DISCUSSION NOTE
ON STRENGTHENING THE PARLIAMENT AND SUPREME AUDIT INSTITUTION RELATIONSHIP TO ENHANCE EXTERNAL AUDIT PERFORMANCE IN THE WESTERN BALKANS
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IN THE WESTERN BALKANS
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Potential Candidates and the European Court of Auditors has identified the working relationship between SAIs and parliaments as a critical component for effective external audit. Therefore, the World Bank consulted closely with SIGMA in the development of this Discussion Note.

The Discussion Note is intended as a primer for dialogue between parliaments, SAIs, and practitioners on how to better define and strengthen the relationship between the external audit and legislative scrutiny stakeholders. To this end, this Discussion Note not only outlines the context and challenges, but also frames some questions that can help stakeholders reflect on the existing and aspirational nature of the relationship.

The Discussion Note proceeds in five parts. First, the context for the discussion is outlined. Second, the accountability relationship between SAIs and parliaments is explored. Third, the main challenges for effective external audit and financial oversight is reviewed. Fourth, global and regional external audit benchmarks will be detailed. Finally, the challenges for the Parliament-SAI relationship in the Western Balkans will be examined and discussion questions framed around three areas of mutual interest for SAIs and parliaments – A. SAI Independence; B. Examination of the Audit Reports by the parliament; and C. Follow-up on Recommendations based on the audit reports.
well used. The Court of Accounts audits the accounts of government department and agencies, commercial and industrial entities under the purview of government ministries, and social security bodies.

- **Board of Audit Model** - This model is similar to the AG model in that it helps the parliament exercise its oversight role. Some countries have a board system comprising an audit commission, which is the decision-making body, and the general executive bureau, which is the executive organ. The Board of Audit is a constitutional organization independent of the executive; its primary mandate is to analyze the state’ expenditures and revenues and report its findings to parliament.

Similarly, there are three broad models that parliaments use to organize committees to scrutinize audit reports prepared by the SAI:

- **Consolidated Model** - Parliaments have a single committee, such as the Finance or Budget Committee, responsible for sequentially managing the review of the budget (pre-budget phase, estimates process for revenue/expenditure, and approval) and scrutinizing the annual audited financial accounts submitted by the SAI.

- **Sub-Committee Model** - Parliaments have a single responsible committee, similar to the consolidated model, but actively use sub-committees to manage committee business (including scrutinizing multiple audit reports) on a rolling basis. Therefore, there is a specific mechanism within the committee that is used to specifically examine the audit reports but does not exercise the authority of the full committee.

- **Bifurcated Model** - Parliaments have separate committees devoted to: (i) the formulation and approval of the budget (e.g. the Budget Committee); and (ii) scrutinizing the public accounts and reviewing performance of public officials in achieving the objectives of the approved budget (e.g. Public Accounts Committee).

In broad terms, SAIs produce one or more of the following types of audit that are furnished to parliaments:

- **Financial Audit** - In financial auditing, the auditor attests to the accuracy and fairness of presentation of financial statements. SAIs oversee the quality...
Accountability exists when there is a relationship where an individual or body, and the performance of tasks or functions by that individual or body, are subject to another’s oversight, direction or request that they provide information or justification for their actions. The concept of accountability involves two distinct stages: answerability and enforcement. Answerability refers to the obligation of the government, its agencies and public officials to provide information about their decisions and actions and to justify them to the public and those institutions of accountability tasked with providing oversight. Enforcement suggests that the public or the institution responsible for accountability can sanction the offending party or remedy the contravening behavior. Different institutions of accountability might be responsible for either or both stages.

Agencies that use public funds are required to provide information to SAIs for them to conduct their assessments. In this sense, SAIs primarily focus on answerability (however, some SAIs may have enforcement powers). Parliaments possess the constitutional authority to draw on the SAI’s audit report to hold public officials or those using public funds to account for their actions and seek to remedy the cause of the problem through use of several oversight tools, including committee hearings. Therefore, parliaments provide the enforcement element needed to achieve comprehensive financial accountability.

Anecdotally, practitioners have observed that the SAI model can influence the type of audits that are conducted. For instance, Cour des Comptes – by virtue of being part of the judicial branch – often conduct compliance audits; whereas, Auditors-General that report directly to a devoted audit committee in parliament are often early adopters of performance audits as they are well suited for use in parliamentary oversight hearings.

Compliance Audit – In compliance auditing, the auditor verifies that the governments income and expenditures have been authorized and used for approved purposes. The audit team reviews transactions to determine whether the government department or agency has conformed to all pertinent laws and regulations. This includes checking the spending authority in the annual budget and any relevant legislation.

