

# **Strengthening Ex Post Budgetary Oversight by the Parliament of Montenegro**

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The views expressed in the paper are those of the authors, and not necessarily those of or endorsed by the institutions in the paper nor the UK government.

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# List of acronyms

**AR** - Audit Report

**CEFB** - Committee for Economy, Finance, and Budget

**CoA** - Court of Audit

**C&AG** - Comptroller and Auditor General

**CPFC** - Commission for Public Finance Control

**EBP** - Executive's Budget Proposal

**FCBC** - Finance and Central Budget Committee (Croatia)

**KPI** - Key Performance Indicators

**MP** - Member of Parliament

**NAO** - National Audit Office

**OBS** - Open Budget Survey

**PAC** - Public Accounts Committee

**PEFA** - Public Expenditure and Financial Accountability

**SAI** - Supreme Audit Institution

**SAO** - State Audit Office

**YER** - Year-End Report

# Executive Summary

The purpose of this paper is to evaluate whether Montenegro should maintain its current integrated model of parliamentary budgetary oversight, in which the Committee for Economy, Finance, and Budget (CEFB) handles both ex-ante and ex-post functions, or whether it should adopt a standalone ex-post oversight committee model such as exists in the UK and Slovenia.<sup>1</sup> By comparing Montenegro's system with the experiences of Croatia and Georgia<sup>2</sup>, which have a single committee performing the ex-ante and ex-post oversight (referred to here as an integrated approach), and Slovenia and the UK, which have standalone ex-post oversight committees, this paper aims to identify the most effective approach for strengthening parliamentary oversight in Montenegro. The goal is to ensure that the model chosen optimizes resources, enhances accountability, and improves public financial management through robust scrutiny of budgetary processes and audit findings.

Ultimately the recommendation of this paper is that Montenegro retain the integrated model, but with important enhancements. Those enhancements are addressed below.

## Key Considerations

### 1. Integrated Model and Resource Efficiency (Lessons from Croatia and Georgia):

- Montenegro currently uses an integrated model, with the CEFB responsible for both ex-ante and ex-post oversight. This allows the CEFB to maintain a comprehensive view of the entire budget cycle, from formulation through execution, similar to Croatia's Finance and Central Budget Committee (FCBC).
- In Croatia, the FCBC faces challenges in managing a wide range of oversight functions due to limited parliamentary resources. Montenegro's 81-seat Parliament, like Croatia's (which is much larger at 151 seats), is limited in capacity, and adding a standalone ex-post committee would likely overburden MPs, diluting the effectiveness of both ex-ante and ex-post oversight functions.

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1 This paper is not intended to serve as an institutional needs assessment of parliament, a staff capacity evaluation, nor a political economy analysis of the interactions between the Ministry of Finance (MoF) and the Budget Committee, among other areas outside its scope.

2 The section on Georgia, below, notes concerning anti-democratic trends in that country that are hampering its full European integration. However, given Georgia's strong tradition of parliamentary involvement in the budget process, it was selected for this study.

- Georgia's Parliament offers an example of how an integrated committee model can operate efficiently. Its Permanent Audit Group within the Finance and Budget Committee focuses on deepening scrutiny of audit reports while retaining responsibility for budget formulation oversight. This allows for more consistent tracking of budget implementation, without the need to split oversight responsibilities across different committees.

## **2. Strengthening the CEFB's Role (Lessons from Slovenia and the UK):**

- Although Slovenia and the UK use standalone ex-post committees, their experience offers valuable insights into how Montenegro can strengthen its integrated oversight process. For instance, the UK's Public Accounts Committee (PAC) is known for its detailed review processes and follow-up sessions, which could serve as a model for Montenegro's CEFB to adopt more thorough post-audit reviews.
- Slovenia's Commission for Public Finance Control (CPFC) provides an example in maintaining an effective connection between performance audits and parliamentary follow-up. Montenegro's CEFB could benefit from adopting a more structured follow-up process to ensure that recommendations are implemented and regularly reviewed.

