



Maximising the efficiency and impact of Supreme Audit Institutions through engagement with other stakeholders

Quentin Reed



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Abstract

The effectiveness of Supreme Audit Institutions (SAIs) is not determined solely by resources and capacity levels. A range of other factors is of equal importance, including the accessibility and communication of audit reports and findings and interaction with other stakeholders including NGOs and the media. The state audit cycle is a complex, interconnected system, and good practices in one area may not yield expected impact if other components of the audit cycle do not function well. A review of SAIs in Croatia, Macedonia, Montenegro and Slovenia – with a particular focus on their role in overseeing the financing of political parties and political campaigns – shows that engagement with NGOs, parliaments and other stakeholders is essential to a well-functioning audit cycle. Recommendations are provided to ensure optimal engagement with such stakeholders at all stages of the audit cycle – ranging from the need for an open procedure for audit selection to engagement with external counterparts. The paper concludes with suggested actions for donors, including assistance to NGOs to monitor the implementation of SAI recommendations.

About the author

Quentin Reed is an independent governance/anticorruption expert, who has worked with various international organisations including Open Society Institute, Council of Europe, World Bank, and UNDP since the late 1990s, following his engagement as an advisor at the Czech Supreme Audit Office. His area of expertise includes risk assessment and policy design, public sector ethics and conflict of interest regulation, and political party and election campaign finance. Quentin has worked primarily in countries of Central and Eastern Europe, the former Soviet Union and the Middle East/North Africa region. He was a founding member of Transparency International Czech Republic, and is a member of the EU Group of Experts on Corruption.

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Introduction

Supreme Audit Institutions (SAIs) are one of the most important pillars of good governance and corruption prevention. SAIs are by definition formally autonomous agencies, which can ground their activities on the basis of internationally agreed-upon audit standards. Thus, they are the public institutions most likely to enjoy sufficient independence and mandate to effectively check that public funds are spent legally and effectively. Partly for these reasons, Transparency International describes the SAI as the “lynchpin of a national integrity system” (Pope 2000, chapter 11).

However, for SAIs to have a real impact on financial discipline and corruption, many conditions need to be met. These conditions include not only the audit expertise and capacity of SAIs but also a whole range of other factors including the accessibility of audit reports to non-audit professionals, how audit findings are communicated, and how other institutions implement or ensure implementation of SAI recommendations. As a member of the Montenegrin SAI Senate puts it, “An SAI can be perfect, but it is only effective if there is proper follow-up by other institutions and pressure from the media.”¹

Some of these factors have been discussed in a previous U4 issue paper “Responding to challenges of Supreme Audit Institutions: Can legislatures and civil society help?” (van Zyl, Ramkumar, de Renzio 2009). The issue paper focuses on how parliaments and NGOs can help SAIs improve both their audits and the impact of their audits. Its main insight is that both legislatures and non-state actors can, and should, be a useful source of audit initiatives, as well as a vehicle to disseminate findings and create pressure for follow-up. It recommends a more holistic approach to budget accountability that recognises SAI expertise and capacity as only one of the conditions necessary to ensure impact. The recommendations of the issue paper are summarised in box 2.

Box 1: Supreme Audit: Functions and Models*

SAIs are responsible for providing assurance that public funds are spent in conformity with the law, with the purpose for which they were allocated, and in an effective and efficient manner. Audits of conformity are generally known as “compliance” audits. Audits of effectiveness and efficiency have become an increasingly important part of SAIs’ work in the past two decades and are termed “performance” audits.

SAIs are typically established and organised according to one of three models:

- The Westminster model. In this system, typical of Anglo-Saxon countries, the SAI tends to be headed by a single official (often known as auditor-general). The SAI has a close relationship with the country’s parliament (typically, a public accounts committee), which acts directly upon its findings and to which the SAI reports. Within this system, the SAI usually conducts a combination of compliance and performance audits.
- The collegiate model. This model is similar to the Westminster one, with the difference that the SAI is governed by a collective board or college. The collegiate model usually has a weaker relationship with the parliament.
- The judicial model. In this model the SAI is a component of the judicial system and acts as a court of law. It is typically called “court of accounts”. It tends to conduct compliance audits and issue binding decisions; for example, sanctions on officials.

* For a more detailed account of the three models, see Albert Van Zyl, Vivek Ramkumar, and Paolo de Renzio (2009),13-15

¹ Interview with Branislav Radulović, member of the Senate of the Supreme Audit Institution, Montenegro, 5 November 2012.

Box 2: Summary of recommendations from the U4 issue paper “Responding to Challenges of Supreme Audit Institutions: Can Legislatures and Civil Society Help?”

1. Parliaments can assist SAIs: as a source of audit initiatives; as a forum for open hearing on audit reports (public accounts committees); and by endorsing and following SAI recommendations.
2. NGOs can assist SAIs: as sources of audit initiatives (including whistleblowing); by being engaged in audits (especially performance audits); and by publicising audit findings and recommendations.
3. SAIs can assist: by helping other stakeholders understand both the principles of sound public financial management and the specific audit findings (through glossaries of technical terms, user-friendly summaries of audit findings, etc.); providing direct assistance - such as, training for other stakeholders (e.g., public accounts committee members, NGOs); encouraging input from citizens and NGOs (e.g., hotlines); and facilitating follow-up (specificity of recommendations, follow-up audits, dissemination of progress).
4. Donors should shift emphasis in SAI assistance away from building SAI capacity internally, to the promotion of a more holistic approach to budget accountability, and in particular: to improve understanding of formal and informal mechanisms that underlie the effectiveness of budget accountability process; enable better targeted support; encourage and fund innovations in SAIs through pilot projects replicating best practices in SAI/public accounts committee/NGO collaboration; and encourage governments to become more transparent (i.e. access to information, better disclosure, participatory budget process).

1. Background and analytical framework

This paper explores the theme of SAI collaboration further, focusing on the engagement of SAIs with other stakeholders. The research focused on SAIs in the former Yugoslavia, and included field visits to Slovenia and Montenegro; online and verbal communication with relevant stakeholders in Croatia and Macedonia. In addition, examples from other countries are used where appropriate. It should be noted that the countries observed exhibit problems that are common to countries in the former communist bloc. These problems might be summarised as continuing difficulties in establishing well-functioning mechanisms of formal and political accountability. The first component of these problems is the inability, or unwillingness, of formal political institutions, such as a country's parliament, to hold budget users to account. As Aleksandar Damjanovic, former chair of the Montenegrin Parliamentary Committee for the Economy, Finance and Budget, puts it:

Through the SAI's reports [...] many unlawful acts and irregularities in the work of different ministries and state authorities have been registered. Other authorities were expected to take part in investigating all these things as well as to bear consequences. There are still no actions of such kind [...] It seems that, as a society, we still are not ready to personalize the guilt and responsibility and disperse the benefit and profits among the whole society [...] What we have is a dispersion of responsibility and concentration of profits and benefits.²

The second component of this problem is a weak civil society. There is a general lack of non-governmental organisations that advocate for improved accountability in state audits. During the research conducted for this paper, only one NGO - Institut Alternativa in Montenegro - was regularly engaged with the SAI on the issue of budget accountability.

For this reason, this paper focuses not only on SAI engagement with non-state stakeholders but also on engagement with all relevant stakeholders- namely (1) auditees; (2) other institutional counterparts, particularly parliaments and anti-corruption agencies; (3) NGOs; and (4) the media. The assumptions of the paper are that (a) effective engagement with the first two kinds of stakeholders will improve the focus and quality of audits and increase the likelihood that audit findings will be followed by action to address the problems identified, and (b) effective engagement with the last two kinds of stakeholders will do the same but for different reasons – namely, it will help institutionalise public pressure for particular issues to be audited and for financial accountability of public institutions to be increased.

The paper covers the engagement of these stakeholders during all stages of the audit cycle. figure 1 presents, an ideal situation in which: auditees are selected on the basis of a combination of initiatives from relevant stakeholders; audits are conducted with proper auditee engagement and, where appropriate, with involvement of other stakeholders (e.g., NGOs); audit reports are finalised in such a way as to maximise their clarity and credibility; reports are disseminated to the general public and by using mechanisms targeting key stakeholders, such as the media; follow-up (including implementation of SAI recommendations) is assured through effective engagement between the SAI, institutional counterparts (as formal accountability mechanisms), and external stakeholders (to create public pressure); and monitoring of follow-up feeds back into both the process of follow-up on audit findings and the process of audit selection.

² Interview cited in Institut Alternativa (2010), 14-15.