Performance Audit – Performance or value-for-money auditing confirms whether taxpayers have received value for their tax revenues. This type of auditing seeks to ensure that the administrative procedures adhere to sounds management policies, principles and practices. Also, it looks at procedures, information systems, and performance measures used by the audited organization, and that the organization’s performance helps achieve its institutional objectives. Performance auditing sometimes is confined to reviewing operational efficiency or the extent to which due economy has been observed in the use of resources, while in other cases, it extends to reviewing the effectiveness of government programs in achieving their objectives.

Financial audits are conducted by almost all SAIs and are an input to more complex performance audits. The Public Expenditure and Financial Accountability (PEFA) Performance Indicator 31 specifically measures parliament’s scrutiny of the financial audit reports to the exclusion of other types of audit. However, SAIs are increasingly reviewing the economy, efficiency and effectiveness in using public finances to implement policy and programs.

Anecdotal, practitioners have observed that the SAI model can influence the type of audits that are conducted. For instance, Cour des Comptes – by virtue of being part of the judicial branch – often conduct compliance audits; whereas, Auditors-General that report directly to a devoted audit committee in parliament are often early adopters of performance audits as they are well suited for use in parliamentary oversight hearings.


The usefulness of the parliamentary-SAI relationship varies considerably. At one extreme, committees receive audit reports they cannot understand, or may be so out of date they are of little interest to parliamentarians; therefore, the audit findings aren’t taken up by parliament. Conversely, there are examples where the SAI sees limited value in engaging with parliament. For instance, Cour des Comptes that only perform compliance audits and have enforcement powers, might not see value in strengthening the working relationship with parliament beyond complying with their duty to report to parliament.

According to an IPU/UNDP questionnaire for parliaments globally, the clear majority of parliaments (90 per cent) receive reports from SAIs. However, a much smaller percentage (66 per cent) report having clearly established procedures for reviewing reports. Additionally, the survey also indicated a wide range in the number of reports received each year. In most countries where there is a big number of reports being submitted to parliament, its capacity to review these reports is limited.

The Open Budget Survey includes a question about ex post oversight of the budget (Question 118). It probes whether a committee examined the Audit Report on the annual budget produced by the Supreme Audit Institution (SAI), and whether this resulted in an official report with findings and recommendations. A key issue it tried to identify is how soon after the SAI releases the report does the legislature review it.

Similarly, PEFA PI-30 (Dimension 2) measures the time taken from the production of the consolidated accounts for the SAI to submit the audited public accounts to the legislature. PEFA PI-31 (Dimension 1) measures the length of time the legislature takes to review the audit report on receiving it from the SAI. In both instance, action should be taken within three months of the triggering event.

The 2017 UNDP/IPU Global Parliamentary Report notes that beyond having limited capacity to review information that they receive, parliaments face challenges enforcing their recommendations. Using all the means at parliament’s disposal to ensure action on the issues raised by auditors, including the power of exposure, is important for enhancing the impact of parliamentary oversight. The Report recommends that parliament and oversight institutions build a culture of mutual trust by working together. This ensures that parliament is confident in the findings of the external bodies, and that the external bodies are confident in parliament’s desire to take seriously their recommendations.

### CHALLENGES FOR EFFECTIVE FINANCIAL ACCOUNTABILITY

The Open Budget Survey 2017 defines oversight institutions as the essential core to effective democratic government and public financial management by providing “horizontal” accountability. In many countries, including the Western Balkans, the SAI is represented by the Auditor-General, whose office is a core element of parliamentary oversight as he/she reports directly to Parliament.

The Open Budget Survey report highlights important concerns on the role of parliaments and SAIs in the oversight of public funds. For example, most legislatures exercise more oversight earlier in the budget process than they do during implementation. This suggests that governments are more constrained when seeking to pass the budget but have somewhat more freedom during the year with only limited legislative review. This can lead to spending that is not in line with the initial priorities agreed to in the approved budget and generally opens the door to mismanagement of public funds by spending agencies.

The 2017 UNDP/IPU Global Parliamentary Report notes that beyond having limited capacity to review information that they receive, parliaments face challenges enforcing their recommendations. Using all the means at parliament’s disposal to ensure action on the issues raised by auditors, including the power of exposure, is important for enhancing the impact of parliamentary oversight. The Report recommends that parliament and oversight institutions build a culture of mutual trust by working together. This ensures that parliament is confident in the findings of the external bodies, and that the external bodies are confident in parliament’s desire to take seriously their recommendations.


