

Časopis za poslovnu teoriju i praksu
The paper submitted: 23/04/2019
The paper accepted: 27/05 /2019

UDK 342.53: 328.18(4-672EU)
DOI 10.7251/POS1922159C
Original scientific paper

Čajić Kužet Renata, The Supreme Office for the Republic Srpska Public Sector Auditing, Banja Luka, Bosnia and Herzegovina, renata.cajic@gmail.com

Babić Zoran, University of Bussines Studies Banja Luka, Bosna and Herzegovina

THE IMPORTANCE OF EFFICIENT COMMUNICATIONS OF THE AUDIT INSTITUTION AND PARLIAMENT IN THE ACCOUNTABILITY OF THE EXECUTIVE AUTHORITIES SYSTEM

Summary: *The base of the relationship between SAIs and parliaments is the audit reports submitted to parliaments, or parliamentary committees, based on the audit process. Although all Supreme Audit Institutions report to parliaments, there are numerous differences in how, when and how often it is done. Also, there are differences in reporting modalities due to the different parliamentary systems and the structure of the parliaments themselves, the different structures and responsibilities of the Supreme Audit Institution (SAI), its constitutional and historical positions, and many other factors that form the relationship between the SAI and the Parliament. A number of factors have been identified in this paper that can influence the relations of the Supreme Audit Institutions and parliaments, or parliamentary committees, in order to make improvements and promote good practices. Everything in order to contribute to the improvement of management standards, better decision-making, and, consequently, more efficient use of public money. The work was based on publicly available literature, primarily legal and other regulations governing the work of the SAI and the public finance system, using data and information obtained directly from the SAI, and taking into account the requirements of the ISSAI and other relevant standards.*

Key words: *audit, public sector, accountability, parliamentary system*

JEL classification: *H83*

INTRODUCTION

In a complex system of public financial accountability, the role of the parliament is to approve the budget to the government, or to entrust the performance of public affairs and the use of public resources to meet a wide range of direct and indirect needs of citizens, to institutions of executive power, and to take care of budget execution, in the name of citizens and users of public services that resources are used intentionally, legally and responsibly, while respecting the principles of efficiency and economy. Namely, there is no one democratic body other than a national parliament that would give legitimacy and that would exercise democratic control over the work of the national government (Bačić 2006, 10). In order to achieve this, members of the parliament, that is, politically elected representatives, should have an objective and fact-based information base on how and how well executive authorities collect and spend public funds. Since parliaments usually do not have the capacity for expert and precise analyzes in controlling the use of public funds by the executive, they rely on the objective and expert opinion of the auditors and thus use the audit reports as a source of reliable information on the accuracy of the financial statements and the use of public resources in a lawful, cost-effective and efficient way. Practice shows that parliaments will use audit reports only if they are understandable, timely and interesting in the political context.

It is clear that the SAI plays an important role in this system of responsibility between the parliament as legislature and government as the executive, but also externally - towards citizens and users of public services. As public sector auditors, they provide independent, objective information on the reliability of financial reports, individual, compiled or consolidated (Santis, Grossi and Bisogno 2018, 231), purposeful use of assets, the protection of assets and resources entrusted to management, compliance with the law and other regulations, the application of standards and principles of good practice in terms of effective, efficient and economical spending of public money, through the reports to the parliament (and other interested parties).

1. EXPECTATIONS FROM PUBLIC SECTOR AUDITORS

Simplify, it can be said that the main reason why the SAI exists is to provide reliable and credible information to stakeholders in the public interest. Because of this, the SAI is positioned as one of the instruments of parliamentary supervision, independent of the executive, but also to a large extent separated from the judicial authorities and law enforcement institutions. The relationship between the SAI and the parliament and the government is most often presented in the simplest way by accountability triangle (Illustration 1).

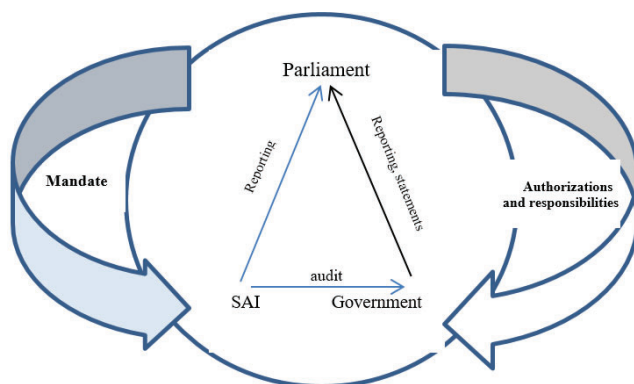


Illustration 1. „The Accountability Triangle“ relation between SAI and parliament (Author's)

In the relations between the parliament and the executive, important problems lie in the so-called "political will" in ensuring the equality of citizens and everyone else by the law. At the center of the formation of such political will, there is a problem of democratic control over the bearers (executive, that is, the actual) of the authorities, or its political responsibility. (Smerdel 2012, 25) Accordingly, the SAI within the "accountability triangle" should develop modalities and find ways to best fulfill its function in relation to other actors in public finance management systems, all taking into account the requirements of the ISSAI and other standards that set SAIs for professional work. Public sector auditors must have continuous cooperation with their parliaments (through a parliament committee) to witness their expectations and to make sure that elected representatives understand and accept the role of the SAI and how they can benefit from its work.

The basic principles for the work of supreme audit institutions that set the prerequisite for the independence of public sector auditing institutions are contained in ISSAI 1 - The Lima Declaration of Guidelines on Auditing Precepts and the ISSAI 10 - the Mexican Declaration on SAI Independence (INTOSAI 2014).

