, Art. 17 SAI RS, Art. 12 SAI BD). All Parliaments are entitled to request special audits. SAI BiH, however, makes the final decision on its own (Art. 18 (2)) as to whether or not to conduct such a requested audit. For BD, the AG shall carry out the special audit, while taking into account the annual audit plan. Art. 15 (2), provides the AG of SAI BD at least the possibility of not undertaking the audit in the specific year. The regulation for the Entities is different though. Art. 18 of the SAI Fed law, gives the right of decision upon those special audits to the Parliamentary committee and the FBiH Parliament and not to SAI Fed. The regulation for RS is formulated in such a way that seems to provide the AG with no possibility to decline the carrying out of such a requested special audit. However, the Parliament is required to provide special funds for such audits. According to Art. 23 (2) this includes requests that originate from the government and have obtained approval by the relevant Assembly Committee.

### **Assessment**

It is part of the functional independence of the SAIs to be able to decide on their work programme without interference from outside. A request for a special audit that can be imposed on an SAI by Parliament could very well affect this independence, as the possibility for making such a request could be misused by Parliament for political reasons. While all of the SAIs are well advised to take requests for special audits from Parliament very seriously, ultimately, it should still be the SAI's decision whether or not to respond to such a request.

### ***Recommendations***

*The Peers recommend that:*

- *The laws for SAI RS and SAI Fed should be reformulated in the same way as the relevant regulation in the law for SAI BiH, giving the SAI the right of decision on whether or not to follow up a request for a special audit.*

### **2.2.2 Financial independence**

The Lima Declaration requires that SAIs shall be provided with the financial means to enable them to accomplish their tasks. If required, SAIs shall be entitled to apply directly for the necessary financial means to the public body deciding on the national budget. SAIs shall be entitled to use the funds allotted to them under a separate budget heading as they see fit.

In terms of financial independence, apart from SAI BD, the SAIs have the power to directly submit a draft budget to the competent parliamentary body (Art. 5 for SAI BiH and SAI Fed, Art. 25 for SAI RS), which, in principle, allows for a positive consideration of the requests, without direct interference from the Executive. Of all the SAIs, it is SAI RS that is in the best position with regard to financial independence, as according to the regulation in RS, 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 this means, that the SAI RS, contrary to the other SAIs, has its own account and does not depend on the Treasury; in addition, it is able to carry over unused funds to the next year. This system is regarded as functioning better than in SAI BiH and SAI Fed, where – according to their respective regulations – “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. The law on the SAI BD is less generous in allowing independence or autonomy: the preparation and approval of the budget follows the same procedure as for all budget-users (Art. 5 BD law).

For SAI BiH, 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 Herzegovina is applicable to the SAI BiH as one of said institutions (Art. 2 b. Law on Financing the Institutions of BiH). This law disregards the specific position of the SAI BiH with respect to budget preparation and approval.

### **Assessment**

The Audit Offices of the Entities benefit from a satisfactory level of financial independence under their respective laws, given the fact that SAI RS and SAI Fed are required to provide their budgetary requests directly to the competent parliamentary body, but this is less the case for SAI BiH and SAI BD. The law regarding SAI BiH foresees the same procedure as those for SAI RS and SAI Fed and is applied by SAI BiH in practice. However, the Law on Financing of the Institutions of BiH, Art. 2, b) provides a different approach in which SAI BiH is treated equally with all other budget-users. SAI BD is also treated in the budget preparation process like all other budget-users.

The legal situation for SAI BiH and SAI BD does not provide sufficient justice to their independent status. It can be regarded as problematic and potentially risky for the financial independence of the SAI if its main auditee – the Ministry of Finance – is the one that has the final say over the SAI’s budget. While this might be without consequences for the SAIs in mature States, where the independent status of the SAI will be honoured by the Ministry of Finance under any circumstance, in a country in transition like BiH, this arrangement might be more problematic in practice.

### **Recommendations**

*The Peers recommend that:*

- *As regards SAIBiH, the provisions of the Law on Financing the Institutions of BiH need to be harmonised with the provisions of the SAIBiH Audit Law. In the case of SAI BD, the law should be changed to harmonise provisions for the funding of SAI BD with those of the SAIs of BiH, Fed and RS, thus making sure that SAI BD is also entitled to apply directly for the necessary financial means to the competent parliamentary body.*

### **2.2.3 Status of staff**

To satisfy the requirements of the Lima Declaration, the audit staff of SAIs in their professional careers must not be influenced by the audited organisations and must not be dependent on such organisations.



All SAI laws contain an entire chapter dedicated to the employees of the Audit Offices, dealing with the status, duties and rights of the audit staff and other personnel, as well as the procedures for the selection and appointment of staff.

Article 7 of the Law on the SAI BiH and the Law on the SAI Fed, Article 38 of the Law on the SAI RS, and Article 39 of the Law on the SAI BD each provide for the functional immunity of auditors. They state that auditors shall not be held liable for actions or omissions conducted in the course of performing their duties, and should be protected by the relevant State organs from any sort of attack, insult or unjustified action related to the execution of their obligations. This immunity does not, correctly, include persons who perform a criminal offence in the course of their official duties.

The audit staff in SAI RS and in SAI Fed do not fall within the salary structure of the civil service [Art. 27 (1) SAI RS, Art. 28 (1) SAI Fed] and these SAIs can therefore decide on the salary structure themselves. This allows them the possibility of setting higher qualification requirements and corresponding salaries as compared to the civil service in general. For SAI BiH, the law states that the law on government employment will not have regard to the employees of the Audit Office [Art.28 (2)]. However, according to Art. 4 of the Civil Service Law of BiH, it is only the AG and DAG who are not considered civil servants, suggesting that the audit staff would actually be part of the civil service and subject to the Law on Salaries of the Civil Service. For SAI BD, Art. 31 (2) makes clear though, that the provisions of the Law on Civil Service in the Public Administrations Bodies of BD shall apply by analogy to all issues not regulated by the SAI BD law.

We note that general budget constraints in Bosnia and Herzegovina limit the possibilities for recruiting staff to the full complement (systematisation) of the SAIs.

### **Assessment**

According to the legal basis, there is currently the unfortunate situation that the audit staff of SAI Fed and SAI RS are not considered as having the status of civil servants, and therefore, belong to a different salary structure than the auditors of SAI BiH and SAI BD. The question considering whether external auditors are best protected against external influence through providing them with the status of civil servants or not, very much relates to the way this status provides effective protection. Therefore, there are several practices applied throughout Europe. Continental European administrations generally tend to include auditors into the civil service because civil servants have a highly protected status. Alternatively, some countries tend to exclude them from the civil service, taking the view that it would affect the independence of SAIs to have staff for which the applicable rules are decided upon by external decision makers.

Therefore, either way can be appropriate, depending on the particular circumstances of the country concerned. However, having differing legal situations, from one Audit Office to the other within BiH, hampers the comparability of staff situations, career paths and salaries, and also makes it very difficult for audit staff to change from one SAI to another.

### **Recommendations**

The Peers recommend that:

- *Ways should be found to harmonise the status, careers and salaries of audit staff in all four audit offices in BiH. Subject to assessing the value of civil service laws and regulations in BiH, the Peers rather favour the option of putting all audit staff under the respective civil service laws – as was also suggested in the 2005 peer review – as long as there is, at the same time, the possibility of adjusting or waiving any standard provision that might not be suitable for an audit institution. To this regard, the formulation of the SAI BD law, stating: “that the provisions of the Law on Civil Service in Public Administrations Bodies of BD shall apply by analogy to all issues not regulated by the SAI BD law” might be considered as the way to formulate such provisions.*

#### **2.2.4 Audit remit**

The Laws for SAI BiH (Art.11) , SAI Fed (Art. 11), SAI RS (Art. 16) and SAI BD (Art. 11), give the SAIs 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 level (cantons, cities and municipalities in the case of the SAI Fed; cities and municipalities in the case of the SAI RS). For a certain number of institutions the SAIs have the legal obligation to carry out an audit on an annual basis.

These include the “institutions of BiH”: Parliament, the Presidency, the Council of Ministers and various government financed institutions, as well as the extra-budgetary Funds for SAI BiH, which amounted to seventy four institutions in 2011.

SAI Fed has to carry out annual financial audits for sixty-five institutions (budget-users, Funds, and the consolidated budgets of the Federation and each of the ten cantons, in total 200 entities). The Law on the SAI RS requires the annual auditing of seventy budget-users and Funds. The Law on the SAI BD, in Articles 11 and 13 (4), takes as a point of departure the obligation of the SAI to annually audit all public institutions and (semi-) public enterprises. For local government and semi- public enterprises the obligation of an annual audit does not exist, and it is up to the SAI to decide on the selection of these auditees. The mandates of all four SAIs also cover 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.

The SAI Fed and the SAI RS both have a very wide remit, covering approximately 1,400 auditees in the Federation and around 950 in the Republika Srpska. When comparing the number of mandatory annual financial audits with the number of realised financial audits over the past years, it becomes obvious that the SAIs already have difficulties covering all mandatory audits, which implies that there is barely the time for auditing the non-mandatory budget-users.

#### **Assessment**

The SAIs have a clear legal authority to audit all public and statutory funds and resources, bodies and entities. The sheer number of potential auditees within the Entities makes it impossible to carry out an annual audit for each of these. Many of the smaller municipalities are therefore not audited at all.

The theoretical independence of the SAIs to select the auditees is in practice severely limited. Potentially risky, non-mandatory auditees cannot be audited due to the obligation to devote most of their resources to potentially less risky, but mandatory auditees. In this respect, the Entity SAIs especially cannot satisfactorily carry out their audit duties, even if they have the authority to do so. At the same time, the fact that so many potential auditees are not audited at all may create a credibility gap for these SAIs.

#### **Recommendations**

*The Peers recommend:*

*The Coordination Board to establish a working group, which has to study different options for how to solve the problem for all SAIs of fulfilling the legal audit obligations with limited resources. The solution could, for example, be sought in improving the efficiency of the audit process or changing the legal remit by redefining the term “budget user” or revising the criteria for annual certification audits.*

### 3. CO-ORDINATION BOARD AND MANAGEMENT OF SAIS

#### 3.1 Co-ordination Board

##### 3.1.1 Introduction

On the basis of the respective SAI laws, the SAI BiH, SAI Fed and SAI RS co-operate by means of the CB. The establishment and responsibilities of the CB are laid down in Article 46 of the Law on the SAI BiH. These are: to establish audit guides and instructions, to exchange professional experiences, and to organise and co-ordinate developmental activities. The CB legally consists of the three Auditor Generals and, in addition, the Deputy Auditor Generals; by decision of the CB, the Auditor General and Deputy Auditor General of SAI BD are associated members of the Board. The CB has been an important vehicle for the joint development of audit standards and guidelines through the working groups that it has established. The CB is financed from the budgets of the SAIs that formally comprise the Board. Professional, administrative and technical services for the needs of the CB shall be provided by SAI BiH.

In December 2010, the CB adopted Rules of Procedure, under the auspices of the law, to regulate its organisation, the manner of work, its competences and costs. The CB currently has a three-year financial plan, an annual work plan and a rulebook, although it is not yet registered as a legal institution.

In accordance with the law, the costs of the CB are borne by the SAIs in BiH, as established by decision of the Board. The financing for 2010 amounted to BAM <sup>5</sup>120,000 (€61,355), shared between:

- SAI BiH (BAM 70,000 (€35,791) or 2 % of SAI BIHs budget);
- SAI Fed (BAM 25,000 (€12,782) or 0,81 % of SAIFBIHs budget); and
- SAI RS (BAM 25,000 (€12,782) or 71 % of the SAIRS's budget ).

The total funding represents 2 per cent of the total SAI budgets of BAM 10,051,662 (€5,139,333).

The CB has established fourteen working groups composed of staff appointed by each SAI to define the way forward in specific areas. Since 2005, the CB and the SAIs have adopted sixteen documents:

- *Audit Quality Control Guidance (June 2005)*
- *Human Resource Management Policy (June 2005)*
- *Communication Policy and Rulebook (December 2005)*
- *Communication Strategy and Plan (May 2008)*
- *SAIs' Roles and Responsibilities in Preventing Corruption (May 2008)*
- *Public Sector Financial Audit Guidance (February 2009, updating 2003 guidance)*
- *Public Sector Auditing in BiH (brochure, March 2009)*
- *Principles of Performance Auditing (September 2009)*

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<sup>5</sup> BAM = Bosnian Convertible Currency

- *Role and Benefits of Public Sector Audit Institutions in BiH in Controlling the Use of Public Funds (SAIs and USAID, September 2009)*
- *Institutional Co-operation Project between SAIs in BiH and SNAO 2000-2009 (October 2009)*
- *Personnel Training Strategy in the SAIs of BiH (December 2009)*
- *IT Auditing Guide (2009)*
- *Information System Development Plan for 2009-2012 (December 2009)*
- *Exit Strategy for the Co-operation project between SAI BiH and the SNAO (January 2010)*
- *Strategic Development Plan (September 2010, updating 2007 Plan)*
- *Framework of International Standards for SAIs (January 2011 – published in the Official Gazettes of BiH and the Entities)”*

The working groups were established by the Co-ordination Board with representatives from each of the SAIs. In this way, the members are able to obtain the required information from each SAI and present a co-ordinated and harmonised solution that is appropriate for each SAI. Following adoption by the CB, each SAI is responsible for the implementation of the documents and, if necessary, it may adapt the policies and working practices to suit its own particular circumstances.

The Peers have taken each of these documents into account as part of their assessments. The documents having particular impact on the development of the CB are considered in this section of the report.

### ***3.1.2 Strategic Development Plan and its implementation***

Since the initial establishment of the SAIs in 2000, they have benefitted considerably from technical assistance provided by the Swedish National Audit Office (SNAO). From 2000-2008, the SNAO has supported the individual SAIs, the CB and the working groups established under the umbrella of the CB. Since 2009, the assistance of the SNAO has been provided at a reduced level and is now largely restricted to performance audit. This support is likely to come to an end during 2012.

The CB adopted a Strategic Development Plan for the period 2007 to 2012. It revised this Plan in 2010 to take into account the withdrawal of support from the SNAO in 2012, and the consequent need for the three SAIs to take ownership of their future development.

Since 2007, the CB has coordinated the implementation of the SDP 2007-2012 through its working groups, mainly focussing on the drafting of new or, on the elaboration of, existing guidance material such as the financial audit manual. The working groups comprise staff of the SAI's who are regarded as experts. Their work, however, appeared not to have been supervised nor systematically monitored by the CB as it progressed, and it was usually only after they finalised the drafts that they sent them to the CB. After amending the documents with regard to the comments of the CB, the documents were then adopted by the CB.

Progress has been made with the implementation of the SDP, especially when it comes to issues related to audit work, but some activities remain to be completed. According to an overview given by the CB, which the Peers received, of the documents adopted within the SAIs (excluding Brčko), the CB considered that all measures in the audit area have been implemented.

The development platform for 2010 to 2012 was endorsed by all the SAIs and the main issues to be addressed are:

- Strengthening the accountability cycle – including: audit quality in reporting, accountability and written procedures between the Parliaments, the governments and the SAIs;
- Following-up the new audit laws;

- Applying audit standards and methodology for publicly owned enterprises;
- Establishing a certification programme for audit staff;
- Establishing a new professional structure and remuneration system;
- Audit of performance reporting as part of the Annual Budget Execution Reports;
- Sustained improvement of the Audit Quality Management function;
- Establishing the practice of peer review, pursuant to the laws.

Appendix 1 of the Strategic Development Plan sets out in detail the Development Needs, Indicators of Achievement and an Implementation Timetable for the period ending 2012.

In addition, the CB has established a working group to prepare an exit strategy pointing the way forward for the period after the withdrawal of the SNAO during 2012. We note that the findings of this peer review, together with the CB analysis, will provide input to this exit strategy.

### ***3.1.3 Work Plan for the Co-ordination Board***

In addition to the documents adopted by the CB, it has also prepared an annual work plan for 2011/2012, based upon the legislation and the needs set out in the Strategic Development Plan. The work plan determines six strategic priorities for the CB:

- Support to ensure the independence of the SAIs;
- ISSAI framework implementation;
- Support for capacity building of the SAIs;
- Demonstrating the values and benefits of the SAIs;
- Improving the fight against corruption;
- Communication improvement .

The aim is to strengthen the role of the CB as a cohesive factor in the development of the SAIs, and to focus upon achieving the objectives as defined in the strategy documents adopted by the CB.

Within this work plan, the CB records that it shall continue to establish guidelines and instructions through the working groups, and aims to ensure a consistent level of quality audit. It will organise and co-ordinate developmental activities and assign audit responsibility for joint activities. The CB also plans to address other activities not within the legal mandate of the CB, such as the process of constitutional reform at all levels of government. The CB has the responsibility to define a uniform approach to the issues, but implementation rests with the SAIs themselves.

The CB does not have a permanent Secretariat to support it in the activities outlined above and it relies, to a large extent, upon the goodwill and initiatives of the members of the CB.

