

AUDITING FOR ACCOUNTABILITY

UNUSED POTENTIAL IN PREVENTION AND COMBATING CORRUPTION

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No Real Democracy Without Strong Institutional Checks and Balances

It is well-known that corruption thrives in environments with weak or ineffective institutional checks and balances. Power holders often exploit the weak accountability frameworks to abuse of-fice with impunity. Therefore, it is vital to balance effective decision-making and appropriate oversight. The oversight function performed by state audit institutions¹, is a critical component of the checks and balances system fundamental to the functioning of any democratic system.

State audit institutions (SAIs) critical role is to assure the parliament and taxpayers that the state funds are used purposefully, rationally, and efficiently. Further, SAIs provide crucial recommendations on how to promote public sector transparency and accountability. While their primary role remains to assess public financial accounts' regularity and integrity, in the past years, the state audit bodies have evolved and diversified their work to reflect emerging public finance issues and meet changing social expectations. While the overall focus remains on prevention and deterrence in public finance, there has been an emerging international trend among SAIs to engage more actively in identifying and following up on fraud and corruption to address realities on the ground and bridge the expectation gap.²

Corruption became a more prominent issue in Western Balkans countries' public finance

The new Transparency International Corruption Perceptions Index 2022³ confirms that corruption remains a serious problem in Western Balkan

countries despite progress between the 2000s and mid-2010s. The prevalence of corrupt practices is alarmingly high in Albania, Bosnia and Herzegovina (BiH), North Macedonia, Montenegro, Kosovo, and Serbia.⁴ Curbing corruption requires long-term efforts at all layers of the government and active participation from a wide range of stakeholders, including independent oversight bodies. However, the Western Balkan countries have yet to attempt to prioritize the efforts of the oversight and enforcement bodies.⁵ Further, according to Freedom House, the dysfunctional institutions in Western Balkans cannot deliver a robust system of checks and balances, which is crucial for managing public finances effectively and preventing abuses of power or corruption.⁶

Therefore, the role of SAIs across WB countries in preventing and combating corruption is even more critical. Enhancing the role of audit in corruption prevention is especially important to reflect the challenges posed by corruption and advance democratic development across the WB region. Audit reports are potent tools for corruption detection, but only if the relevant actors effectively utilize them. Otherwise stated, the findings and recommendations from the audit reports must be taken seriously and acted upon by the relevant public authorities. There must be adequate follow-up mechanisms to ensure the recommendations are implemented and progress monitored. This policy brief explores whether SAI's audit reports are being effectively utilized to detect and prevent corruption practices within the 6 Western Balkan countries.

1 Often referred to as supreme audit institutions (SAIs).

2 *Engaging with Supreme Audit Agencies to Support Governance and Anti-Corruption Efforts*, available at: <https://www.elibrary.imf.org/view/journals/007/2023/015/article-A010-en.xml>

3 *Corruption Perception Index 2022*, available at: <https://www.transparency.org/en/cpi/2022>

4 *Corruption in the Western Balkans not Abating: What's Next*, <https://seldi.net/publications/policy-briefs/seldipolicy-brief-13-corruption-in-the-western-balkans-not-abating-whats-next/>

5 *Anti-corruption policies and the regulatory environment in the Western Balkans, Policy brief No 17, October 2022*, available at: <https://seldi.net/wp-content/uploads/2022/11/SELDI-PB-17-Anticorruption-policies-and-regulatory-environment.pdf>

6 *Freedom House Report, Nations in Transit, 2022*

1 CRITICAL FOUNDATIONS FOR THE EFFECTIVE FUNCTIONING OF THE SUPREME AUDIT INSTITUTIONS

SAIs must be independent to fulfill their primary functions of fiscal oversight. First, the Lima Declaration⁷ and then the Mexico Declaration⁸, have introduced standards and principles for the independence of SAIs. The independence must be anchored in legislation with the necessary legal scrutiny to prevent political interference and other external influences. However, SAI's independence is a complex construct. It encompasses two distinct elements: "de jure independence," which refers to the independent conditions that should be encapsulated in the SAI's legal framework, and "de facto independence," which refers to the actual operational independence of the SAI. Operational and legal capacity are critical foundations for the effective functioning of SAIs. This also includes having sufficient resources, such as funding, staff, and technology, as well as having the necessary skills and expertise to conduct high-quality audits. SAI's must be able to carry out its work effectively to fulfill its role as guardian of the public purse.

Albania's highest institution responsible for economic and financial oversight is the Albanian Supreme Audit Institution. In Kosovo, this role is fulfilled by the Kosovo National Audit Office, while in Serbia, it's the State Audit Institution of Serbia. Montenegro has the Montenegro State Audit In-

stitution performing similar functions. However, in Bosnia and Herzegovina, the system's complexity is evident, with four Supreme Audit Institutions, each responsible for a different level of government. These entities include the Office for the Audit of Institutions of Bosnia and Herzegovina, the Office for the Audit of Institutions in the Federation of Bosnia and Herzegovina, the Audit Office of the Brčko District of Bosnia and Herzegovina, and the Main Service for the Audit of the Public Sector of the Republic of Srpska.