## **3. Improving Follow-Up on Audit Recommendations (Lessons from Croatia and Georgia):**

- In both Croatia and Georgia, parliamentary committees face similar challenges in tracking the implementation of audit recommendations. Georgia's Finance and Budget Committee, through its Permanent Audit Group, has developed a stronger system for monitoring whether the executive has followed through on audit recommendations. Montenegro may wish to adopt a similar formal system to ensure that all audit recommendations are implemented.
- Croatia's experience with the FCBC shows that without systematic follow-up, audit recommendations can fall through the cracks. Montenegro's CEFB should consider creating a structured system of progress reports and follow-up hearings, ensuring that entities respond to audit findings in a timely manner.

## **4. Formalizing Sectoral Committee Involvement (in contrast to Croatia):**

- In contrast to Croatia, where it is the FCBC that actively reviews performance audits, Montenegro's sectoral committees already play an active role in this regard, a significant positive development in its oversight process. However, the involvement of sectoral committees in Montenegro could be further formalized to ensure comprehensive scrutiny. The CEFB should take on a more structured coordinating role, ensuring that performance audits receive the attention they deserve, while retaining the option to review performance audits as well.

## 5. Increasing Capacity and Analytical Support (Lessons from the UK):

- The UKPAC benefits from the dedicated support of the National Audit Office (NAO), which supports the PAC in briefing members about upcoming scrutiny of performance audits, writing committee reports, and tracking recommendations. The NAO's involvement allows the PAC to conduct in-depth reviews of audit findings and ensures that the committee has access to high-quality financial analysis. The CEFB and sectoral committees could similarly benefit from increasing staffing and analytical resources to enhance their ability to scrutinize audit reports and track the implementation of recommendations. The Montenegrin Parliament and SAI may wish to explore a similar arrangement.

# Recommendations for Montenegro

- **Extend the AR Review Period:** Parliament should work with the MoF to consider extending the review period for the Annual Audit Report (AR). This would allow for a more in-depth analysis of audit findings, drawing from the detailed review processes seen in Georgia and the UK.
- **Create a Sub-Committee for Audit Review:** Like Croatia's sub-committees for detailed financial oversight, Montenegro's CEFB should establish a sub-committee dedicated to following up on audit findings, improving the depth and focus of oversight.
- **Strengthen Sectoral Committee Oversight:** Sectoral committees should be more formally involved in reviewing performance audits, with the CEFB coordinating their efforts.
- **Establish a Systematic Tracking Process for Recommendations:** The Parliament of Montenegro should consider adopting a formal tracking system, similar to those in place in Georgia and the UK, to ensure that audit recommendations are implemented. This should include regular progress reports and mandatory follow-up hearings for entities that fail to act on audit findings.
- **Enhance Staffing and Analytical Capacity:** Montenegro's CEFB and sectoral committees could benefit from additional staff and analytical support, following the models of the UK and Georgia. In the UK, the Public Accounts Committee (PAC) benefits from the dedicated expertise of the National Audit Office (NAO), which provides critical financial analysis and audit support, enabling the PAC to conduct thorough reviews of government spending. Similarly, Georgia's Parliament has strengthened its oversight capabilities through the Permanent Audit Group, which benefits from technical support to ensure that MPs can effectively review and follow up on audit reports. By developing similar support structures, Montenegro's parliamentary committees can enhance their capacity to scrutinize audits and track the implementation of recommendations more effectively.

- **Deepen the relationship between the CEFB and the State Audit Institution of Montenegro.** The collaboration between the CEFB and the SAI should be expanded beyond just AR follow-ups, moving toward structured, regular interactions across multiple stages of the audit and oversight process. This should include direct support from the SAI in areas such as strategic planning, prioritization of audit findings, setting work programs, and drafting preliminary questions for PAC hearings. For example, in the UK, the National Audit Office (NAO) plays a critical role in providing expert strategic advice, assisting in compiling background information, and attending public hearings as expert witnesses. The NAO further supports the PAC by offering comprehensive briefings on audit outcomes and helps draft PAC resolutions and recommendations.