### **Assessment**

The Peers note that the CB and the SAIs have made progress since the previous peer review of 2005, in particular with regard to the adoption of the audit laws by the respective Parliaments and the introduction of the Rules of Procedure. Similarly, the adoption of the Strategic Development Plan, annual work plans, financial and performance audit methodologies demonstrates clearly the resolve of the members of the CB to co-ordinate and strengthen the development of the external audit function throughout BiH.

The members of the CB are able to oversee progress at its regular meetings, but there is little or no systematic monitoring of the results of the implementation process at the practical work level. The products of the working groups are of good quality, but auditors perceive them as too theoretical and

thus difficult to apply. Indeed, while the experts of the working groups know their own SAI's situation, they are uncertain about how this relates to the other SAIs.

The lack of supervision on the quality and the implementation by the CB might have had consequences as to the degree that new procedures have been applied. From different sides, the Peers were informed that it was unclear as to what extent the SAIs apply the same procedures when following the adoption of documents by the CB. One assumes that new procedures are applied after being adopted by the CB, but there is no follow up and thus no real evidence about this. The good will within the CB and within the SAIs is evident, but there still might be significant differences in the actual implementation. The CB does not have a procedure by which it is able to monitor the training, monitoring, and steering procedures of the SAIs for the implementation of documents adopted by the CB.

The update of the SDP that was carried out in 2010 revealed that many activities were still ongoing and had remained on the SDP or were postponed to be completed at a later date. If the CB intends to implement fully the SDP, and wants to execute everything that is planned, it should play a more active role in the steering and monitoring of the implementation of the SDP.

The CB needs to establish effective monitoring mechanisms to support the SAIs in the implementation of the strategies and methodologies to ensure that these are applied consistently throughout BiH. Information derived from such reviews will benefit all SAIs by drawing attention to problem areas and providing possible solutions that can be applied by all SAIs on a consistent basis.

One important example (as discussed in chapter 4.3 of this report) concerns the need for the consistent application of the criteria in place for audit opinions. Members of the Parliaments and the press are alert to the varying audit opinions provided by the different SAIs to seemingly similar findings. This could lead to a debate about the rationale of the opinion of the SAI rather than a debate about the issues raised. The application of common criteria on a consistent basis would provide all SAIs with stronger justification for each decision.

An effective CB is also able to assist the SAIs when external pressure is brought to bear on them. The CB is in a good position to monitor the situations occurring in the case of each SAI, and is able to help develop a common approach to whatever issues arise. For example, the Parliamentary Assembly of State BiH adopted guidelines for the adoption of audit reports in 2008, which resulted in improvements to the procedures and working arrangements of the Assembly. All Assemblies were not engaged in this important initiative, and the CB could play an important role in this important developmental area. (This issue is also discussed in chapter 6.3 of this report.)

The working groups established by the CB to move specific tasks forward, such as the strategies and methodologies, comprise SAI staff who make themselves available when their regular, official duties permit. This limitation inevitably slows progress on the topic being considered. It may also restrict the choice of suitably experienced staff, as these may have other important, time-driven tasks to perform for his or her particular SAI. The absence of full-time support to the CB, therefore needs to be addressed in an appropriate way, such as the possible secondment of staff, on a full-time basis, by the SAIs to the Board for specified periods for particular tasks.

The current Strategic Development Plan comes to an end this year and, although a working group is preparing an exit strategy to identify the activities needed after the SNAO has withdrawn, the Strategic Development Plan itself needs to be comprehensively revised and up-dated to cover the strategic development of the SAIs for a further five years. This will help to ensure that the progress made thus far is sustainable, and that the more complex areas shall still be addressed over time.

Similarly, the SAIs do not work in isolation. Developments in the external, public sector environment will need the attention of the SAIs. Such issues include developments in the areas of: public internal financial controls and internal audit, public procurement, programme budgeting, accruals accounting, and the harmonisation of public sector salaries and benefits. Some of these initiatives may still take some years to be implemented in the public sector, but it is important for the CB and the SAIs to

contribute their views, consistently and at the right time, on all proposed reforms or changes that might have an impact upon their audit requirements. In this way they can minimise the risk of future problems.

The Peers note that at the end of 2012, the mandates of the Auditor Generals of the SAI Fed and the SAI RS will expire. The achievements accomplished by working together through the CB can certainly be attributed to the personal commitment of the Auditors General and CB members. Such co-operation between public institutions of the State and the Entities is not self-evident in a country like Bosnia and Herzegovina. New Auditor Generals will need to be appointed, which will likely bring on a period of uncertainty for the institutions and their staff. The sustainability of the current level of co-operation through the CB would be strengthened if the CB had, for example, its own full-time Secretariat.

In attempting to meet the SDP development objectives, the SAIs are confronted with resource constraints hampering further development. However, all existing opportunities to save resources by means of greater co-operation through the CB and its working groups have not been seized thus far. Quality assurance, for instance, could be organised as a joint function, whilst exchanges of experience and opportunities for the organisation of parallel performance audits have not yet been fully explored.

In view of the limited staff resources of the SAIs, the CB is committed to distributing the workload more evenly between the SAIs, and to planning the activities in a way that is realistically achievable. The CB needs to achieve a common approach to SAI development, thereby ensuring consistency within and between SAIs, while at the same time not jeopardising their efficiency. In strengthening the role of the CB, it will need to assume full responsibility for the implementation of the Strategic Development Plan, while progress will continue to be the responsibility of the SAI management.

The CB has adopted a number of important policy and strategic documents which will contribute to the development of external audit in BiH. The Peers note, however, that the staff of the SAIs felt that they had not always been fully consulted by members of the working groups, and that the adoption of the documents was neither followed up by a launch within the SAIs, nor with training. There are inevitably work pressures on the time available to the members of the working groups, but it is important that these documents are fully explained to the staff and that the appropriate training, when necessary, is provided.

The CB needs to be further strengthened, building on the effective mechanisms of the working groups and the principles set out in the work plan. Options need to be considered, including the full-time Secretariat already mentioned, and the secondment of staff from the SAIs to the CB, on a full-time basis, for specific periods. Such staffing might aid in co-ordinating areas of development where resources within each SAI are stretched, such as in performance audit or IT development.

The Peers recognise the unique role that each SAI has within its own political environment, but we consider that the role of, and the resources available to, the CB need to be strengthened in order that it may ensure improved consistency within and between SAIs. So far, agreement between the members of the CB has been reached on a voluntary basis. We believe that enhancing the legal status of the CB, for example, by establishing a budget in its own right, would improve the overall status of the Board, and allow it to better serve the interests of the individual SAIs. We are not proposing that the responsibilities of the individual SAIs be diminished in any way, but we consider that the further development of the CB would help to provide improved, more effective output, thereby serving to strengthen the governance, accountability and transparency of each audited institution and the government.

In 2005, the Peers noted that the CB had made good progress and was a very important factor in the SAIs development. We find it encouraging that the CB has continued with its regular meetings and has adopted internal regulations, methodologies and plans. The CB now needs to take steps to strengthen its role to ensure that its valued and respected work is sustained.

## **Recommendations**

*The Peers recommend that:*

- *The new SDP working group draft an implementation procedure for the steering and monitoring of newly developed procedures, in order to ensure consistency in the implementation of audit and audit related procedures among the four SAIs and to ensure that any variations are justifiable.*
- *The CB appoint one member of each SAI to a working group with tasks related directly to audit procedures, and which is responsible for the steering and implementation of the SDP.*
- *The CB build on the success already achieved through the Strategic Development Plan, as well as the current deliberations of the working group on the exit strategy, and that it prepare a new plan for the coming five years and beyond. This should include a plan of action, setting out the detailed activities, responsible persons and timeframe. It might also be prepared as a rolling Strategic Development Plan, with regular review by the CB; its activities and other factors updated, at least once every year, for the coming five years.*
- *Whilst recognising the need for the SAIs to retain their own roles and responsibilities, we recommend that the CB consider whether establishing its legal status with an independent budget, would enable the Board to develop in a more sustainable fashion.*
- *The CB be strengthened to enable it to better serve the interests of SAI development in BiH. In particular, it should consider the options of having a full-time Secretariat and of seconding staff from the SAIs to the CB for advancing specific tasks.*
- *The CB increase co-operation between the SAIs, e.g. for the development of the Quality Assurance Methodology and for parallel performance audits.*
- *The CB instruct the Methodology and Quality Assurance Departments/staff members to draft a procedure for implementing new procedures, including required training activities.*
- *The CB develop both short and medium term objectives for addressing the resistance that inevitably arises from the application of new methodologies, with particular attention being paid to strengthening the links between the SAIs and the Parliaments.*

### **3.2 Management of the SAIs**

The SAI BiH has forty-six staff members, the SAI Fed has sixty-one, including twenty in the three regional offices (Mostar, Tuzla, Bihac). The SAI RS has fifty-seven staff members, (including eight in the regional office in Bijeljina), and the SAI BD has thirteen on staff. Altogether, therefore, the four SAIs have one hundred and seventy-seven staff members. The attached Annex sets out an analysis of the staff of the SAIs as regards their qualifications and specialisms.

The Annex shows that the staff of the SAIs are very well-educated, with each SAI having over 80 per cent of staff with university degrees, primarily in economics. Similarly, a high proportion of staff, ranging from 47 per cent to 64 per cent of total staff, have relevant technical qualifications, mainly as certified auditors. These figures demonstrate the SAIs' approach since their establishment, of recruiting and retaining staff endowed with audit knowledge and skills.

At the same time, the numbers of staff with formal qualifications in law or IT are very low. In general, each SAI has only one or, at most, two in each specialism. Audit skills are the most appropriate for the type of audits undertaken by the SAIs in BiH, however, there is also a need for the audit staff to obtain a very good knowledge of the law and IT if they are to fulfil the needs of a modern audit institution.

The number of staff within each SAI is relatively small, and adequate supervision and review of audit work might be problematic, for example, in the regional offices of SAI Fed and SAI RS. In principle,



however, the SAIs have established appropriate ranges of audit positions to provide a role for supervision and review, and the SAIs have made arrangements for work to be reviewed, as necessary. The development of quality control measures should also assist the SAIs in ensuring that their work meets international auditing standards.

The number of top managers (the Auditor General and deputies) varies between three (SAI BiH and SAI BD) and two (SAI Fed and SAI RS). These are relatively high given the size of the SAIs, but they have been set in their respective laws, and the need for ethnic balance has to be taken into account. Some staff raised concerns that the respective roles and responsibilities of the senior management teams are not always clear, particularly once the draft report has been submitted to them. Clarification of the reporting line at the outset of an audit is important to minimise the risk of confusion amongst the audit team.

The proportion of support staff, ranging from 10 to 17 per cent of overall staff, is at a reasonable level.

The wide audit remit mentioned under 2.2.4 and 4.1 and the increased number of public institutions established by the governments, which are subject to external audit, puts pressure on the SAIs' management. The SAIs will need to consider how best they are able to apply their risk assessment criteria given the limited staff resources available to them. The introduction of performance audit in each SAI will also need careful management to ensure that staff resources are not further stretched.

The recruitment of staff is through publicly announced, open competition. The SNAO provided advice regarding the recent recruitment of staff for the performance audit teams. The procedures are transparent and acceptable, but the SAIs face some competition from the burgeoning need by the private sector for auditors and accountants. Therefore, the terms and conditions for such professional staff need to be comparable to attract and retain candidates of high quality. Although some elements have been developed, or are in the course of development, a complete and formal staff appraisal system has not been established in any of the SAIs .

### **Assessment**

SAI staff resources are limited and their remit is quite broad, so the managements often need to tailor audits according to the staff available. 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 SAIs in addressing staff shortages in the annual work plans.

Despite the relatively small numbers of staff of each SAI, the organisational structures are generally appropriate, also taking into account the complicating factor concerning ethnic balance. The relatively small numbers of audit staff may lead to difficulties in ensuring the independence of supervision and review, however, the SAIs have adopted the quality control guide that should help to remedy any review issues.

Initiating a system for staff assessment would assist management in identifying those staff members who merit improved remuneration, based on competence and experience, under the arrangements established by law and enabling them to be rewarded appropriately. Such systems also assist management in identifying weaker performance at an early stage, thereby enabling appropriate guidance and training to be offered.

The number of senior managers for each SAI is fixed by law, but the respective roles and responsibilities of the senior management teams still need to be clearly defined when allocating work to the audit teams in order to ensure that no misunderstandings arise. Boundaries and reporting lines need careful consideration and agreement.

The role of the CB in overseeing progress for all SAIs, implemented through the aid of guides, such as the one on quality control, will also assist in resolving the dilemma between 'theory and practice'. This will, therefore, support the SAIs to focus on key areas, aiding them in allocating staff more

efficiently. Similarly, this will assist the SAIs in defining more precisely the roles and responsibilities of their senior management teams.

### ***Recommendations***

*The Peers recommend that:*

- *SAIs, within the umbrella of the CB, agree to a common procedure by which the criteria for auditing all public bodies are established, for example, over a five-year period, linking the forecasted work plan over this time to the forecasted staffing levels.*
- *A formal staff appraisal system for all SAIs be developed under the auspices of the CB, linked to the remuneration system for audit staff, based on competence and experience. Individual SAIs may elaborate and adjust it to their needs, resources and specificities.*
- *The roles and responsibilities of the senior management teams are clearly defined when work is allocated to audit teams ensuring that the staff fully understands the reporting lines.*

## **4. PRIMARY PROCESS: AUDITING**

### **4.1 Audit strategy and programming**

A key area for institutional strengthening is the development of audit strategies and audit portfolio. The SDP 2007 – 2012 refers to the need to document the Global Risk Analysis (GRA), to issue 3-year Strategic Audit Plans (SAP) and to issue a Corporate Strategy Plan (CSP). Starting from 2010, these plans should have been implemented. These plans are important for defining priorities and should be reflected in the annual audit programmes, recognising that each SAI has a broad audit remit (which is in line with INTOSAI standards), but each has only limited financial and human resources.

SAI Fed has approx. 1400 clients, 10 cantons, public enterprises, municipalities, Funds and 17 Federal Ministries. It plans its audits in line with four categories, which are set out in the SAI Fed law (Art. 11). However, shortage of staff resources means that it can rarely audit institutions at the level of municipality. SAI BiH had no problems with auditing all institutions (40 institutions in 2004) at the time of SIGMA's peer review in 2005, but during 2010 the number of audits had considerably increased: 68 audits were undertaken and 71 are envisaged for 2012. With current staffing levels, this implies that each audit team must complete 11 or 12 audits.

The audit laws of the SAIs require that the SAIs carry out regularity audits of all budget-users that are directly financed by the budget each year. Every SAI, as well as the Parliaments, are of the opinion that this remit is too large and/or that the human resources are insufficient for carrying out all of the required statutory audits.

#### **Assessment**

It is clear that the audit remit of SAI Fed is especially large given the staff resources available. Even if there were more available resources, not all budget-users could be audited. However, SAI Fed is not required to give an annual audit opinion on the financial statements of all budget-users. It is required to give opinions annually only for category one of Art. 11 of the SAI Fed law, i.e. all public institutions, excluding cantons and municipalities, and for the Government's annual report on the budget execution. All other institutions must be audited on the basis of risk assessment (Art. 13.7). However, the high risks associated with many public institutions, suggests that this might still be too much of a burden for SAI Fed.

SAI BiH covers its annual audit remit, but, owing to the growing number of audit subjects over the years and with the needed human resources lagging behind, the increased quantity of work could undoubtedly have an impact on the quality of the work.

The GRA and SAP should provide an insight into the difficulties and the choices required to fulfil the legal requirements. However, none of the SAIs has prepared GRA and SAP. All of the SAI's do, however, prepare their annual audit programme each year.

During their missions the Peers heard many suggestions for overcoming the legal requirement to audit all budget-users each year. One opinion offered was to refrain from annually auditing small institutions that have consistently received positive opinions over many years. Members of the Parliaments of BiH are of the opinion that SAI BiH should focus on the very large institutions. For example 17 of 69 institutions on State level use 70% of the budget. It is felt that the SAI should focus on them. However, the development of Financial Management and Control and Internal Audit was

also mentioned as a factor that might have influence on the future work load of the SAIs. At present these developments are slow to occur, especially at State level and in the Federation. On the State level, a Central Harmonisation Unit (CHU) has finally been established, although such units already exist within the Ministries of Finance in the Federation and in the RS, but they still have very limited capacities, especially in the Federation.

All of these suggestions should be further analysed at the CB and SAI levels. When carrying out such an analysis one should not merely think of finding a solution for the statutory audits, but to then take it one step further by considering which areas and which type of audits can provide the SAIs with the best outcomes in the coming years. One solution might include the SAIs undertaking horizontal compliance audits ('topical audits') to address the high risk areas across many of the public institutions.

The CB might be able to play, for example, a positive role in the further development of the CHUs, Financial Management and Control (FMC) and Internal Audit (IA), by carrying out a horizontal audit on the development of Public Internal Financial Control. One might also think of joint audits. For example, the law on procurement is applicable to all entities. The SAIs assess their clients against this law. In such cases, a joint horizontal compliance audit on the functioning of the law on procurement would be useful and could save resources. In SAI Fed a horizontal compliance audit on public utility companies in cantons and municipalities would be a relevant topic.