The constitutional and legal frameworks in Albania, Kosovo, Serbia, and Montenegro guarantee the existence of SAIs in line with the INTOSAI standards. However, in Albania, additional legal changes are needed to improve the scope of the audit mandate to cover all public entities.⁹ In Kosovo, the obligation to conduct regular annual audits on all budget organizations, regardless of their size, complexity, and risks, should be removed from the Law of the Auditor General and the National Audit Office.¹⁰ In BiH, there is no constitutional anchorage of any of the SAIs. However, their functional, operational, and financial independence at all respective levels of government is regulated in the specific SAI laws, broadly in line with the INTOSAI standards.¹¹ Similarly, the Constitution has not yet guaranteed SAI's

7 *Lima Declaration*, available at: <https://internationalbudget.org/wp-content/uploads/LimaDeclaration.pdf>

8 *Mexico Declaration*, available at: <https://www.issai.org/pronouncements/intosai-p-10-mexico-declaration-on-sai-independence/>

9 *Albania Report 2022*, available at: https://neighbourhood-enlargement.ec.europa.eu/albania-report-2022_en

10 *Kosovo Report 2022*, available at: https://neighbourhood-enlargement.ec.europa.eu/kosovo-report-2022_en

11 *Bosnia and Herzegovina Report 2022*, available at: https://neighbourhood-enlargement.ec.europa.eu/bosnia-and-herzegovina-report-2022_en

independence in North Macedonia. Although the State Audit Office law is primarily harmonized with international standards, adjusting the legal framework is still ongoing to ensure an improved external audit function in the public sector and strengthen the financial and operational independence of SAI in North Macedonia.¹²

Although SAIs cannot be completely independent since they are part of the state apparatus, they should have the functional, organizational, and financial independence to fulfill their primary oversight role. However, the autonomy of the 6-WB SAIs is often obstructed and vulnerable. In this context, for example, although the existing legal framework in BiH and its entities explicitly specifies audit offices must be non-political, after election in 2022, a list of public enterprises and bodies entrusted for appointment to the management of certain political parties was published, including the Office of the Auditor in FBiH.¹³ Later, this issue was addressed by the Audit Office with a statement in which it was said that the long-standing credibility of this independent institution was grossly disregarded.

Further, although the Constitution of Montenegro forbids SAI Senate members to be part of political parties¹⁴, it does not ban candidates associated with political organizations. Therefore, candidates can resign from a party the day before submitting their candidacy to the SAI Senate. It appears that some SAI Senate members in Montenegro have been politically active as high-ranking members of political parties before being appointed to the Senate, which CSOs, the media, and opposition parties have criticized. Some have also been implicated in alleged corruption scandals regarding the misuse of public resources for

party purposes.¹⁵ Due to these reasons, the SAI sometimes faces a backlash from political parties when presenting their reports, purposefully accusing them that the reports are politically instructed, trying to diminish the audit findings.¹⁶

In addition, although Lima and Mexico Declarations state that SAIs should have the necessary and reasonable human, technical, and financial resources at their disposal to fulfill their role and mandate effectively, the FBiH Ministry of Finance did not comply with the law on two occasions in the past seven years (in 2016 and 2019) by modifying or reducing SAI's budget. The executive branch should refrain from interfering in the SAI's budget proposal. Once the legislative power adopts the state budget, the SAI institutions should be free to manage their budgets, allocate funds, and make disbursements without interference or control from the executive government.

According to the INTOSAI Mexico Declaration¹⁷, financial independence, and ensuring that state auditing institutions have the necessary human, material, and financial resources are fundamental principles for their independence. One way to achieve this is by adopting a practice known as a single-line budget, where SAI requests a specific budget and, once approved, has the authority to decide how the funds will be allocated.

The following table gives a brief insight into the capacities of the SAI in the Western Balkans in terms of the number of employees and approved budgets, as well as the degree of their productivity in terms of the number of audits performed during 2022.

12 *North Macedonia Report 2022*, available at: <https://neighbourhood-enlargement.ec.europa.eu/system/files/2022-10/North%20Macedonia%20Report%202022.pdf>

13 *Press release to protect the independence of the Institutional Audit Office in FBiH*, Available at: <https://www.vrifbih.ba/saopcenje-zajavnost-u-cilju-zastite-nezavisnosti-ureda-za-reviziju-institucija-u-fbih/?lang=en> [Accessed 26 June 2023]

14 *Law on State Audit Institution, Article 54 par. 2 of the Constitution of Montenegro* ("Official Gazette of Montenegro", No. 01/07 and 38/13)

15 *Appeal of CSOs: Do not appoint Jelić to SAI Senate, March 2017*, Available at: <https://www.vijesti.me/vijesti/ekonomija/91133/jelicevo-ime-je-sinonim-za-aferu-snimak-ne-imenujte-ga-za-clana-senata-dri> [Accessed 17 July 2023]

16 *One of the examples: DN Dan*, Available at: <https://www.dan.co.me/vijesti/ekonomija/milovic-dps-ova-revizorska-institucija-osmislila-scenario-protiv-spajica-5141658> [Accessed 17 July 2023]

17 *Mexico Declaration*, available at: <https://www.issai.org/pronouncements/intosai-p-10-mexico-declaration-on-sai-independence/>

Figure 1. Overview of SAI Capacities

SAI	Employees	Budget	Published reports on all types of audits performed during 2022.
Albania	233	4.065.000,44 €	176
BiH (state level)	68	2.520.077,10 €	101
Federation of BiH	75	2.785.675,25 €	116
Republika Srpska	85	2.422.224,80 €	92
District of Brcko	13	543.548,92 €	31
BiH (4 SAIs combined)	241	8.271.526,07 €	340
Serbia	329	7.834.807,75 €	191
North Macedonia	116	2.275.336,05 €	229
Montenegro	78	2.129.290,05 €	35
Kosovo	164	3.046.355,00 €	51

Source: Annual reports on the work of SAI for 2022, downloaded from official SAI websites.