By retaining the integrated oversight model and drawing lessons from Croatia and Georgia, Montenegro can strengthen its parliamentary oversight functions, ensuring that both ex-ante and ex-post scrutiny are effective, while maintaining the necessary capacity and resources to support these functions. Lessons from Slovenia and the UK can further enhance the depth and accountability of Montenegro’s integrated model.

## Background on Parliamentary Oversight

Parliaments have a role to play in all four stages of the budget cycle (depicted in Figure 1): the Formulation, Approval, Execution, and Audit/oversight stages.

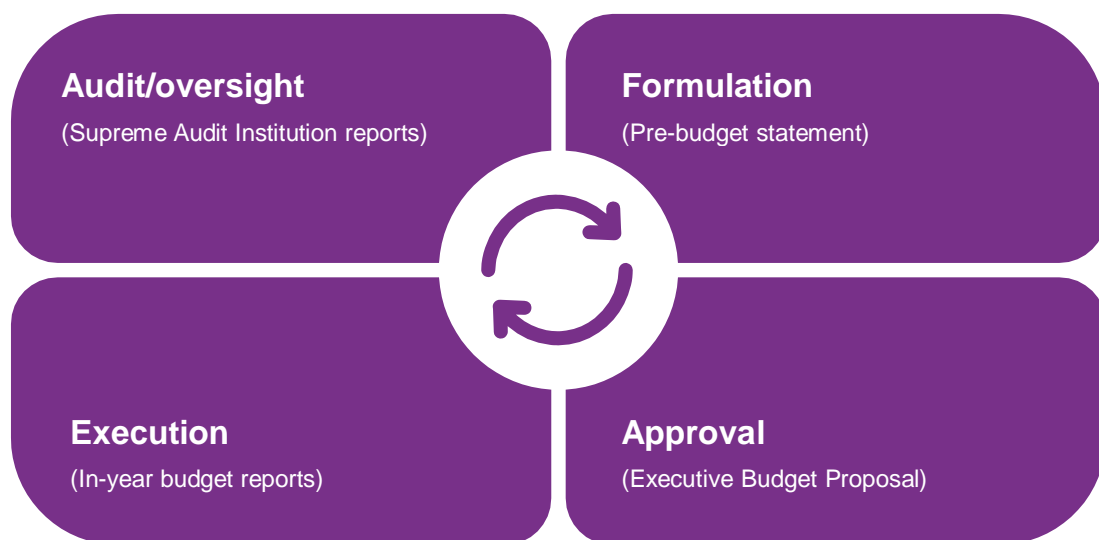


Figure 1: Four stages of the budget cycle.



In the Formulation stage, the executive plays the primary role in drafting the Pre-Budget Statement (PBS), outlining the government's fiscal policy, revenue forecasts, and key spending priorities. During this stage, the parliament can engage in pre-budget consultations and debates, providing input that can influence the executive's fiscal plans. However, the executive maintains ultimate control over the content of the PBS and the direction of fiscal policy.

In the Approval stage, the executive submits the Executive Budget Proposal (EBP) to the parliament for review. While the executive proposes allocations and justifications for revenue and expenditure, the parliament has the power to review, amend, and approve or reject the proposed budget. The executive is responsible for defending its budget proposal and may have to negotiate with parliament to secure approval of key budgetary items.

In the Execution stage, the executive takes charge of implementing the approved budget, managing revenue collection and disbursing funds according to the allocations passed by parliament. While the executive handles day-to-day budget execution, the parliament plays a critical oversight role, ensuring that spending adheres to the approved budget and making recommendations to ensure effective and efficient use of resources.

In the ex-post oversight phase, the parliament evaluates the executive's performance in budget execution through the Year-End Report (YER) as well as financial, compliance, and performance audit reports,<sup>3</sup> ensuring that public funds were used in accordance with the approved budget and for the purposes intended by Parliament, while holding the executive accountable for any discrepancies or inefficiencies.

The YER and the AR serve distinct but complementary roles in public financial management. The YER, prepared by the government, provides a self-reported account of the fiscal year's financial activities. It details revenues, expenditures, debt levels, and the overall financial performance of the government in relation to the approved budget. Its primary purpose is to show how public funds were spent and whether the government adhered to its budgetary commitments. Parliament uses the Year-End Report to assess the government's financial performance and fiscal discipline.