But the CB could also consider to plan an audit on the number of budget-users and then specifically focus on the reasons of existence, performance, and alternative forms of structure.

The outcome of such an analysis should be reflected in the SAP's of the SAI's for the coming three years.

### **Recommendations**

*The Peers recommend that:*

- *Each SAI carry out an extensive GRA and draft 3-year SAPs, which would form the basis for the annual audit programme.*
- *The CB revitalise the working group on GRA and SAP, and let them study the possibilities for horizontal and joint audits.*

## **4.2 ISSAI standards**

In January 2011 the CB adopted the new International Standards for Supreme Audit Institutions (ISSAIs), which must be implemented by all of the SAIs. Each SAI is responsible for the implementation of the ISSAIs, but the CB has set up a small working group (one auditor from each SAI) to review the progress of implementation within each SAI.

### **Assessment**

The ISSAIs are a set of detailed auditing and auditing related standards, which were introduced by INTOSAI in 2002 to replace the more general INTOSAI standards of 1992. The auditing standards for financial audit have been developed in close co-operation with the International Federation of Accountants (IFAC), and were approved in 2007 during the INCOSAI meeting held in Johannesburg, South-Africa. The International Standards on Audit (ISAs) of IFAC are an integral part of the INTOSAI Financial Audit Guidelines. The INTOSAI guideline on financial auditing consists of an ISA issued by the Board of IFAC together with an INTOSAI Practice Note outlining the modifications and further elaborations that need to be considered in public auditing.

The introduction of the ISSAIs is, in most countries, a long and labour-intensive process. Existing manuals and guidelines have to be reviewed on the need for change and re-drafting and implementation plans have to be set up and executed. The initiative of the CB to approve the new ISSAIs as setting standards for its future audit work is a laudable initiative. However, to ensure that

the standards are implemented consistently throughout BiH, the CB will need to do more than merely setting up a working group to monitor progress. There needs to be a plan, taking into account the audit environment of each SAI, with detailed implementation activities, such as identifying the areas where, for example: manuals need revision, new guidelines need drafting; and specific training is required. The CB should also explicitly recognise that the members of the working group have their own work to do and barely have any time for this activity. This will have an impact on the speed of the implementation of such a plan and there will, therefore, inevitably be consequences for the comprehensiveness of the plan. However, no plan currently exists and, based on the interviews, the Peers have come to the conclusion that, if full practical application of the ISSAIs is to be achieved, further action on the part of the CB is needed. They fear that without any further action on the part of the CB, they will not be implemented, at least not before the end date of the SDP 2007-2012.

Training is badly needed. A training strategy exists but cannot be applied, mainly because of financial constraints. After the Swedish National Audit Office ended its financial audit training activities, audit teams were dependent on access to internet information for further development of their audit skills. Except for some ad-hoc activities, there has been no training in financial audit. The implementation of ISSAIs in general and, in particular, those relating to financial audit, will require more training than has been delivered up to now.

To ensure the effective implementation of the ISSAIs adopted in 2011, the CB and, particularly, the management of the individual SAIs will need to pursue actively what needs to be undertaken and set timetables and responsibilities for the necessary actions. Without this, it is unlikely that significant progress will be made on a consistent basis.

### ***Recommendations***

*The Peers recommend that:*

- *The CB instruct the Methodology and Quality Assurance Departments/staff members to set up a training plan for implementing the ISSAIs in all of the SAIs in a consistent manner.*

### **4.3 Audit Manual Financial Audit**

In 2008/2009 a working group consisting of staff members from each of the three SAIs, amended the previous Financial Audit Manual which had been adopted in 2003. The purpose of the update was to make procedures more practical and to provide much more help to auditors in performing their audits. The working group divided the new audit manual into a theoretical part and a practical part. The manual deals with all of the main audit phases- from strategic planning to follow-up procedures. However, developing the practical part appeared to be problematic. Each SAI believes that it has unique aspects to its responsibilities (e.g. clients, developed working methods), therefore, the practical part is quite general and has to be adapted to meet the specific needs of each SAI. The “Audit Quality Control Guide” is regarded as an example of an elaboration of the practical part of the Financial Audit Manual.

### **Assessment**

The new Public Sector Audit Manual deals with all of the relevant parts of a Financial Audit. From the table of contents (the Peers did not arrange a translation of the new manual) the Peers deduced that the Audit Manual covers all of the necessary subject areas. Also, it includes appropriate checklists covering important parts of the audit, such as the audit of the internal control system and sampling. However, quality control and quality assurance is not a specific subject and seems to be integrated into the other areas. The reporting part of the Audit Manual has been improved. The audit reports need to provide more information, not only listing irregularities found, but must also contain positive findings. This was a response to one of the recommendations of the 2005 Peer Review.

The Peers were informed that although the manual is very comprehensive, its practical use is limited by its complexity. By covering as many areas as possible, not all are relevant for each SAI. For

example the audit of cantons is not applicable for SAI BiH. The checklists are popular and in SAI Fed, the staff are trained in the use of checklists. However, several auditors have problems using the Audit Manual on technical subjects such as materiality and sampling, even though it seems to be quite extensive in these areas, including detailed checklists.

The Audit Manual does not give real guidance on how to deal with legal issues such as non-harmonisation of legislation and how to reflect this in the audit opinion. Also, clear criteria for each type of opinion are not laid down in the Audit Manual (See further for criteria of the audit opinion Ch. 4.5).

In summary, the Peers appreciate the structure and content of the new Public Sector Audit Manual, as far as they could assess it. Each SAI might think of improving the user-friendliness by adapting the Audit Manual for its own circumstances by defining which parts of the manual are mandatory and which parts are not mandatory or not even applicable. If the manual is available in electronic form, the parts which are not applicable could be hidden in order to present to the auditors only those parts of the Public Sector Audit Manual which are really important for them in their daily audit work.

### **Recommendations**

*The Peers recommend that:*

- *The Quality Control/Assurance Departments or staff members of the SAIs together with the new to recruit legal advisers draft a guideline on how to deal with legal issues and the consequences of legal issues for the audit opinion.*
- *The CB arrange a further review of the Audit Manual taking into account the revisions proposed in this review.*

### **4.4 Audit process Financial Audit**

All SAIs follow the same process for auditing the annual financial statements, which is divided into two phases: a preliminary audit phase and a final audit phase. The preliminary audit is carried out between September (SAI RS begins in October) and December of the budget year and the final audit in the following year, after the financial statements have been prepared by the auditees.

The preliminary audit begins with a formal announcement and the collection of information (for example: Is there new legislation? Has there been follow up given to previous recommendations?). The SAIs send a list of documents to the auditee that the SAIs wish to examine. Based on the analysis of the documents received, the SAIs carry out a risk assessment, define the audit approach and the sample (amongst others, which budget-users to be covered), and assign the tasks to members of the allocated team. During the preliminary audit, questionnaires are used to identify systems weaknesses and irregularities. After the preliminary audit a management letter is sent to the auditee. This letter addresses issues which need to be corrected by the auditee before the final financial statement has been drawn up. During the final audit the measures taken by the auditee are checked and evaluated.

### **Assessment**

The audit process of the SAIs is in line with good international practice and, in general, the SAIs follow the new ISSAIs. Nevertheless, the Peers are of the opinion that there is still room for improving the efficiency of the audit process and the effectiveness of the audit results.

### **The efficiency of the audit process can be improved by:**

- Making use of existing IT facilities;
- Drafting realistic but also clear audit plans;
- Training auditors in the use of sampling methods.

### **The effectiveness of the audit results can be improved by:**

- Improving the quality of the audit reports;
- Clarifying the scope and meaning of the different types of audit opinions.

These areas are discussed in more detail below.

#### *Making use of existing IT facilities*

In all of the entities, auditees have complained that although the SAIs have access to the Treasury system and can download all reports and other information for planning purposes, the auditors still ask every year for many documents to be copied for them. The SAIs recognise the need for using IT in their financial audit process but, as indicated in Chapter 5.3 of this report, the use of audit software is still in its infancy. Training in the use of IT audit tools is urgently needed.

#### *Drafting realistic but clear audit plans*

Auditors do not always conform to the audit plan. Audit teams may widen the scope of their audits when they are present at the auditee to ensure that they cover ‘everything’. This means that, instead of covering the planned audit objectives, they increase, e.g. their sample sizes, without seeking the formal authorisation to the planning change. The Peers consider that changes to audit plans should always be approved by audit management.

On the other hand, auditors complain that the plans require an audit scope that is currently too broad. They consider that the plans should be more focussed so that the teams can complete tasks more effectively. The broad scope also has its consequences for reporting the results of the audit. The final report covers all of the audit issues identified, and it therefore may become very complex. The Peers think that the audit report could be more focussed on the most important issues with the less significant issues being included in an annex.

#### *Training auditors in the use of sampling methods*

An important part of a financial audit is the substantive testing phase. This testing is normally carried out by means of a sampling technique. The Public Sector Audit Manual (see also chapter 4.4) describes the sampling techniques extensively. However, auditors seem to have problems using the sampling techniques in practice, especially, as they have not yet begun to use the statistical sampling method, but mainly use the less sophisticated method of random sampling. In SAI Fed, some auditees informed the Peers that audit findings are based on too small a sample to be properly representative of all transactions. They consider that some findings and recommendations are therefore distorted by the low sampling numbers. In reaction to these complaints, some auditors take larger samples than are really necessary. This action, however, leads to further irritation from the auditees, because they have to copy even more documents.

In SAI RS, the sample is determined on the basis of criteria such as recent changes (for example, the establishment of commercial courts, which were still understaffed), problems identified in previous audits (legal obligation), volume of budget, and territorial coverage. However, even in SAI RS the sample size is bigger than necessary, as auditors want to have more assurance.

It is essential that the SAIs invest the time in training auditors in the proper use of the different sampling techniques as they are described in the Audit Manual. Audit opinions are also based on the results of the substantive testing. Improper use of the sampling technique can have an influence on the audit opinion.

#### *Improving the quality of reporting*

The quality of the audit reports is the key for the SAIs to have impact. A technically excellent audit which is followed up by an unclear audit report will not get the attention and the impact that it deserves. It is essential that the SAIs pay specific attention to the quality of audit reports in order to

ensure that their messages, with which they would like to influence government operations, are communicated effectively.

The audit reports of the SAIs consist of two parts: the audit opinion and the description of the findings and recommendations. The Peers were able to read three audit reports and they have come to the conclusion that the audit opinion part, for all of the SAIs, is in line with the prescribed formulation of ISSAI 1700-Forming an Opinion and Reporting on Financial Statements. The reports differ however, when it comes to the description of the findings and recommendations. In general, the reports could be shorter and more concise. The recommendations are often at a low (case) level and could be more strategic by nature. The management of the SAIs acknowledge that reports should be shorter and more focussed. They are trying to highlight findings and recommendations and have a more user-friendly format.

The SAIs have certainly advanced during the last decade and their recommendations have improved over the years, however, they do not see much improvement in the institutions being audited. Institutions often do not take responsibility for errors nor act upon the SAI recommendations. The SAIs do not have mechanisms to enforce their recommendations and non-implementation of SAI recommendations can persist for years. There are thoughts to give the SAIs powers to sanction those institutions which fail to implement SAI recommendations. The peers wish to stress though, that such powers for the SAI would run against the professional development of the last decade and have a potential negative effect on the position of and, especially, the independence of the SAIs. The National Assembly of RS recognises the problem but it also has limited sanctioning powers.

The lack of willingness of the auditees to implement recommendations is not the only problem. The auditees which the Peers met were often also critical of the content and quality of the audit reports. Although the Peers realise that the auditees have their own interests when criticising the work of the SAIs, they would like to present here some of the auditees' criticisms to indicate some areas where the quality of the audit reports might be improved.

(1) There is a general view among auditees that the audit recommendations should differentiate between those for which the auditee is responsible, and those for which higher authorities are responsible. For example, the recommendation to appoint a new director cannot be carried out by an agency because the responsibility lies with the Council of Ministers. It is thought unreasonable that, after a year, the SAI criticises the auditee that this recommendation has not been implemented.

Auditees think that the SAIs should also be more selective in reporting on findings and take into account political reality. Only really important findings should be reported, i.e. not exceptional cases whereupon a certain rule has not been fully complied with, whereas this rule was observed in all other cases.

(2) Sometimes SAI recommendations are perceived to be too broad and too general. It is often unclear what needs to be done, particularly when the audit reports do not specify who is responsible for taking action. For example, auditees do not consider that 'budget planning needs improvement' or 'improve Internal Control systems' provides sufficient information for them to make improvements. The SAI reports indicate 'what' and 'why', but not 'who', 'when' and 'how'.

According to auditees, audit reports lack depth and analysis of the causes of problems/irregularities identified. They do not differentiate between major and minor irregularities and they often provide only general statements. There is a need to have better communication between the SAI, Ministry of Finance and budget-users about the recommendations.

Another concern is that the SAIs make recommendations about policy issues. For example, the Ministry of Finance has a policy of delegation, encouraging managers and staff to take greater responsibility for their budgets, but the SAI continues to recommend greater centralisation.

Finally, auditees would like the SAIs to report on any improvements found, not only on negative findings.



(3) The auditees are unhappy with how the SAIs deal with their comments on the audit report. There is an exchange of letters concerning the contents of audit reports, but the SAIs make few changes. The policy of the SAIs is to take auditee comments into account, but only if these are accompanied by documents which support the case. This procedure, however, may only be instituted in the case of the proposed corrections of irregularities. The Peers would like to comment on this policy by stating that more qualitatively oriented findings, for example, related to the quality of the internal control system, are based on professional judgement and not on documents. In such situations, the auditees may very well have an alternative opinion, which they could correctly support with reasoned arguments.

From the papers seen and the discussions held with all of the SAIs and with the stakeholders, the Peers wish to underline these comments by the auditees. Even if they are not wholly accurate, these are views that are met by many SAIs elsewhere, and it is possible to accommodate them within routine audit procedures without too much difficulty. The Peers would also like to stress that the SAIs in BiH have already made attempts to meet the expectations of the auditees. For example, in the case of the improvement of the internal control systems within government institutions, the SAIs have indeed targeted their recommendations to the higher echelons of the Government.

Also, on the standardisation of costs, SAI BiH recommended that central standards should be adopted. In this case, the Ministry of Finance agreed and it has prepared rule books on: mobile phones, representation costs, and official cars. There are five documents (three prepared by the Budget Department and two by the Treasury) and the general rules apply to all budget-users at State level, including arm's-length agencies. In RS the Ministry of Finance has developed three rulebooks, two of these (classification of accounts and reporting) have been adopted and implemented; the third one is about accounting rules, which at the time of the peer review, had not yet been adopted.

#### *Audit opinion*

The opinions in the audit reports of every SAI are based on the International Standard on Auditing 700 SA. The different types of audit opinions are described in the Public Sector Audit Manual. Although no uniform text for the different types of audit opinions is used as of yet (that was a peer review recommendation in 2005), the Peers conclude that the opinions in the audit reports they have reviewed are in accordance with the international standards. Nevertheless, on several occasions during their missions, the nature and meaning of audit opinions were the subject of extensive discussion.

In the Peer Review report 2005, the Peers recommended that the three SAIs evaluate together the process of forming their audit opinion in order to develop a consistent approach towards the opinion-forming process. The Peers acknowledged that the risk of issuing a wrong opinion at that time was still low for the three institutions, because the opinions were negative (and this is still the case for most reports). However, as soon as a reserved or even a positive opinion is issued, there could be a greater risk that the opinion issued was not well founded, mainly for technical audit reasons (e.g. the absence of statistical sampling).

In 2011, the situation was completely the opposite to that which had existed in 2005. Politicians and media alike, have an eye open only for negative opinions. They perceive reserved and positive opinions as uninteresting or they are mistrusted. **Members of Parliament and auditees** mentioned several reasons as to why they have doubts about the justification of the opinions of the SAIs. **These reasons are:**

- Assemblies have made comparisons and found that audit opinions vary between the SAIs. In particular, they question why SAI BiH has not provided any negative opinions for some years, while SAI Fed and SAI RS have provided them.
- The wording of audit opinions differs.
- The scope and the meaning of the audit opinion, especially of a negative opinion, are not well-understood, and reserved opinions are perceived as very ambiguous.

**(1) The SAIs acknowledge that the opinions might differ between themselves.** The management of the SAIs are of the opinion that consistent criteria should be developed and used throughout all of the SAIs for audit opinions and audit reports. However, criteria for audit opinions are set out in the Public Sector Audit Manual and the system of quality control applied has led to much discussion about the type and rationale for an opinion. However, there is no agreed upon methodology as to how to arrive at an audit opinion, for example, a methodology for which kind of qualifications may result in a positive, reserved or negative opinion.

In any event, even when new criteria have been developed and used in a consistent way by the SAIs, it will always be possible that, in similar cases, different opinions are provided. This arises because the opinion is based on clear evidence and on professional judgment. Professionals might, for example, have differing views concerning the risks of government operations and their influence on the financial statements.