SAIs across the 6 WB countries are highly productive. However, the number of published reports (2022) by SAIs varies significantly across them. BiH stands out due to its unique structure. Unlike other countries with only one SAI, BiH hosts four SAIs (one at the state level, two at the entity level, and a distinct one for the Brcko District.). Given the configuration, it is unsurprising that BiH leads with the largest total budget, slightly surpassing 8 million euros.

Further, regarding productivity, BiH also took the lead with an impressive total of 340 completed audit reports. Serbia's SAI is the largest employer, with a workforce of 329 people and an operating budget of almost 8 million euros. Interestingly, despite having twice as few employees, North Macedonia's SAI published 229 reports within the same period. They achieved this feat on a budget of only 2.2 million euros, offering a striking example of efficiency. SAIs within the 6-WB countries discover a range of common irregularities revolving around the following:

- ▶ **Financial Mismanagement.** This irregularity involves improper accounting, misappropriation of funds, or unauthorized spending by government agencies. It can indicate a lack of financial discipline and accountability.
- ▶ **Procurement Irregularities.** SAIs often uncover irregularities in the procurement process, such as favoritism, bid rigging, or contracts awarded to unqualified or politically connected firms. This leads to inefficient use of public funds and a lack of transparency.
- ▶ **Lack of Transparency.** SAIs often find instances where government agencies fail to provide clear and comprehensive information about their activities, budgets, and expenditures. Lack of transparency hinders public accountability and trust.

- ▶ **Ineffective Use of Public Resources.** Despite significant budget allocations, SAIs identify cases where government agencies do not achieve their intended objectives. This indicates inefficiency in resource allocation and program implementation.
 - ▶ **Non-Compliance with Legal and Regulatory Frameworks.** SAIs discover instances where government entities do not adhere to relevant laws, regulations, and policies. This can include violations of procurement laws, tax regulations, or public financial management rules.
 - ▶ **Corruption and Fraud.** SAIs also sometimes uncover corruption or fraud within government agencies, such as embezzlement, bribery, or kickbacks.
- In addition to the large amount of audit reports, there is an urgent need to ensure a proper follow-up from all relevant institutions and measure the overall impact once the SAI report is published. Further examination of these questions will continue in the following sections of this document as we delve deeper into the effectiveness and follow-up actions linked to these audit operations.

2 UNLOCKING THE POTENTIAL: RECOGNIZING AND HARNESSING THE SIGNIFICANCE OF SUPREME AUDIT INSTITUTIONS (SAIs)

The responsible implementation of audit recommendations is critical to foster good governance, uphold public accountability, and ensure effective service delivery. Recommendations derived from audits are crucial for identifying weaknesses, improving internal processes, and enhancing overall governance.

For instance in Serbia the positive financial effect of rectifying identified irregularities and inefficiencies between 2020 and 2022 amounts to 82 million euros compared to the costs incurred by the audit institution. For every invested dinar in SAI's work, 11 dinars were returned to the budget of the Republic of Serbia.¹⁸ Undoubtedly, ignorance of audit recommendations will increase the risk of corruption and mismanagement.

However, the implementation of audit recommendations is not at a satisfactory level in most of the Western Balkans countries. Among the 6-WB countries, BiH, Albania, and Montenegro have the lowest implementation rate. Many of the identified irregularities and weaknesses in these three countries remain unaddressed due to the non-binding nature of SAI's recommendations.

According to the latest EC monitoring report, the impact of the audit work of the 4 SAIs in BiH is limited.¹⁹ The audit recommendations primarily focus on formal compliance, although SAIs have already adopted INTOSAI-compliant methodologies and manuals. Further development is required to improve the audit quality, especially in providing more compliance assurance and raising the number of performance audits. Also, while parliaments in BiH have already established procedures for examining audit reports, the parliamentary scrutiny of these reports varies significantly across the government levels. Besides establishing closer partnerships with respective parliaments, SAIs in BiH should make their recommendation binding for each government level. Audit findings must be presented and communicated more practically and comprehensibly, focusing on the value added.²⁰

In Kosovo, the implementation of audit recommendations faces several significant challenges and gaps that hinder the effectiveness of the process. Firstly, there is a long-standing tradition of impunity regarding failing to implement audit recommendations. This culture of non-accountability has allowed many public officials to disregard or delay the execution of recommended actions. Secondly, the overlapping of administra-

18 *Report on the work of the State Audit Institution for 2022*, Available at: <https://bit.ly/47A8Fiu> [Accessed 24 July 2023]

19 *Bosnia and Herzegovina Report 2022*, available at: https://neighbourhood-enlargement.ec.europa.eu/bosnia-and-herzegovina-report-2022_en

20 *Bosnia and Herzegovina Report 2022*, available at: https://neighbourhood-enlargement.ec.europa.eu/bosnia-and-herzegovina-report-2022_en

tive and investigative powers within the justice system creates complexities in efficiently monitoring the implementation of recommendations. This overlap often delays handling criminal cases related to non-compliance with audit recommendations, contributing to the lack of accountability.

Moreover, there is a lack of adequate education among public officials regarding the importance and necessity of implementing audit recommendations. This educational gap can lead to resistance or indifference to the proposed changes and improvements highlighted in audit reports. Still, according to data for 2022, Kosovo shares second place with North Macedonia with 60% of implemented recommendations.

Although SAI in Albania has shifted its audit goals from compliance and regularity audits toward performance audits, its audit work remains poor, especially in complying with the ISSAI.²¹ SAI in Montenegro has increased its capacity for oversight in line with the updated guides for developing, monitoring, and controlling audit recommendations. This has increased the quality of the audits and the accountability and transparency in using EU funds.²² However, the audit recommendations implemented by audited institutions in Montenegro are still below 50%.