In contrast, the Annual AR is prepared by the Supreme Audit Institution (SAI), an independent body, to provide Parliament with assurance on the accuracy and reliability of the Year-End Report and to assess the government's compliance with financial management laws and regulations. Beyond verifying the financial statements, the audit also includes performance audits that evaluate whether public resources were used efficiently. While the Year-End Report is produced shortly after the fiscal year ends, the Annual Audit Report follows later, providing Parliament with a more detailed and impartial assessment of government spending, forming the basis for ex-post oversight and accountability.

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<sup>3</sup> Audit reports are prepared by the Supreme Audit Institution (SAI). SAIs are national agencies responsible for auditing government revenue and spending. SAIs are typically the main or only source of independently verified information and responsible for preparing reports on financial statement audits, compliance audits, and value-for-money or performance audits.

Most Supreme Audit Institutions (SAIs) depend on Parliament to review the Audit Report (AR) and issue recommendations, which require the audited entities to address the SAIs' audit findings. The exception to this is in countries with a Cour des Comptes system, such as France and Portugal, where the SAI itself has the authority to issue binding recommendations. To facilitate this oversight, parliaments typically adopt one of two primary models: a dedicated ex-post oversight committee (often referred to as a Public Accounts Committee (PAC)) or a non-dedicated budget committee.

### **Dedicated Ex-Post Oversight Committee/PAC Model**

Distinct from the budget or finance committee, a PAC or equivalent is a dedicated ex-post parliamentary committee that meets throughout the year to scrutinize government expenditures and the use of public funds. It primarily conducts hearings to review the annual Audit Report as well as performance audits, both of which are prepared by the SAI. The PAC often calls upon accounting officers from government departments to address deficiencies found in the audit reports. Best practice dictates that the PAC should review the Audit Report within three months of its release and subsequently issue a report with recommendations for the responsible ministries or departments to address unresolved audit findings. Governments are expected to respond to PAC reports, outlining actions taken to address these findings, with such responses made publicly available for transparency.

### **Integrated Model**

In many countries, including some that share the Westminster parliamentary tradition, there is no dedicated ex-post oversight committee. Instead, the budget or finance committee is responsible for both ex-ante and ex-post oversight. This approach offers advantages such as consolidated expertise, where the committee develops a comprehensive understanding of the entire budget cycle, which may lead to more cohesive and informed decision-making. However, this structure can overburden the budget committee, limiting its ability to thoroughly scrutinize both the budget formulation and execution phases due to time and resource constraints. Additionally, the lack of a dedicated ex-post oversight committee may weaken the depth of scrutiny in reviewing audit reports and performance audits, as the focus on post-expenditure evaluations may be diminished.

# Methodology

## Considerations for Country Selection

### 1. Regional Considerations

The first consideration was to examine countries in Eastern Europe and Central Asia based on their performance in the 2023 Open Budget Survey (OBS) budget oversight indicators.<sup>4</sup> Western European countries were not selected for this study due to several key factors:

- **Relevance to Regional and Political Context:** Western Europe, with its long-established democratic institutions and stable governance frameworks, does not face the same fiscal and governance challenges as countries in Eastern Europe and Central Asia. Montenegro, which is still undergoing governance reforms and political transitions, is better compared to countries with similar transitional experiences.
- **Differences in Budgetary Oversight Maturity:** Western European countries have mature oversight mechanisms that are often not directly applicable to Montenegro's current situation. Eastern European and Central Asian countries, on the other hand, are in various stages of developing their oversight systems, making them more relevant for comparison.
- **Geopolitical and Economic Differences:** The fiscal and governance challenges faced by Western European countries differ significantly from those in Montenegro, which is still grappling with issues such as debt management and governance reforms. Countries in Eastern Europe, like Montenegro, are dealing with similar fiscal constraints, making them more relevant comparators.
- **Post-Socialist Transitions:** Eastern European and Central Asian countries share a recent history of transitioning from centrally planned to market-based economies, a transition Montenegro is also navigating. Western European countries, which have not experienced this transition in recent decades, are less relevant for drawing comparisons about institutional reforms aimed at improving budget oversight and transparency.