On the basis of this framework, the paper examines and provides recommendations for SAIs, and in some cases other stakeholders, in order to improve:

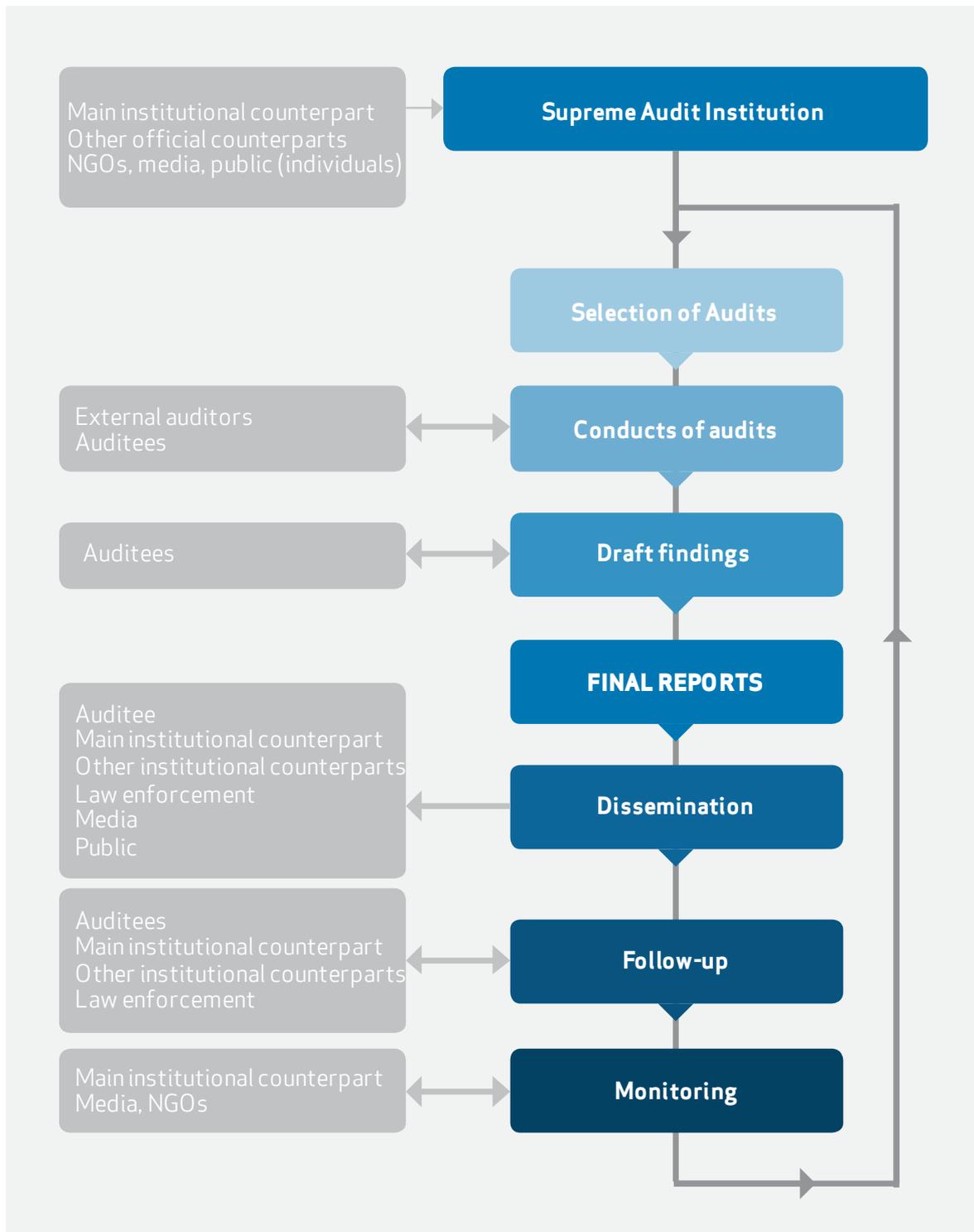
- How auditees are selected
- How SAIs engage with other stakeholders during audit execution and finalisation of reports
- The format, structure, and clarity of final audit reports
- How SAIs disseminate audit findings
- How SAIs interact with key counterparts to ensure the implementation of audit recommendations

It should be noted that the state audit cycle is only one (and indeed the last) stage of the overall budget cycle, which consists of four main parts: budget preparation and drafting; budget adoption; budget execution; and control and audit. The insights and recommendations of this paper should, where appropriate, also be taken into account at other stages of the budget cycle; for example, ensuring that the SAI has time to provide an opinion on the state budget cycle, and that members of parliament have time to take the SAI's comments into account.³

In addition, as a case study of SAI effectiveness, the paper focuses on SAI supervision of political party and campaign financing (political finance), since in all four countries studied SAIs have been assigned this role. The research suggests there may be risks connected with allocating this task to SAIs in democracies that are not fully consolidated, and that SAIs face major resource challenges in adequately performing such a role. This section of the paper ends with an important recommendation for collaboration of the SAI (or whichever institution has been tasked with oversight) with NGO monitoring of political finance.

³ See for example Institut Alternativa (2012), 7-8.

Figure 1: State Audit Cycle and Stakeholder Engagement



2. Selection of auditees

The way in which SAIs select subjects to be audited is of key importance for a number of reasons. The most important ones are the following:

- Ensuring that audits are well-targeted.
- Integrating other stakeholders into the process of budget accountability by giving them a say in who is audited.

The mechanism of selection needs to balance these factors, not all of which may pull in the same direction. In particular, it is necessary to balance the priorities of SAI independence in choosing audits with the need to integrate recommendations and suggestions from external sources, and secure their support and engagement.

In Montenegro, the SAI has full autonomy to select auditees and there is no formal procedure to ensure that any external initiatives be taken into account. Parliament, NGOs and individuals may submit complaints and initiatives concerning misuse of budget funds. The SAI senate may take these complaints and initiatives into account in selecting entities to include in its audit plan for the following year. While this underpins the operational independence of the institution, it could also encourage disengagement from a parliament that cannot ensure that at least some of its initiatives are followed. A peer review of the Montenegro SAI conducted by SIGMA (Support for Improvement in Governance and Management), a joint Organisation for Economic Co-operation and Development-European Union (OECD-EU) initiative, recommended, *inter alia*, that the institution move from a largely random selection approach for financial and compliance audits towards a risk-based approach. Specifically, the review recommended that in the long-term the SAI establish instruments for co-operation with NGOs along with mechanisms to promote initiatives from citizens and users of public funds, including through the SAI website.

In Slovenia, by contrast, 60 to 70 per cent of audits conducted by the Court of Audit stem from legal obligations – including auditing the final accounts of all ministries, pension funds, an “adequate” number of municipalities, and at least five subjects suggested by the Slovene Parliament. Additionally, the Parliamentary Commission for Public Financial Control submits 5 to 6 auditees annually, and the SAI includes all of them in its audit plan. As a result, SAI interaction with the commission appears to be more advanced than in other countries in the region (see section 5.1).

An SAI needs to ensure that there are mechanisms for facilitating external initiatives without creating expectations that it will act on every initiative. There are four important factors in the handling of external initiatives: (1) ensuring that among external actors (NGOs, other organisations, or the general public) there is sufficient awareness of the role of the SAI and of the way in which audits are initiated on the basis of initiatives and complaints; (2) ensuring that there are user-friendly channels through which ordinary citizens may submit complaints to the SAI; (3) publicising these channels; and (4) taking such complaints seriously. The first three of these factors are technical, while the fourth is a matter of SAI professionalism and administrative and political culture. The approach of the Slovene Court of Audit might be seen as an example of good practice. The court provides a detailed description on its website of how to communicate initiatives either by mail, fax or email. Guidance is provided on what an initiative must contain, together with an invitation to attach any useful supporting documents. The number of initiatives received by the court has increased annually, reaching approximately 450 in 2011. The court appears to genuinely welcome citizen initiatives. President of the court Igor Šoltes stated that a very important audit on pharmacies, which was being conducted at the time of writing, was selected partly due to a large number of anonymous initiatives.

The court's 2011 annual report provides a detailed breakdown of the initiatives received (Republic of Slovenia Court of Audit 2012, p. 15).

2.1 The role of NGOs in initiating audits

Mechanisms such as the one established by the Slovene Court of Audit also allow NGOs that monitor financial management within public institutions to communicate their concerns to the SAI. However, NGOs do not appear to have been active in submitting such initiatives in any of the four countries analysed. Where NGOs are engaged in monitoring activities of public institutions, it makes sense for SAIs to engage them more actively; for example, by arranging seminars on an annual or six-month basis to pro-actively seek input for the identification of risk areas..

2.2 Managing expectations

One important issue that must be taken into account regarding external audit initiatives is the inevitable time-lag between the receipt of an audit initiative or complaint by an SAI and the actual execution of the audit. Typically SAIs operate on the basis of annual audit plans, meaning that an initiative might trigger an audit the following year. This is in marked contrast to the chronology of complaints to other institutions, such as law enforcement institutions or anti-corruption agencies. As for audit initiatives, some SAIs allow for audits to be added to their current audit plan under extraordinary circumstances – for example, the Slovenia Court of Audit added 30 audits during 2011, from a total of 217 audits. Nevertheless, it is important for SAIs to manage public expectations surrounding audit initiatives so that those who submit initiatives, or others who read about them, are not dissatisfied when the SAI does not immediately conduct an audit or punish wrongdoers (see box 3).