The Lima Declaration which was adopted by delegates in 1977, had a decisive impact on the development of the audit of public institutions in the context of each country individually and set the basic expectations for the long-standing SAI relationship with parliaments. According to the Lima Declaration, the establishment of a public sector audit and the concept of auditing itself are inseparable from the management of public finances, since the management of public funds represents a committed obligation. It should be borne in mind that public sector funds are those controlled by the state and which are used for the production of goods or the provision of services for public use, therefore is not only the budgetary funds. The principles that apply to the valuation of public sector funds are essentially the same that apply to private sector funds valuation (Čurić and Babić 2017, 86).

Audit is not an end in itself, it is part of a wider regulatory system, in the function of parliamentary supervision, whose objective is to disclose deviations from established standards and violations of the principles of legality, effectiveness, economy and efficiency in the management of public funds, in order to enable the corrective measures taken in individual cases. In the Lima Declaration, Part VI, Section 16, it is clearly stated (INTOSAI 2014): „The Supreme Audit Institution shall be empowered and required by the Constitution to report its findings annually and independently to Parliament or any other responsible public body; this report shall be published. In addition, the SAI will be empowered to report on particularly important and significant findings during the year.

After several decades of establishing the basic principles for the work of supreme audit institutions, the 2007 Mexican Declaration of Independence was adopted, in which, inter alia, SAIs submit their reports to the Legislature, one of its commissions, or the auditee's governing board (depending on the particular case) for review and follow-up on specific recommendations given for the implementation of corrective action. This obligation to submit a report on monitoring the implementation of the recommendation for consideration by the parliament, to be done by one of its committees, is present in cases where the SAI has their own statutory power for follow-up and sanctions - ISSAI 10, Principle 7 (INTOSAI 2014).

All this points to the need for well-coordinated and tightly "linked" cooperation and communication between the supreme audit institution and parliament, and the constitution and legislative framework of each country, and ISSAI 1 and ISSAI 10, represent the context for this key relationship. The International Standards of Supreme Audit Institutions (ISSAI) have been elaborated in more detail, providing additional guidance on the various aspects of this relationship and the expectations set by the SAI in developing and maintaining relations with the parliament (and others interested parties). Standards also set expectations about the quality of information reported to Parliament, indicating that the information provided must be relevant, objective and timely. Audit reports should highlight topics, common findings, trends, causes and recommendations, and whenever possible, the guidance of good practice is encouraged - ISSAI 12, Principle 3 (INTOSAI 2014).

1.1. Reporting Parliament - the basis of all relations

The basics of all relations between the SAI and parliaments are audit reports. Although all European SAIs report to parliaments, there are significant differences in when, how and how often to work. Principle 6 of the Mexican Declaration emphasized the independence of the SAI to decide on the content and timing of the publication and transmission of the audit report, except where specific requirements for the implementation of the law were prescribed. The legislative authority prescribes minimum reporting requirements, and the SAI is free to make observations and make recommendations regarding the audit, taking into account, where appropriate, viewing the subject of the audit. The SAIs may take into account the specific requirements for conducting the audit on the proposal of the parliament or parliamentary committees/commissions or the government. In addition, comparative research in economies such as in the UK and Germany shows (Elbakrya and Nwachukwub and

Abdouc and Elshandidy 2017, 24): it might be postulate that the transition to the new international reporting system introduced some ambiguity in the measurement of accounting data and legislation designed to bring local rules into line with international standards. Consequently, the impact of the new EU reporting directives on managerial incentives and legal and institutional arrangements in member states is an issue worthy of attention in further research.

Thus, the various legal solutions and space that ISSAI allow for the freedom of the SAI in deciding on the content and timing of sending and publishing the audit reports have led to different solutions in practice, so that the application of these principles varies from country to country. Some of the best practices that apply when submitting a report to a parliament are:

- submitting reports to Parliament and publishing them at the same time;
- distribution of reports to all relevant bodies (committees and commissions) within the parliament;
- presentations or short extracts from the reports for the needs of parliamentary committees;
- use of press releases to highlight important parts / findings in the report;
- periodically reviewing thematic reports (or more) on sectoral parliamentary committees, not just on the audit or budget committee.

How in carrying out their mission, the SAI ensures that their work adds value and has a social impact, amongst others, ISSAI 12 (INTOSAI 2014): "The Value and Benefits of Supreme Audit Institutions –making a difference to the lives of citizens" gives fairly authoritative guidance on this issue. The SAI can demonstrate its relevance with an adequate response to current social issues, citizen challenges, the expectations of various stakeholders, and the emerging risks and changes in the environment in which audits are carried out. Furthermore, it is important that SAIs have continuity, understanding of developments in the wider public sector and to maintain meaningful and effective dialogue with stakeholders on how the audit work and reports can contribute to the development of the public sector, making better strategic and operational parliamentary decisions, improving financial discipline and monitoring the results and effects of individual program measures. When such communication is established, this allows the SAI to be a credible source of information for parliament, or to provide an independent and objective insight, supporting useful public sector changes.