### 2. Political System

Montenegro operates under a parliamentary system, where the executive branch is closely linked to the legislature. In this system, the Prime Minister holds executive power, while the President's role is largely ceremonial. Parliament plays a key role in lawmaking, budget

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<sup>4</sup> 4 OBS indicators 101-118 (excluding 103-106) plus 124.

approval, and holding the executive accountable, making it a central figure in the country's governance.

For comparability, only countries with parliamentary or semi-presidential systems were selected to ensure the relevance of the insights gained from the analysis. Countries with predominantly presidential systems, such as Kyrgyz Republic and Kazakhstan, were excluded, because in presidential systems, the executive operates more independently from the legislature, limiting the applicability of their budget oversight practices to Montenegro. By focusing on parliamentary and semi-presidential systems, the shortlist prioritizes governance models that align more closely with Montenegro's political structure, providing more relevant insights into how budget oversight mechanisms can function effectively in systems where the legislature plays a crucial role in holding the executive accountable.

### 3. Shared Socio-Political Background

The third consideration focused on the socio-political affinity between Montenegro and former Yugoslavian countries. Countries such as Slovenia, Croatia, Bosnia and Herzegovina, and Serbia were selected because of their similar historical transitions and political structures, making them suitable comparators for Montenegro. These countries' shared political histories offer deeper insights into the challenges and opportunities faced by Montenegro in strengthening parliamentary oversight.

### 4. Inclusion of a Public Accounts Committee (PAC) Model

The final consideration was to ensure a balance between countries that have a dedicated ex post oversight committee vs. integrated oversight committee. The United Kingdom, although not part of Eastern Europe or Central Asia, was added to the list of candidates for further examination due to the historical significance and strength of its PAC. The UK's PAC, established hundreds of years ago, serves as a global benchmark for effective ex-post budgetary oversight. Including this model provides Montenegro with a clear example of how a standalone oversight mechanism can operate successfully.

Additionally, Slovenia was chosen because it also employs a dedicated ex post oversight committee, further diversifying the analysis with a variety of institutional frameworks for parliamentary budget oversight.

## Country Selection

### Strengthened Justification for Selected Countries

Based on the criteria above, the following short list of ten countries was generated:

Country	OBS Oversight Score
Georgia	82
Czech Republic	76
Slovenia	73
Poland	71
Ukraine	65
Albania	58
Moldova	58
Armenia	55
Croatia	53
United Kingdom	47

Table 1: “Selected Countries”

## Georgia

**Key Considerations:** Georgia was selected for its robust and well-integrated ex-ante and ex-post budget oversight mechanisms. With an impressive score of 82 on the 2023 Open Budget Survey (OBS) oversight indicators, Georgia’s system exemplifies strong parliamentary involvement in all four stages of the budget cycle. Its semi-presidential system, in which Parliament plays a crucial role in budgetary oversight, provides a valuable comparator for Montenegro. Additionally, Georgia’s post-socialist transition and ongoing governance reforms closely parallel Montenegro’s experience, offering practical insights into the evolution of budget oversight in a transitioning political system.

## Slovenia

**Key Considerations:** Slovenia shares a socio-political background with Montenegro, which makes it highly relevant for comparison. Scoring **73** on the OBS, Slovenia stands out for its **dedicated ex-post oversight committee**. This standalone mechanism ensures that Slovenia’s Parliament effectively monitors government spending after the budget has been executed, providing lessons that Montenegro may be able to adapt. Additionally, Slovenia’s successful transition from a centrally planned to a market-based economy further strengthens its suitability as a comparator for Montenegro, which is navigating similar governance reforms.

## Croatia

**Key Considerations:** Like Slovenia, Croatia has undergone similar political and economic transitions. Scoring 53 on the OBS, Croatia operates an integrated oversight model rather than a dedicated ex-post oversight committee, which still plays a crucial role in holding the

executive accountable after the budget is implemented. Croatia's shared historical and socio-political context with Montenegro makes it a valuable comparator, offering insights into strengthening parliamentary oversight within a similar governance framework. The country's ability to navigate post-socialist governance reforms adds further depth to the comparison.