Box 3: Managing expectations

In recently re-established democracies, independent SAIs are likewise recently re-established institutions. In countries where corruption is, or is perceived to be, a widespread systemic phenomenon, and legal traditions are oriented towards criminal law enforcement, expectations that SAIs will catch and prosecute criminals may be at odds with their role. These expectations may even be exacerbated by misunderstanding of the supreme audit function among state builders. For example, in Slovenia, the new SAI was named Court of Audit despite the fact that it does not belong to the "court" model of SAIs (i.e., it does not issue legally binding decisions). As a result, the "court" has striven for a decade to lower public expectations and clarify its role as an auditor rather than law enforcer – for example, by stressing its openness to citizen initiatives on its website, while highlighting the fact that it will not pursue every single initiative. In Montenegro, the State Audit Institution participated in, and organized (for example, in November 2012), seminars and workshops to discuss its role and its cooperation with NGOs and the media – partly, as a means to raise awareness of its role.

3. Engagement with other stakeholders during audits

During the period between selecting an audit and finalising the audit report, SAIs may engage external stakeholders in two ways: during the audit process itself and while finalising the audit report.

3.1 Engagement in the audit process

One potential form of engagement with external actors during audits is the participation of such stakeholders in the audit itself. First, it is not uncommon for external audit professionals to be commissioned to participate in audits. This is standard practice in the UK and is also envisaged in a new audit rulebook for the Macedonian SAI (Macedonia State Audit Office 2011, Article 10). Second, a theme that should be borne in mind throughout this and the following section is the need, where possible and appropriate, to coordinate audit activities with those of other oversight bodies, such as the anti-corruption agency or equivalent (see section 5.1).

3.2 The role of NGOs: direct audit participation vs. separate monitoring

A third, and more radical, form of engagement of external actors is the participation of NGOs, or other non-state organisations, in audits – an option highlighted by the earlier U4 issue paper and by the International Budget Partnership, which has recommended that civil society can “augment limited capacity” in audit institutions by participating in performance and procurement audits (Ramkumar 2007, 3). However, the only known example of an NGO participating in an SAI audit has been a joint performance audit carried out by the Philippine Commission on Audit together with several NGOs; in this instance, NGO monitors verified whether roads had been completed according to contractual obligations. (Ramkumar 2007, 4; van Zyl, Ramkumar, and de Renzio 2009, 20).

The research conducted for this paper indicates that none of the SAIs or NGOs in the four countries observed has considered any such engagement, or showed enthusiasm for it. The most active NGO on the subject of budget accountability and state audit – Institut Alternativa in Montenegro – holds the position that SAIs and NGOs should keep their roles clearly separated, that involvement in audits is beyond the capacity of NGOs, and, more importantly, that such participation would raise major issues of objectivity and credibility for both NGOs and SAIs. Indeed, the participation of NGOs in audits may compromise the important role that they can play in audit selection as a source of initiatives, raise awareness of SAI findings, and monitor the implementation of SAI recommendations. It follows that, if SAIs are state institutions, the NGOs’ natural position vis-à-vis SAIs is also that of watchdogs. While in less developed countries issues of SAI capacity may justify such partnerships, this paper argues that in the European context NGOs should not engage directly in audit activities.

This does not imply criticism of separate, independent monitoring by NGOs of budget spending. Such activities include; for example, Public Expenditure Tracking Surveys (PETS), which compare allocated budgets to money actually delivered to frontline services, in order to detect possible leakages, and monitoring of the fulfilment of public procurement obligations. In addition, where SAIs have a role in supervision of political party or election campaign financing, NGOs can play a very useful role in monitoring political finance to identify discrepancies on which the SAI (or other responsible body) can then focus. Such activities may come close to a form of formal audit collaboration, although it is important for NGO monitoring to be entirely independent (see section 6.4 for more detail on the role of NGOs in monitoring political party and campaign financing). In general, however, NGOs should be engaged at the stage of audit selection, providing inputs collected by monitoring elections – for example, in raising awareness of SAI findings and recommendations, and in monitoring the implementation of SAI recommendations.

3.3 Engagement during finalisation of reports

The role of an SAI appears to place it in an adversarial position vis-à-vis audited subjects. However, this reflects an imprecise understanding of SAIs as law enforcement bodies whose role is to detect violations and impose or initiate sanctions. In fact, in principle, the role of the auditor is to provide assurance that the auditees' accounts are compliant with legal regulations and are accurate – and, increasingly through performance audits, that the funds are spent effectively and efficiently. SAIs should not only detect wrongdoing or mistakes but also assist auditees in better managing public funds – for example, by providing consulting services and guidance on how to organise internal financial control. The Slovene Court of Audit's development strategy for 2007-2013 states that "...auditees [should] perceive the Court of Audit as the body that assists institutions using public funds to improve their operations by performing audits and by [...] providing advice and making recommendations to public funds users during the audit process and in our reports." (Republic of Slovenia Court of Audit 2007, p. 3-4)

In reality, properly selected audits will often have an adversarial undertone if there are reasonable suspicions of mismanagement of funds by the auditee. Whether this is the case or not, it is vital that the SAI engage with the auditee during the conduct of the audit and finalisation of the audit report for. By doing so, SAIs can avoid mistakes. The International Organisation of Supreme Audit Institutions' (INTOSAI) "Guidelines and Good Practices Related to SAI Independence" explicitly state that SAIs should avoid litigation through "continuous discussion of findings during the audit, to clear up issues as they occur if possible" (INTOSAI, n.d.). Such discussion should include, at a minimum, a formal process by which SAIs first share draft audit reports with auditees, and then provide them with a formal process and deadline within which to respond to the findings. Following these steps, the SAI's highest collective body, or relevant decision-making unit, discusses the responses and makes a decision on the final text of the audit report. While this process may not result in the SAI and auditee agreeing on every point, it will at least clarify what the subject of disagreement is. It will also give the SAI greater assurance concerning the validity of its findings, and give auditees a greater stake in the process, by providing them with a first opportunity to respond.

The importance of the process described above should not be underestimated because the effectiveness of all further activities by the SAI and other stakeholders depends upon some level of consensus on the status of findings. Once the SAI report is approved, it is vital that it be regarded as indisputable, meaning that the SAI and the auditee are in agreement on the accuracy of the findings.

The experience of SAIs covered by this paper is a mixed one in this regard. Slovenia is, again, a good model, with a strict internal process of quality assurance review and a clear process by which auditees may file objections to draft audit reports (see box 4). In Macedonia, the SAI has issued a "Rulebook on the Manner of Conducting State Audit" (Macedonia State Audit Office 2011), which specifies (Article 15) that draft reports are submitted to the legal representative of the auditee, the person accountable for the auditee in the audited period, and the authorities responsible for supervision and control of the auditee. The first two have 30 days to submit comments to the State Audit Office (SAO).

In Montenegro, by contrast, the law does not guarantee auditees any right to react to draft audit findings. While Article 22 of the SAI's Rules of Proceeding provide that the audit report be given to the audited entity with a written request to express its opinion within a certain time limit (prior to the approval of the final report), the minimum and maximum time limits are not defined. According to NGO experts, audited entities are not properly consulted on the findings prior to finalisation of the reports. This could be one reason for the poor record of auditees and other institutions in implementing the recommendations (see section 5.3).

Box 4: Ensuring the right to comment: an example of good practice

Republic of Slovenia, Court of Audit Act, Article 28 (Completion of the Audit Process)

(1) The Process of audit shall be completed by issuing an audit report. In the audit report, the Court of Audit shall provide their opinion on the business operation of the auditee.

(2) Before the audit report is issued, the auditee shall be invited to a clearance meeting. [The auditee] shall receive a draft audit report to serve as the basis for discussion. If the audit is carried out at several auditees (a cross-sectional audit), the draft audit report is provided to individual auditees in sections that are relevant to them.

(3) No clearance meeting shall be necessary, if the auditee notifies the Court of Audit in writing, within eight (8) days from delivery, that no disclosure in the draft audit report is challenged.

(4) There may be several clearance meetings. The first meeting shall take place no sooner than eight (8) and the last one no later than thirty (30) days after the draft audit report is delivered.

(5) Clearance meetings shall be conducted by the auditor authorized by the Court of Audit and shall normally take place at the registered office of the auditee.

(6) If no representative of the auditee attends the clearance meeting, it shall be deemed that the auditee does not challenge any disclosure in the draft audit report, except where, within three (3) days after the clearance meeting, the auditee's representative has proved that [the auditee] did not attend the meeting for some justified reason.

(7) At the clearance meeting, the auditee's representative may: 1- challenge individual disclosures in the draft audit report; 2- present explanations to audit disclosures.

(8) Should the Court of Audit acknowledge that the challenge to an audit disclosure (referred to under Item 1 above) is substantiated, such disclosure shall be excluded from the audit report. The Court of Audit may carry out some additional audit tests before excluding any disclosure.

(9) Explanations referred to under Item 2 of paragraph (7) above may be included in the audit report.