In that sense, ISSAI 12 out: Principle 5 - Being responsive to changing environments and emerging risks, Principle 6 - Communicating effectively with stakeholders and Principle 7 - Being a credible source of independent and objective insight and guidance to support beneficial change in the public sector; describes the clear expectations of the SAI that, as an active partner in the "responsibility triangle", must ensure that its work is recognized as relevant, which includes the efforts of the SAI to:

- Be aware of the expectations of stakeholders and respond adequately to these expectations;
- Provide answers to key issues that are in the focus of socio-economic events and take them into account when developing their work program;
- Assess the changing and emerging risks in the audit environment and respond promptly to them;
- Ensure that the expectations of stakeholders and the risks inherent in need are included in the strategic and operational audit plans;
- Consider and appreciate the views of stakeholders in the process of planning auditing activities, but without jeopardizing independence;
- After each audit cycle, assess whether key actors (stakeholders) have confidence that the SAI is effective and contributes to overall improvements in the public sector.

While it is important that the SAI freely and independently develops the program and determines the work plan, simultaneously communication and engagement with the parliament and other actors is essential.

Some research (Vivian and Maroun 2019, 44) supports the view that the accounting profession, as an integral part of the capital market system, exerts pressure to drive standardisation of financialised accounting practices both public and private sector. In contrast, the government's agencies support accounting systems aligned with conventional accountability principles aligned with jurisdiction-specific contexts. The interaction of these opposing perspectives is a primary determinant of change in accounting practice in the public sector space, which is determined by the term: new public management. However, contradictory conclusions about the effects of this "new public management" are (Steccolini 2019, 255): „NPM may have represented a golden age, but also a “golden cage”.

1.2. Communication and understanding of the role and work of the SAI

In order to support and enhance accountability mechanisms, all SAIs in contemporary democracies within their mandates go far beyond delivering audit reports to parliaments by taking initiatives to establish better and more effective relations with parliamentary committees through raising awareness of the role of the SAI and providing assistance in understanding audit reports. These activities to improve communication also seek to increase the attention of parliaments and to focus on SAI reports, but also to influence public awareness in demanding accountability from government and public sector entities. Although it should be kept in mind also the so-called „the Paradoxes of accountable management in the Public Sector“ (Humphrey and Miller and Scapens 1993, 14), it is a fact that when often be used efficiency controls (Duvnjak 2018), different performance indicators for value for money, inspections or audits, conditions are increasing and creating public pressure for more responsible management of public money.

There are a number of activities that constitute good practices that the SAI adopted and applied in communicating with the parliament, among which are:

- Holding regular meetings, supplemented by informal contacts at the operational level;
- Adjustment of the agenda and schedule of reporting;
- Interviews and public hearings of responsible persons on issues from the audit report;
- Organizing conferences, round tables and workshops for members of the palace, but also for other interested participants;
- Negotiating a memorandum of understanding and establishing procedures for cooperation;
- Adopting a communication strategy and establishing mutually compatible communication policies;
- Improving understanding through the temporary transfer of staff to practical work from one institution to another.

All of this can contribute to discussions in the direction of improvement in the public sector, without jeopardizing the independence of the SAI. The extent to which the SAI is able to trigger changes in the lives of citizens depends on the SAI, and this can be illustrated in the following way (Illustration 2).

Audit quality improves financial reporting quality by increasing the credibility of the financial reports. Thus, audit quality is a component of financial reporting quality (DeFond and Zhang 2014, 276), which is applicable to both private companies and public sector entities.

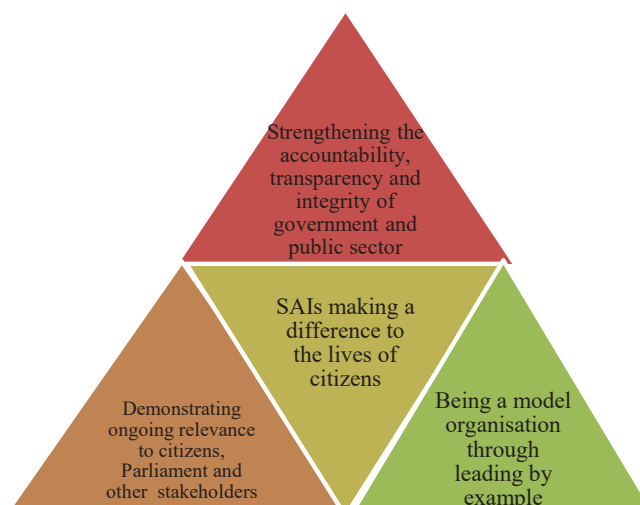


Illustration 2. The three goals the SAI for change in the lives of citizens (ISSAI 12 - The Value and Benefits of SAI –making a difference to the lives of citizens)

2. EXPECTATIONS FROM THE PARLIAMENT

2.1. Modalities of parliamentary supervision

The Parliament has a unified constitutional function of supervision. Parliamentary oversight is a means by which the elected representatives, on behalf of the people, call on the government to be held accountable. Also, parliaments are those who, by adopting laws, define the accounting framework and reporting standards. As shown earlier studies (Bartorneu and Magee 2015, 285) final standards emerge from a process of political compromise, which may not benefit unorganized interest groups or groups whose interest lies in the minority. Implementing disclosure rules is mandatory for all publicly traded firms, and a public firm cannot opt out and write its own rules even if doing so is in the best interest of its shareholders.