Among the 6-WB countries, Serbia emerges as a standout performer, leading the pack with 74% of audit recommendations fully implemented, followed by Kosovo and North Macedonia. However, the quality of their audit work is still in progress. Despite the relatively high rate of implemented recommendations, according to the EC monitoring report for 2022²³, SAI's recommendations in North Macedonia are not efficiently executed by the auditees. The cooperation between the SAI and the parliament needs to be further improved to guarantee a more effective follow-up of SAI's recommendations, especially regarding the transparency and accountability of public funds.²⁴ Similarly, the follow-up on SAI's recommendations in Kosovo is insufficient despite the extensive work and good collaboration between SAIs and CSOs at the local level.²⁵

21 *Albania Report 2022*, available at: https://neighbourhood-enlargement.ec.europa.eu/albania-report-2022_en

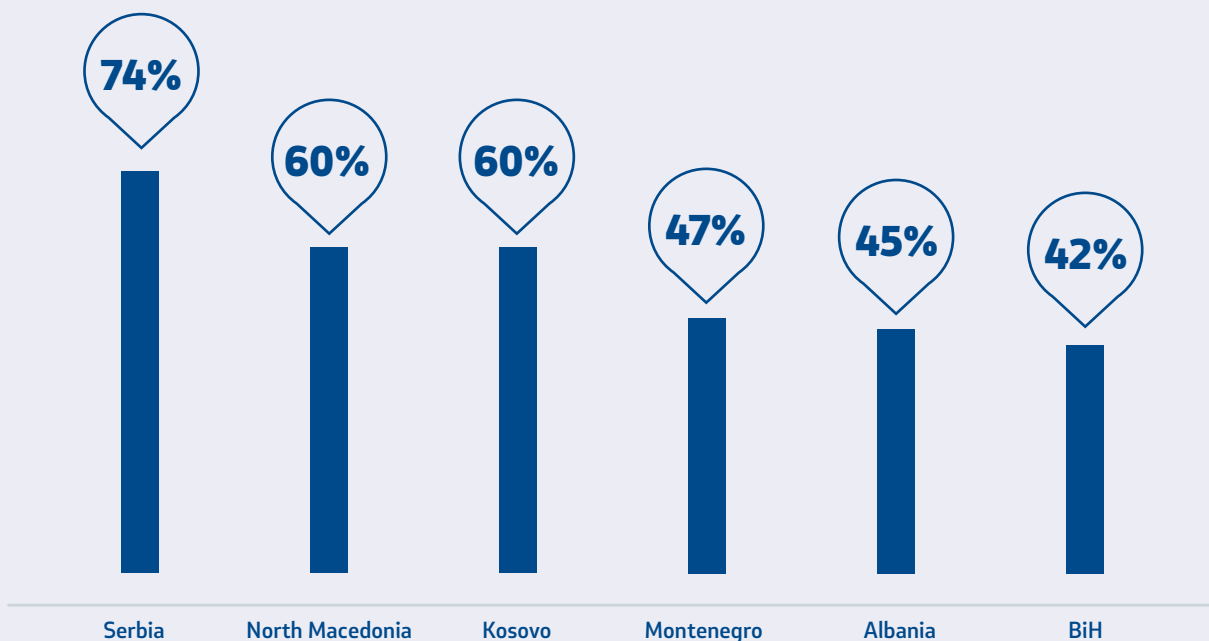
22 *Montenegro Report 2022*, available at: https://neighbourhood-enlargement.ec.europa.eu/montenegro-report-2022_en

23 *North Macedonia Report 2022*, available at: <https://neighbourhood-enlargement.ec.europa.eu/system/files/2022-10/North%20Macedonia%20Report%202022.pdf>

24 *North Macedonia Report 2022*, available at: <https://neighbourhood-enlargement.ec.europa.eu/system/files/2022-10/North%20Macedonia%20Report%202022.pdf>

25 *Kosovo Report 2022*, available at: https://neighbourhood-enlargement.ec.europa.eu/kosovo-report-2022_en

Figure 2. Overview of the level of fully implemented audit recommendations Source: Annual reports on the work of SAI for 2022, downloaded from official SAI websites.



The situation concerning SAIs' work across the 6-WB countries shows the importance of the post-audit phase to guarantee the quality and impact of audit services. The post-audit process is crucial for ensuring that both audit findings and recommendations are appropriately communicated and implemented. It involves SAIs verifying that the audit subjects have taken appropriate corrective actions to address nonconformities and evaluating their effectiveness and sustainability. However, SAIs' efforts cannot be effective without the active involvement of stakeholders. For instance, SAIs in Albania, BiH, North Macedonia, and Kosovo are part of the Westminster regulation model and do not have the authority to determine and initiate misdemeanor or criminal liability. In all of them, the audit law clearly defines the competencies of SAIs. In this model, SAI has both advisory and supervisory roles. In the Westminster (also known as parliamentary) model, the parliament and its committees have a crucial role in examining the findings and recommendations from SAI's audit reports, especially regarding the

legality, efficiency, and effectiveness of public funds. This model is essentially related to a parliamentary accountability system, including professional auditors and technical experts. In the Westminster model, SAI submits periodic reports on government entities' financial statements and operations, with less emphasis on legal compliance than in the judicial model. In contrast, the parliament and its committee can request statements from audited entities' managers.²⁶

SAIs in BiH do not have mechanisms to ensure that audit recommendations are implemented. Their role is reduced primarily to spotting and diagnosing problems in audit reports and sending them to the respective parliaments at the government and entity levels. Thus, the state audit office submits its audit reports to the BiH Parliamentary Assembly, while the entity audit offices submit them to the Parliamentary Assemblies at the entity, cantonal and local level. Parliamentary assemblies have several mechanisms (e.g., public hearings) to raise disciplinary, public, moral, polit-