**(2) The differences in the wording of audit opinions** need to be addressed, particularly as the auditees compare the SAI reports and draw conclusions about them, not necessarily based on reality. In their 2005 report, the Peers recommended that this problem could be addressed by harmonising the text of the audit opinions. The Peers believe that these primarily technical issues [(1) and (2) above] could be resolved by the management of the SAIs, under the auspices of the CB.

**(3) The problem concerning the lack of awareness of the scope and meaning of the audit opinions among members of Parliament and the media is a much more difficult issue to resolve.**

Members of Parliament are not always experienced in financial and accounting matters and many may only read the audit opinion and not the complete report with its findings. Negative opinions therefore often trigger the wrong discussions, e.g. about whether a Minister should be dismissed, instead of focussing on the root causes of particular problems identified and how to address those causes. Also, the pressure for the SAIs in BiH to give a negative opinion seems to be growing. Reserved opinions are perceived to be very ambiguous, particularly where such opinions have had (or are perceived to have) benign recommendations, whereas other reserved opinions contain fifteen very serious recommendations. The rationale for providing reserved opinions in both situations is not always understood. Similarly, the current focus by stakeholders on the negative opinions, results in important reserved opinions receiving no attention, although they are sometimes almost as serious as the negative ones. The media also only focusses on negative opinions.

In principle, the issues concerning the lack of understanding about the value of an audit opinion, and the pressure for negative opinions by stakeholders can only be addressed by having a clear communications policy, which should be carried out unanimously by all members of the CB. In Chapter 6 (External Communication), the Peers elaborate in more detail our views concerning the improvement of the awareness about the scope, meaning and the value of audit opinions. In addition to a communication offensive, the SAIs might also consider splitting the audit opinion into two parts and/or to separate into two parts the audit opinion from the audit report. This might also solve a problem concerning how to include non-quantifiable legal mistakes into the weighing process of irregularities, and in the end defining the type of audit opinion.

This problem is not unique for the SAIs of BiH. For example, in the United Kingdom the issue is resolved by making a distinction between a financial and a regularity opinion. On the financial side, clear criteria are easier to establish and these are clearly separated from the regularity criteria. In this way, it is possible to have an unqualified audit opinion concerning the financial report, and yet have a reserved regularity opinion concerning the compliance aspects of an audit.

In order to inform the user of the opinion of only those irregularities which have led to the final audit opinion, and in that way, to clarify the qualification/s of the opinion, the SAIs might consider publishing all other possible findings in a separate report. ISSAI 1700, P5 gives this possibility. This allows the reader to see more clearly the rationale for the qualification/s, and also allows the other issues arising from the audit to be raised separately.

## **Recommendations**

*The Peers recommend that:*

- *The CB instruct the Methodology and Quality Control Department/officials to investigate and report on the reasons for the low usage of the Treasury System in the audit process.*
- *The CB instruct the Methodology and Quality Control Department/officials to draft a (training) plan for introducing statistical sampling into the audit process.*
- *The CB instruct the Methodology and Quality Control Department/officials to investigate how the efficiency and effectiveness of the reporting can be improved in the areas mentioned above.*
- *The Methodology and Quality Control Department/officials study whether the criteria for the audit opinion as mentioned in the Public Sector Audit Manual should be revised or made further operational.*
- *The Methodology and Quality Control Department/officials harmonise the audit opinions within the different SAIs and between the SAIs by using formats with fixed texts for the different forms of opinions.*
- *The Methodology and Quality Control Department/officials study whether the UK system for dividing the audit opinion into two parts: financial and compliance, and the ISSAI 1700, P5 are possible solutions for partly solving the problem concerning the lack of awareness among members of Parliament and the media regarding the scope, meaning and value of audit opinions.*

### **4.5 Audit process Performance Audit**

After the changes in the SAI laws in 2005, performance audit was introduced within SAI BiH, SAI Fed and SAI RS in 2006. SAI BD followed in 2009. This introduction was supported by the SNAO, which provided the initial training and close assistance during pilot audits. During the start-up phase of performance audit, parallel audits were also carried out, in which the SAIs covered the same topic within their area of responsibility. This was not only advantageous for the development of experience amongst performance auditors, it was also an efficient way of transferring knowledge by the SNAO to the entire group of new performance auditors. A translated version of the performance audit manual from the SNAO was used during this start-up phase.

The development of performance audit has followed a step-by-step approach, gradually building up capability and experience. In September 2009, the CB adopted a document entitled “Principles of Performance Auditing”, which gives an overview of the “what and how” of performance audit, including a description of the main phases, from strategic planning up to follow-up and quality control. A working group established by the CB is currently preparing an audit manual for performance audit; this manual can take into account the latest ISSAIs for that type of audit. Also, the SNAO is still on hand to support the SAIs in developing the manual, provide training, and to advise on procedures which ensure that the standards and guidelines are applied in practice. The SNAO has been the main SAI responsible for developing the relevant ISSAIs, and is considered to be one of the world’s leading SAIs in respect of performance audit. Another working group under the CB has been tasked to develop quality control guidelines for performance audit. The existing quality control guidelines only refer to financial audit.

The SNAO has assisted in the recruitment of performance audit staff by developing a “recruitment kit”, consisting of profiles, tests and assessment criteria. SAI BiH has six performance auditors in a separate performance audit department, and the recruitment of two more is being planned; except for the head of the department, all had prior experience with financial audit in SAI BiH. SAI Fed has a performance audit department with seven performance auditors, two of whom worked as financial

auditors before. SAI RS has eleven performance auditors in its performance audit department, three of whom worked as financial auditors in the SAI before they were selected to carry out performance audit.

In SAI BD there is one performance auditor who works under the direct supervision of the Deputy Auditor General, while a second one will be recruited shortly. This picture shows, amongst others, that SAI RS has invested the most in performance audit, with one performance auditor for every three financial auditors, SAI BiH slightly less (1/3,5), and SAI Fed has the lowest relative capacity in this respect (1/5,3). Given its recent establishment, SAI BD is naturally still in an early developmental stage, and it would not be fair to make a comparison with the others. In all SAIs, awareness has risen that requirements for performance auditors differ from those for financial auditors, but there is no formal condition yet laid down in a rulebook or similar set of established criteria.

The programming of performance audits is accomplished differently within each of the SAIs. For SAI BiH the management has established a work programme for 2012 containing six performance audits. This number of planned audits seems likely to overstretch the resources of the department, even with the recruitment of two more auditors, as SAI BiH produced merely five performance audits for the entire period of 2006/7-2011. Previously, audit proposals were developed within the department, discussions with management deciding upon the audits to be carried out. In SAI Fed the programming is largely bottom-up, with the provision of a number of audit proposals from which the DAG makes a selection. In SAI RS the programming process begins with a brainstorming meeting between the head of the performance audit department and the DAG. The resulting orientations are used by performance auditors to develop concrete proposals. These are discussed with the management, who finally decides upon the audits. The results of financial audits are used to identify possible topics for performance audit. Therefore, having had past experience with financial audits is useful when working in the performance audit department.

After pre-study research, an audit starts with a study phase, the results of which are evaluated, sometimes leading to some changes in the scope of the audit, either narrowing or broadening it. For instance, in SAI RS the performance audit on urban permits was originally planned to cover only the efficiency of procedures for the handling of applications, but after the study phase it was concluded that it would be more useful to cover the overall effectiveness of the entire system of spatial planning and building. Although this was certainly warranted by the substance, consideration might have been also given to an alternative option, which is to split the broader audit into two separate sub-audits, reporting on those separately with a third and final report topping it up. The standard use of focus groups, in order to discuss the preliminary outcome, allows for intensive discussion with the clients contributing to understanding and finally impact. This procedure is much appreciated by clients, but it is of course a resource-intensive procedure which takes quite some time. Partly due to the support from the SNAO, which necessitates translation of documents and which is therefore time-consuming, the time needed for performance audit is rather long; up to two years between the agreed upon proposal and the published report. The production of audit reports so far is limited. SAI Fed and SAI RS will each have finalised twelve performance audits in the period 2006-2012, SAI BiH even less. Co-operation between the SAIs is restricted to the working groups under the CB. Parallel audits are no longer performed although informal exchange of experience or consultation between individual auditors from the different SAIs does take place.

The audit procedure ends with a discussion with the clients about the draft report and draft conclusions. As with financial audits, comments from the clients in writing are then solicited and taken on board in as far as is considered appropriate. Several clients have remarked that their comments were not duly considered, or at the least summarised in the final report. However, in general, their appreciation of performance audit is nevertheless positive. There are examples of suggestions for new performance audit topics from clients, as was the case in Republika Srpska when the Minister of Justice proposed that the Auditor General of the SAI RS carry out a performance audit on the efficiency of commercial courts, which was subsequently included in the work programme. Reports are submitted to Parliament as soon as they are finalised, and at the same time published on

the website. As a rule, a press conference is organised immediately after publication. Often a long time elapses before the report is discussed in Parliament. Members of Parliament and the media are positive about performance audit, and there is some pressure from parliamentarians and the media to produce more performance audit reports. With the current resources and the usual time frame as it exists now, this will be difficult to realise. However, more focussed audits could save resources, and the cumulated experience of the performance auditors, in itself, will make shorter time frames possible.

Topics covered by performance audit demonstrate a large variety, and are characteristically not restricted to one specific client. The audit of agricultural subsidies carried out by SAI Fed, covers all government institutions involved in dealing with applications and payments, which amounts to a multitude of institutions and authorities at cantonal and federal level. The audit on the efficiency of registration procedures for handicraft shops and small businesses in Republika Srpska, covered a sample of all municipalities in the Republic as well as several Ministries, as was the case with the urban permits for spatial planning and building. Other topics included: the recruitment of civil servants, expropriation procedures for highway construction, procurement of office equipment, to name just a few. Impact has been varied as well: some reports fell onto fertile ground and led to immediate measures being taken by the responsible authorities, such as with the urban permits audit in Republika Srpska. Others, such as the agricultural subsidies audit by the Federation, are still awaiting an appropriate response, although the problems identified in the report are acknowledged by the audited entities. Still, in other cases, the auditees appreciated the analyses performed, but considered the recommendations not always realistic or even helpful. This can be considered a learning process for both the SAIs and their auditees, to better understand the potential benefits from performance audit, and to make certain that audits result in useful and workable recommendations.

Another working group established by the CB deals with the preparations for the departure of the SNAO as the provider of technical assistance for performance audit, foreseen for the end of 2012. The resulting exit strategy aims to ensure the sustainability of performance audit development.

### **Assessment**

Performance audit has reached a satisfactory professional level. All reports so far have had some impact, although not all recommendations have been implemented. Performance audit is appreciated by auditees, parliamentary committees and the media. This positive profile of performance audit is an asset for the SAIs in view of the further development of this type of audit. SAI BD, given its young establishment and small scale, has limited capacity and experience. In fact, SAI BD is in the situation of the other SAIs when SIGMA presented its first Peer Assisted Review Report, in which we recommended that the focus first be on the development of the financial audits, and that there be caution in regards to developing performance audit.

For the SAIs of the Entities this is clearly not the case anymore, and SAI BiH has developed its capacity and experience in performance audit. Here the questions are rather, how to sustain the capability, develop further capacity and quality, and improve the impact of performance audit? These questions are asked within the context of the approaching end of technical assistance by the SNAO. Performance audit is a resource-intensive type of audit, and the application of the approach developed by the SNAO, for instance, using extensive discussion with clients in focus groups, adds to this resource-intensity. The average lead time for performance audits is substantial, which for the time being reduces the possibilities of increasing the number of performance audits more than marginally. Strategic, multi-annual planning, which would, amongst others, allow for systematically considering the possibilities for splitting up larger topics into a sequence of smaller scale audits, is largely lacking.

## **Recommendations**

*The Peers recommend:*

- *To enhance cooperation between the SAIs in order to mutually strengthen the quality of the small-sized performance audit departments, for instance by carrying out parallel audits, joint training activities, workshops, etc.*
- *To consider how these common training activities can profit from the IDI-trained performance auditors, especially in SAI RS.*
- *To allow for more strategic multi-annual planning.*
- *To consider, in that respect, the possibilities for more performance audits, however, narrowing the scope which could then restrict the lead time for individual audits.*
- *To consider, similarly, the possibilities for phasing individual audits in such a way that separate reports on each phase could be issued, with one final, summarising report at the end.*
- *To, in that context, pay specific attention to potential quick wins: topics that due to relative simplicity or narrowness of scope would not need much resources to be audited.*
- *To identify the needs for further technical assistance in respect of developing performance audit.*

## **4.6 Quality Control and Assurance**

In its peer review report of 2005, the Peers recommended that the CB develop a common quality policy for all institutions. In 2007 a working group consisting of staff members of the three SAIs drafted an Audit Quality Control Guide, which included checklists. This guide is based on the ISA 220 of IFAC (which is currently ISSAI 1220) and the quality control practice in Audit Scotland.

This overall quality control and assurance approach distinguishes three phases:

1. Getting it right the first time. This means that the teams are organised in a hierarchical way: the auditor in charge supervises the team leader who supervises the audit staff.
2. Hot review, monitoring the quality in all audit phases. There are different ways of doing this:
  - Monitoring by so-called control champions: one of the audit teams reviews the work of the other teams but they still carry out audits as well;
  - Monitoring by a specific team to review other teams without performing audits themselves.
3. Cold review, aiming at establishing future directions for improvement.

The Audit Quality Control Guide not only deals with these phases, but also with the audit quality management on the institutional level, although in a general way.

### **Assessment**

The quality control procedures for individual audits (phase 1) have not been changed significantly since the SIGMA Peer Assisted Review of 2005 which was qualified as adequate at that time. The main control continues to be carried out on a regular basis: the team leader supervises the team members, while department heads supervise the whole team. The SAIs work according to different procedures, but they are all, in principle, in line with the Public Sector Audit Manual and the Audit Quality Control Guide.

The quality monitoring and cold review tasks (phases 2 and 3) are still in their infancy. The members of the CB recognise that the infrastructure for quality control needs to be strengthened. In SAI BiH,

the department for methodology development and quality control was established in 2010. Initially, the head of the department worked alone, but in autumn 2011 two auditors were recruited for this department. In SAI Fed there is no department for quality assurance yet, but one person is active as a reviewer of the audit work. In SAI RS there should be a separate department for quality control, but its establishment has not yet been possible.

In SAI BiH the Methodology and Quality Control Department, after developing a detailed methodology, started with phase 2 by reviewing four to five specific audits in detail (out of seventy-four). Phase 3 is still too ambitious because the three staff members are supposed to perform two to three audits a year in order to keep their practical experience up to date, and they will therefore have only limited time available to develop or undertake the phase 2 and 3 activities. It is envisaged that when the department starts phase 3 activities, auditors of the various departments will take responsibility for the phase 2 tasks

In SAI RS a peer evaluation system has been introduced, which implies that audit teams are assessed by other audit teams (one of the phase 2 options). The hot review is carried out by team leaders and the head of the Financial Audit department. She/he has access to all of the folders used by the audit teams during the audit. These folders contain all of the documents and working papers. In the preparatory phase, she/he reviews the planning documents and assesses whether the plan is adequate, whether the analytical procedures match with the audit objectives, whether the sample size is correct, and whether the methodology for the procedures is appropriate. Discussion takes place with the team leader and corrections are made if needed. The team leader completes a checklist, which is also signed off by the head of department. These checklists serve to ensure that all the necessary procedures have been correctly followed. The checklists used were developed in the SAI RS, because the checklists attached to the QC guidelines were not considered suitable. The head of the Financial Audit Department prepares an annual report for the Deputy AG identifying the weaknesses in the quality of audit work and quality control.

In SAI Fed, the person in charge of quality control completes the required QC forms and reports to the AG. She/he also regularly prepares a summary of her/his work for the AG. The QC process within SAI Fed has resolved some bottlenecks. Each draft report is reviewed by a group comprising of the Financial Audit sector, together with a DAG and the audit team in charge of the audit. It is not perfect and more work will need to be undertaken.

The members of the CB recognise that the infrastructure for the phases 2 and 3 of the quality control framework needs to be strengthened in order to ensure solid institutionalised quality control arrangements within the SAIs. However, the CB must also pay attention to the needs of the auditors in the field. The Peers found that, although audit teams have been provided with the Audit Quality Control Guide checklists, they are not using them, because they have not received training and were not involved in the preparation of the document. The teams therefore apply quality control procedures in their own way. This attitude of the auditors is not uncommon, and reflects the opinion that introducing a new way of working will, in general, not have the desired result if it is not accompanied with an implementation plan (including training). Moreover, the observations of the Peers referred to in paragraph 4.5 illustrate that there is still a need for improving the quality of phase 1: getting it right the first time!

### ***Recommendations***

*The Peers recommend that:*

- *The Quality Control Departments/officials concentrate on improving phase 1 and 2 before allocating resources to introducing phase 3.*
- *The Quality Control Departments/officials organise trainings for all auditors in using the Audit Quality Control Guide.*

## **5. SUPPORTING PROCESSES OF THE SAIS**

### **5.1 Training, Learning and Development**

The personnel training strategy, adopted by the CB in 2009, sets out the strategic priorities of the SAIs of BiH, including: recruitment needs, professional development, fostering success in work, discovering management potential, and information on human resources. These strategic priorities represent the way towards achieving the final goal: achieving what has been planned, as well as addressing the vision, mission and values adopted by the SAIs of BiH.