(10) After clearance meetings, the auditor authorized by the Court of Audit shall submit the draft audit report, including the auditee's comments, if any, to the competent Member or to the Supreme State Auditor of the Court of Audit. The competent Member or Supreme State Auditor of the Court of Audit shall review the audit report and auditee's comments, and shall establish whether the comments are justified, whether the findings are based on documentary evidence, and whether the audit procedures have been carried out in accordance with auditing standards. Having evaluated the comments to and the findings of the audit, the competent Member or the Supreme State Auditor shall issue a proposed audit report and deliver it, within 15 days after the final clearance meeting to the auditee and to those auditee's officers who were responsible in the period covered by the audit performed. In those cases where no clearance meeting is necessary (see paragraph (3) above), the competent Member of the Court of Audit shall issue the proposed audit report within 10 days after having received auditee's notification that no disclosure in the draft audit report is challenged.

4. Audit reports, findings and recommendations

Audits are technical exercises whose objectives, principles and procedures are not well-known to the general public. Moreover, the natural intermediaries for communicating audit findings for public consumption – the media and NGOs – are also unlikely to be well versed in audit terminology. For SAI engagement with these stakeholders – and effective use of SAI findings by those same stakeholders – to be effective, SAIs must formulate their audit findings and recommendations in ways that are easily comprehensible to the lay reader.⁴

The testimony of NGOs and journalists in the countries under focus underscores the importance of well-formulated reports. In Croatia and Slovenia, NGO activists and journalists praised the reports for their clarity and accessibility – adding that they are often used by journalists.⁵ Likewise, in Macedonia, each audit report contains an initial summary designed for those who are not audit professionals.⁶ Summaries of findings enable external stakeholders to grasp the most important findings and recommendations without having to read the entire report, and enable the SAI to set the agenda and define which findings are most important. Without these summaries, the media – but also politicians – may pick findings that are superficially attractive as stories, or serve a particular political agenda, but are less important in absolute terms. In Montenegro, observers were more critical of SAI report formats, stating that the individual reports of the SAI do not have a consistent structure and vary according to which member of the SAI senate wrote them, making them much more difficult to navigate for readers.⁷ There, media and political “cherry-picking” of findings was identified by the SAI as a problem.

On the other hand, the Montenegrin SAI was praised for the way in which it summarised the findings and recommendations of individual reports in its annual report – where it provides a breakdown of which laws were violated most often, along with an explicit statement of how many and which of its recommendations from the previous year were implemented. The latter, in particular, caused a considerable stir when the 2011 annual report was released (see section 5.1). Summary figures and statistics can be a powerful tool for disseminating SAI findings. Other possible examples of useful information for external stakeholders include the amount of budget funds audited during the previous year, the amount of budget funds the SAI judged were wasted or illegally spent, the amounts involved in cases forwarded to law enforcement authorities, and the amounts saved as a result of SAI audits.⁸

⁴ The author worked at the Czech Supreme Audit Office (NKU). He later became an investigative journalist, strongly aware of the difficulties journalists face in processing and interpreting NKU reports when under pressure to meet deadlines.

⁵ Interviews with Ali Zerdin, Delo daily, Slovenia, 15 November 2012; Zorislav Antun Petrović, Transparency International Croatia, 23 November 2012. Reports of the Slovenia Court of Audit in English may be found at

<http://www.rs-rs.si/rsrcs/rsrseng.nsf/PorocilaArhiv?OpenForm&appSource=91F2455D38551D7CC1257155004755A7>.

⁶ Information provided by Kaliopi Petkoska, principal audit officer, international cooperation at the Macedonian SAO.

⁷ Interview with Marko Sošić, Institut Alternativa, Montenegro, 5 November 2012. The SAI’s development strategy for 2012-2017 mentioned a self-assessment that recommended defining in detail the structure of the Annual Report, but there was no mention of individual audit reports.

⁸ For example, the annual reports of the Czech Supreme Audit Office contain information on the total amount of funds audited, the number of filings to the prosecution, and the size of funds involved in such filings (see Annual Report for 2011, 29-30).. <http://www.nku.cz/assets/publikace/vyrocní-zpráva-nku-2011.pdf>.

The Croatian SAO plans, as part of its strategy (from 2013 forward), to develop the practice of including information on funds saved as a result of its audit activities.⁹

⁹ Those audits that ensure a certain amount of savings are included by the Slovene CoA in its annual reports (Court of Audit 2012, 18-19).

5. Follow-up

The *raison d'être* of an SAI is to help ensure that institutions that spend public money are held accountable. For SAIs that follow the “judicial” model, this is traditionally ensured through the issuance of legally binding decisions such as penalties or compulsory recommendations. For other SAIs (whether they are closer to the “Westminster” or “collegiate” model), accountability needs to be ensured through other institutions to which the SAI communicates its findings and recommendations. The “counterpart” institution is most commonly the parliament, but may also be primarily the government as a collective body (for example, in the Czech Republic). The second model is the focus of this paper, given the absence of “judicial” SAIs in the region under analysis.

Another form of accountability occurs through dissemination of findings to non-governmental stakeholders – for example, the media, NGOs and the public in general. This form of accountability is as important as official mechanisms, and may even be more important in countries where formal accountability mechanisms are not well established or consolidated.

This section discusses follow-up to SAI outputs in terms of three main forms of engagement with other stakeholders: public dissemination of reports; interaction with the main institutional counterpart (for example the parliament); and interaction with other counterparts (for example, the prosecution or the anti-corruption agencies). In addition, the section underscores the important role that non-governmental stakeholders and the media can play in monitoring the follow-up stage of the audit process.

5.1 Dissemination

An SAI may issue audit reports that formulate clear and comprehensible findings and recommendations, as well as clear information on implementation of previous recommendations. However, if these reports are not published and communicated to external stakeholders effectively, they can be expected to have little impact. Effective dissemination of findings and recommendations is the first indispensable stage of follow-up.

a) Forms of dissemination

In the case of the four SAIs that this paper looks at, dissemination strategies for audit reports are relatively well established, as every SAI publishes both its annual reports and audits of specific institutions and processes on its websites. Beyond publication on websites, however, the extent of proactive dissemination is limited. Although the formulation of reports according to the recommendations in section 4 makes them more accessible, Dye and Stapenhurst note that nevertheless “[I]mportant issues get lost in the careful phrasing of an audit report” (Dye and Stapenhurst 1998, 12). For this reason, they recommend that SAIs issue specific reports destined to the media to communicate findings more clearly. Of the SAIs surveyed for this paper, all have communication strategies. However, only the Slovene Court of Audit issues press releases to accompany the release of audit reports and holds press conferences to highlight more important audit findings. If the main institutional counterpart of the SAI is the country’s parliament, there is an additional reason for engaging directly with the media, for, “if audit findings are highlighted in a media presentation, parliamentarians are likely to take notice” (Dye and Stapenhurst 1998, 12).

b) Coordination with other institutions

A common element observed across all of the countries analysed for this paper was described by Rok Prapotnik, deputy chief commissioner of the Slovene Commission for the Prevention of Corruption (CPC) as a “problem of political culture” – in which, despite the publication and dissemination of

clear findings of wrongdoing, authorities fail to take action to address them. In these circumstances, the simultaneous release of findings by more than one institution has proved an effective way of securing follow-up, where the release of findings by one institution proved insufficient (see box 5).

Box 5: Combining forces to ensure follow-up

In August 2011, the Slovene minister of interior Katarina Kresal resigned over allegations of corruption involving the ministry renting a building from an acquaintance of hers to house the Slovene National Bureau of Investigation. The Court of Audit scrutinised the procedures followed to rent the building and detected numerous irregularities. It published its findings on 8 August 2011, thus triggering the reaction of the prime minister, who expressed confidence in the minister's actions. The CPC also investigated the rental and detected a conflict of interest involving the minister; it published its findings the following day. On the third day, the minister resigned. Both the President of the Court of Audit Šoltes and deputy chief commissioner Prapotnik were of the opinion that the minister would not have resigned if both institutions had not joined forces and timed their releases in this manner. Mr Šoltes stated that the court intended to pursue such cooperation in the future, for example on an audit of Slovene pharmacies initiated on the basis of numerous individual initiatives.

5.2 Relations and interaction with the main institutional counterpart

While dissemination is vital to ensure public pressure, proper engagement with the SAI's main institutional counterpart is of fundamental importance if audit findings are to be used as an instrument to enforce formal accountability of public institutions. This section assumes – as is the case for the four SAIs analysed – that this counterpart is the parliament, and specifically the committee responsible for budget oversight. In an ideal scenario, the SAI provides the parliament with clearly formulated findings and recommendations and enjoys a close relationship with the relevant parliamentary committee dedicated to ensuring the proper spending of public funds, which may censure institutions that are the subject of SAI criticism and fail to implement its recommendations.

Ensuring that engagement with parliament is effective is one of the most complex challenges for an SAI – not least because it does not depend on the SAI only. In particular, it is necessary for the parliament itself to take the primary step of ensuring that it has an internal institutional structure that is equipped to process SAI audit reports properly. This means, primarily, the establishment of a well-functioning parliamentary committee with responsibility for issues of financial control. Observation of the four countries analysed reveals a highly varied picture regarding the effectiveness of parliamentary processing of SAI findings.