6. In the Western Balkans, usually the responsible committee is the Finance/Budget Committee, except for Kosovo where there’s a Public Accounts Committee and in Serbia where there’s a sub-committee on SAI audit reports


The 2017 Open Budget Report notes that despite efforts for consolidating their independence, SAIs may still fail to play their proper role in the accountability system. In some countries, SAIs lack adequate budgets to carry out their work (37 percent of the countries surveyed in 2017). In 38 countries, no Audit Reports are published and in 41 countries, the legislature does not review audit findings.\(^\text{12}\)

**4 GLOBAL AND REGIONAL EXTERNAL AUDIT BENCHMARKS**

The Global Initiative in Fiscal Transparency (GIFT) recognizes the need for an independent and well-resourced SAI, stating they "should have statutory independence from the executive, the appropriate mandate, access to information, and appropriate resources to audit and report publicly on the raising and commitment of public funds. It should operate in an independent, accountable and transparent manner".\(^\text{13}\)

According to OECD best practices, the SAI should complete its audits within six months of the end of the budget year for administrative units (that is, ministries, departments, or agencies). PEFA PI-30 (Dimension 2) specifies three months on receiving the consolidated accounts, which should be provided to the SAI within three months of the end of the budgeting period.

The Lima Declaration of Guidelines on Auditing Precepts (Chapter VI, Section 16 (1)) makes it clear that the auditor’s annual report should be published and made available to the public.\(^\text{14}\)

The International Standards of Supreme Audit Institutions (ISSAIs) codify several obligations related to the SAI-Parliament relationship. These obligations are outlined in Table 1, 2 and 3 below, which cluster the ISSAI obligations according to three themes: (a) Reporting; (b) Communication; and (c) Follow-up and Performance Reporting.\(^\text{15}\)

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| Reporting | Reports are submitted to Parliament and Published. | ISSAI 1 Section 16  
ISSAI 10 Principle 7  
ISSAI 12 Principles 2, 3 & 4  
ISSAI 20 Principle 7 |
| | Appropriate Communication Tools | ISSAI 12 Principle 4  
ISSAI 20 Principle 8 |
| | Provide relevant, timely, and subjective information to the legislature. | ISSAI 12 Principle 3 |
| | Audit reports identify themes, common findings, trends, root causes and audit recommendations, and are discussed with key stakeholders | ISSAI 12 Principle 3 |

\(^\text{12}\) Open Budget Survey Report 2017. International Budget Partnership, August 2018

\(^\text{13}\) Principles of Public Participation in Fiscal Policy. Global Initiative in Fiscal Transparency (GIFT), March 2016 (Principle 9)


\(^\text{15}\) See further Developing Effective Working Relationships Between Supreme Audit Institutions and Parliaments. SIGMA PAPER No. 54
### Table 2: ISSAI Communication Standards

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<tr>
<td><strong>Communication</strong></td>
<td>Establish good working relationships, communications policies and procedures in liaison with Parliament.</td>
<td>ISSAI 12 Principle 3, ISSAI 20 Principle 7</td>
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<td>Engage with Parliament and its committees and raise awareness about SAI’s role.</td>
<td>ISSAI 10 Principle 7</td>
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<td></td>
<td>Assist Parliament in understanding audit reports.</td>
<td>ISSAI 20 Principle 7</td>
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<td></td>
<td>Provide advice on how SAI audit findings and opinions might be used to the greatest effect.</td>
<td>ISSAI 10 Principle 7</td>
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<td><strong>Communication</strong></td>
<td>Be aware of the expectations of stakeholders and responsive, without compromising independence.</td>
<td>ISSAI 12 Principle 5</td>
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<td>Ensure stakeholders’ expectations and views are factored into organizational and audit planning.</td>
<td>ISSAI 12 Principle 5</td>
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<td>Assess whether stakeholders believe they are effective and contribute to improvements in the public sector.</td>
<td>ISSAI 12 Principle 7</td>
</tr>
<tr>
<td><strong>Communication</strong></td>
<td>Communication contributes to stakeholders’ awareness of the need for transparency and accountability.</td>
<td>ISSAI 12 Principle 3</td>
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<tr>
<td></td>
<td>Periodic assessment of whether the SAI is communicating effectively.</td>
<td>ISSAI 12 Principle 3</td>
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<td></td>
<td>Contribute to the debate on improving the public sector.</td>
<td>ISSAI 12 Principle 7</td>
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### Table 3: ISSAI Follow-up & Performance Reporting Standards