The strategy supports the concept that acquired knowledge and skills alone are not sufficient for good, professional performance in undertaking audits. The staff also must constantly upgrade their expertise, specialised knowledge and ability through continuous development and training, pursuant to international auditing standards.

Two types of professional development are set out in the strategy - training and continuous learning. Training covers induction training for recruits, as well as providing opportunities for all staff to improve their knowledge and skills through formal courses and on-the-job training. Continuous learning covers the need for the staff to be able to improve their operational processes and to make proposals for positive change that contribute to the achievement of the SAI BIH goals. This type of development is more sophisticated and includes both internal and external training opportunities.

The strategy recognises that all professional development shall be implemented within the key operational areas of financial, performance, and IT audits, human resource management policy, and communication and non-audit staff training. Each SAI will need to adopt individual decisions on each type of training and will need to adopt training plans for each area.

The foundation of effective training plans is a comprehensive training needs assessment, which should establish:

- The knowledge and skills that the staff possess;
- The knowledge and skills that are lacking;
- The knowledge and skills that are required for the SAIs to achieve their strategic goals.

This information provides the link between the training needs and the strategic goals of the SAIs.

The strategy requires the management of each SAI to adopt a decision on the strategic steps needed for training planning, and for the CB to adopt a decision for the level of training needed for all the SAIs.

The Peers note that the Lima Declaration (Part V, S14) requires SAIs to pay special attention towards improving the theoretical and practical professional development of all members and audit staff, and that such development shall be encouraged by all possible financial and organisational means. The training strategy adopted by the CB in 2009 and the SAIs, provides an overarching framework for training and learning development within the SAIs. Training courses are delivered within the SAIs as resources allow, but no comprehensive training needs analysis has been undertaken for all SAIs, as envisaged in the training strategy.

Certificated trainings are available for the staff of the SAIs as: Certified Technician, Certified Accountant or Certified Auditor. There are two external 'Associations of Auditors', one in each



Entity. They organise the certification trainings through the private associations of auditors. The Ministry of Finance is responsible for the certification programmes and issuing the certificates. There is no formal agreement between the SAIs and the Association regarding the training programme. To receive a licence, a certified auditor needs to demonstrate that they have had:

- Three years of auditing experience;
- Participation in auditing financial statements twice a year.

Certified auditors need to undertake 40 hours of training a year (120 hours over three years). In the Federation there are approximately 300 certified auditors, of which some 100 work in the public sector. For Republika Srpska, there are approximately 200, of which some 150 work in the public sector. Salaries in the public sector are generally lower than in the private sector.

Training in financial audit by the SNAO has been limited since 2009 and its current training support for performance audit will be completed in 2012. Budget constraints have limited the training that can be provided by the SAIs, which now tends to be on an ad hoc basis. Work priorities also limit the time available for certified staff to attend their annual training requirement of 40 hours.

There is some concern by auditees about the legal skills of the auditors. Auditors are seen as being knowledgeable in audit, accountancy and economics, but are perceived as lacking legal skills. This is reflected to some extent by the limited numbers of legally-qualified staff in the SAIs. Further legal training for audit staff would benefit the SAIs by demonstrating that their staff have the full range of skills necessary to implement all aspects of the audit methodology.

There have been considerable benefits derived from having access to the Treasury's electronic accounting systems, however, it seems that not all SAIs have yet taken full advantage of this. The limited number of staff with IT skills indicates that it would be beneficial if more staff were trained in the use of IT, in particular for the analysis of clients' databases, as well as, for computer-based statistical sampling.

### **Assessment**

The number of certified auditors employed by the SAIs provides a sound basis for the technical knowledge required. The SNAO training in financial audit also provided, until the support concluded in 2009, valuable additional knowledge and skills for SAI staff. The Peers again note that the SNAO training in performance audit will conclude in 2012.

In general, the Peers found that the SAI staff works professionally, and that the auditees respect the work of the audit teams, although they had some concern about the auditors' particular lack of skills in law and in the use of IT. In order to continue the sound progress made in the SAIs' staff development since the previous peer review, the SAIs and the CB will need to consider how best to continue the training support for the staff.

Current practices regarding training and human resource development vary between the SAIs. In view of the withdrawal of the SNAO, and the importance of addressing staff training and development needs for the SAIs, it now seems timely for a full training needs analysis to be undertaken under the auspices of the CB. Despite the staffing and budgetary constraints, which are unlikely to improve in the near future, the CB could usefully co-ordinate the analysis and preparation of a detailed training, learning and development strategy, combined with a realistic and achievable training plan. An analysis of comprehensive training needs must be undertaken for all of the SAIs. In order to implement a coherent and envisaged training strategy, the training needs of each SAI must be determined, analysed and incorporated into their training plans.

The training needs analysis will provide valuable information about the gap in skills, but the strategy will also need to take into account all relevant internal and external factors such as: the lack of staff time for training, the external pressure requiring a broader range of SAI staff skills, as well as the availability of external assistance. Training for selected staff in the use of CAATs and in the

interpretation of the law, as regards audit findings, might be valuable. The CB might be able to assist with developing expert advice in the area of auditing Treasury accounting systems. The SAIs need to make better use of staff who are already trained as trainers. The training strategy could provide for a cross-fertilisation of experience and sound practice between each audit institution.

The training of selected staff within each SAI, or the creation of a central reference capability within the CB, may enable the SAIs to access sufficient expertise in the main areas of weakness, but the strengthening of these specialisms will eventually assist the SAIs in addressing the legal and IT issues that regularly arise in their audit activities.

In addition to audit-related training, there is a need for management and personal skills training. For example, suitable areas for training might include: mentoring for senior and middle management to enhance the understanding of their respective roles and responsibilities; training in media skills to assist management in explaining to external stakeholders the roles of the SAIs and the significance of audit findings, recommendations and opinions. Language training for the staff would enable them to take full advantage of international developments received both from seminars and the internet.

### **Recommendations**

*The Peers recommend that:*

- *The arrangements for the certificated training provided by the Association of Auditors be formalised.*
- *The CB co-ordinate with the SAIs, at the earliest opportunity, to undertake a comprehensive, detailed, training needs analysis of all staff. This will enable the Board to decide on an up-to-date training, learning and development strategy, supported by a realistic and achievable training plan. This approach would also enable external donors to identify the particular areas that they might wish to support.*
- *The above analysis should also take into account the availability of staff time for training, as well as the possibility of external funding. Also, it should cover, as a minimum, the following areas:*
  - *The current use of CAATs for IT audit to identify which IT skills need reinforcement*
  - *The extent of legal expertise required in audits*
  - *Mentoring needs for senior and middle managers*
  - *The need for training in media skills*
  - *The need for language training*

## **5.2 IT Developments**

The CB has adopted the Information System Development Strategy for the period 2009 to 2012. This was prepared by the IT working group, with the co-operation of the SNAO. It is required that each SAI prepare an annual plan for the implementation of activities related to the IT strategy. In the light of these developments, the SAIs now have functional and modern IT equipment and software, and the audit staff are equipped with laptop computers and have work stations in each office.

Staff have access to the internet and to the intranet of their SAI. The IT system for each SAI is located in their respective head offices in Sarajevo and Banja Luka. SAI Fed is linked through local area networks to each of its regional offices, and SAI RS is linked to its subsidiary office in Bijeljina.

The auditors for each SAI use MS Office software (Word, Excel, Outlook and PowerPoint), and internal documents (audit guides, instructions, etc.) are available through the intranet sites. There are also internet links for relevant external content (legislation, client websites). Auditors use a standardised MS Word-based audit format for writing audit reports, but no use is made of a document

management system for recording results of the audit work. Such systems are becoming more common in the SAIs as they minimise the level of paper that is required, and they also ensure that audit processes can be properly controlled, supervised and reviewed. Some SAIs have developed their own document management systems, though they are also available commercially. Commercial systems may need to be adapted to meet the specific public sector audit requirements.

Each SAI has a website which includes the SAI audit reports, as well as information about the Audit Offices. These provide useful sources of information for external stakeholders. There is also the technical possibility for external access by the SAI BiH staff to their office information system, however, this is currently enabled only for IT staff.

The IT function of SAI BiH is organised as an integral part of the Audit Development, Methodology and Quality Control Department. It is responsible for the administration and support of IT services and, when requested, the auditing of information systems, and the collection and analysis of data from an audited entity as part of the financial and performance audits. The IT function currently employs two staff: an IT audit specialist and an assistant IT audit specialist, both of whom answer directly to the head of the Department.

The IT function for SAI Fed is organised as a separate unit, and this has three IT technicians and a systems administrator. Recently, one financial auditor, with an IT background (CISA certified), was assigned to the unit to assist in the development of software for analysing the data of audited entities.

SAI RS also has a separate unit that is responsible for the support of IT services, auditing IT systems and the collection and analysis of electronic data from audited entities. There are currently two staff, one of whom is CISA/CISM qualified.

Each unit carries out administrative tasks, monitors the functioning of the IT systems, and provides assistance in the use of IT systems for the staff. IT unit staff have undertaken the appropriate training. Each IT unit maintains the website and audit reports of the SAIs, while other material is also published on these websites. Programs based on MS Access and MS Excel (internally developed or purchased) are used for financial and accounting duties.

### **Assessment**

The SAIs have well-developed IT support services, and are benefitting from the earlier investment in hardware and software, initially funded by Swedish technical assistance, and from the Information System Development Strategy adopted by the CB. The numbers of staff trained for IT support services, though, are relatively small within each SAI. There may be scope, however, for the cross-fertilisation of ideas and procedures to maximise the benefits of the training and experiences of each IT specialist. The application of the IT self-assessment tool developed by the EUROSAI IT working group in 2005, would provide an excellent benchmarking exercise if it was applied unanimously by the SAIs in BiH.

A common document management system is needed to assist audit teams in performing their audits and would benefit the control, supervision and review processes of audits.

### **Recommendations**

*The Peers recommend that:*

- *Given the development that has taken place, and in view of the ending of the SNAO guidance, it now seems timely for the SAIs to review in detail their options for further IT development throughout all of the SAIs, by means of a working group established by the CB.*
- *The SAIs, through the CB, develop a common document management system to ensure that audits are undertaken on a consistent basis, both within each SAI and between SAIs. This approach would also ensure that such systems are prepared in the most efficient manner.*

### **5.3 IT Audit**

Each SAI may access the information systems of its respective Treasury at Entity and State levels, via protected leased lines. Auditors from each SAI are therefore able to search for transactions within the Treasury system, initiate reports, download them in electronic format and analyse them on their own computers.

For each SAI, the team leader of an audit may request the IT audit specialist (from the IT function) to be included on the team, in order to evaluate the IT controls of the audited entity and/or to download the transactions database. The IT audit specialist may also be engaged in the auditing process, and may submit reports on the IT systems to the audit team leader. Findings and recommendations are submitted to the audited entity, according to their significance, in a management letter or may be incorporated into a public audit report. In the future, IT audits may also be performed as independent audits.

Some auditees noted that, despite having access to Treasury systems for a number of years, SAI audit teams still requested data from them when undertaking the audits. This may be the result of the limited staff resources available to the SAIs, but it is important that the efficiencies derived from the greater use of IT in audits, both from statistical sampling and the analysis of computer-generated reports, are not reduced. The benefits of applying such techniques in respect of particularly, large and complex auditees, cannot be under-estimated. It is important, therefore, that audit staff are well-trained so that they may be able to gain the experience necessary to apply modern techniques with confidence and skill.

In 2010, within the framework of joint procurement by the SAIs in BiH, ACL licences were purchased by all SAIs to enable the collection and analysis of data from audited entities, applying computer-assisted audit techniques. Following analysis in ACL, the data is then exported by the IT audit specialists in the format suitable for the audit teams (Excel files having built-in headers, footers, filters, subtotals, and summary tables).

For 2012, SAI Fed plans to utilise software support for the management of the audit process and for its business support processes. This development will assist in ensuring consistency in the auditing undertaken by the audit teams within and between the SAIs in BiH.

#### **Assessment**

The SAIs are linked to the accounting systems of their respective Treasuries, and may initiate reports and analyse data as part of their audits. This is a very positive development. The use of IT in auditing, however, requires the continuing development in this area by all of the SAIs to ensure that the potential weaknesses in the computerisation of government accounting systems are properly addressed as part of the audit approach. The introduction of programme budgeting and accruals accounting will place particular demands on both the Ministries and the SAIs. The shortage of staff resources for the SAIs has led to time allocations that are too limited for large and complex audits. An increased use of IT in the auditing of governmental accounting systems will assist in electronic sampling and data analysis and improve efficiency in the audit process.

Although the audit staff uses MS Office and 'standardised' formats for audit reporting, further development of document management systems to support the audit process will benefit the SAIs in terms of improved efficiency, and will assist in maintaining consistency in working practices throughout all of the SAIs.

## ***Recommendations***

*The Peers recommend that:*

- *The SAIs ensure that audit teams make optimal use of access to Treasury electronic systems, through the further training of audit staff.*
- *By creating a central role for IT development, the CB thereby heightens support for the SAIs in the training of more staff in the use of CAATs.*

## **6. RELATIONS AND COMMUNICATION WITH MAIN STAKEHOLDERS**

### **6.1 Introduction**

Given their non-judicial character, the SAIs are dependent upon others to have impact. Apart from obtaining directly the results from audits through the appropriate auditee responses, the SAIs need the support and enforcing power or influence from Parliaments, Ministries of Finance and the general public. Publication of audit reports is essential, but not sufficient. The SAIs need to use all possible instruments to convey their messages to make certain that they are understood and have maximum impact. (An overarching guiding principle in this respect is Section 16 of the Lima Declaration (ISSAI 1), which deals with reporting to Parliament and the general public. Also Principles 6 and 7 from the Mexico Declaration (ISSAI 10) on reporting and follow-up mechanisms provide useful guidance.)

### **6.2 Communication strategy in general**

In May 2006 the CB adopted a communication strategy for SAI BiH, SAI Fed and SAI RS. Amongst others, this strategy paper defined the mission of the SAIs and set organisational values which would be reflected in all communication activities. Furthermore, the strategy paper defined the role of the SAIs in society and distinguished between the different categories of target groups. The strategy paper also dealt with internal communication. As a whole, the strategy paper had a rather general character, and did not give very clear guidance for communication. However, the paper did determine that each SAI would need to draft annual plans as an operational tool for strategy implementation. The strategy was to be revised every three years.

In reality, such a revision has not yet taken place. Given the general character of the strategy, a revision is perhaps not very urgent. Thus far, no annual plans have been drafted by individual SAIs. However, there is one common communication plan, dated December 2005/May 2006, which describes in more detail the principles from the strategy paper.

The strategy sets as a main objective for the SAIs to actively contribute to the efficiency of public administration. This is reflected in the vision for the SAIs, and the explanatory note to the vision, as laid down in the SDP (p. 12). This states that the SAIs are to contribute to safeguarding the public's trust that public resources shall be used in a proper, efficient and effective manner by the responsible public institutions and public servants. Contributing to the efficiency of the public sector implies, according to the strategy paper, that this must be reflected in the values of the SAIs as well, i.e. that transparency, integrity, professionalism, and effectiveness must be present in the SAIs' organisation and communication. The strategy underlines that all communication activities should be correct and understandable, well-structured and easily accessible, relevant, transparent and coherent, and adapted to the different target groups. The paper distinguishes between primary and secondary target groups, and between different communication channels. The paper stresses that individual SAIs are to work out more concrete and structured approaches, which, amongst others, should prioritise efforts and areas and define the organisational set up of the communication function within the SAI. In SAI BiH this function is located in the Office of the AG, the International Co-operation and PR unit, which in total has two staff and two more planned for the future. In SAI Fed, the function is located in the Department for HR, Communication and International Co-operation – but this department consists of its head only. In SAI RS this is dealt with solely by the DAG, as is the case in SAI BD.

The strategy paper foresaw the possibility of a common communication function, but as of yet, this option apparently has not been taken. As different target groups need to be reached, such a common communication function (seen as being an advisory to the DAGs on communication matters by a specialist in communication) would of course be an efficient and effective solution, and therefore in line with the point of departure of the strategy, which states that the SAIs must apply towards themselves the principles of efficiency and effectiveness.

The SDP for 2007-2012 set as an objective under securing audit impact: “SAI communication fulfils the criteria of a well performing SAI.” Indicators of this criteria being met (see table 4, p. 32) were mentioned: the communication policy, strategy and plan being updated and successfully implemented (a continuous process) concerning each SAI and the media, and each SAI and the public; to be implemented during the timeframe of 2007-2012. The actual updating and implementing of the strategy and plan does not seem to be a realistic objective, at this point, as all would have to be realised within the current year.

The communication plan aims to ensure that communication endeavours are systematically contributing to a positive impact upon audit activities. It defines in detail the various target groups, and the communication channels and tools most appropriate for these groups. It also sets basic rules for communication, such as the principles to maintain consistent contacts with relevant journalists, and to organise regularly scheduled press conferences on audit reports. It does give some guidance for communication activities by the SAIs, but it does not in any way link objectives with actions. It is more about procedures and the internal distribution of responsibilities. It is not an activity plan.