Given that there are specificities in the organization of the parliaments itself, the types of parliamentary supervisions of public finances are also distinguished, which is carried out with the help of audit reports and information presented by the SAI. Some parliaments directly deal with the work and reports of the SAI, while others relate to the relevant parliamentary committee. In the Republika Srpska it is the Audit Committee, in Republica Serbia is the Committee for finance, the Republic budget and the control of public expenditure of public funds consisting by subcommittees (Sub-Committee for Consideration of SAI's Reports). The formation of a special parliamentary committee in charge of auditing allows for more concrete and efficient cooperation with SAIs, engagement of specialist assistance and timely response to audit findings, while on the other hand, the relationship with the SAI through a wider committee such as the Budget and Public Finance Committee the parliament deals with auditors' reports not only when they are emerging, but also when budget is being made, because such a parliamentary committee responsible for the work of the SAI is directly involved in the process of budget approval, and so the attention and interest is as different from the board that is in charge only for the SAI's operation.

In parliaments consisting of two chambers, they increasingly apply to joint sessions of committees of both chambers, when discussing audit reports and reports on the work of the SAI. In most of the European SAIs, it is becoming increasingly important for the audit reports to be submitted to the relevant audit committee, but also to the relevant sectoral committee for

consideration (for example, the Committee on Social Affairs, Health, Education, Defense, etc.) before the plenary session. This is especially emphasized and is considered to be a good practice for performance audit reports on a specific area/sector or social problem. In Sweden, sectoral or subject committees exclusively dealing with its specifically reports of SAIs, and there is no one specialized parliamentary committee (for audit). In the UK, there are increasingly loud demands for strengthening parliamentary control. Committees could be more effective if they were more selective, but also more systematic in their approach to pre-appointment scrutiny (Hazzel 2019, 225) of the the most senior public officials.

It is clear that there is no model of parliamentary work that is the best, or to suit everyone, but all depends on the size of the parliament, the structure and efficiency of parliamentary committees, the possibility of establishing subcommittees, the possibility of joint work of several parliamentary committees, as well as the interest of parliament members participate in the work of the committee or in a plenary session on matters relating to audit reports and work of the SAI.

2.2. Parliamentary committees/commissions dealing with audit reports

Building on the basic principles defined by the Lima and Mexico Declarations, the ISSAI framework emphasizes and expresses the expectation that the SAI will develop effective relations and lines of communication with Parliament and its committees/commissions. In ISSAI 12 - "The Value and Benefits of SAI –making a difference to the lives of citizens " - Principle 3, Item 2 (INTOSAI 2014), the SAI should, in accordance with its mandate, submit to Parliament and its committees/commissions, the management/boards of audited institutions relevant, objective and timely information.

In addition, the SAI on objective information should report in a simple and clear way, using a language understood by all participants. In practice, this means that elected representatives who in parliament and parliamentary committees represent the will of the voters will use audit reports only if they are timely, but above all understandable, and interesting in the political context.

Clear expectations from the SAI, or what is considered relevant information, are not precise, but usually include activities that enable the SAI to be aware of the expectations of stakeholders and to respond to these expectations, and in developing their own work programs, they should be able to offer an answer to key issues of impact on society.

The Parliaments in all countries have some kind of discretion about how they engage in relations with the SAI, as previously mentioned. One of the modalities is the formation of a parliamentary committee or commission that is in charge of external audit and for dealing with reports submitted by the SAI. The form, structure and scope of work of individual committees is governed by regulations at the national level (including constitutional and legal provisions, parliamentary rules, regulations and procedures), as there is no binding international or European convention governing this issue. From the above, it follows that, in systems where such special parliamentary committees are formed, it is essential for the effective work of the SAI, besides to its own independence: what powers have the parliamentary committee in charge of external audit and how the committee deals with information received from the SAI.

In this context, always taking into account that the principle of independence of the SAI is not questioned, by clear communication with the parliamentary committee in charge of the audit, the SAI provides that parliamentary expectations and opinions on important social issues are present, considered and (in accordance with the possibilities) while on the other hand it is possible for parliamentary representatives to understand the challenges that the SAI faces, taking into account available resources and legal obligations.

The formal legal, and also the obligation of parliamentary committees, is to consider audit reports, while ensuring that, through formal mechanisms, the government's work on the

management of public resources is controlled and directed. Another important element of this mechanism is that the parliamentary committees that are in charge of external audit consider all submitted reports with due care, thus contributing to the sound functioning of the public accountability system. For the exercise of these statutory rights and privileges by the parliamentary committees in charge of external audit, their human resources are essential in order to make good use of the information provided by the SAI through its reports and in order to contribute to the effective function of supervision and accountability of the Parliament as a whole.

It is important to keep in mind that parliaments, and therefore parliamentary committees, are formed after parliamentary elections are conducted, according to electoral cycles, which in practice means that the structure of the committees changes within a maximum of four to five years. In addition to the experience of developed parliamentary democracies and the various guidelines that are periodically referred to as recommendations to countries that are striving to join the European Union, they emphasize that the Parliamentary Audit Committee is expected to work in an impartial manner and besides to inform the Parliament about audit findings as a whole, there are also some formal suggestions/recommendations that parliamentary committees should meet, which are:

- have at least five members (up to a maximum of 11);
- that the chair of the committee be from the opposition parties,
- have a clear mandate and authority to ensure the implementation of the audit recommendations,
- to use auditors (ie SAIs) as an expert advisor in all of their discussions, and in particular when interrogating responsible persons in institutions of executive power,
- have adequate resources, including competent staff with appropriate training and skills to understand audit reports,
- to ensure that SAI reports, including all key findings and recommendations, are prepared on time and as such presented to the Parliament together with the conclusions of the committee.

The second essential issue for the SAI, where a parliamentary committee responsible for external audit is established, is how the committee deals with the information it receives from the SAI.