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<tr>
<td><strong>Follow-up</strong></td>
<td>Submit follow-up reports to Parliament.</td>
<td>ISSAI 10 Principle 7, ISSAI 12 Principle 3, ISSAI 20 Principle 3 &amp; 7</td>
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<tr>
<td></td>
<td>Monitor and follow-up on recommendations from SAI and Parliament.</td>
<td>ISSAI 10 Principle 7, ISSAI 20 Principle 3</td>
</tr>
<tr>
<td><strong>Performance Reporting</strong></td>
<td>Submit an annual activity report to Parliament.</td>
<td>ISSAI 10 Principle 3</td>
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<td></td>
<td>SAI reports need to be submitted to parliament and published, the SAI should provide relevant, timely, and objective information to the legislature, and the SAI should discuss the themes, common findings, trends, root causes, and audit recommendations with the parliament. The SAI should also seek to establish good working relations with the parliament, engage with the parliament to raise awareness of the SAI’s role, and provide advice to the parliament on how the SAI audit findings and opinions could be used to the greatest effect. Finally, the SAI should submit follow-up reports to parliament and monitor and follow-up on recommendations made by the SAI and the parliament.</td>
<td>ISSAI 12 Principle 8, ISSAI 20 Principle 7 &amp; 9</td>
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<td></td>
<td>ISSAI 1, Section 6; ISSAI 10, Principle 7; ISSAI 12 Principles 2, 3 &amp; 8; and ISSAI 20, Principle 7 &amp; 8.</td>
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The Principles of Public Administration, developed by SIGMA to support the European Commission’s approach to public administration reform in the European Union (EU) Enlargement process, set out clear expectations for the role and work of the SAI in relation to parliament. Public Administration Principle 15 requires that an independent SAI is empowered and required by the constitution to report its findings annually and independently to the parliament or any other responsible public body, and this report is published. Principle 16 requires the SAI to provide the legislature, and especially legislative committees, with relevant, objective and timely information, and that there is a formal mechanism for parliament to consider SAI reports.

Complementing this extensive patchwork of obligations for what SAIs should do to strengthen the SAI-Parliamentary relationship is a growing pool of principles and benchmarks for parliamentary stakeholders. The Commonwealth Parliamentary Association’s Recommended Benchmarks for Democratic Legislatures added a new benchmark in their 2018 edition, namely, “all reports of the Supreme or National Audit Office shall stand referred to the Public Accounts Committee, or a designated Committee, for further report.”

CPA Benchmarks 7.2.7 and 7.2.8, recognize, respectively that “there shall be an independent, non-partisan Supreme or National Audit Office whose reports are tabled in the Legislature in a timely manner”, and that “the Supreme or National Audit Office shall be provided with adequate resources and legal authority to conduct audits in a timely manner.”

Rick Stapenhurst et al provide a framework for an ‘ideal PAC’ in “Following the Money – Comparing Public Accounts Committees” (Box 1), which includes specific reference to the relationship between the PAC and A-G.

**Box 1: Criteria for an Ideal PAC**

**Mandate and Powers**
- There is clarity on the Committee’s role and responsibilities.
- The Rules and Acts of Parliament must empower the PAC with the appropriate powers to carry out its mandate.
- The PAC members should have a common understanding and articulation of the PAC’s mandate, roles and powers.
- The committee should have unconditional access to all government agencies and have the power to ‘follow’ government money provided to non-government service providers.
- In addition to issues raised by the Auditor, the committee has the power to investigate other matters.
- Parliaments hold an annual debate on the work of the committee.
- The Committee has established a procedure with the government for following up its recommendations and is informed about what, if any, action has been taken.

**Relationship with the Auditor General**
- The Auditor’s Report is automatically referred to the committee and the Auditor meets with the committee to go over highlights of the report.
- In all its deliberation, the committee uses the Auditor as an expert adviser.

**Structure and Organization**
- The Committee is small; committees seem to work well with 5-11 members, none of whom should be government Ministers.
- Some practical issues to consider in determining the size of the PAC, include (a) the PAC’s mandate and responsibilities, (b) the size of Parliament, and (c) the number of audit reports to be reviewed by the PAC.

**Political Representation**
- Senior opposition figures are associated with the PAC’s work, and probably chair the Committee.
- The Chair is a senior parliamentarian, fair-minded and respected by parliament.
- Committee membership should provide for adequate participation by opposition MPs.

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their proportion of PAC membership should at least represent their proportion of the seats in Parliament.

- A PAC should develop a clear written statement describing the role and responsibilities of a Chair.

Term of Office

- The Committee is appointed for the full term of the Parliament.
- Experience and continuity are some of the critical factors for success of a PAC.
- The nature of a PAC’s work is such that it may vary over from one year to another and may require follow up.
- A PAC invests resources in building capacity of its members. The return on investment takes a substantial period to be realized.