### **Assessment**

The SAIs have a common communication strategy which dates back to 2006, and has not been revised since it was written. Annual communication plans for each of the SAIs are lacking, but there is a common communication plan instead, and the SDP does contain some activities and indicators for successful communication. SAI BiH and SAI Fed have established small communication functions within their institutions to assist the AG and DAG, who are primarily responsible for communication, whereas in SAI RS and SAI BD the DAGs perform this function without further communications assistance. The implementation of such communication plans may be hampered by resource constraints. However, it is also important to acknowledge that an SAI will only create a real impact if it masters the entire range of activities demanded: from programming and planning, through performing audits professionally, to attaining clear and effective reporting skills, while communicating the audit results within their proper context.

### **Recommendations**

*The Peers recommend that:*

- *The CB consider integrating the current communication strategy paper and the communication plan into one revised and updated communication policy paper*
- *The SAIs develop annual activity plans that would distinguish between the different categories of target groups*
- *The SAIs consider the establishment of a common communication function under the umbrella of the CB, which could serve as a support function for the management of each SAI in their respective communication activities, and would allow for efficiently building up expertise in this area.*

## **6.3 Relations with Parliament**

At State level the two houses of Parliament (House of the Peoples and House of Representatives) each have a committee dealing with the reports of the SAI BiH. These are the finance and budget committees, which have responsibilities for all financial and budgetary matters. In principle, all

reports with either an adverse (negative) or a qualified (reserved) opinion are discussed by the committees, and hearings are organised, to which the managers of the auditees concerned are invited. The discussions of the committees result in a report to the respective plenary House of Parliament, usually accompanied by a draft resolution on the follow-up that should be integrated into the observations and recommendations of the audit reports. The Houses of Parliament also deal with the draft budget of the SAI BiH, which is submitted for approval and discussion by the committees, together with the annual report of the SAI.

In the Federation of Bosnia and Herzegovina, the two Houses of Parliament have established a joint committee to deal with audit reports. The policy is similar at the State level: the committee discusses all audit reports with the focus on discussing adverse or qualified audit opinions, and organising hearings to which the auditees concerned are invited. The joint committee is to report on its conclusions to both Houses of Parliament.

At the cantonal level in the Federation, audit reports are dealt with in the cantonal assemblies. However, SAI Fed is not involved. Due to the high number of cantons (ten) and municipalities (eighty), SAI Fed has decided that invitations from cantonal assemblies and municipal councils to present audit reports cannot be accepted. From the limited evidence assembled during this review, the absence of SAI Fed in the assemblies' procedures of the audit report does not imply that the auditee does not take the report seriously.

In the Republika Srpska, the Parliament has established an Audit Board, which is a committee responsible for dealing with the SAI's reports and budget. The Audit Board of nine members, chaired by an opposition member of Parliament, applies standard procedures for dealing with audit reports similar to those used in the parliamentary committees of State and Federation. This implies that only reports with an adverse or qualified opinion are discussed and, in the case of adverse opinions, the auditee is invited to a hearing by the Audit Board. The Board has the obligation, according to its own rules of procedure, to submit any audit report with an adverse audit opinion to the public prosecutor. Such a procedure strengthens the perception that negative audit opinions indicate fraud or corruption. The plenary is to adopt the SAI's annual report on the basis of recommendations by the Audit Board. This arrangement has led to notable situations in recent years, such as in 2009, when the Assembly did not adopt the SAI's annual report. The Assembly of the Republika Srpska has not received technical assistance to strengthen its capacity to deal with audit reports, but the guidance developed by DFID (see below) could also be applied by the Parliament in the Republic.

In the Assembly of Brčko District, no separate body exists to deal with audit reports, and this task is part of the mandate of the Commission for Monitoring of the Operations of Government, District Institutions and Petitions of Citizens. So far, the Assembly has not had much experience in dealing with audit reports and, on the whole, the understanding of the role of external audit, including the role of SAI BD, and its own role in this respect is limited.

A technical assistance project launched in 2008 (assisted at first by DFID and later by USAID), supports the State and Federation Parliaments in dealing with audit reports in a structured way. This project has resulted in a Guideline for the review and analysis of audit reports for the budget and finance committees of the parliamentary assembly of Bosnia and Herzegovina, which is being incorporated into the parliamentary procedures. The main focus of the Guideline is on: raising awareness amongst parliamentarians on how to make use of the audit reports, how to ensure follow-up by the responsible managers of the audited entities, and on increasing efficiency and effectiveness in dealing with audit reports. A potentially strong weapon in this regard is the possibility of cutting the budget of audited entities in the event that insufficient follow-up is given to audit recommendations (Article 16(4) of the Law on SAI BiH and similar Articles in the other SAI Laws). The use of this weapon at State level has focussed on the elimination of specific administrative budget lines (representation, service cars) so as to minimise the impact on beneficiaries of government programmes, and to instead apply direct sanctions on the responsible managers. In December 2009 this instrument was used for the first time, with the budget cuts of one million KM. However, this



budget cut was circumvented through amendments to the general budget law. In order to use the scarce resources of the committees and their Secretariats more efficiently, the Guideline introduced a more selective approach for the reports to be dealt with. Criteria were formulated to deal with the stagnating implementation of previous recommendations, unfavourable assessment by the SAI, as well as increasing the scope of qualifications.

Audit reports with positive audit opinions would generally no longer be discussed in detail. At the same time the Guideline focussed on a multi-annual approach by introducing tables summarizing the main observations from a series of previous audit reports and the follow-up given by the auditees. This would, amongst others, allow for better identification of systemic problems. The Guideline mentions another option to strengthen the capacity of both committees, which is to join the Secretariats of both committees (each has one staff) and to organise joint sessions. Not mentioned is the possibility to go one step further, and establish a joint committee of both houses of Parliament, comparable to the joint committees on European integration and on Defence and Security. The Guideline clearly places the role of Parliament, in regards to audit reports, as being within its broader responsibility concerning budgetary matters. The newly established procedure, therefore, includes the introduction of a report which is based on committee discussions of audit reports, and contains their recommendations for follow-up actions and sanctions for individual budget-users in the context of the budget preparation process. Parliament is to send this report before the end of April to the Council of Ministers and the Minister of Finance.

In the Federation, the experience with the new procedure is still limited, and its effects therefore need to be awaited. The new joint committee established after the 2010 elections began its work only in September 2011 for the 2009 and 2010 audit reports, implying a huge backlog of reports still to be dealt with. Hearings with auditees were organised for November, after meetings on specific reports were held with the Auditor General, his deputy and other SAI Fed staff. These meetings were meant to gain a better understanding and make clarifications where necessary. The vehicle of a joint committee does not in practice, lead to problems in decision making by the two houses of Parliament; in all cases so far, both houses have adopted the conclusions from the joint committee in its reports.

The SAIs submit all their reports to Parliament. The annual audit report, which gives an overview and summarises individual financial audit reports, is submitted together with the annual report on the execution of the budget. Performance audit reports are submitted to Parliament as soon as they have been finalised, while financial audit reports are submitted in tranches, three to four times a year. As soon as a report is submitted to Parliament it is also made public by putting it on the SAI's website. Publication is usually accompanied by a press conference given by the Auditor General. Apart from the presentation to the parliamentary committee, the SAIs are not involved in the discussion on the reports. No briefing notes to members of Parliament are provided, no comments on draft resolutions are given. Neither have the SAIs seriously considered how the timing, frequency and presentation of reporting could better serve the purposes of the competent parliamentary committees, and consequently contribute to increasing the impact of the audit reports.

In general, the members of the Parliaments focus a great deal on the audit opinion. Qualified, but especially adverse opinions trigger political and media attention. Underlying observations are less considered, and the criteria for different audit opinions are not well understood. This has led to criticism of the SAIs in regards to the quality of their work, as well as sometimes questioning their independence from party politics, as in the case when critical observations in an audit report have not led to an adverse audit opinion. Members of the parliamentary committees dealing with audit reports generally have a better understanding, but this is not sufficient for reorienting the focus of all members towards using the audit reports properly. The understanding of the quintessence of professional audit opinions appears to be limited. This may partly be attributed to the fact that the SAIs have not clearly and transparently explained upon which criteria the different types of audit opinions are based.

## Assessment

With the exception of Brčko District, where the assembly still needs to gain more experience with audit reports, and consequently improve its understanding of how it should relate to the SAI, both the SAIs and the competent parliamentary committees consider their relationships as good or even very good. On the surface this is accurate, but their respective views on the role of the SAIs and the role of auditing are often quite different. This is linked to the issue of the interpretation of audit opinions, more particularly adverse and qualified opinions, and the perception that violations of, for instance, a budget system law must be construed as criminal acts. The respective Parliaments have introduced procedures to deal with audit reports, but the results have so far been limited, mainly due to the focus on the audit opinions without an in-depth examination of the systemic problems identified in the reports. Another reason is that even though the parliamentary committees in charge of audit reports generally deal with those reports in a professional and non-partisan manner, the debates held in plenary sessions are purely political and not based on objective arguments. Due to this highly politicised environment, audit reports become controversial, which reduces their potential positive impact on improving financial management in the public sector. It appears that external assistance to the Parliaments of the State and Federation has been useful, although further efforts need to be made, while the resources for the competent committees remain limited. The guidelines for dealing with audit reports as developed by DFID can be applied by analogy within and by all Parliaments.

## Recommendations

*The Peers recommend:*

- *To continue to invest in developing better understanding, for example, by organising workshops for MPs on budgetary and audit matters.*
- *To further improve the procedures for the handling and discussion of audit reports, by strengthening the involvement of the SAIs, for instance, through their offering briefings or briefing notes and providing draft conclusions to parliamentary committees.*
- *To improve the follow-up on reports by regularly and systematically reporting to Parliament on the implementation of recommendations.*
- *To strengthen the liaison with parliamentary committees, for example, by inviting the Secretariat staff to SAI audit trainings.*
- *To consider how the frequency and timing of reports can best be tailored to the agenda of parliamentary committees.*
- *To analyse how audit reports and the related communication to Parliament can be used more effectively to engage Parliament in the process of structural improvement of internal control systems.*
- *To consider the possibility for the CB to raise the profile of external audit institutions amongst all Parliaments, for example, by organising an annual meeting with the chairs/deputy chairs of the relevant audit committees.*

## 6.4 Relations with the Ministries of Finance

Ministries of Finance and the SAIs share the common objective of ensuring that public resources are used in a legal, efficient and effective manner. Given this shared goal, the SAIs should take care that their relationship with the Ministry of Finance is conducive to achieving the objective of promoting sound financial management in the public sector. This is to some extent reflected in the common communication plan of the SAIs, which identifies the Ministry of Finance as a special target because of its role inside government in enhancing internal control systems and financial management. At the same time, Ministries of Finance should ideally have the potential advantages of such an alliance in mind when communicating with the SAIs.

In reality, however, the relationships between the SAIs and the Ministries of Finance are sometimes strained. SAIs are often not consulted on important changes in the legal framework, which have an impact on either the position of the SAI or on the subject of the audits. A critical audit report on the Ministry of Finance may be harmful for the co-operation between the SAI and the Ministry of Finance, as it appears sometimes difficult to distinguish between the two roles of a Ministry of Finance: as an auditee and as the Ministry responsible for strengthening the internal control systems and financial management for the entire public sector. In the Republika Srpska there is especially tension existing between the SAI and the Ministry of Finance, which is detrimental to the development of stronger internal control systems and sound financial management.

At the State level the co-operation between the recently established CHU and SAI BiH is considered adequate, but not yet optimal. SAI BiH, like the other SAIs, could increase its impact by using more systematic internal audit reports for its own planning, and by giving more focussed recommendations instead of the rather general type of recommendation such as, “to improve the internal control systems”. Also, the Ministry of Finance doesn’t consider itself the correct recipient for recommendations made involving harmonised rules for the use of service cars, mobile phones, travel, etc. for all Ministries, as it believes that each individual Ministry should issue its own rules in the context of the devolution of responsibilities. There is no co-operation in the area of training, but the Ministry of Finance is planning to organise workshops for budget-users, and will invite SAI BiH to make presentations on the role and work of the SAI.

In the Federation, SAI Fed has had to deal with a whole series of Ministries of Finance, from the federal government to all cantons. Co-operation with the cantonal Ministries is restricted to the annual audit, but the relationship is good and the Ministers have direct access to the Auditor General if needed. Given the fact that the CHU has only recently been established, the relationship of SAI Fed with the CHU is still in its infancy. SAI Fed has offered its assistance to develop the CHU, and the CHU uses SAI Fed reports to become acquainted with the internal control systems of the federal institutions.

The strained relationship between SAI RS and the Ministry of Finance in RS is linked to a controversy over financial reporting instructions issued by the Minister of Finance. These new instructions imply that the government would issue one consolidated financial statement instead of financial statements for each of the budget-users. This new reporting format would be the subject of an annual audit, and SAI RS fears that this would reduce its possibilities to issue individual audit opinions on each of the Ministries. This fear is partly caused by perceived political motives behind the issuance of these instructions. However, the introduction of consolidated financial statements, as such, is a sound development, and SAI RS should consider this introduction as an opportunity to rationalise its audit work and strengthen the risk component in its audit programming.

Thus far SAI BD has contact with the Finance Directorate of the district only during the audit. This relationship could now be strengthened, as SAI BD is greatly appreciated by the Finance Directorate as being key in developing a robust and effective public financial control system.

### **Assessment**

The relations between the SAIs and the Ministries of Finance could and should be improved. Awareness that the Ministries of Finance and the SAIs share a common objective is not sufficiently developed. Existing opportunities for better co-operation are currently not taken. Especially in the area of strengthening internal control systems, the SAIs can reinforce the efforts of the Ministries of Finance and vice versa.

### **Recommendations**

*The Peers recommend the SAIs:*

- *To organise meetings between the DAG and the Minister of Finance at least twice a year to discuss points of common interest and identify opportunities for strategic co-operation.*

- *To consider drafting an agreement which allows informed contacts at the technical level between the staff of the SAI and the staff of the Ministry of Finance.*
- *To consider possibilities for joint training activities, both for the staff of the SAI and the Ministry of Finance, and by the staff of the SAI and the Ministry of Finance for budget-users.*
- *To discuss with the Ministry of Finance the procedures ensuring that the SAIs are consulted on new laws or instructions, as well as amendments to laws and instructions, which might influence the work of the SAI.*

## **6.5 Relations with the media and the general public**

The SAIs have a good reputation, are trusted institutions and are well respected. In this regard, they truly stand out from the whole of public institutions within Bosnia and Herzegovina. This is, of course, a good basis for adding value to the public sector by promoting sound financial management.

At the same time, the SAIs work in a heavily politicised environment, and although the media pay quite some attention to the SAIs and their reports, thereby raising the profile of the SAIs, the media also play a role in aggravating the misunderstandings concerning: the role of the SAIs, the contents and context of the findings in audit reports and the interpretation of audit opinions. The media use audit reports for stories about the abuse of position by public servants, and consider the SAIs to be a tool in sanctioning those public servants. The punitive dimension of audit reports is considered essential, and the lack of sanctions after the publication of audit reports is therefore sometimes seen as a demonstration of weakness on the part of the SAIs. In the end, this may well lead to a credibility gap.

Performance audit does not have the same connotation of a punitive dimension. Performance audit so far has often focussed on the efficiency and effectiveness of government services to citizens. These are areas easily recognisable for many people, and where there is substantial room for improvement. Therefore, performance audit may contribute to creating a different image of the SAIs, one where they are pointing a finger at the inefficient delivery of services, and contributing directly to visible improvements for citizens in that respect.

SAIs have regular contacts with the media during press conferences, and also during media requested interviews or statements. The media are considered to be the best channel to reach the general public, but the contacts are rather reactive, occurring only when a report is published or at the request of the media. Building up a continuous interpersonal contact with journalists, as was foreseen in the communication strategy, would require a more pro-active attitude. Such contacts might aid in getting the message across that the most important mission of the SAIs is to assist in maintaining stronger internal control systems in order to prevent irregularities, not in the sanctioning of public servants who have violated rules.

Apart from communicating with the general public through the media, the SAIs also use their websites to inform the general public directly about their work and the results of the audits performed. SAI BiH has a newsletter function on its website to which interested people can subscribe.

### **Assessment**

Notwithstanding the generally positive image the SAIs have in the eyes of the media and the general public, the SAIs also suffer from the lack of understanding in regards to their role and function. SAIs are present in the media, but their presence is re-active rather than pro-active. SAIs are aware that the media often does not give a correct picture of audit reports or the role of the SAIs, but no systematic actions are taken to help prevent these misunderstandings. This, therefore, is conducive to maintaining the view of the general public that the SAIs' most major task is the identification and sanctioning of individual cases of misdemeanour by civil servants or politicians.