In Montenegro, the Parliamentary Committee for Economy, Finance and Budget is responsible for discussing SAI reports. However, the remit of the committee is very wide, and, according to local experts, prevents it from adequately focusing on SAI issues. Moreover, the committee only discusses SAI findings once a year, during one session dedicated to analysing the SAI report on the audit of the government's final accounts, along with the SAI's annual report. The first of these reports contains the SAI's overall assessment of budget execution; the second contains excerpts from all audit reports produced in that year, plus information on other issues relating to the SAI such as its organizational development, cooperation with other parties, etc. Clearly, such limited discussion of SAI outputs is fundamentally insufficient for the committee to be able to hold final users of budget funds accountable. Moreover, the SAI does not even submit individual audit reports to the parliament except

in certain cases¹⁰, which means that the parliament cannot formally process these key reports. The SAI's strategic development plan contains a commitment to ensure the submission of individual audit reports to the parliamentary committee (State Audit Institution of Montenegro 2012, 38), although there does not seem to be any corresponding initiative to establish a more specialised parliamentary committee devoting sufficient time to audit reports.

In Croatia, all SAO reports are submitted to the parliament, whose Finance and Central Budget Committee holds serious discussions on the findings; however, a local budget expert was of the opinion that the committee does not have a proper process for following up on its findings, and does not appear to issue its own recommendations to auditees based on the reports.¹¹ For Macedonia, less information is available, although the SAO does submit all of its reports to the country's parliament.

Again, in relative terms, Slovenia appears to represent an example of good practice in this area – partly as a result of donor assistance. All Court of Audit reports are submitted to the Parliamentary Commission for Public Finance Control, a parliamentary committee with the sole task of controlling the use of public funds. The key aspects of the commission's functions are summarised in box 6.

An interesting aspect of the system established to regulate cooperation between the court and the commission is the important role played by donor assistance, as exemplified by the 2004-2008 EU PHARE Program Twinning Project with the United Kingdom National Audit Office, entitled Strengthening Parliamentary Supervision of Public Finances Auditing (Republic of Slovenia Court of Audit, Commission for Public Finance Control 2008, 9-16), which resulted in a series of recommendations that were used by the commission to reform its procedures. In Macedonia, a project with the Dutch Court of Audit was conducted in 2012 to improve the use of final audit reports by the Macedonian Parliament; the project produced a manual for parliamentarians containing brief and comprehensible information on audit methodology, types of audit and information concerning audit findings, recommendations and opinions.¹² The document was drafted using a manual produced in 2011 by the Westminster Consortium and published by the UK National Audit Office (Westminster Consortium 2011).

¹⁰ Reports on institutions overseen directly by the country's parliament (such as, the National Security Agency - the country's intelligence service) are the exception.

¹¹ Information provided by Mihaela Bronić, Institute for Public Finance (a public institution financed by the Ministry of Science), Croatia.

¹² See the project documentation available on the SAI website at <http://www.dzr.mk/en/ShowAnnouncements.aspx?ItemID=894&mid=3021&tabId=1&tabindex=0>

Box 6: Good practice in SAIs - Parliament engagement: Slovenia¹

1. The **powers** of the Commission for Public Finance Control include reporting to the National Assembly on the control of public finances performed, and proposing necessary measures.

2. The commission is headed by members of opposition deputy groups, which also have the majority of members therein.

3. Operation of the **commission**:

The commission must discuss various types of Court of Audit reports, including all performance audits, and regularity reports under certain circumstances.

The commission may propose discussion by National Assembly of individual reports, and prepare draft decisions for adoption by the assembly.

The chair of the commission discusses with the president of the Court of Audit which reports will be discussed at the commission level.

Subject to specific rules on the conduct of meetings on audits (such as procedures for giving auditees the right to speak), a representative of the Court of Audit, among others, may participate.

In 2011, the Commission discussed 18 Court of Audit reports, more than double those of the previous year. According to Mr Šoltes, president of the court of audit, and as of November 2012, the number of reports addressed continued to grow.

4. The **Court of Audit** provides recommendations and guidelines to the commission on how to communicate with auditees.

A final issue relating to engagement with the relevant parliamentary committee concerns the way in which the committee discusses SAI findings. In order for such a committee to perform its role optimally, it needs to discuss and process findings and recommendations on the basis of a common understanding of budget accountability that, as far as possible, rises above political party and factional conflicts. According to Branislav Radulović, member of the senate of the Montenegro SAI, committee discussions of SAI findings are conducted strictly along political party lines, obstructing the consensus that is necessary if a committee is to use SAI findings properly.¹³ Similarly, the discussions of the Croatian Finance and Central Budget Committee are strongly political, according to NGO observers, and even in the Slovene Parliamentary Commission, at a certain stage in the electoral cycle, political in-fighting becomes more regular.¹⁴ This underlines the need for the SAI to engage to the maximum extent possible in providing such committees with advice and guidance, such as written materials to prepare committee members for discussions of particular audits.

¹³ Interview with Branislav Radulović, 5 November 2012. However, Mr Radulović stated that a protocol or memorandum of understanding to specify cooperation with parliament would be useful.

¹⁴ Interviews with Zoran Antun Petrović, Transparency International Croatia, 23 November 2012; Igor Šoltes, President of the Slovene Court of Audit, 15 November 2012.

5.3 Relations and interaction with other institutional counterparts

In order to ensure effective follow-up to SAI findings and recommendations, two other types of engagement with institutional counterparts are necessary – with auditees and with other oversight, investigatory and enforcement bodies.

a) Follow-up with auditees

The primary responsibility for implementing SAI recommendations lies with auditees. In addition, a crucial component of SAI follow-up with auditees is the conduct of follow-up audits to assess the degree of implementation of its recommendations. This is especially important where auditees are not obliged to report on their implementation of SAI recommendations. Best practice is for both auditee reporting and follow-up audits to be established.

The effectiveness with which auditees act upon SAI recommendations in the countries observed appears to vary significantly. Insufficient information is available to make a clear assessment of this issue in Croatia and Macedonia. Information is more readily available for Montenegro and Slovenia. In Slovenia, the Court of Audit Act (Article 29.1) requires auditees to submit a “response report” on remedial actions taken in response to the disclosed irregularities and inefficiencies, within 30 to 90 days (as determined by the Court of Audit) from the receipt of the audit report. In 2011, 18 of 37 regularity (i.e., compliance) audits of budget users (not including subjects involved in electoral campaigns) conducted by the Court of Audit included a request for the submission of a response report. In 2011, the Court of Audit issued 31 post-audit reports assessing the corrective measures taken by auditees¹⁵, with the conclusion that 66 per cent of measures were implemented adequately and 26 per cent only partially.

These figures can only be interpreted properly with a detailed knowledge of which recommendations were more important. Local observers (including the CPC) were somewhat sceptical about actual follow-up on SAI recommendations. In two cases, the Court of Audit assessed corrective measures as inadequate and called for the dismissal of the official responsible (in April 2011) - the minister of finance in one case and, in the second case, the CEO and a board member of the Motorway Company in the Republic of Slovenia. In neither case did the Court of Audit’s recommendation result in a dismissal. Although the court filed criminal complaints¹⁶ against the officials concerned, this did not lead to any prosecution. Nevertheless, the situation appears considerably better than in Montenegro, where auditees are not obliged to respond or report in a similar way, and the SAI conducts few follow-up audits (only one between January and November 2012, according to Institut Alternativa). In Montenegro, the SAI caused a media stir when it published its 2011 Annual Report in November 2012. According to the report, out of 19 recommendations issued in 2010, 13 had not been implemented (see section 5.4 on NGO and media follow-up).

It is safe to assume that auditees cannot be relied on to consistently act on SAI findings, especially where these involve suspicions of serious wrong-doing. For this reason, follow-up can only be ensured by interaction with other stakeholders.

¹⁵ The number of post-audit reports is different from the number of response reports because some of the former concern response reports from a previous year.

¹⁶ Information provided by Nina Furman, head of the president’s cabinet, Court of Audit. See also <http://www.sta.si/en/vest.php?s=a&id=1630014>.

b) Follow-up with other institutions

Where SAIs produce findings of auditees or individuals engaging in conduct that is criminal or violates other legal norms, engagement with other institutions is essential to ensure follow-up. There are two main types of such engagement. First, where the SAI uncovers evidence of violation of legal provisions, and such provisions are also within the remit of another oversight institution there needs to be an established procedure for the SAI to communicate its findings to that institution. Cases of countries where there are conflict of interest or asset declaration laws and an independent authority charged with implementation and oversight are an example of such a situation. Second, where suspicions of criminal activity are uncovered, there must be an established procedure for notifying the relevant law enforcement authority (usually the prosecution).