²⁶ Uloga revizije javnog sektora u ocjeni finansijskih izvještaja, Available at: <https://www.vrifbih.ba/wp-content/uploads/2020/12/default.pdf> [Accessed 24 July 2023]

ical, and criminal responsibility issues.²⁷ Hearings within parliamentary commissions are held yearly for institutions at the state level that receive a negative opinion from the auditor and institutions from the FBiH. Statements are expected from the heads of institutions, and these hearings are open to the public, which narrows the scope for evading public responsibility regarding the utilization of budget funds. A parliamentary audit commission exists in RS, but its functionality is limited due to the lack of political will.²⁸

Regarding mechanisms to ensure the implementation of audit recommendations, Kosovo has some legal tools, but they are not enough. The State Audit Institution (SAI) submits its audit reports to the Parliamentary Commission for Supervision of Public Finances. Public hearings are occasionally conducted as part of this process. However, the effectiveness of these mechanisms is influenced by the political landscape in the parliament, where the SAI's office is sometimes viewed as politically biased by opposition parties. As a result, the mandatory implementation of recommendations remains a challenge in Kosovo despite the existence of legal frameworks and public pressure mechanisms.

North Macedonia's SAI presents its audit reports to the relevant parliamentary committees, which may hold hearings with representatives of audited institutions to discuss the findings and recommendations. These hearings allow audited institutions to explain their actions and plans for implementing SAO's recommendations. However, despite these processes, there is still a gap in achieving systematic and rigorous follow-up to the findings and recommendations. The parliament does adopt conclusions related to audit reports issued by SAO, which may include recommendations for further action by audited institu-

tions or other state bodies. However, the effectiveness of these measures needs enhancement to ensure concrete actions are taken based on audit reports and oversight.

In Albania, there are also no effective mechanisms that would increase the implementation of audit recommendations. The SAI usually reports to Parliament's Committee on Economy and Finance, but discussions are underway to establish a specialized subcommittee to focus on reports from independent constitutional institutions such as the SAI.

On the other hand, in Montenegro and Serbia, the Board System (also known as a collegiate model) of SAI exists. The board comprises members whom the parliament appoints for a fixed term. They can be only auditors or auditors and lawyers. This system can more efficiently combat corruption by allowing the SAI to undertake criminal charges if a possible crime is detected during auditing. Serbian SAI submitted 145 reports against 322 responsible persons in 2022 due to a well-founded suspicion that a misdemeanor/economic offense/criminal act had been committed.²⁹ If there is a violation of good business practices, SAI can request the dismissal of the audited entity's responsible person. In 2021, based on the SAI's request, the head of the Special Hospital for Rehabilitation, Rusanda Melenci, was dismissed because it was determined that the audited institution did not eliminate the noted irregularities but continued with the irregularities and illegal spending of public funds. On the other hand, many bodies do not act on the SAI's request to dismiss the responsible persons. For instance, the Management Board of the Institute of Economic Sciences in Belgrade did not take any action as a follow-up on SAI's request due to a lack of justified reasons for this.³⁰

27 *Uloga i značaj neovisnih institucija*, Available at: <http://www.revizija.gov.ba/Content/DownloadAttachment?Id=4fcf4f48-9bb0-4175-b391-c91084bef63f&langTag=hr>, [Accessed 25 July 2023]

28 *Revizije.info: Hoće li odbor za reviziju NS RS konačno proraditi ili će nastaviti neslavnu tradiciju opstrukcija i nerada iz prethodnog mandata?*, Available at: <https://revizije.info/hoce-li-odbor-za-reviziju-ns-rs-konacno-proraditi-ili-ce-nastaviti-neslavnu-tradiciju-opstrukcija-i-nerada-iz-prethodnog-mandata/> [Accessed 26 July 2023]

29 *Report on the work of the State Audit Institution for 2022*, Available at: <https://www.dri.rs/storage/newaudits/%D0%98%D0%B7%D0%B2%D0%B5%D1%88%D1%82%D0%B0%D1%98%20%D0%BE%20%D1%80%D0%B0%D0%B4%D1%83%20%D0%94%D0%A0%D0%98%20%D0%B7%D0%B0%202022.%20%D0%B3%D0%BE%D0%B4%D0%B8%D0%BD%D1%83.pdf> [Accessed 24 July 2023]

30 Ibid.

The Montenegro Government is obliged to monitor the execution of the audit recommendations of the Year-End Budget report and provide quarterly reports to the parliament. At the same time, SAI presents an overview of its assessments of the implementation rates in the next annual audit. Based on the annual audit of the Year-End Budget report and parliament's conclusions, the government adopts an action plan focused on implementing the recommendations.³¹ and reports on its implementation quarterly, though in a formalistic manner, without much substance, as the government does not break down the sometimes too general recommendations of SAI into actionable points, does not name responsible institutions for implementing measures, and does not provide evidence of tangible reforms conducted.³² SAI's inquiry into the implementation of these recommendations shows almost no match with the government's reporting³³ And indicates a low level of implementation. In this case, although there is a mechanism for the government to monitor and report on the implementation of audit recommendations, it is rendered ineffective due to a lack of understanding of the process by all stakeholders, resulting in a substantial disconnect between the government's actions and the SAI's findings, leading to a low level of implementation of the recommendations.