Activities

- The Committee meets frequently and regularly.
- The typical witness is a senior public servant (the “accounting officer”) accompanied by the officials that have a detailed understanding of the issues under examination.
- A steering committee plans the Committee’s work in advance and prepares an agenda for each meeting.
- The Committee strives for some consensus in its reports.
- Hearings are open to the public; a full verbatim transcript and summary minutes are quickly available for public distribution.

Performance

- A committee should assess its performance annually.
- A committee should have a performance framework to assess its effectiveness/performance.

Resources

- Committees should be involved in determining their own budgets. Such budgets should provide financial resources for member allowances, site visits, and costs related to public hearings.
- The committee is adequately staffed, with an experienced clerk and a competent researcher(s).

Consistent with these global good practice norms, the Network of Parliamentary Committees on Economy, Finance, and European Integration of Western Balkans (NPC), as part of the Knowledge Partnership, developed the NPC Performance Framework that specifically addresses regional parliamentary expectations and performance aspirations. The section relating to external scrutiny and audit are detailed in Box 2.

Box 2: NPC Performance Framework

Parliamentary Involvement Ex Post

3.2 Parliament and SAI Relationship

3.2.1 Irrespective which SAI model, the parliament should seek to preserve the operational, financial and functional independence of the SAI.

3.2.2 Although the SAI need not report solely to the parliament, it should transmit finalized audit reports to the parliament as soon as they are published.

3.2.3 The parliament should have input into the selection of the head of the SAI.

3.2.4 The legal framework should outline the role parliaments play in overseeing the removal of the head of the SAI from office.

3.2.5 The committee and the SAI should hold consultations on the SAI’s annual work-plan. As the committee and SAI should be operating at arm’s length, the committee should not dictate the SAI’s work-plan. However, the SAI should consider the committee’s priorities when developing its work-plan to ensure that its audit work is responding to the needs of the parliament.

3.2.6 The committee should ensure the SAI is sufficiently funded through the annual appropriations to independently perform its audit functions and responsibilities.

3.3 Examination of the Audit Reports

3.3.1 In instances where there is an increased number of compliance and performance audit reports produced by the SAI, the committee responsible for examining the audit reports should implement mechanisms to prioritize and/or bundle audit reports.

3.3.2 In determining which audit reports to prioritize, the committee should consider:
3.3.3 The committee should be able to rely on technical assistance from the SAI when reviewing and using the audit reports to scrutinize government performance.

3.3.5 The committee should be able to initiate inquiries independent of it receiving an audit report and draw on additional sources of evidence to scrutinize the performance of public officials in implementing the budget.

3.4 Timing

3.4.1 The legal framework should establish deadlines for the SAI to submit the audited public accounts to parliament and by when parliament reviews the financial audit report.

3.4.2 Examination of the annual financial audit report by parliament should take place within 3 months from receipt of the report. Ideally, the parliament should examine the report and make recommendations prior to the next parliamentary budget session.

3.5 Recommendations based on the Audit Report

3.5.1 The legal framework should require action be taken by government in response to recommendations made by parliament after reviewing the audit report.

3.5.2 The legal framework should require the government to respond to the parliament’s recommendations within a specific timeline.

5 CHALLENGES FOR PARLIAMENT-SAI RELATIONSHIPS IN THE WESTERN BALKANS

The premise of this Discussion Note is that a strengthened working relationship between SAIs and parliaments brings benefits to both institutions in that it enhances external audit and strengthens financial oversight. This section aims to highlight some of the main challenges facing SAIs and parliaments in nurturing a more effective relationship. The key issues are framed in terms of the benefits that can flow to the respective institutions from an effective working relationship and what needs to be done to bring about and fortify the relationship.

The relationship is examined from the perspective of:

A. SAI Independence;
B. Examination of the Audit Reports; and
C. Following up on Recommendations.

It is hoped the discussion questions at the end of each section will prompt a substantive dialogue between stakeholders as to how strengthen the Parliament-SAI Relationship in the Western Balkans. The aim is to try and begin to foster consensus as to what a constructive and productive working relationship should look like in the Western Balkan context.

A. SAI Independence

Irrespective which SAI model, the parliament should seek to preserve the operational, financial and functional independence of the SAI. Independence of the SAI, particularly from the entity that is being audited (the government), has many elements to it, including appointment of auditors, tenure, career expectations, method of removal, funding and legal immunity.