3. IMPORTANT FACTORS FOR THE SAI AND PARLIAMENT RELATIONS

Although the roles and scope of the work of supreme audit institutions and parliamentary committees responsible for auditing and/or public finance are usually well-defined by law and the constitution, there are many factors that can influence the interaction of SAIs and parliamentary committees more or less effective and efficient. Some of these factors that form the relationship between the SAI and relevant parliamentary committees are: the historical and constitutional background of the SAI, the parliamentary system and electoral cycles, the budgetary and accounting system, and even the development of the non-governmental sector. SAIs are expected to provide high quality audit reports, that is, reports that are professional, standardized, but also credible, relevant, to add value and have an impact, both through reporting on what happened, but also through identifying the area where improvements can be made by promoting good practice. In this way, the public sector audit should contribute to better governance and decision-making in the area of public finances and more efficient use of public money. On the other hand, parliaments and parliamentary committees will use reports „produced by“ the SAI in a political context, relying on the expert's expertise in supervising the spending of public money by the executive, but only when those reports are understandable, interesting and on time.

The Supreme Audit Institution is here to provide security and additional information on the reliability of financial reports, the purpose and efficiency of using public resources and other

issues depending on the legal mandate, and the parliament or the relevant parliamentary committee to route the work of the government and other executive bodies through directional and binding decisions about the control of the use of public funds. Consequently, it follows that it is necessary that the cooperation and the link between the SAI and the relevant parliamentary committees be good, efficient and timely. It is important, however, to take into account both international standards and contextual factors, as well as good practices and examples of effective relations between relevant parliamentary committees and SAIs in individual countries.

3.1. Organizational models and SAI mandate

Although most of the SAIs follow a unique framework set by the ISSAI, there are still many differences in the model of organization, but also in the defined SAI mandate in some countries. Each SAI developed within the legal, political and cultural traditions of a particular country, relying on experiences and practices derived from such a tradition and contextual framework. However, most of the SAI belongs to one of three models, which are:

- Monocratic or Anglo-Saxonic model (office model),
- Judicial or Napoleonic model and
- Committee or collegium model.

In a monocratic model, the institution is generally run by one manager, the general or the chief auditor. In order to make this model successful and efficient, the SAI should have good cooperation with the parliament. In some systems (as is the case in the UK), the auditor general is a parliamentary official, which implies and in itself involves a close connection with the parliament. The SAIs in this model are mainly focused on financial audits, including the audit of the legality of operations to the extent that it affects the financial statements, and an performance audit is increasingly being developed. According to certain legal solutions, the SAI of this model is obliged to deliver certain findings/reports to the prosecuting authorities, but in general, these SAIs have no power to initiate sanctions against public officials. According to some legal solutions, as in the case of Bosnia and Herzegovina, the parliamentary committee has a mechanism to propose the reduction of the budget of the institution where significant irregularities have been identified, and whether it will accept such a proposal depends on the parliament. The structure of professional staff (auditors) is primarily financial and accounting. The work of SAI organized according to the office model has a greater impact only when Parliament is actively interested in the work of public sector auditors and when it uses it to consider the usage of public resources by the executive, which implies strong parliamentary control. The Supreme Audit Institutions in Bosnia and Herzegovina are organized according to the office model, which are: The Supreme Office for the Public Sector Audit of the Republic Srpska and the Audit Office of the Institutions of the Federation of Bosnia and Herzegovina, which, by territorial and functional principle, have competencies at entity's levels and submit reports to the National Assembly of Republika Srpska, ie the Parliament of the Federation of BiH, as well as the relevant municipal, city and cantonal parliaments; then the Audit Office at the BiH level and the Audit Office of the Brčko District, which in their mandate have an obligation to audit entities of a certain institutional level and submit reports to the competent parliament. According to the office model, SAIs are organized in Croatia and North Macedonia, and the significant features of this model are also the SAI of the Republic of Slovenia.

In the judicial model, the SAI functions according to the principles of the court, members have a status similar to judges in the judiciary, and professional staff has a primary legal background. The audits by these organized SAIs was historically and contextually focused on verifying and evaluating the legality of the transactions carried out that result in financial accounts. With their SAI judgments, they assess the legality of public accountants' work, they can impose sanctions to a certain level, but most of the SAIs and this model have a mandate

that includes financial auditing and performance audit, and reporting on system issues. This model has SAIs: France, Belgium, Spain, Portugal, Italy, Greece and Turkey.

The model of the board (collegium) means the auditing institution manages by the collegium, committee or group of general auditors of the same rank. In some countries, committee members have similar status as judges in the courts (for example: Germany, Moldova), although this is not the rule, since some SAIs have been developed according to the board model but in the context of financial audit, which is appropriate for the office model, legal background similar to the judicial model (eg in Luxembourg or the Netherlands). One of such auditing institutions is the European Court of Auditors, which acts as a collegial body composed of 28 members, one from each EU Member State. Also, this type of SAI is represented in Serbia, Montenegro, Romania, the Czech Republic, Slovakia, and in some other European countries where the model can not be uniquely categorized (eg in Sweden). Namely, these three groups (models) are not completely homogenous, and some SAIs are not easy to position only in one group, since they have more than one characteristic of a model, while some SAIs have evolved from one model to another.