Again, the record on engagement with other institutions varies considerably between countries:

- In Montenegro, there is no agency responsible for enforcement of anti-corruption legislation with which the SAI can interact. Concerning interaction with the prosecution, the SAI appears to follow a strategy of forwarding all of its audit reports to the prosecution, rather than taking an active role in flagging its suspicions of criminal activity – a practice that has been criticised by both the Groupe d’Etats contre la corruption (GRECO) and local NGOs (GRECO Montenegro 2006, Recommendation 24; GRECO Montenegro 2008, 18-19; Institut Alternativa 2010, 13-14).
- In Croatia, the SAO signed, in 2012, an agreement with the Ministry of Finance on cooperation in activities related to budget supervision. With regard to criminal law enforcement, both the SAO and Transparency International referred to SAO audits of privatisation processes as an area where a real impact had been felt. The SAO reported submitting notifications of 178 criminal acts to the prosecution; however, the SAO did not provide information on further proceedings in these cases.
- In Macedonia, a Protocol for Cooperation on the Prevention and Repression of Corruption and Conflicts of Interest was signed in 2007 between a number of institutions, including the State Commission for Prevention of Corruption (SCPC), the tax authority, the Public Prosecution Office, the state attorney, the Judicial Council, the Ministry of Interior, the State Audit Office, the Customs Administration, the Financial Police, and the Office for the Prevention of Money Laundering. According to the SCPC, cooperation with the SAO is very good. In 2011, the SAO submitted two audit reports to the commission for further proceeding. Eight reports, including findings on possible misdemeanours or criminal offences, were submitted to the public prosecution office. However, the SAO was unable to provide information on how these cases were subsequently handled. According to the SAO, its findings in earlier cases were one of the reasons for convictions in the so-called “Bachillo Case”, in which a fraudulent claim by a farmer for compensation for destroyed property became a case implicating a number of high-level officials.¹⁷
- In Slovenia, the Court of Audit does not have any formal agreement on cooperation with the CPC. However, as indicated in section 5.1.b, cooperation is active and has achieved significant results.

¹⁷ See <http://www.vmacedonianews.com/2007/01/macedonian-police-arrest-ex-deputy.html>

Box 7: Formality vs. Chemistry? How to ensure institutional cooperation

In Macedonia, the protocol for cooperation enshrines an agreement between all of the authorities involved in preventing, detecting, investigating, and prosecuting corruption and conflict of interest to, inter alia:

- Exchange data and information related to the prevention and repression of corruption and conflicts of interest;
- Assist each other when discovering cases of corruption and conflicts of interest, as well as when undertaking the necessary measures and activities pertinent to such cases;
- Provide professional assistance to each other in the process of education and training of human resources;
- Form joint teams comprising area specialists to support the efficient practical resolution of specific cases;
- Form joint teams when preparing the necessary legislation and other regulations on matters of common interest.

In Slovenia, representatives of the CPC expressed scepticism about such formal agreements, suggesting that the more important factor is “good chemistry” between the heads of the relevant institutions, citing cooperation with the Court of Audit as a prime example. Also, it was implied that inter-institutional cooperation should be based on the nature of specific cases. According to Rok Prapotnik, deputy chief commissioner of the CPC, “If you have a case and all institutions cooperate – the Court of Audit, CPC, tax authority, labour inspectorate, prosecution, police, etc. – then together the institutions have enough powers. The CPC is the engine of this.”

There appear to be two clear lessons learned from inter-institutional cooperation in the four countries. First, while quality personnel is a condition for cooperation and interaction to be productive (as pointed out by the Slovene interlocutors), this does not mean that formal cooperation agreements are worthless. Ideally, formal agreements should provide a predictable framework for interaction, which can become established enough to survive even when changes of leadership take place. Second, concerning the initiation of prosecutions for violations identified by SAIs, it should be recognised that SAIs need to strike a balance between activism (notifying the prosecution of suspected criminal offences proactively), and caution. In the words of Mr Radulović from the Montenegrin SAI, “If you file criminal charges with insufficient evidence, your reputation with the media goes up, but your professional reputation and integrity go down.”

5.4 Follow-up by NGOs and the media

In addition to formal processes of follow-up on SAI findings and reports, independent stakeholders play a crucial role – both in conducting independent monitoring and advocacy, and in ensuring public awareness of follow-up. There are two main components of follow-up by non-official stakeholders: monitoring and advocacy by NGOs, and publication by the media. The role of NGOs and the media can be a pivotal one, especially in countries where the formal institutional framework for follow-up is insufficiently developed or not functioning adequately. In such cases, independent monitoring may ensure that audit findings are not obscured, and media dissemination can ensure that these findings are kept in the public eye; thereby, making a significant contribution to budget accountability.

NGOs

Institut Alternativa in Montenegro regards monitoring of audit findings, and the implementation of SAI recommendations, as a potentially crucial role of NGOs. While not directly conducting such monitoring, Institut Alternativa has strongly engaged in issuing its own recommendations based on SAI findings, especially in reaction to the information contained in the SAI's 2011 Annual Report on the very poor record of state institutions in implementing audit recommendations. The institute quickly issued a call to the government to urgently deal with the lack of implementation and to take longer-term measures, such as boosting the capacity of state institutions to implement SAI recommendations (as already committed to by the government under the "Open Government Partnership" initiative). It also called for the SAI to send every report to the parliament, and for the parliament to discuss individual audits, impose political responsibility, and pass legal changes to ensure, inter alia, that auditees respond to audit reports.

Notwithstanding the steps taken by Institut Alternativa in this direction, there are currently no clear examples of NGO monitoring of follow-up on SAI recommendations in the four countries analysed in this paper. However, a neighbouring example does exist. In Serbia, a "Coalition for Oversight of Public Finance" has carried out monitoring of budgets (for example, comparing budgets with final accounts) as part of a broader programme of advocacy and activities to encourage citizen participation in the budget process.¹⁸ While the coalition does not appear to have directly monitored the implementation of SAI findings, it would clearly be in a good position to do so. Given the resource constraints on NGOs attracting funds in the region, for example, Integriteta–Transparency International Slovenia did not have an office at the time of writing and was still in the process of formation resources provided to NGOs to conduct monitoring of follow-up on SAI findings would be a valuable contribution to accountability of budget users. This is especially true in countries where the other elements in the accountability process – such as the duty of auditees to report on the measures they have taken, the follow-up audits by the SAI, etc. – are not properly established.

The media

While NGOs may provide the substance and expertise for conducting independent and objective follow-up on SAI audits, the impact of both SAI findings and NGO follow-up often depends on these outputs being published by the media. In the countries covered in this paper, the media often does play such a role. Interlocutors referred to a frequent use by the media of SAI reports in Croatia and Slovenia. In Montenegro, the media has perhaps been less active, but this changed dramatically in November with the publication of the SAI's annual report containing very negative findings on implementation of audit recommendations (see section 5.3.c). The Montenegrin SAI has shown some initiative in cultivating effective media contact, and, in November 2012, organised a seminar on SAI-media cooperation. Prior to the seminar, Mr Radulović expressed hope that such events could raise media awareness of which findings are more important, in order to counter the phenomenon of political bias and of "cherry-picking" audit findings (see section 4).

¹⁸ See <http://www.bezbednost.org/Networks/4532/Coalition-for-Oversight-of-Public-Finances.shtml>

6. Focus: SAI supervision of political party and campaign finance

This section briefly discusses the role of SAIs in auditing political party and campaign financing in the four countries. It is relatively common in Southern Europe for SAIs to be assigned one of these tasks. According to the database of the Institute for Democracy and Electoral Assistance (International IDEA), the SAI is the sole oversight body, or one of the oversight bodies, for political finance in nine out of 15 countries; in other words, it performs this role in more countries of the region than any other single institution.¹⁹ As a term of comparison, the entire Europe database shows that SAIs perform this role in only 14 out of 44 countries. They do not perform this role in any countries in Western Europe. The historical reasons for this data are not entirely clear, but may include the fact that significant state funding of political parties is relatively common in South-eastern Europe, along with the reality that SAIs have often been one of the first main state institutions to achieve a level of relative consolidation. For example, in Montenegro the SAI has been responsible for overseeing the use of state budget funds by political parties and electoral subjects since 2007; with amendments to the law passed in January 2012, it became responsible for auditing all of these entities' finances, including private financing. One of the reasons for widening the SAI's role was that an originally agreed proposal to allocate this role to a reformed and strengthened state election commission foundered due to an apparent lack of will to reform the commission.

While the appeal of making the SAI the oversight body for political finance is understandable, it should be noted that there are significant concerns over whether this is an optimal solution.

6.1 Legal remit

SAIs are established to audit the use of budget funds, while political parties or election candidates are not state organisations. Since SAIs often have the authority to audit the use of budget funds by private entities, it is understandable that they may also have the authority to audit the use of state subsidies. However, whether they can be legitimately authorised to audit the private sources of income of political parties, and spending of those resources, is a more difficult question, which has been resolved in differing ways in different countries. While most interlocutors in the region appeared surprised at questions over the SAI's legal remit in this area, some doubts still remain. In Montenegro, NGOs were sceptical about the SAI's authority to audit a political party's reporting on private sources of income.²⁰ The legal framework for SAI oversight in this area is basically similar in Macedonia and Slovenia. In other countries – in particular the Czech Republic and Albania – the authority of the SAI to audit political party finances has been struck down after legal challenges. If SAIs become more effective at auditing political party finances in the countries examined, such challenges by parties or election candidates may become more likely.