The SAI should have a professional relationship with the government, while maintaining its independence. The SAI should also have a working relationship with all relevant committees in parliament, but especially with the Finance Committee/Public Accounts Committee. This relationship can differ depending on the...
jurisdiction – in some cases, the relationship is very close, and the parliament is able to refer matters to the SAI for action. In other instances, the relationship is more distant, with the SAI only reporting to parliament and, potentially, appearing to give evidence as a witness.

SAI Head

Independence from direct government control or interference is critical for SAIs to effectively perform their role. Their business is to make professional judgements – based on generally accepted accounting practices – about how well the government spends money and accounts for what it has done.

The legislature or judiciary should see their involvement in the appointment of the head of the SAI as a tool to ensure the SAI’s independence from the executive. Appointment procedures vary greatly across countries, as well as across different types of SAIs. Moreover, conventions and informal practices can greatly affect the de facto independence of the head of the SAI.

Ultimately, appointment and removal procedures and the term of office of the SAI Head define the political space the SAI Head can work with when seeking to preserve the independence of the office. A SAI Head that can only be removed for good cause and with the consent of the parliament is far better positioned to push back against efforts to interfere in the work planning and day to day activities of the SAI by the government without fear of reprisal.

SAI Staff and Resources

Adequate funding and resourcing are critical to a SAI’s independence and proper functioning. Resourcing reductions should not be used as a tool to reduce the effectiveness of a SAI. Furthermore, any expansion of the scope of the SAIs work should be accompanied with an increase in resources.

Staffing complement, professionalism and technical capacity varies amongst SAIs and has implications for the efficient production of SAI reports. Furthermore, restraints on the number of staff/auditors recruited can influence the scope and extent of auditing work a SAI conducts. Beyond the number of public sector positions created for the SAI, cumbersome hiring processes that delay recruitment of qualified staff acts as a constraint and impacts on an SAI’s capacity to deliver on its mandate.

Participating in public hearings can improve transparency around the budgeting constraints experienced by the SAI, while also enhancing the credibility of the SAI by showcasing its audits to the public. The PAC/Finance Committee should call the SAI to provide evidence during hearings on the audit reports. At the beginning of each hearing the Chair should ask the head of the SAI whether s/he has the resources s/he needs to perform the SAI’s mandate.

In high functioning systems, the PAC/Finance Chair should be the SAI’s advocate within parliament during the estimates process and when the Finance bill is debated. If the SAI doesn’t have the resources to perform their responsibilities at some point during the fiscal year, the parliamentary committee should take it up directly with Treasury/Ministry of Finance to ensure adequate resources are allocated. If there are ongoing concerns about the financial independence of the SAI, the parliament could consider moving the SAI’s budget – as a separate, devoted line item – under the parliament’s budget to ensure appropriate funding for the scope of their mandate and to protect the allocated resources from being reprogrammed or eroded across the fiscal year.

SAI Work-Plan

It is good practice that the designated committee and the SAI hold consultations on the SAI’s annual work-plan. As the committee and SAI should be operating at arm’s length, the committee should not dictate the SAI’s work-plan. However, the SAI should consider the committee’s priorities when developing its work-plan to ensure that its audit work is responding to the needs of the parliament. A regular program of consultation around the SAI’s work-plan is recommended.
Although the SAI need not report solely to parliament, international practice suggests that it transmits finalized audit reports to the parliament as soon as they are published. The role parliament plays differs depending on the type of SAI model in the country, the type of audit transmitted to the parliament, the parliamentary committee structure, and the formal role played by parliament during the external audit phase of the budget process. For instance, when there is an A-G Model or Board Model SAI, the parliament is meant to consider the merits of the audit report, focus on the audit recommendations, and scrutinize qualified audit findings. The committee should then make recommendations to remedy egregious behavior, ensure the behavior is not repeated, or address systemic issues through recommendations for broader reforms. However, when a Cour des Comptes reports to parliament, the most important public finance function the parliament has is the certification of the audited accounts. However, with the adoption of additional audit types, such as performance audits, the role of parliament in the examination of audit reports produced by Cour des Comptes is also evolving.

PEFA Performance Indicator 31 (Legislative scrutiny of audit reports) focuses on legislative scrutiny of the audited financial reports of central government, including institutional units, to the extent that either (a) they are required by law to submit audit reports to the legislature, or (b) their parent or controlling unit must answer questions and take action on their behalf. The indicator examines elements such as the timing of audit report scrutiny, hearings on audit findings, recommendations on audit by the legislature and transparency of legislative scrutiny of audit reports.