## **Recommendations**

*The Peers recommend that:*

- *To rethink the presentation of reports and summaries in order to improve the understanding of the reports' main messages, and especially to 1) clarify which of the reported violations of law should be acted upon either by management, by Parliament, or by the law enforcement authorities, and 2) explain on what basis audit opinions have been reached.*
- *To consider the publication of the criteria used for audit opinions, once these criteria have been clearly formulated and agreed upon by all SAIs.*
- *To consider organising trainings for journalists on budget and audit matters.*
- *To use their websites more actively to reach media and interested public, for instance, through the newsletter/announcement function which already exists in SAI BiH.*
- *To consider carefully how performance audits can contribute to correcting the image of the SAIs, while at the same time improving more substantially the management of the public sector.*

### **6.6 Relations with the Offices of Public Prosecutors**

According to ISSAI 1240/P21, public sector auditors are obliged to report circumstances that may indicate the possibility of fraud or abuse to the competent jurisdictional body or to the appropriate part of the government or legislature, such as prosecutors and the police. In general, the SAIs do not have an active role in the detection of cases of fraud or corruption, but should be aware of possible fraud risks, and take these risk factors into account when planning and implementing an audit. Public sector auditors need to take care to avoid interfering with potential investigations or legal proceedings. Public sector auditors also need to be familiar with applicable laws and regulations in regard to reporting, communication and the documentation of indications or suspicions of fraud. Furthermore, public sector auditors are to consider the need to obtain legal advice on issues regarding indications of fraud.

Most of the SAI Laws in Bosnia and Herzegovina have provisions that reflect these international standards. When there are indications of serious violations of law, the SAIs are to report to law enforcement authorities (Article 19 Law on SAI BiH and Law on SAI Fed, Article 24 Law on SAI RS); they should inform the management of the audited entity as well, but only if this would not influence criminal investigations. The Law on SAI BD, however, has provisions that oblige the SAI to only send copies of all its reports to the Office of the Public Prosecutor. This latter provision adds to the already existing confusion over the role of the SAIs in respect to fraud and corruption, as it is apparently based on the assumption that audit reports tend to contain information that would require the public prosecutor to bring criminal charges against responsible civil servants or politicians. For his part, the public prosecutor may request that the Finance Directorate collect documents and other data, which is quite burdensome for this Directorate. This misunderstanding appears to be wide-spread, also in the Entities and at State level. In Republika Srpska the rules of procedure of Parliament prescribe that all reports from the Audit Office with an adverse opinion are to be sent to the prosecutor's office. Prosecutors complain that the information held in audit reports is not sufficient to initiate criminal charges. Members of Parliaments complain that the audits do not sufficiently result in the prosecution of responsible managers and politicians, and the media complain that the SAIs do not do enough to get fraudulent public servants punished.

The SAIs are well aware of their role in regards to fraud and corruption. It has been laid out in a document adopted by the CB in May 2008. Complications arise because it appears that reports often contain numerous cases of violations of the laws and rules, which are usually understood to be criminal offenses. The general feeling is that while Bosnia and Herzegovina are characterised as having high levels of corruption, rarely is a public servant actually punished. Given this mistaken

impression about the role of the SAIs, a gap has been created in the public's expectations which is proving difficult to manage. This is even more so because distinctions between possible criminal offences and violations of laws of an administrative nature are not clearly made. Exceeding an approved budget threshold is not a crime, while using public money for private purposes most probably is. What poses a challenge for the SAIs, therefore, is how to make their responsibilities precisely clear to their stakeholders, clarifying how it does deal with cases of suspicion, and how it does communicate with the public prosecutor. So far, contacts with the prosecutor's office have been limited and formal, without feed-back from the prosecutor on cases submitted by the SAIs.

### **Assessment**

Although the relevant legal provisions, apart from those in Brčko District, are correct in requiring the handing over of cases where there is the suspicion of fraud or corruption to the law enforcement authorities, and the SAIs do, in fact, act in compliance with this rule; there still remains a big gap between the perceived role of the SAIs in regards to fighting fraud and corruption and their actual one. Failing to alleviate the public's misunderstanding about the performance of the SAIs in this respect is a huge risk. Communication with the prosecutors' offices has been limited, and so far no attempts to clarify each other's roles have been undertaken.

### **Recommendations**

*In order to better manage the false expectations, the Peers recommend the SAIs:*

- *To draft a paper which clearly explains the distinction between violations of administrative laws and regulations and criminal offences, and proposes precise procedures on how auditors and management should act in either of these cases.*
- *To discuss with the relevant prosecution authorities the contents of such a paper, and agree on the explanations and the proposed procedures, and to formally introduce it in a memorandum of understanding or a similar document.*
- *To communicate clearly about the differences between violations of administrative laws and regulations and criminal offences, and the agreed upon procedures to be followed in regards to the media and the members of Parliament.*
- *To make certain that this issue is included in the event that workshops are organised for members of Parliament and/or the media.*
- *To include in the annual activity report relevant information on the number of cases presenting suspicion of criminal offences that have been submitted to the public prosecutor.*

## **7. WAY FORWARD**

The SAIs in Bosnia and Herzegovina are relatively mature public institutions compared to many of the institutions that they have to audit. The quality of external audit in the country is quite high. The management of the SAIs are also very committed to securing further institutional and professional development, which is demonstrated by the regular updating of the Strategic Development Plan under the auspices of the CB and by the request of a peer review in 2004 and again in 2011.

The current Strategic Development Plan sets as objectives the consolidation of achievements made in the areas of institutional strengthening, professional development of staff, and securing of audit impact. In all of these areas the SAIs are confronted with resource constraints, which hamper further development. However, thus far, not all of the existing opportunities to save resources by means of greater co-operation through the CB and its working groups have been seized. The new Strategic Development Plan for the period after 2012 should exploit the opportunities that exist in this respect and have been identified in the report. Also, the new SDP will need to provide suitable strategies for sustaining the progress that has already been achieved. Associated action plans defining specific and detailed activities are required, while also including realistic implementation deadlines for all SAIs.

Since its establishment, the CB has demonstrated its capacity to adopt key audit methodologies and strategies for the development of the SAIs. Co-operation between the SAIs under the umbrella of the CB is key to the development of the SAIs 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.

A difficult issue remains the inadequate understanding, amongst political stakeholders, of the role of the independent external audit in the public sector. This problem is difficult for the SAIs to remedy, but there is room for improving the content and communication of SAI reports, which may help to get the message across in better ways. There is also room for improving the relationships with the respective Ministries of Finance and the public prosecutors, in an attempt to co-operate with these potential allies in the process of stimulating sound financial management and control.





# ANNEXES



## ANNEX I: LIST OF PEOPLE MET

### I. INSTITUTIONS OF BOSNIA AND HERZEGOVINA (BiH)

#### **Supreme Audit Institution**

Milenko Šego, Auditor General

Božana Trninić, Deputy Auditor General

Dževad Nekić, Deputy Auditor General

Dragoljub Kovinčić, Head of Department for Development, Methodology and Audit Quality Control

Borislav Matić, Head of Department for Legal, Financial and General Affairs

Ivona Krištić, Liaison Officer

Miro Galić, Head of Financial Audit Department

Munevera Baftić, Head of Financial Audit Department

Fadila Ibrahimović, Head of Performance Audit Department

Jelena Andrić Performance Auditor

Danijel Čolo, Performance Auditor

Snježana Baštinac, team leader in Financial Audit Department

Anisa Jusić, Financial Auditor

Ivana Vujević, Financial Auditor

Mirsada Sijamić, team leader in Financial Audit Department

Nada Laco, Financial Auditor

Dragan Vukajlović, Financial Auditor

#### **Parliamentary Assembly of BiH**

Hasan Bećirović, Delegate, House of Peoples

Boško Tomić, Delegate, House of Representatives

Danijela Martinović, Delegate, House of Representatives

Dragan Bagarić, Secretary of Finance and Budget Committee, House of Peoples

Zeljko Kosmajac, Secretary of Finance and Budget Committee, House of Representatives

Dušanka Majkić, previous Chair of Finance and Budget Committee, House of Peoples

### **Ministry of Finance and Treasury**

Sehija Mujkanović, Assistant Minister for Treasury Affairs

Amela Muftić, Head of Internal Audit Unit

Ranko Šakota, Head of CHU

### **Ministry of Justice**

Mubera Nefić, Head of Financial and Material Affairs Unit

Nada Lovrić, Assistant Minister for HR, General and Financial and Material Affairs

Dragan Granzov, Head of HR and General Affairs Unit

### **Indirect Taxation Authority**

Miro Džakula, Director

Slavojka Stolić, Financial Management Unit

Milomirka Došenović, Human Resource Management Unit

### **Plant Health Protection Administration**

Radenko Radović, Director

Seid Uzunović, Deputy Director

## **II. FEDERATION OF BOSNIA AND HERZEGOVINA**

### **Supreme Audit Institution**

Ibrahim Okanović, Auditor General

Branko Kolobarić, Deputy Auditor General

Mirsada Janjoš, Financial Auditor

Esma Muslić, Financial Auditor

Ivana Nikolić, Financial Auditor

Hajrira Imširović, Senior Auditor, Tuzla Regional Office

Perislav Delić, Auditor, Tuzla Regional Office

Amela Bungur, Performance Auditor

Mirsada Čengić, Performance Auditor

### **Parliament of the Federation**

Mirsad Zaimović, Chairman of Joint Commission in charge of Audit

### **Ministry of Finance**

Fatima Drinčić, Head of CHU

### **Ministry of Agriculture**

Faketa Begović, Secretary of the Ministry

Ivan Pandža, Minister's Advisor

Branimir Stipičić, Internal Auditor

Alma Kobašlija, Head of Department for Legal, HR and General Affairs

Esad Šabaredžović, Head of Department for Financial and Accounting Affairs

Jasmina Šeko, Head of Department for Direct Payments in Primary Agricultural Production and Rural Development

### **Government of Canton Sarajevo**

Muhamed Kozadra, Minister of Finance

Muhamed Budimlić, Minister of Interior

### **Government of Canton Tuzla**

Mlađan Lazić, Minister of Finance

Merima Hajdarević, Secretary of the Ministry of Finance

### **BiH Airlines**

Amir Jažić, Finance Director of BiH Airlines, on behalf of Federal Government (51% stake)

Fatih Güçlü, Chief Financial Officer of BiH Airlines, on behalf of Turkish Investors (49% stake)

Ms Sabina Fejzić, Head of Accounting

## **III. REPUBLIKA SRPSKA**

### **Supreme Audit Institution**

Boško Čeko, Auditor General

Dušan Iličić, Deputy Auditor General

Olga Đekanović, Head of Financial Audit Department and Quality Control

Renata Kužet, Senior Auditor

Milovan Bojić, Head of Performance Audit Department

Daliborka Kovačević, Performance Auditor

Ljiljana Forca, Team Leader Financial Audit  
Mirjana Radanović, Financial Auditor  
Vladimir Grahovac, Financial Auditor

#### **National Assembly**

Slavko Vučurević, Chairman of the Audit Board  
Zoran Latinović, Member of the Audit Board

#### **Ministry of Finance**

Zoran Tegeltija, Minister of Finance  
Duško Šnjegota, Assistant Minister for Accounting and Audit  
Željko Čulum, Assistant Minister for Treasury  
Radmila Trkulja, Head CHU  
Svetlana Radovanović, Head of RS Budget Planning and Execution Department

#### **Ministry of Justice**

Džerard Selman, Minister of Justice

#### **Ministry for Physical Planning, Civil Engineering and Ecology**

Srebenka Golić, Minister for Physical Planning, Civil Engineering and Ecology  
Miladin Gaćanović, Assistant Minister of Civil Engineering  
Dragan Jevtić, Assistant Minister of Urbanism and Physical Planning

### **IV. BRCKO DISTRICT**

#### **Supreme Audit Institution**

Dževida Hodžić, Auditor General  
Božo Zimonjić, Deputy Auditor General  
Tomo Vozetić, Deputy Auditor General  
Avdija Bašić, Senior Auditor, Financial Audit  
Envera Imamović, Auditor  
Ivana Gavrić, Performance Auditor

### **Assembly**

Esad Atić, Chair of Assembly

Ivan Krndelj, Member Budget Committee

Boro Kojić, Member of Budget Committee

### **Finance Directorate**

Mato Lučić, Director

Osman Osmanović, Treasury Director

Vera Ristanić, Head of Accounting Department

### **Office of the High Representative, Brčko District**

Peter Appleby, Deputy Supervisor

Vojislav Ivanović, Head of Economic Section

### **V. OTHER**

#### **USAID Parliamentary Strengthening Project in BiH**

Samir Mušović, Senior Finance and Budget Expert

Christian Haupt, Chief of Party

#### **PIFC Project**

Ilse Schuster, Team Leader.

Natasha Obradović, FMC expert

#### **Media**

Rubina Čengić, Magazine Start

Eldin Karić, Editor of “Žurnal.info”, online journal

Aleksandra Bosiočić Dronjić, journalist “Žurnal.info”,

Marko Dragonić, Director of Brčko Radio Station

Siniša Vukelić, ATV

**Association of Accountants, Auditors and Financial Officers of the Federation BiH**

Milan Dmitrović, Vice-Chair

Ekrem Duranović, member

**Transparency International**

Ivana Korajlić, Public Relations Officer and Project Manager



## ANNEX II: RECOMMENDATIONS

### 2. Legal Framework

#### 2.1 (Missing) Constitutional Anchorage of External Audit

##### *Recommendations*

*The Peers recommend that:*

- *In case of a review of the constitutional set-up of Bosnia-Herzegovina it is recommended to incorporate the issue of public external audit within its scope. This should cover not only the establishment, as such, of the Audit Offices, but also some fundamental issues such as the function and tasks of the external audit, and the basic conditions of appointment and terms for the management of the SAIs; adhering to what is currently the case for a number of comparable countries notably within the region.*

#### 2.2 Laws on SAIs

##### 2.2.1 Functional and organisational independence

##### *Recommendations*

*The Peers recommend that:*

- *The provision in the law for SAI BD which states that it is possible to remove the AG or DAG from office if it is deemed that the audit quality fails to meet audit standards should be removed.*
- *For the internal organisation, no changes are needed with regard to the laws on SAIs. Consideration could be given to more clearly define the responsibilities of the DAGs, especially in SAI BiH when it comes to their involvement in the audit work. Such decisions need to be made transparent within the SAI, especially in the annual audit plan, in order to provide all auditors with the necessary information describing who of the DAGs will be involved in a particular audit.*
- *The mandatory, regularly scheduled peer review based on the request of the Parliamentary committees should be removed from all laws at the next opportunity.*
- *The laws for SAI RS and SAI Fed should be reformulated in the same way as the relevant regulation in the law for SAI BiH, giving the SAI the right of decision on whether or not to follow up a request for a special audit.*
- *In regards to SAI BiH, it needs to be made certain that it is not considered the same as any other budget-user under the Law on Financing the Institutions of BiH. In the case of SAI BD, the law should be changed to harmonise provisions for the funding of SAI BD with those of the SAIs of BiH, Fed and RS, thus making sure that SAI BD is also entitled to apply directly for the necessary financial means to the competent parliamentary body.*

- *Ways should be found to harmonise the status, careers and salaries of audit staff in all four audit offices in BiH. Subject to assessing the value of civil service laws and regulations in BiH, the Peers rather favour the option of putting all audit staff under the respective civil service laws – as was also suggested in the 2005 peer review – as long as there is, at the same time, the possibility of adjusting or waiving any standard provision that might not be suitable for an audit institution. To this regard, the formulation of the SAI BD law, stating: “that the provisions of the Law on Civil Service in Public Administrations Bodies of BD shall apply by analogy to all issues not regulated by the SAI BD law” might be considered as the way to formulate such provisions.*
- *The CB to establish a working group, which has to study different options for how to solve the problem for all SAIs of fulfilling the legal audit obligations with limited resources. The solution could, for example, be sought in improving the efficiency of the audit process or changing the legal remit by redefining the term “budget user” or revising the criteria for annual certification audits.*

### **3. Co-ordination Board and Management of SAIs**

#### **3.1 Co-ordination Board**

##### ***Recommendations***

*The Peers recommend that:*

- *The new SDP working group draft an implementation procedure for the steering and monitoring of newly developed procedures, in order to ensure consistency in the implementation of audit and audit related procedures among the four SAIs and to ensure that any variations are justifiable.*
- *The CB appoint one member of each SAI to a working group with tasks related directly to audit procedures, and which is responsible for the steering and implementation of the SDP.*
- *The CB build on the success already achieved through the Strategic Development Plan, as well as the current deliberations of the working group on the exit strategy, and that it prepare a new plan for the coming five years and beyond. This should include a plan of action, setting out the detailed activities, responsible persons and timeframe. It might also be prepared as a rolling Strategic Development Plan, with regular review by the CB; its activities and other factors updated, at least once every year, for the coming five years.*
- *Whilst recognising the need for the SAIs to retain their own roles and responsibilities,, we recommend that the CB consider whether establishing its legal status with an independent budget, would enable the Board to develop in a more sustainable fashion.*
- *The CB be strengthened to enable it to better serve the interests of SAI development in BiH. In particular, it should consider the options of having a full-time Secretariat and of seconding staff from the SAIs to the CB for advancing specific tasks.*
- *The CB increase co-operation between the SAIs, e.g. for the development of the Quality Assurance Methodology and for parallel performance audits.*
- *The CB instruct the Methodology and Quality Assurance Departments/staff members to draft a procedure for implementing new procedures, including required training activities.*
- *The CB develop both short and medium term objectives for addressing the resistance that inevitably arises from the application of new methodologies, with particular attention being paid to strengthening the links between the SAIs and the Parliaments.*