6.2 Powers and capacity

The task of auditing political party finances is – at least if done properly – notoriously difficult and somewhat different from the audits that SAIs usually conduct, whether regularity or performance

¹⁹ The database can be found at www.idea.int/political-finance.

²⁰ Interviews with Marko Sošić, Institut Alternativa, 5 November 2012; Zlatko Vujovic, CEMI, 5 November 2012. In an interview, Mr Radulović, from the SAI, argued that parties are typical budget institutions as they “get 97 per cent of their funds from the state budget”, 5 November 2012. However, this is not true for the main ruling political party, which claims that 15 to 20 per cent of its income comes from private sources (interview with Branko Cavor, business director, Democratic Party of Socialists of Montenegro, 5 November 2012).

audits. In the case of political parties or electoral subjects, the main concern over party finances pertain to the resources that parties obtain, and whether these resources are reported accurately. In order to verify the information parties provide, an oversight body needs, essentially, investigatory powers – for example, to be able to demand receipts from private companies that will corroborate expenses parties claim they incurred.

In addition, in order to conduct such supervision properly, SAIs must allocate substantial resources and time. In circumstances where SAI resources are already overstretched, it is questionable whether they can perform such a role effectively. Concerns over the diversion of resources from the SAIs' other audit activities are justified. For example, in Montenegro the SAI's remit was extended to audit all party reports in January 2012, yet its budget (20 per cent lower than the amount it had requested) was cut during mid-year budget revisions. In practice, SAIs in all four countries, with the exception of Croatia, openly admitted that they do not have the capacity to audit party and election campaign finances beyond a pro forma check on the legal completeness and consistency of reports. In the case of Croatia, the view of NGOs and budget experts was that monitoring is similarly formal.²¹ In Macedonia, Kaliopi Petkoska, principal audit officer, international cooperation stated simply that "Due to capacity constraints, we believe that it is neither feasible nor practical for the SAO to audit in sufficient depth all important political parties' reports." According to Ms Petkoska, the SAO needs methodological assistance in order to adequately supervise political party finances without impacting the SAO's primary mandate.

6.3 Political sensitivity

One of the strengths of SAIs is their ability to remain above politics, underpinned by international auditing standards, well established auditing procedures, and – ideally – appointment procedures that assure independence. An SAI that revealed, for example, serious violations in terms of illegal donations, or even corruption, would by definition be treading in an area that is more sensitive than any other audit activity it conducts; and this might threaten perceptions of its non-political role. In Slovenia, GRECO reported that the Court of Audit performs only a formal check on party accounts rather than a more in-depth audit because "it does not have the resources to audit all political parties in one year, but it would be too politically sensitive to audit only one or a few parties." (GRECO Slovenia 2007, 18)

When taken together, these concerns become more than the sum of their parts. Ideally, it is more or less an international standard that oversight of political party and election campaign financing be conducted by a single body with sufficient powers and resources. However, if that body is the state audit institution, concerns about the stability of its legal remit and its capacity are more serious than if it had a partial role (for example, only auditing the use of state subsidies). In short, legal and internal capacity concerns suggest a limited role is better than a broader one. However, performing such a limited role is not ideal from the point of view of ensuring proper oversight of political finances.

²¹ Interviews with Zoran Antun Petrović, Transparency International Croatia, 23 November 2012; information provided by Mihaela Bronić, Institute for Public Finance.

Box 8: Supervision of Political Financing: Remit of SAIs**Macedonia:**

- The SAO audits all finances of political parties, at least once per year. There was no auditing from 2006 to 2010. 10 of 55 party reports were audited in 2011 according to GRECO. SAO also audits public funding of election campaigns.
- Other political finance supervision responsibilities are divided between the SCPC and the State Election Commission.

Montenegro:

- Since January 2012, the Montenegro SAI has been responsible for auditing political party annual financial reports, and election campaign financial reports.

Croatia:

- The SAO is responsible for the audit of the political parties' annual financing (including private donations), and submits a report to the parliament on financing of parties that receive state subsidies.
- State Election Commission is responsible for control of election campaign finance reports.
- The SAO, state election commission and the ministry of finance sign a cooperation agreement on 3 May 2011, to ensure exchange of information on their respective findings.

Slovenia

- The CoA reviews and evaluates annual reports of parties before they are sent to the national assembly.
- The CoA receives financial reports on election campaigns and is responsible for reviewing reports of those entitled to reimbursement of election expenses.

6.4 The need for NGO and media oversight

Only two of the three problems listed above are specific to SAIs – legal remit and political sensitivity. The problem of capacity, on the other hand, is one that confronts any institution entrusted with oversight of political party finance. The experience of oversight in the countries with which the author is familiar shows that oversight bodies almost never detect important violations, such as hidden donations. As one SAI representative stated off the record, “No SAI in the world can uncover undeclared donations, this is why NGOs, media, other parties have to identify them.” The role of any oversight body is to ensure a clear regulatory framework, mediate publication of political party and campaign financial reporting, and follow up on suspicions or violations that are uncovered by the media or other non-state monitors.

In this respect, the main direction in which SAIs – or any other body that has responsibility for supervising political financing – need to move is in engaging with, or encouraging, NGO monitoring of political party financing, ideally at the time of elections, when political spending is most visible. In Slovenia, at the time of writing, the Court of Audit was discussing possible cooperation with the NGO Integriteta – Transparency International Slovenia, whereby Integriteta would monitor spending in election campaigns. Evidence of discrepancies between the monitoring results and the spending

declared by parties and the electoral subjects could then be used as a criterion for the SAI to select specific issues to audit in more depth.²²

In Serbia, a somewhat analogous model was introduced in 2011, with a novel system in which the anti-corruption agency that is responsible for monitoring election campaign financing, engaged around 165 field monitors to screen campaign spending for the parliamentary, regional and municipal elections of May 2012. While this is not technically an example of cooperation between the oversight authority and NGOs, many of the monitors worked previously as NGO election monitors. In addition, independent monitoring of the elections was also conducted by other organisations, such as Transparency International, whose monitoring activities uncovered significant discrepancies between political party election campaign financing reports, and spending.²³

In short, the combination of NGO and other independent monitoring and the use of the election oversight body's powers to follow up on problems revealed by such monitoring is a promising avenue for increasing accountability of political party financing. Established methodologies exist for such monitoring; notably, in the handbook of the Open Society Justice Initiative (Open Society Justice Initiative 2005).

²² Interviews with Vesna Klemenčič and Vid Doria, Integriteta – Transparency International Slovenia, 14 November 2012; Igor Šoltes, president of Slovene Court of Audit, 15 November 2012.

²³ A report by Transparency Serbia, "Presidential and Parliamentary Election Campaign Financing in Serbia May 2012". July 2012. The report can be found at [http://www.transparentnost.org.rs/images/stories/Election%20Campaign%20Financing%20in%20Serbia%20Report%202012%20\(Final\).pdf](http://www.transparentnost.org.rs/images/stories/Election%20Campaign%20Financing%20in%20Serbia%20Report%202012%20(Final).pdf)

7. Lessons learned and recommendations

Based on the analysis of successive stages of the state audit process, and the experience of SAIs in the countries analyzed in this paper, the main lessons are the following:

1) The state audit cycle is a complex interconnected system. The presence of one good practice (for example, quality audit reporting) will not have an optimal impact without other good practices in place – from well-designed auditee selection to follow-up on audit findings. Consequently, engagement with NGOs, parliaments, and other stakeholders must be seen and advocated in the context of the overall audit cycle, and its various components. Specifically, every stage of the audit cycle requires engagement with a set of relevant stakeholders (as shown in figure 1).

2) SAIs need to be careful in balancing “activism” and “detachment”. SAIs occupy a unique position in the overall system of government accountability. As mentioned earlier in this paper, they balance formal accountability and political accountability, understood in the following way:

Formal accountability aims to ensure that the public official acts within the formal remit of the responsibilities of his/her office [...] 'Political accountability', on the other hand, concerns the answerability of politicians and public officials for their conduct in office. The issue is not whether someone acted within their legitimate powers, but whether they exercised those powers in ways that the political bodies to whom they are accountable – such as Parliament or the electorate – can endorse. (Philp 2000, 3-4)

SAIs operate as a mechanism of formal accountability, because they audit the regularity of, and the compliance with, the use of budget funds. However, they also function as a mechanism for political accountability. This has become more so with the development of performance audits (i.e., of the efficiency and effectiveness with which budget funds have been spent – see box 1), which involves judgements that go beyond the legality of budget spending. In addition, the way in which SAI audit findings are used by other stakeholders – and in particular budget committees as the main counterpart – will often involve decisions that underpin political accountability. An example of the latter would be a politician being called to resign because of an overall responsibility for violations committed by those under the politician’s authority. An equally relevant example would be where an SAI detects or investigates illegal funding of a political party.