Strengthening the performance and transparency of parliamentary committees’ examination of the audit reports can have cascading benefits for SAs. Greater transparency around parliamentary committee hearings, especially the use of public hearings, incentivizes parliamentary committees to perform better as their activities are viewed by constituents eager to understand how their representatives are representing them. The parliamentary committee’s performance is dependent on receiving quality audit reports as inputs to the hearings. If the SAI is unable to produce high quality, timely reports, the parliament is more likely to advocate for adequate resources to be allocated to the SAI to enable it to furnish parliament with the reports they are looking for.

DISCUSSION QUESTIONS

• How can parliament use the annual budgeting process to protect the independence of the SAI and ensure the SAI is sufficiently resourced?
• Should parliament set up briefing meetings with the SAI and Treasury (or Finance Ministry) during the pre-budget stage to form an opinion on the adequacy of funding available to the SAI?
• What role should parliament play in the appointment/removal of the head of the SAI and in protecting their independence?
• To what extent should the SAI consult with the parliament on their workplan and what mechanisms should be in place to facilitate it?

Prioritizing Audit Reports

PEFA\textsuperscript{24} Dimension 31.2 (Hearings on audit findings) states that in-depth hearings on key findings of audit reports take place regularly with responsible officers from all audited entities which received a qualified or adverse audit opinion or a disclaimer. This dimension assesses the extent to which hearings on key findings of the SAI take place. Hearings on key findings of external audit reports can only be considered ‘in-depth’ if they include representatives from the SAI to explain the observations and findings as well as from the audited agency to clarify and provide an action plan to remedy the situation.

A well-functioning SAI will continuously improve the rate at which it conducts audits, the types of audits it performs, and possibly the number of entities it audits. However, there won’t be a corresponding increase in the capacity of the responsible committee in parliament to process and review the growing volume of audit reports it receives. The technical capacity of the committee secretariat will increase with time and experience; however, the size of the secretariat cannot grow as easily as the number of auditors attached to the SAI. Furthermore, with each election cycle, the capacity of the Members will be denuded. Parliaments derive their legitimacy from periodically returning to the citizens to have their mandates refreshed. After each election cycle, experienced returning parliamentarians will often rotate to new committees and Members whose mandates weren’t renewed won’t return to parliament.

SAIs will need to work with the committee Chair and the committee secretariat to manage the influx of reports. This can be done using risk assessments to prioritize audit reports according to the most pressing issues or to focus on agencies that have the greatest recurring qualified audit findings. SAIs and committee secretariats can work together to prepare concise briefing memos on the audit reports for the committee Members and suggested lines of inquiry that can be explored during hearings. Finally, SAIs can work with the committee Chair and secretariat to group similar audit reports so that they can be dealt with during one hearing to improve efficiency and reduce the risk of backlogs building. For instance, multiple audit reports pertaining to a single agency (even if they are across multiple years) can be grouped together and scrutinized in a single hearing.

Timing

The OECD Recommendations on Budgetary Governance advocates for SAIs to deal “authoritatively with all aspects of financial accountability, including through the publication of its audit reports in a manner that is timely and relevant for the budgetary cycle”\textsuperscript{25}. The PEFA Framework Pi-30 establishes three months after receiving the consolidated public accounts as the preferred timeline for the SAI to submit the financial audit to parliament.

Similarly, under the PEFA Framework, a parliamentary committee is assessed as being a high performer if it reviews the financial audit report within three months of the report being submitted to parliament. This timeline for scrutinizing the audit report is reinforced in Principle 16 of the OECD/ SIGMA Principles of Public Administration, which expands the requirement to include all types of audit reports submitted to parliament. Ideally, parliament should examine the audit report and make recommendations prior to the next parliamentary budget session so that the recommendations can be reflected in the appropriations for the next fiscal year.

This tight timeline requires the SAI and parliament to collaborate closely to maximize efficiencies. The parliament should ensure the SAI receives adequate resources to do its work within the specified timeline and the SAI should support parliaments’ efforts to scrutinize all the audit reports within three months of them being tabled to ensure the recommendations are relevant and can have impact.


C. Following up on Recommendations Based on the Audit Report

PEFA Dimension 31.3 (Recommendations on Audit by Legislature) states that the legislature should issue recommendations on actions to be implemented by the executive and systematically follows up on their implementation. In addition, the responsible committee can follow-up on the recommendations made by the external auditors and would be expected to have a follow-up system to ensure that such recommendations are appropriately considered by the executive.

Ideally, for every recommendation, the executive should confirm whether they accept or reject the recommendation or accept the recommendation with caveats. The implementing agency should update the legislature during subsequent hearings whether recommendations have or have not been implemented. A parallel recommendation tracking system – usually managed by the SAI - can independently verify progress made in implementing recommendations.