SAIs within the 6-WB countries struggle with many challenges, including varying degrees of institutional resistance, obstructed access to essential information, inadequate regulatory adherence, and gaps in transparency and accountability frameworks. This frequently hinders auditors' work in pursuing financial accuracy and integrity. In this context, SAI's work in FBiH is often frustrated by the withholding of critical documen-

tation, denial of access to the premises of public enterprises, and various acts obstructing audit processes. For instance, although entities such as the Development Bank, Federation Oil Terminals, JP Pretis, the Operator for Renewable Energy Sources, and Efficient Cogeneration fall under the jurisdiction of the Audit Office, these entities have frequently resisted audits, posing substantial challenges to the auditors.³⁴ It is disturbing that some of the public entities are indirectly supported by the FBiH Government, which allows them to hinder the efforts of the federal auditors. A bigger concern is the lack of significant sanctions imposed on the management of these institutions despite their obvious obstruction of audit controls. This situation creates enormous challenges for auditors in carrying out their primary responsibilities. In North Macedonia, there is a need to raise public awareness of the State Audit Office, increasing the media's interest.

Stakeholder collaboration

The effectiveness of SAI's work greatly depends on the sustained interaction with the stakeholders - the executive and legislature, but also CSOs and media. CSOs, including across 6-WB countries, have advocated for increased parliamentary involvement in the supervision of audit reports to increase transparency and accountability across the public sector. The collaborative approach between SAIs, CSOs, and media as anti-corruption agencies creates a powerful synergy that can curb corrupt practices, ensure the implementation of audit recommendations, and ultimately safeguard the interests of the public.

While the potential for collaboration between

31 *Last year's action plan*, Available at: <https://www.gov.me/dokumenta/2ad2088a-4895-4cc9-8de7-510cf8e119e0> [Accessed 28 July 2023]

32 *The action plans and reports of the government regarding SAI recommendations have been criticized by civil society because of their formalistic and "checking the box" nature*. Read more at: <https://institut-alternativa.org/en/press-release-plan-condemned-to-failure/> [Accessed 28 July 2023]

33 *State Audit Institution, Audit of the 2021 Year-End Report*, p. 180, Available at: <https://zakoni.skupstina.me/zakoni/web/dokumenta/zakoni-i-drugi-akti/586/2949-16959-33-22-4-2.pdf> [Accessed 28 July 2023]

34 *Announcement of the Office for the Audit of the Institutions of the FBiH on the occasion of the temporary suspension of the financial audit of "Federation Oil Terminals" d.o.o. Ploce for 2021*, Available at: <https://www.vrifbih.ba/saopcenje-povodom-privremenog-obustavljanja-finansijske-revizije-naftnih-terminala-federacije-d-o-o-ploce-za-2021-godinu/> [Accessed 24 July 2023]

Supreme Audit Institutions (SAIs), civil society organizations (CSOs), and the media is significant in promoting transparency and accountability in the Western Balkans, it's important to note that successful instances of such cooperation have been limited. Effective collaboration depends on the readiness and capacity of stakeholders and SAIs themselves.

Over the past few years, the SAI in North Macedonia has significantly enhanced its cooperation with CSOs. The auditor general has been actively engaged in various activities and events organized by CSOs. SAI also has made consistent efforts to keep representatives of media and CSOs well-informed about audit-related issues and dilemmas that arise, including updates on final audit reports. To strengthen this collaboration further, the SAI organized a workshop in April 2023 that provided instructions to media and CSOs on how to read and interpret their audit reports effectively. This initiative demonstrates the SAI's commitment to promoting transparency, accountability, and mutual understanding between the institution, CSOs, and the media to benefit the region's governance and development. SAI signed a Memorandum for Cooperation with the State Commission to prevent Corruption in September 2021. In March 2022, SAO and the Public Prosecutor's Office signed a Memorandum on cooperation and strengthening of inter-institutional communication³⁵. Moreover, they have intensified their cooperation in 2023, agreeing on a joint plan with specific activities that should be implemented by the end of the year, including monitoring and feedback on the action taken after the audit reports.³⁶

Public auditing in BiH also has gained increasing attention in the media. SAI's audit findings and recommendations are frequently highlighted in the media, shedding light on the irresponsibility within the public management. This emerging trend is a positive development, as it serves as an effective mechanism to apply pressure on accountable individuals, urging them to treat the implementation of audit recommendations with greater seriousness. By bringing these issues to the forefront of public discourse, the media is crucial in fostering transparency and accountability in BiH's governance landscape. Through open discussions on audit reports, citizens become more aware of public entities' performance, which can drive demands for better governance and responsible decision-making. BiH's media focus on SAI's findings has increased the role of CSOs and the public in holding authorities accountable. At the state level, SAI has intensified its collaboration with the civil society sector through annual consultative meetings to allow CSOs to nominate socially significant issues and topics that SAIs could include in their performance review plan for the coming year.³⁷ In December, with the aim of more decisive anti-corruption action and raising awareness of ethics, integrity, and responsibility, the Agency for Prevention of Corruption and Coordination of the Fight Against Corruption of BiH and the Office for the Audit of Institutions of BiH concluded a Memorandum of Understanding and Cooperation. The Memorandum derives from the Abu Dhabi Program Declaration, which foresees the formalization of relations between supreme audit and anti-corruption institutions and bodies. In this regard, the heads of the Agency and the Office agreed that in the coming period, they would improve cooperation in several areas, especially when it comes to the mutual exchange of information in the field of anti-corruption activities and the promotion of audit findings to use

35 Memorandum, Available at: <https://jorm.gov.mk/memorandum-za-sorabotka-i-zajaknuvane-na-meguinstitucionalnata-komunikacija-na-javnoto-obvinitelstvo-na-republika-severna-makedonija-i-drzhavniot-zavod-za-revizija/> [Accessed 22 December]