The mandate of the SAI is often closely linked to the organization (model) of the SAI, but also the tradition and the cultural and historical context of the country play an important role in whether the audit approach is primarily financial or legal, and what are the connections and relations with the parliament. However, as accounting and auditing standards become more and more formalized and internationally uniform, it is possible to identify in almost all forms of the SAI: financial audits, compliance audits and performance audits. Thus, the SAI with a judicial role still has the power to assess and sanction the legality of transactions, however their mandate is legally defined or extended to financial audits and performance audits. On the other hand, SAIs that are organised on the office model or the committee model do not have a judicial role in determining the legality of transactions, but in accordance with relevant standards and legal solutions, they implement a certain level of compliance audit in order to provide information on whether the audited entities were complied with the relevant legal regulations during the execution of financial transactions. In some countries, such as Serbia and Montenegro, there are specific responsibilities for which the SAI submits charges and/or pronounces measures, in case of non-compliance at the certain level.

In addition to the mandate originally derived from the SAI's model of organization and through this model of authority, an important element in considering the audit mandate lies in the roles of public entities that are within the SAI's competence. All SAIs carry out audits of financial reports, public accounts and the usage resources of the so-called "central government" and submit a report to the State Parliament. However, the SAI has a different mandate or degree of involvement in audits of regional and local administrations, municipalities, public companies, independent agencies, financial institutions and other public bodies. It should be borne in mind that (Heald and Steal 2018, 151): Those with responsibility for the governance of particular public bodies have not only to deal with conflicting expectations but also with possible misalignment of their statutory obligations with the policy preferences of their current Ministers. For example, SAIs in the Republika Srpska and the Federation of BiH have competence for all levels of government (entity, municipalities, cities, cantons) and for public companies and all other public bodies, so the SAI, when auditing these entities, must communicate with local parliaments which adds the level of complexity to the audit work itself. On the other hand, the SAI for institutions at the BiH level does not have such kind of complexity of work, given by structure of subjects (only state level) and so communicate with only one parliament.

3.2. Legal framework for reporting to parliaments

Given their constitutional or legal role, all SAIs report to the parliaments. The audit reports are usually submitted to the parliament (parliamentary committee) at the same time as the

auditee, so that, in fulfilling its parliamentary supervision function, the SAI allows the audit findings to be considered timely and within the competent sector. In some cases (UK example), the audit report was addressed to an auditee that is required to submit a SAI report together with the financial report to the parliament. The number, type and nature of reports submitted by the SAI to parliaments varies from state to state. Some SAIs submit to the Parliament an annual report summarizing the findings from a series of audits (by subject and by type of audit), while others submit to the Parliament all reports on individual audits (by entities, types of audits or topics). Accordingly, both the nature and intensity of the relationship between the SAI and the parliament will reflect, to a certain extent, the manner in which the parliament is informed.

In some countries, as is the case in the UK, auditors are now statutorily required to continuously review their relationships with clients for any evidence of ‘suspicious activity’ which, if identified, must be reported, and this newly established quasi-policing role is at odds with the traditional nature of the auditor-client relationship (Norton 2018, 61). The point is that auditors may become fixated on generating indicators of best practice and bureaucratic compliance rather than focusing on exercising substantive judgement (Norton 2018, 62).

The Supreme Office of the Republic of Serbia Public Sector Audit (SAI RS) shall submit each individual audit report to the auditee and to the parliamentary committee (as well as to certain other beneficiaries, as defined by law) and, with the report on the audit of the government consolidated annual report on the execution of the budget of the Republic, an audit report listing the most important findings and recommendations from the financial audit, performance audit and special audits. Also, the SAI RS is obliged to submit to the parliamentary committee an annual activity report, which includes information on the SAIs operations as public sector institutions when compiling its financial statements for the fiscal year. In this way, it has been ensured that the parliament is timely, clearly and continuously informed about all individual audits, summarized with the most important information on all audits within a year (with the most important findings, recommendations, types of opinions, number and structure of implemented recommendations, etc.), as well as annually about the work of the audit institution, resources, results and budget.

3.3. The role of the parliamentary committee in determining the work program of the SAI

A significant factor for routing the relationship between the SAI and the parliament is the scope of the right, ie the ability of parliament to influence or determine the annual work program of SAIs. In most countries, this mandate is defined by law, in terms of the ability of parliament to ask the SAI to include certain issues, topics or subjects in the annual audit program. In some countries the SAI is obliged to accept the request of the parliamentary committee, although the number of audit engagements that can be made at the request is limited in order to protect the independence and avoid overload (for example: in Austria, the SAI can accept up to three requests, and the SAI Portugal with up to two requests per year, while in Bulgaria that is five applications per year). The Parliament of Slovenia has the opportunity to submit audit requests from which the SAI has to consider at least five (at least two on the proposal of the opposition), although the final decision on accepting such requests is left to the SAI. Even where there are no statutory liability, the SAI should make suggestions or requests from the Parliament and other interested parties to consider them and then independently decide to incorporate such audits into the annual plan. An important part of a good communication strategy is that the SAI provides an explanation to the relevant parliamentary committee on the possibility that certain requirements may be included or not in the audit plan.

In principle, SAIs have a completely discretion in determining the subjects or topics they will deal with, with certain exceptions such as:

- Statutory definition of mandatory audits (in the Republika Srpska it is defined by the Public Sector Audit Act),
- The possibility for the SAI to carry out a number of audits on a parliamentary request, which will be specifically funded outside the regular annual budget.

Some SAIs, although they have no legal obligation, are actively seeking and collecting proposals for audit and audit topics. Bearing in mind the principle of independence as a fundamental postulate to the existence and operation of each audit, the SAIs need to be free from directives or interferences by the parliament, and in particular by executive authorities in the programming process, audit planning and audit topics selection and in planning and implementation of individual audit engagements, reporting and follow-up of recommendations. At the same time, SAIs can, and often it is part of, good practice, adapt their plans to specific requirements for the audit of certain areas or topics, taking into account the overall benefit, the expectations of the interested parties.