## **3.2 Management of the SAIs**

### ***Recommendations***

*The Peers recommend that:*

- *SAIs, within the umbrella of the CB, agree to a common procedure by which the criteria for auditing all public bodies are established, for example, over a five-year period, linking the forecasted work plan over this time to the forecasted staffing levels.*
- *A formal staff appraisal system for all SAIs be developed under the auspices of the CB, linked to the remuneration system for audit staff, based on competence and experience. Individual SAIs may elaborate and adjust it to their needs, resources and specificities.*
- *The roles and responsibilities of the senior management teams are clearly defined when work is allocated to audit teams ensuring that the staff fully understands the reporting lines.*

## **4. Primary process: auditing**

### **4.1 Audit strategy and programming**

#### ***Recommendations***

*The Peers recommend that:*

- *Each SAI carry out an extensive GRA and draft 3-year SAPs, which would form the basis for the annual audit programme.*
- *The CB revitalise the working group on GRA and SAP, and let them study the possibilities for horizontal and joint audits.*

### **4.2 ISSAI standards**

#### ***Recommendations***

*The Peers recommend that:*

- *The CB instruct the Methodology and Quality Assurance Departments/staff members to set up a training plan for implementing the ISSAIs in all of the SAIs in a consistent manner.*

### **4.3 Audit Manual Financial Audit**

#### ***Recommendations***

*The Peers recommend that:*

- *The Quality Control/Assurance Departments or staff members of the SAIs together with the new to recruit legal advisers draft a guideline on how to deal with legal issues and the consequences of legal issues for the audit opinion.*
- *The CB arrange a further review of the Audit Manual taking into account the revisions proposed in this review.*

#### **4.4 Audit process Financial Audit**

##### ***Recommendations***

*The Peers recommend that:*

- *The CB instruct the Methodology and Quality Control Department/officials to investigate and report on the reasons for the low usage of the Treasury System in the audit process.*
- *The CB instruct the Methodology and Quality Control Department/officials to draft a (training) plan for introducing statistical sampling into the audit process.*
- *The CB instruct the Methodology and Quality Control Department/officials to investigate how the efficiency and effectiveness of the reporting can be improved in the areas mentioned above.*
- *The Methodology and Quality Control Department/officials study whether the criteria for the audit opinion as mentioned in the Public Sector Audit Manual should be revised or made further operational .*
- *The Methodology and Quality Control Department/officials harmonise the audit opinions within the different SAIs and between the SAIs by using formats with fixed texts for the different forms of opinions.*
- *The Methodology and Quality Control Department/officials study whether the UK system for dividing the audit opinion into two parts: financial and compliance, and the ISSAI 1700, P5 are possible solutions for partly solving the problem concerning the lack of awareness among members of Parliament and the media regarding the scope, meaning and value of audit opinions.*

#### **4.5 Audit process Performance Audit**

##### ***Recommendations***

*The Peers recommend:*

- *To enhance cooperation between the SAIs in order to mutually strengthen the quality of the small-sized performance audit departments, for instance by carrying out parallel audits, joint training activities, workshops, etc.*
- *To consider how these common training activities can profit from the IDI-trained performance auditors, especially in SAI RS.*
- *To allow for more strategic multi-annual planning.*
- *To consider, in that respect, the possibilities for more performance audits, however, narrowing the scope which could then restrict the lead time for individual audits.*
- *To consider, similarly, the possibilities for phasing individual audits in such a way that separate reports on each phase could be issued, with one final, summarising report at the end.*
- *To, in that context, pay specific attention to potential quick wins: topics that due to relative simplicity or narrowness of scope would not need much resources to be audited.*
- *To identify the needs for further technical assistance in respect of developing performance audit.*

## 4.6 Quality Control and Assurance

### **Recommendations**

*The Peers recommend that:*

- *The Quality Control Departments/officials concentrate on improving phase 1 and 2 before allocating resources to introducing phase 3.*
- *The Quality Control Departments/officials organise trainings for all auditors in using the Audit Quality Control Guide.*

## 5. Supporting processes of the SAIs

### 5.1 Training, Learning and Development

#### **Recommendations**

*The Peers recommend that:*

- *The arrangements for the certificated training provided by the Association of Auditors be formalised.*
- *The CB co-ordinate with the SAIs, at the earliest opportunity, to undertake a comprehensive, detailed, training needs analysis of all staff. This will enable the Board to decide on an up-to-date training, learning and development strategy, supported by a realistic and achievable training plan. This approach would also enable external donors to identify the particular areas that they might wish to support.*
- *The above analysis should also take into account the availability of staff time for training, as well as the possibility of external funding. Also, it should cover, as a minimum, the following areas:*
  - *The current use of CAATs for IT audit to identify which IT skills need reinforcement*
  - *The extent of legal expertise required in audits*
  - *Mentoring needs for senior and middle managers*
  - *The need for training in media skills*
  - *The need for language training*

### 5.2 IT Developments

#### **Recommendations**

*The Peers recommend that:*

- *Given the development that has taken place, and in view of the ending of the SNAO guidance, it now seems timely for the SAIs to review in detail their options for further IT development throughout all of the SAIs, by means of a working group established by the CB.*
- *The SAIs, through the CB, develop a common document management system to ensure that audits are undertaken on a consistent basis, both within each SAI and between SAIs. This approach would also ensure that such systems are prepared in the most efficient manner.*

### **5.3 IT Audit**

#### ***Recommendations***

*The Peers recommend that:*

- *The SAIs ensure that audit teams make optimal use of access to Treasury electronic systems, through the further training of audit staff.*
- *By creating a central role for IT development, the CB thereby heightens support for the SAIs in the training of more staff in the use of CAATs.*

## **6. Relations and Communication with main stakeholders**

### **6.2 Communication strategy in general**

#### ***Recommendations***

*The Peers recommend that:*

- *The CB consider integrating the current communication strategy paper and the communication plan into one revised and updated communication policy paper*
- *The SAIs develop annual activity plans that would distinguish between the different categories of target groups*
- *The SAIs consider the establishment of a common communication function under the umbrella of the CB, which could serve as a support function for the management of each SAI in their respective communication activities, and would allow for efficiently building up expertise in this area.*

### **6.3 Relations with Parliament**

#### ***Recommendations***

*The Peers recommend:*

- *To continue to invest in developing better understanding, for example, by organising workshops for MPs on budgetary and audit matters.*
- *To further improve the procedures for the handling and discussion of audit reports, by strengthening the involvement of the SAIs, for instance, through their offering briefings or briefing notes and providing draft conclusions to parliamentary committees.*
- *To improve the follow-up on reports by regularly and systematically reporting to Parliament on the implementation of recommendations.*
- *To strengthen the liaison with parliamentary committees, for example, by inviting the Secretariat staff to SAI audit trainings.*
- *To consider how the frequency and timing of reports can best be tailored to the agenda of parliamentary committees.*
- *To analyse how audit reports and the related communication to Parliament can be used more effectively to engage Parliament in the process of structural improvement of internal control systems.*

- *To consider the possibility for the CB to raise the profile of external audit institutions amongst all Parliaments, for example, by organising an annual meeting with the chairs/deputy chairs of the relevant audit committees.*

## **6.4 Relations with the Ministries of Finance**

### ***Recommendations***

*The Peers recommend the SAIs:*

- *To organise meetings between the DAG and the Minister of Finance at least twice a year to discuss points of common interest and identify opportunities for strategic co-operation.*
- *To consider drafting an agreement which allows informed contacts at the technical level between the staff of the SAI and the staff of the Ministry of Finance.*
- *To consider possibilities for joint training activities, both for the staff of the SAI and the Ministry of Finance, and by the staff of the SAI and the Ministry of Finance for budget-users.*
- *To discuss with the Ministry of Finance the procedures ensuring that the SAIs are consulted on new laws or instructions, as well as amendments to laws and instructions, which might influence the work of the SAI.*

## **6.5 Relations with the media and the general public**

### ***Recommendations***

*The Peers recommend that:*

- *To rethink the presentation of reports and summaries in order to improve the understanding of the reports' main messages, and especially to 1) clarify which of the reported violations of law should be acted upon either by management, by Parliament, or by the law enforcement authorities, and 2) explain on what basis audit opinions have been reached.*
- *To consider the publication of the criteria used for audit opinions, once these criteria have been clearly formulated and agreed upon by all SAIs.*
- *To consider organising trainings for journalists on budget and audit matters.*
- *To use their websites more actively to reach media and interested public, for instance, through the newsletter/announcement function which already exists in SAI BiH.*
- *To consider carefully how performance audits can contribute to correcting the image of the SAIs, while at the same time improving more substantially the management of the public sector.*

## **6.6 Relations with the Offices of Public Prosecutors**

### ***Recommendations***

*In order to better manage the false expectations, the Peers recommend the SAIs:*

- *To draft a paper which clearly explains the distinction between violations of administrative laws and regulations and criminal offences, and proposes precise procedures on how auditors and management should act in either of these cases.*

- *To discuss with the relevant prosecution authorities the contents of such a paper, and agree on the explanations and the proposed procedures, and to formally introduce it in a memorandum of understanding or a similar document.*
- *To communicate clearly about the differences between violations of administrative laws and regulations and criminal offences, and the agreed upon procedures to be followed in regards to the media and the members of Parliament.*
- *To make certain that this issue is included in the event that workshops are organised for members of Parliament and/or the media.*
- *To include in the annual activity report relevant information on the number of cases presenting suspicion of criminal offences that have been submitted to the public prosecutor.*



**ANNEX III: ANALYSIS OF STAFF OF SAIS – JANUARY 2012**

| <b>Audit Body</b> | <b>No. of Staff</b> | <b>Academic Qualifications</b> | <b>No.</b> | <b>Technical Qualifications</b> | <b>No.</b> | <b>Area of Responsibility</b> | <b>No.</b> | <b>%</b>   | <b>Audit Positions</b> | <b>No.</b> | <b>%</b>   |
|-------------------|---------------------|--------------------------------|------------|---------------------------------|------------|-------------------------------|------------|------------|------------------------|------------|------------|
| <b>SAI BiH</b>    | 46                  | University Degrees:            |            | Chartered/Certified             | 22         | Top Management                | <u>3</u>   |            | Top Management         | <u>3</u>   |            |
|                   |                     | - Economics                    | 33         | (48% of total staff)            |            | Total Top Management          | <u>3</u>   |            | Total Top Management   | <u>3</u>   |            |
|                   |                     | - IT                           | 2          | Accounting techn.               | 1          | Financial Auditors            | 21         | 49         | Heads of Sector        | 4          | 12         |
|                   |                     | - Law                          | 1          | Law                             | 1          | Performance Auditors          | 6          | 14         | Senior Auditors        | 10         | 30         |
|                   |                     | - Misc                         | <u>2</u>   | IT                              | 1          | Quality Control               | 3          | 7          | Auditors               | 13         | 40         |
|                   |                     | Total                          | <u>38</u>  | Misc.                           | <u>2</u>   | IT Auditors/Techn.            | 3          | 7          | Assistant Auditors     | 4          | 12         |
|                   |                     | High School Dipls.             | <u>8</u>   | Total                           | <u>27</u>  | Legal Services                | 1          | 2          | IT Auditors            | <u>2</u>   | <u>6</u>   |
|                   |                     | Grand total                    | <u>46</u>  |                                 |            | International and PR          | 2          | 5          | Total (Audit)          | <u>33</u>  | <u>100</u> |
|                   |                     |                                |            |                                 |            | Support staff                 | <u>7</u>   | <u>16</u>  |                        |            |            |
|                   |                     |                                |            |                                 |            | Total (By Area)               | <u>43</u>  | <u>100</u> |                        |            |            |

|                |    |                     |           |                                |           |                      |           |            |                      |           |            |  |
|----------------|----|---------------------|-----------|--------------------------------|-----------|----------------------|-----------|------------|----------------------|-----------|------------|--|
| <b>SAI Fed</b> | 61 | University Degrees: |           | Certified Auditor              | 39        | Top Management       | <u>2</u>  |            | Top Management       | <u>2</u>  |            |  |
|                |    | - Economics         | 43        | (64% of total staff)           |           | Total Top Management | <u>2</u>  |            | Total Top Management | <u>2</u>  |            |  |
|                |    | - Law               | 4         | Law                            | 1         | Financial Auditors   | 37        | 62         | Dept. Manager        | 4         |            |  |
|                |    | - Misc              | <u>5</u>  | IT                             | <u>1</u>  | Performance Auditors | 7         | 12         | Senior Auditors      | 9         | 9          |  |
|                |    | Total               | <u>52</u> | Total                          | <u>41</u> | IT Auditors/Techn.   | 2         | 3          | Auditors             | 16        | 18         |  |
|                |    | High School Dipls.  | 7         |                                | <u>5</u>  | Legal Services       | 1         | 2          | Junior Auditors      | 8         | 36         |  |
|                |    | Other               | <u>2</u>  | Training for Certified Auditor | <u>46</u> | International and PR | 1         | 2          | Assistant Auditors   | 7         | 17         |  |
|                |    | Grand Total         | <u>61</u> | Grand Total                    |           | Finance and Accounts | 1         | 2          | IT Auditors          | <u>2</u>  | 16         |  |
|                |    |                     |           |                                |           | Support staff        | <u>10</u> | <u>17</u>  | Total (Audit)        | <u>46</u> | <u>4</u>   |  |
|                |    |                     |           |                                |           | Total (By Area)      | <u>59</u> | <u>100</u> |                      |           | <u>100</u> |  |
|                |    |                     |           |                                |           |                      |           |            |                      |           |            |  |

| Audit Body | No. of Staff | Academic Qualifications | No.       | Technical Qualifications | No.       | Area of Responsibility | No.       | %          | Audit Positions      | No.       | %          |
|------------|--------------|-------------------------|-----------|--------------------------|-----------|------------------------|-----------|------------|----------------------|-----------|------------|
| SAI RS     | 57           | University Degrees:     |           | Certified Auditor        | 27        | Top Management         | <u>2</u>  |            | Top Management       | <u>2</u>  |            |
|            |              | - Economics             | 45        | (47% of total staff)     |           | Total Top Management   | <u>2</u>  |            | Total Top Management | <u>2</u>  |            |
|            |              | - IT                    | 1         | Law                      | 1         |                        |           |            | Heads of Sector      | 3         | 6          |
|            |              | - Law                   | 1         | IT                       | <u>1</u>  | Financial Auditors     | 33        | 60         | Heads of Dept.       | 3         | 6          |
|            |              | - Misc                  | <u>4</u>  | Total                    | <u>29</u> | Performance Auditors   | 11        | 20         | Senior Auditors      | 13        | 29         |
|            |              | Total                   | <u>51</u> |                          |           | IT Auditor             | 1         | 2          | Auditors             | 17        | 37         |
|            |              | High School Dipls.      | 4         |                          |           | IT Technician          | 1         | 2          | Junior Auditors      | 5         | 11         |
|            |              | Misc.                   | <u>2</u>  |                          |           | Legal Services         | 1         | 2          | Audit Assistants     | <u>5</u>  | <u>11</u>  |
|            |              | Grand total             | <u>57</u> |                          |           | International and PR   | 1         | 2          | Total (Audit)        | <u>46</u> | <u>100</u> |
|            |              |                         |           |                          |           | Finance and Accounts   | 1         | 2          |                      |           |            |
|            |              |                         |           |                          |           | Support staff          | <u>6</u>  | <u>10</u>  |                      |           |            |
|            |              |                         |           |                          |           | Total (By Area)        | <u>55</u> | <u>100</u> |                      |           |            |

|               |    |                     |          |                      |          |                      |           |            |                      |          |            |
|---------------|----|---------------------|----------|----------------------|----------|----------------------|-----------|------------|----------------------|----------|------------|
| <b>SAI BD</b> | 13 | University Degrees: |          | Certified Auditor    | 7        | Top Management       | <u>3</u>  |            | Top Management       | <u>3</u> |            |
|               |    | - Economics         | 7        | (54% of total staff) | 1        | Total Top Management | <u>3</u>  |            | Total Top Management | <u>3</u> |            |
|               |    | - Law               | 1        | Law                  | <u>1</u> | Financial Auditors   | 7         | 70         | Senior Auditors      | 3        | 35         |
|               |    | - IT                | 1        | IT                   | <u>9</u> | Performance Auditors | 1         | 10         | Auditors             | <u>6</u> | <u>65</u>  |
|               |    | Total               | <u>9</u> | Total                |          | Legal                | 1         | 10         | Total (Audit)        | <u>9</u> | <u>100</u> |
|               |    |                     |          |                      |          | Support              | <u>1</u>  | <u>10</u>  |                      |          |            |
|               |    |                     |          |                      |          | Total (By Area)      | <u>10</u> | <u>100</u> |                      |          |            |

Sources: Information provided by respective SAIs