36 Memorandum on Intensification of cooperation with the Public Prosecutor's Office, Available at: <https://dzt.mk/mk/230714-intenzivirane-na-sorabotkata-so-javnoto-obvinitelstvo> [Accessed 22 December]

37 Revizije. Info: Državni ured za reviziju održao konsultativni sastanak sa organizacijama civilnog društva- u fokusu revizije učinka, Available at: <https://revizije.info/drzavni-ured-za-reviziju-odrzao-konsultativni-sastanak-sa-organizacijama-civilnog-drustva-u-fokusu-revizije-ucinka/> [Accessed 7 August 2023]

them in the creation of plans for the fight against corruption and integrity plans.³⁸

SAI in Serbia cooperates and communicates with external stakeholders to ensure the audit report has sufficient impact. In addition to continuously communicating the results of its work to the National Assembly, parliamentary committees, and audit subjects, they are also directed toward the media, civil society organizations, academic circles, and other associations. SAI also cooperates with the Global Organization of Parliamentarians for the Fight Against Corruption (GOPAK) and the Focus Group to develop control mechanisms for implementing the Sustainable Development Goals in the Republic of Serbia.

Nonetheless, given the persisting gaps in governance in the region, these partnerships are essential for fighting corruption. CSOs and the media can act as vigilant anti-corruption watchdogs, demanding accountability, while SAIs provide crucial data for informed policy discussions. Expanding and nurturing these collaborative efforts remains critical in improving governance in the Western Balkans.

³⁸ Announcement: Signed Memorandum of Understanding between the Anti-Corruption Agency and SAI, Available at: <http://apik.ba/aktuelnosti/saopcenja-za-javnost/default.aspx?id=2925&langTag=bs-BA> [Accessed 22 December]

3 FROM FINDINGS TO ACTIONS: IMPLICATIONS OF NON-ADHERENCE TO AUDIT RESULTS AND RECOMMENDATIONS

None of the six countries in the region have established **effective legal sanctions or penalties** for audited entities that fail to implement the recommendations issued by the SAIs. This absence of **legal enforcement mechanisms** is a substantial gap in the accountability framework, **undermining the impact of SAI's findings and demotivating the audited entities** to adopt the required corrective actions. Therefore, across the 6-WB countries, the risk of corruption, recurring inefficiencies, and mismanagement remains high.

While BiH Parliaments (state and entity level) can reduce public institutions' budgets based on SAIs' findings and recommendations, this does not happen in practice. SAIs are obliged to inform the competent law enforcement bodies in case of indications of legal violations. Even though SAIs in BiH cannot be responsible for fraud prevention, they have a solid preventative role in fighting corruption, mainly by conducting audits and timely reporting. In this context, SAI in FBiH started submitting financial audit reports to the relevant prosecutors, revealing issues and indications of law violations in certain public institutions. 115 reports are submitted to prosecutors between 2016 and 2022 for information and appropriate action, showing significant irregularities and reasons for qualified audit opinions.³⁹ However, in most cases, prosecutors stated that "no investigation will be conducted" or that irregularities,

such as law violations, are classified as mere misdemeanors.

SAI in Montenegro must inform the State Prosecutor if any activity of the audited entity damages state property. Moreover, the SAI must initiate criminal charges if the audit procedure reveals reasonable suspicion of a criminal act.⁴⁰ To strengthen accountability in the public sector, the SAI has established a protocol of cooperation with the State Prosecution. This protocol facilitates joint efforts in holding the public sector accountable and allows SAI to send reports with evidence of irregularities in public funds management directly to the prosecution.

Although SAI in Montenegro has not filed criminal charges so far, it has a practice of submitting audit reports with adverse (negative) opinions to the prosecution.⁴¹ However, the prosecution does not keep auditors informed on the status of cases formed based on audit reports, as there is no legal obligation to do so. Nonetheless, recent changes in the leadership of the state prosecution have shown positive developments. The prosecution has increasingly relied on audit reports to initiate criminal investigations, requesting additional information from the SAI in several cases during 2022. This trend indicates a growing recognition of the SAI's role in uncovering irregularities and supporting the fight against corruption and

³⁹ Report of the Federal SAI.

⁴⁰ Montenegro Law on State Audit Institution, Article 23

⁴¹ Montenegro State Audit Institution, Annual Report on Performed Audits and Activities of the State Audit Institution for October 2021 - October 2022, No. 06-035/22-2340/2, Podgorica, 28 October 2022, p. 441.

mismanagement of public funds. As cooperation between the SAI and the State Prosecution deepens, there is potential for more effective and impactful measures in holding accountable those responsible for financial misconduct in the public sector.

The SAI in Serbia does not have administrative or criminal-legal powers to sanction audit subjects. Instead, in case of more serious violations of regulations, SAI issues direct orders for action to audit subjects. It also informs the National Assembly and the public about this and calls on the competent authorities to sanction the actors involved.⁴² The execution of the ordered measures results from the audit report are ensured through the response report from the subject of audit, the request to take measures against the subject of audit, the initiative for the dismissal of the responsible person in the subject of audit, the initiation of criminal proceedings against the responsible person in the subject of audit.⁴³

If the Albanian SAI's audit findings indicate any potential criminal offense, the evidence is forwarded to the General and Special Prosecutor's Office for further action per the respective law.⁴⁴ The prosecutor's office decides whether to initiate an investigative process for the reported cases. However, now, there is an issue of mutual complaints between SAI and the prosecutor's office. SAI is concerned that the prosecution often closes the forwarded cases without reaching a final resolution, suggesting that the cases are not adequately pursued and concluded. On the other hand, the prosecution points out that the findings presented by SAI lack sufficient legal arguments, making it challenging for them to proceed effectively with investigations. The discord between SAI and the prosecution highlights the need for improved cooperation and understanding through more effective communication.