In the Republika Srpska, the work of the parliamentary audit committee, which has nine members elected from the ranks of the deputies, is defined in Articles 67 and 68 of the Rules of Procedure of the National Assembly of Republika Srpska. It is defined that the Audit committee, inter alia, considers the Supreme Audit Office's audit reports of the budget and other legal entities; consider annual audit plans; gives an initiative for the professional appraisal of the work of the Auditor General and reviews reports on the performed professional judgment. The Committee also has the authority to require to carry out special audits (as appropriate), but also to make proposals to the National Assembly to reduce the budget of auditee based on findings and recommendations from the audit report. The Audit Committee shall refer the National Assembly to consideration of any negative reports of the Supreme Audit Office.

3.4. Budget and accounting system and organization of government

Another factor that may have a significant impact on the relationship, that is, an understanding between the SAI and the parliamentary committee has a form of the established budgetary and accounting system. Where the public sector accounting system is cash based, the focus of the audit and attention of the interested parties will, by virtue of the nature and structure of the financial statements, be directed towards execution of the budget. This can lead to completely different conclusions and general approaches to auditing and audit results when compared to the accrual based accounting system (and the budget system). Also, systems in which budgeting and funding are based on multiple budget/program lines may differ, or when certain projects are planned, monitored and executed outside the regular annual budget. However, one should not focus all the attention on viewing financial reports from the perspective of their users, but also from the perspective of subjects who have to prepare sometimes very complex reports. As some research shows (Chychyła, Leone and Minutti-Meza 2019, 230) complex accounting rules for the preparation of financial statements and financial reports with more complex accounting items have relatively greater complexity, that is, increases the need for greater accounting expertise in audit committees.

All this, although not directly affecting the established and the law-based relationship between the SAI and the parliament, will have an indirect impact on the communication of the SAI and the parliament, ie the parliamentary committee, by inevitably altering the type and form of the audit report, changing the requirements that are put forward members of the parliamentary committee in charge of external auditing. In the long run, there may be no possibility of comparing a series of audit reports (for particular subjects, sectors or programs), which should be further argued for the politically elected representatives, especially when there has been a change in the legislative structure. The SAI should keep this in mind when developing a strategy of development and/or communication strategy to respond to the

challenges that may be evolutionary dynamics in the budget or accounting system in the best possible way.

The organization of governments and the executive authority, where the SAI does not report to parliament only through an annual report, but submits each individual audit report, can be a communication challenge because individual actors in the executive branch (eg agencies) are autonomous in reporting and directly accountable to the parliament. Under these circumstances, in a triangle of responsibilities (Illustration 1) it is not possible to identify only one participant in the position of the executive, but most likely there will be forms of reports and deadlines that differ in terms of reporting and addressing recommendations made by the SAI to the responsible persons. Thus, in the Republika Srpska, there are differences in the form and content of audit reports pertaining to budget users (who do not have their own accounts and have limited legal personality) in relation to reports from public sector entities that have their own sources of income and therefore carry a higher level of responsibility for the decisions made.

Also, the impact and strength of the performance audit can significantly contribute to changing attitudes regarding public accountability and audit recommendations. As recent research shows (Parker, Jacobs and Schmitz 2019, 280), the growth of the performance audits is continued but not always consistently over time and through audit jurisdictions. Despite auditor discourse on performance auditing efforts that are strongly geared to evaluating program outcomes, the first stage reports keep a strong focus on control. Although it seems to reflect the discretion of auditors to criticize government policy, there are indications of direct and indirect recursive relationships that arise between auditors, parliamentarians, the media and the public.

In any case, the SAI should endeavor to ensure that all members of parliament, and in particular the representatives of the parliamentary committee responsible for external audit, refer that the details and differences that result from differences in the applied accounting framework, when logic assumed that existing accountability deficits were intrinsically linked to accounting failures (Chow and Pontoppidan 2019, 22), the budgetary system and the system of government management, affects to possible types and forms of audit reports.

CONCLUSION

In order to fully complete or to the fullest extent fulfil the role of the Supreme Audit Institution (SAI) as the highest public authority for controlling the use of public resources in an state, it is necessary for all actors to take a proactive role in the development and application of all available communication tools, they would benefit from their professional co-operation for the society and to meet citizens' expectations. The key role in this type of interaction is with representatives of SAIs and parliamentary committees responsible for external auditing.

By ISSAI 12 - Principle 5, Paragraph 1 (INTOSAI 2014) is generally defined as requiring the SAI to be aware of the expectations of stakeholders and to respond to them, if necessary, in a timely manner and without jeopardizing their independence. Two-way communication in this sense means that the SAI should facilitate access to its reports to all stakeholders, and good practices are already being established and widely applied in this respect, such as: making reports and other information available on the SAI website, holding conferences for the media, making summaries from the most important findings, publishing and dividing the annual audit reports, and to the increasingly present use of social networks such as Facebook, Twiter and others. In relations with the relevant legislative body, ie the parliament or the competent parliamentary committee, the SAI should develop good, professional and mutual relations to contribute to a better understanding of audit reports, conclusions and recommendations and to ensure that appropriate measures are taken. This in fact means that only formal report submission to the competent parliamentary committee may not be enough

to stimulate adequate monitoring and stimulate effective and effective response. The SAI therefore needs to do more to take the initiative to explain the background and audit context through a proactive approach, highlight key and systemic shortcomings and create the assumption that future audits and audit reports will result in measures taken in relation to their recommendations.