If the government refuses to accept and act on recommendations of the parliament and SAI, the parliament has several additional accountability tools it can consider using to try and prompt government action. These vary depending on the jurisdiction and whether it is a presidential or parliamentary system; however, they include additional oversight hearings, individual Members posing questions to the responsible minister during plenary debates, interpellations, motions of no confidence, impeachment/ removal procedures, and reflecting the parliament’s displeasure with an agency’s refusal to address a problem by reducing its appropriations in the following fiscal year.

**Key take-aways on recommendation follow-up include:**

- **Plenary debate endorsement of committee recommendations** - After the committee has finalized its recommendations, a plenary session should be held to debate, amend, and endorse these recommendations after which they become formal recommendations of the parliament. However, the committee’s job doesn’t end there – it should conduct additional oversight to ensure that recommendations are implemented by the government.

- **Acceptance by government of parliamentary recommendations and what action they could take (i.e. understanding/ treasury minute process).**
The premise of this Discussion Note is that a strengthened working relationship between SAIs and parliaments brings benefits to both institutions in that it enhances external audit and strengthens financial oversight. This Note provides the context, existing international expectations, and challenges facing the relationship. It also poses several questions to assist interested stakeholders reflect on the nature of the existing relationships in the Western Balkans with the hope that it will stimulate a dialogue on how to improve the working relationship between these two key external audit institutions in the region.

After audit results and recommendations are discussed and validated by the legislature, the executive is normally asked to take certain actions to address the audit findings. The executive is given a chance to respond to these recommendations by parliament.

- **Whether parliament or the SAI should track implementation.** There are different examples as to the SAI and legislature’s tracking (or lack thereof) of actions by the executive to address audit recommendations. The lack of clarity as to who should formally take responsibility of tracking the implementation of recommendations by the government can lead to confusion and generally weaken the impact that these recommendations can have. However, ISSAI 10 Principle 7 and ISSAI 20 Principle 3 provide a positive obligation on SAIs to monitor and follow-up on recommendations from the SAI and parliament.

- **Follow-up on recommendation implementation.** Following up on recommendations helps build, among other factors, accountability and responsibility for delivery as well as complaint mechanisms. If recommendations are not implemented, parliament, during budget formulation the following year, should seek to sanction the respective line ministry/implementing agency.

**DISCUSSION QUESTIONS**

- Who should formally work on tracking the implementation of recommendations? How can the parliament and SAI better work together on this?
- Should parliaments adopt a formal discharge procedure for the previous year’s audited accounts before commencing the new budget session?

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26 Principles of Public Participation in Fiscal Policy. Global Initiative in Fiscal Transparency (GIFT), March 2016
RESOURCES CONSULTED IN THE PREPARATION OF THE DISCUSSION NOTE

- Developing Effective Working Relationships Between Supreme Audit Institutions and Parliaments. SIGMA PAPER No. 54, OECD 2017
- Guide to The Open Budget Questionnaire: An Explanation of The Questions and The Response Options. International Budget Partnership, August 2016 (Question 101; 116; 119; 120; 129)
- Open Budget Survey Report 2017. International Budget Partnership, August 2018
- PEFA: Framework for Assessing Public Financial Management. PEFA Secretariat, Washington DC, February 2016 (Dimension 31.1; 31.2; 31.3)
- Principles of Public Participation in Fiscal Policy. Global Initiative in Fiscal Transparency (GIFT), March 2016 (Principle 9)
- Recommended Benchmarks for Democratic Legislatures. Commonwealth Parliamentary Association. First published 2006. Revised and updated 2018. (Principle 7.1; 7.2; 7.2.7; 7.2.9)
- Reed, Quentin (2013). Maximizing the Efficiency and Impact of Supreme Audit Institutions Through Engagement with Other Stakeholders. Anti-Corruption Resource Centre, UNDP 2013
- Relations Between Supreme Audit Institutions and Parliamentary Committees SIGMA Papers: No. 33, OECD 2003
- The Reality of Democratic Parliaments: What Criteria of Evaluation? (2009). Parliamentary Assembly of La Francophonie. International Organization of La Francophonie, Paris (Principle 2.3.2.5; 2.3.2.6)
SAFE means Strengthening Accountability and the Fiduciary Environment. It is a Trust Fund program administered by the World Bank and was established by the Swiss State Secretariat for Economic Affairs (SECO) and the European Commission with the aim of improving public financial management in Europe and Central Asia region.

This Trust Fund program provides support for activities to assess public financial management (PFM) performance, identify and implement actions to achieve improvements and share knowledge and good practices across countries in the region.