In North Macedonia, SAI cooperates with authorities responsible for taking measures based on audit reports, such as the Public Prosecutor's Office, the State Commission for Prevention of Corruption, the Ministry of Interior, and the Financial Police Directorate. When the authorized state auditor detects misdemeanors or criminal offenses during the audit process, they must promptly report these findings to the pertinent authorities. According to the law, there are no further provisions on the activities SAI should undertake or whether any information or reports should be provided to SAI in the form of feedback after the SAI informs the competent authorities. The existing legal framework does not include the competence of the SAI to act legally and impose sanctions on the legal entity that failed to follow the recommendations of the authorized state auditor or failed to provide feedback to the SAI regarding the status of the recommendation.

Kosovo also lacks legal sanctions for non-compliance with audit recommendations, which presents a significant challenge in ensuring accountability and adherence to the National Audit Office of Kosovo (KNAO) findings. While the laws of the Auditor General and the National Audit Office of Kosovo are harmonized mainly with international standards, reviewing the legal framework further to strengthen the external audit function in the public sector is crucial. To improve parliamentary oversight, Kosovo should bolster the scrutiny of budget preparation and implementation by the parliament. Despite some progress in cooperation between KNAO and Parliament, there is a need for more effective parliamentary oversight of the entire budget process. Ensuring transparency and accountability in the management of public funds requires the implementation of efficient monitoring mechanisms by the executive and the parliament. This should encompass thorough follow-up on the recommendations made by

42 *Državna revizorska institucija i njena uloga u kontroli finansija jedinica lokalnih samouprava sa posebnim osvrtom na oblast javnih nabavki, Politička revizija, Agatina Petrović, no.4, 2020, available at: <https://ips.ac.rs/publications/drzavna-revizorska-institucija-i-njena-uloga-u-kontroli-finansija-jedinica-lokalnih-samouprava-sa-posebnim-osvrtom-na-oblast-javnih-nabavki/> [Accessed 8 August 2023]*

43 *Ka većoj finansijskoj odgovornosti vlasti u Srbiji: Implementacija i preporuka mera Državne revizorske institucije Srbije, Centar za evropske politike, Beograd, 2012, available at: https://www.dri.rs/storage/upload/documents/Publikacije/sr_analiza_implementatione_preporuka_i_mera_dri.pdf [Accessed 8 August 2023]*

44 *SPAK stands for Special Structure Against Corruption and Organized Crime.*

KNAO in its audit reports, ultimately contributing to a more transparent and accountable public sector in Kosovo.

In conclusion, the non-adherence to audit results and recommendations across the six Western Balkan countries presents a shared challenge that hinders effective accountability and governance. While the legal frameworks generally align with international standards, the absence of legal sanctions for non-compliance remains a common issue. To address this, the Western Balkan countries should prioritize strengthening the independence of their respective Supreme Audit Institutions and revisiting audit obligations. Additionally, enhancing parliamentary oversight of budget processes and diligently following up on audit recommendations are essential to foster transparency and accountability across the public sector. By collectively addressing these challenges, the Western Balkan Six can improve the efficient use of public funds, enhance trust in government institutions, and ultimately advance governance outcomes for the benefit of their citizens.

4 POLICY RECOMMENDATIONS

Governments, Parliaments and Prosecutor's offices

- ▶ Strengthen the legal framework to implement mandatory audit recommendations for audited institutions, with clear consequences for non-compliance.
- ▶ Implement stringent legal sanctions for entities failing to adhere to SAI recommendations. This could include financial penalties, mandatory corrective actions, or public disclosures of non-compliance.
- ▶ Introduce a parliamentary committee dedicated to overseeing the implementation of audit recommendations. This committee should regularly review progress, hold hearings with responsible government officials, and report on the implementation status.
- ▶ Strengthen the collaboration between SAIs and the Prosecution to ensure a smooth exchange of information concerning the results of preliminary investigations from audit reports.
- ▶ Prioritize cases forwarded by SAIs and provide feedback on the status of investigations. This will reinforce the seriousness with which audit findings are treated.

CSOs and MEDIA

- ▶ Launch initiatives to educate the public on the role and findings of SAIs. Collaborate with SAIs to disseminate information in an understandable format to increase public engagement and awareness.
- ▶ CSOs should establish monitoring mechanisms to track the progress of recommendations and publicly report any delays or obstacles, while the media can highlight non-compliance cases and pressure authorities to act.
- ▶ CSOs should advocate for policy changes to strengthen accountability mechanisms, including parliamentary oversight and legal reforms, while the media can provide CSOs with a platform to voice concerns and engage in public debate.
- ▶ Media should engage more effectively in investigative journalism to showcase corruption, mismanagement, or negligence related to non-compliance with audit recommendations.

SAIs

- ▶ Collaborate more effectively with anti-corruption agencies (via meetings, workshops, and seminars where staff from SAIs and anti-corruption agencies can interact, discuss common challenges, and develop joint strategies to address corruption issues). Create secure and standardized platforms for sharing information, data, and findings between SAIs and anti-corruption agencies to ensure both entities are well-informed and can take coordinated actions.
- ▶ Support audited entities in understanding the audit process better, including creating an effective plan to address irregularities and providing clear guidance in implementing auditors' recommendations.
- ▶ Foster collaboration between SAIs across Western Balkans countries by leveraging international knowledge-sharing networks.

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