On the other hand, the relevant parliamentary committee (or more) should bear in mind that the relationship between the SAI and the parliament is determined by a whole series of factors, from legal powers, to the personal relationship between the SAI representative and the chairman of the parliamentary committee. In order to maintain an effective and constructive relationship with the general interest, it is essential that communication with the SAI is flexible, with the possibility to respond to a possible change of circumstances. This implies continuity in communication in order to ensure that the parliamentary committee constantly monitors the work of the SAI, and that the SAI takes into account the needs of key participants. In addition, only strong and effective links between SAI and the parliament, without disturbing the principle of independence, will enable those in charge of public sector management to fulfill their responsibilities, in line with findings and recommendations of the audit, to take appropriate corrective measures, thereby closes the cycle of responsibility and strengthens the integrity of state and public bodies.

REFERENCES

1. Bačić, Arsen. 2006. „O položaju, ulozi i značaju nacionalnog parlamenta u EU konstitucionalizmu“. *Zbornik radova Pravnog fakulteta u Splitu*. 43:2.1–23.
2. Bertomeu, Jeremy and Magee, Robert. 2015. “Mandatory disclosure and asymmetry in financial reporting“. *Journal of Accounting and Economics* 59(2–3): 284–299. doi:10.1016/j.jacceco.2014.08.007.
3. Chow, Danny and Pontoppidan, Caroline Aggestam. 2019. “The United Nations' (UN) decision to adopt international public sector accounting standards (IPSAS)“. *Journal of Public Budgeting, Accounting and Financial Management* 4:4-22. doi: 10.1108/JPBAFM-08-2018-0087
4. Chychyla, Roman and Leone, Andrew and Minutti-Meza, Miguel. 2019. “Complexity of financial reporting standards and accounting expertise“. *Journal of Accounting and Economics*. 67(1):226–253. doi:10.1016/j.jacceco.2018.09.005
5. Ćurić, Bojan and Babić, Zoran. 2017. “Influence of the financial statements quality on valuation of the companies in the process of ownership transformation in the countries in the region“. *Business Studies*. 9(17-18): 97–114.
6. DeFond, Mark, and Zhang, Jieying. 2014. “A review of archival auditing research“. *Journal of Accounting and Economics*.58(2–3): 275–326. doi:10.1016/j.jacceco.2014.09.002.
7. Duvnjak, Valentina. 2018. "Coping with Crisis in the EU Periphery: The Case of Bosnia and Herzegovina." *Journal of Balkan and Near Eastern Studies*. 20(2): 196–210.
8. Elbakrya, Ashraf and Nwachukwub, Jacinta and Abdouc, Hussein and Elshandidy, Tamer. 2017. “Comparative evidence on the value relevance of IFRS – based accounting information in Germany and the UK“. *Journal of International Accounting, Auditing and Taxation* 28: 10–30. doi: 10.1016/j.intaccudtax.2016.12.002
9. Hazell, Robert J D. 2019. “Improving Parliamentary Scrutiny of Public Appointments“. *Parliamentary Affairs* 72:2. 223–244. doi:10.1093/pa/gsy017.
10. Heald, David and Steel, David. 2018. “The governance of public bodies in times of austerity“. *The British Accounting Review* 50(2): 149–160. doi:10.1016/j.bar.2017.11.001.
11. Humphrey, Christopher and Miller, Peter and Scapens, Robert. 1993. "Accountability and Accountable Management in the UK Public Sector". *Accounting, Auditing & Accountability Journal* 6(3):7–29. doi:10.1108/09513579310042542.

12. INTOSAI Professional Standards Committee. 2014. "International Standards of Supreme Audit Institutions (ISSAIs)". Accessed February 27, 2014. <http://www.issai.org/>.
13. Norton, Simon Dominic. 2018. "Suspicion of money laundering reporting obligations: Auditor compliance, or sceptical failure to engage?". *Critical Perspectives on Accounting*. 50:56-66. doi: 10.1016/j.cpa.2017.09.003
14. Parker, Lee and Jacobs, Kerry and Schmitz, Jana 2019. "New public management and the rise of public sector performance audit: Evidence from the Australian case". *Accounting, Auditing & Accountability Journal*. 32(1): 280-306. doi:10.1108/AAAJ-06-2017-2964.
15. Santis, Serena and Grossi, Giuseppe and Bisogno, Marco. 2018. "Public sector consolidated financial statements: a structured literature review". *Journal of Public Budgeting, Accounting & Financial Management*. 30(2): 230-251. doi:10.1108/JPBAFM-02-2018-0017
16. Smerdel, Branko 2012. „Parlamentarna odgovornost zaključci nakon tri desetljeća istraživanja“. Scientific paper presented at a Scientific Conference Politička odgovornost, Zagreb, Hrvatska, November 22, 1-26.
17. Steccolini, Ileana. 2019. "Accounting and the post-new public management: Re-considering publicness in accounting research". *Accounting, Auditing & Accountability Journal*. 32(1): 255-279. doi:10.1108/AAAJ-03-2018-3423.
18. Vivian, Bruce and Maroun, Warren. 2018. "Progressive public administration and new public management in public sector accountancy: An international review". *Meditari Accountancy Research*. 26(1): 44-69. doi: 10.1108/MEDAR-03-2017-0131.