This seemingly theoretical insight has important implications for the way in which SAIs operate. In particular, it highlights the need for SAIs to strike a balance between on the one hand engaging with other stakeholders – from institutional counterparts to non-state actors, including the media – and on the other maintaining their distance from those that use their findings to impose accountability, whether through institutional mechanisms or the pressure of public opinion. In practical terms, this means that SAIs need to draw a line between communicating findings and recommendations to the relevant parliamentary committee, and being dragged into (or tempted to comment on) proceedings of the committee that go beyond a strict interpretation of the findings and recommendations – for example, demands for wider political resignations in the case of serious audit findings. Similarly, while engaging with NGOs and media to ensure maximum visibility of its findings is vital, the SAI needs to ensure a certain distance from those stakeholders – not least because it cannot control exactly what they will do. The last point is of key practical importance where either NGOs or media are associated with any particular political viewpoint or orientation, or are perceived to be so – a common situation in transition countries.

Based on the previous analysis and experience, the author makes the following recommendations, divided according to the stage of the audit cycle:

1) Strategic

SAIs should have a strategic document (for example, a development strategy) that inter alia defines a clear vision of the SAI's relationship with other stakeholders and how this vision is to be realised. This should include an elaboration of a strategy for communication with each stakeholder.

2) Audit Selection

The legal framework should clearly provide that initiatives for audits be submitted to the SAI by all relevant stakeholders.

The SAI's main institutional counterpart (usually a parliament) should have the right to initiate a limited number of audits that the SAI must then conduct. This number may be very small (for example, five audits with parliamentary initiative out of a total of 200, as in the case of Slovenia) and should be balanced with the SAI's autonomy to select audits based on its own criteria.

SAIs should ensure that there are user-friendly channels for individuals and organisations to submit concerns or initiatives for audits – including mail, email, and telephone. SAIs might also consider creating profiles on relevant high-exposure social media, which would serve as an extra channel for initiative, as well as a means for disseminating and drawing attention to audit reports. Such communication tools should be carefully designed in order to separate the inputs of the SAI itself from the opinions of those who contribute.

SAIs should consider organising seminars or similar fora on an annual or six-month basis. All relevant non-governmental stakeholders should be invited to these events to discuss the activities of the SAI (including findings of the previous one to two years and follow-up activity), and to identify risk areas on which audits should focus.

3) Conduct of audits

SAIs should ensure that clear procedures be established to provide auditees with an opportunity to respond to draft reports, and ensure formal processing of comments by the SAIs' highest authority.

4) Audit reports

Audit reports must have a consistent structure – i.e., the same layout and section structure for every report – for example, “summary”, “findings”, “conclusions” and “recommendations”.

Individual reports should have a summary of findings identifying inter alia:

- the most important problems and the most common violations of legal norms;
- information on whether the report contains allegations of criminal conduct that are forwarded to the prosecution office or relevant law enforcement authority;
- main recommendations to auditees, with deadlines or recommended deadlines for implementation;
- other main recommendations for changes in regulations or laws, or important recommendations directed to institutions other than the auditees.

Annual reports should include summaries of inter alia:

- number of complaints or initiatives received by the SAI, the number of complaints that result in audits, and a breakdown of the remaining initiatives and the reasons why they were not followed (for example, due to the priorities of the SAI in audit selection, the lack of justification or evidence, etc.);
- total amount of audited budget funds, and the breakdown between regularity audit and performance audit;
- most important problems identified by audit reports during the reporting period;
- statistics on total amounts of funds wasted or spent on unauthorised items, including the amount of funds involved in suspected criminal offences forwarded to law enforcement authorities;
- statistics on amount of funds recovered or saved as a result of the SAI audit activities;
- most important recommendations;
- number of implemented recommendations among those that were issued in the year previous to the reporting period.

Annual reports should also be published in a timely manner for example, by the end of the first quarter of the following year.

5) Dissemination

All audit reports should be published without delay on the SAIs website and other communication media established by the SAI (including social media profiles if the SAI has one) and provided directly to main media outlets, in addition to being provided to institutional counterparts.

For each audit report – or at least each important audit report – the SAI should issue a press release.

The SAI should hold press conferences to disseminate findings and recommendations of particular importance.

The SAI should coordinate with other oversight bodies (such as the anti-corruption agency), where relevant, to time the release of findings for maximum effect.

6) Engagement with the main institutional counterpart (parliamentary committee)

The SAI should submit all audit reports to the committee.

The SAI should provide the committee with general guidance (such as a manual) to explain the principles and procedures of state audit.

The SAI should provide specific guidance to the committee – including explanation of its findings, where necessary, and suggested questions - for sessions at which auditees are called to respond to audit reports.

The remit and work of the committee should be organised to ensure that:

Its composition in terms of number of members and political balance is optimal to facilitate efficient and non-partisan discussion;

It discusses important individual audit reports and conducts sessions to hold auditees accountable.

7) Engagement with other institutional counterparts

Auditees should be legally obliged to respond to audit reports and, specifically, implementation of recommendations.

The SAI should foster cooperation with other institutions that have a role in prevention of corruption and malpractice (for example, specialised anti-corruption agencies), in order to ensure the efficient channelling of initiatives between institutions, and that each institution is aware of what the other is investigating, auditing or planning to audit. Ideally, cooperation should have a formal basis (e.g., memorandum of cooperation) and be backed up by quality staffing of key positions.

All SAI audit reports should be forwarded to the prosecution, and the SAI should also notify the prosecution of suspected criminal offences revealed by its audits.

SAIs should consider communicating audit reports directly to non-governmental organisations, which are active in the area of budget accountability. This recommendation links directly with the fourth recommendation under “audit selection”.

8) Political party financing

Authorities should give careful consideration to whether the SAI is the optimal choice to supervise political finance. Authorities should also pay particular attention to whether such supervisory role is compatible with the country’s constitution, and basic SAI legal framework, and to the capacity of the SAI to perform such a role.

Authorities should ensure that the SAI has sufficient powers to check the veracity of political party and campaign financial reports.

Where possible, the SAI (or whichever institution is responsible for oversight) should establish cooperation with NGOs, whereby the latter monitor election campaign financing and the SAI conducts targeted checks based on discrepancies.

8. What can donors do?

The previous U4 paper was critical of the way in which donors provided assistance to SAIs (van Zyl, Ramkumar, and de Renzio 2009, 24). The argument of that paper was that assistance focused too narrowly on increasing technical expertise, capacity and resources while paying insufficient attention to other factors underlying effective budget accountability. In fact, in the countries covered by this paper, there have been significant assistance projects that go beyond this narrow focus. An EU-funded project on “Strengthening External Audit in Montenegro” generated recommendations (notably from a peer review by SIGMA) covering a wide range of issues, including on interaction with parliaments and other institutional counterparts and the communication strategy of the SAI.²⁴ In Macedonia and especially in Slovenia, assistance projects have targeted the nexus between the SAI and the parliament (see section 5.2).

That said, the analysis of this paper suggests that donor assistance could go significantly further, especially in the area of encouraging independent monitoring both of the implementation of SAI findings and of political party and election campaign finance. The following areas are suggested as valuable targets for donor assistance:

- Assistance in the design of SAI development strategy, including communications and engagement with other stakeholders.
- Procedures for audit selection, including assistance to engage NGOs in a structured fashion.
- Structuring of audit reports and other documentary outputs (such as summaries) so as to make audit findings and recommendations accessible to institutional counterparts and non-governmental stakeholders.
- Assistance to strengthen cooperation and interaction between the SAI and the official counterparts, especially parliaments, anti-corruption agencies, and others.
- Assistance to NGOs to monitor the implementation of SAI recommendations by auditees and other institutional counterparts.
- Assistance to SAIs on how to perform audits of political party and electoral campaigns in a targeted and resource-efficient manner.
- Assistance to NGOs to monitor political party and campaign financing on the basis of objective methodologies.

²⁴ The project and its outputs are described in State Audit Institution of Montenegro (2012).

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The effectiveness of Supreme Audit Institutions (SAIs) is not determined solely by resources and capacity levels. A range of other factors is of equal importance, including the accessibility and communication of audit reports and findings and interaction with other stakeholders including NGOs and the media. The state audit cycle is a complex, interconnected system, and good practices in one area may not yield expected impact if other components of the audit cycle do not function well. A review of SAIs in Croatia, Macedonia, Montenegro and Slovenia – with a particular focus on their role in overseeing the financing of political parties and political campaigns – shows that engagement with NGOs, parliaments and other stakeholders is essential to a well-functioning audit cycle. Recommendations are provided to ensure optimal engagement with such stakeholders at all stages of the audit cycle – ranging from the need for an open procedure for audit selection to engagement with external counterparts. The paper concludes with suggested actions for donors, including assistance to NGOs to monitor the implementation of SAI recommendations.