## United Kingdom

**Key Considerations:** the **United Kingdom** was selected due to its long-standing and highly regarded **PAC**, which is recognized globally as a model for effective ex-post budgetary oversight. The UK's PAC, established in 1861, serves as a benchmark for robust oversight practices, offering Montenegro a clear example of how a dedicated ex-post committee can function independently of the finance committee. Scoring **47** on the OBS, the UK's experience with a standalone PAC provides Montenegro with a practical framework for enhancing its own parliamentary budget oversight mechanisms.

### Key performance indicators (KPIs).

This section introduces three key performance indicators (KPIs) specifically developed for this study, based on the Open Budget Survey (OBS) and Public Expenditure and Financial Accountability (PEFA) assessments.

Unlike the DeMPA and Heat Map, the PEFA and OBS provide broader assessments of public financial management (PFM) beyond public debt. PEFA uses quantitative indicators to evaluate the strengths and weaknesses of PFM systems, offering a snapshot of performance at specific times. This replicable methodology helps track changes over time. PEFA's report includes 31 performance indicators, assessing system performance and its impact on PFM outcomes, serving as a foundation for reform planning and progress monitoring.

The Open Budget Survey (OBS) Questionnaire has two main goals: helping civil society researchers apply international standards for budget transparency and accountability and using a common methodology to facilitate cross-country comparisons. The questionnaire, consisting of 102 questions, highlights the importance of open, accountable budgets globally.

These KPIs focus on ex post parliamentary oversight and provide tailored measures to assess the effectiveness of legislative scrutiny over government expenditures. As shown in Table 4, the KPIs are as follows:

1. Timing of Audit Report (AR) review and creation of a report with findings and recommendations;
2. Breadth and depth of participation in hearings; and
3. Tracking of the government's implementation of SAI/Parliament recommendations.

These indicators capture key aspects of oversight, including the timeliness of reviews, the level of participation in hearings, and the transparency in monitoring the government's actions in response to audit findings.

Key Performance Indicator (KPI)	Indicator	Indicator Description
1. Timing of Audit Report (AR) review and creation of report with findings and recommendations	OBS 118	How soon after its publication was the AR reviewed by the parliamentary committee; and did the parliamentary committee issue a report with findings and recommendations
	PEFA PI-31.1	How soon after its publication was the AR reviewed by the parliamentary committee
	PEFA PI-31.3	Does the parliamentary committee issue recommendations to the executive
2. Breadth and depth of participation in hearings	OBS 124	How often did senior SAI participate in the AR review
	PEFA PI-31.2	How many audited entities participated in the AR review
3. Tracking of government's implementation of SAI/Parliament recommendations	OBS 102	Does the parliamentary committee or SAI track actions taken by the executive branch to address audit recommendations; and is this tracking publicly available
	OBS 101	Does the executive make available to the public a report on what steps it has taken to address audit recommendations or findings that indicate a need for remedial action
	PEFA PI-31.3	Does the parliamentary committee systematically follow up on actions recommended to the executive

Table 2: Three KPIs.

OBS scores are based on the 2023 OBS, which assesses activity in 2022.<sup>5</sup> The 2021 OBS, which assesses activity in the 2020 is used wherever possible to provide additional contextual information. PEFA scores are based on the most recent PEFA reports available; older PEFA reports are also used to provide additional contextual information wherever possible.

### KPI 1: Timing of Audit Report (AR) review and creation of report with findings and recommendations

This first KPI is based on three indicators:

- OBS 118: Did a committee of the legislature examine the Audit Report on the annual budget produced by the Supreme Audit Institution (SAI)?

<sup>5</sup> This 2023 OBS uses the OBS's 2016 Framework.

- PEFA PI-31.1: Timing, coverage and data requirements.
- PEFA PI-31.3: Recommendations on audit by the legislature.

This KPI assesses whether there is a committee of parliament that reviews the SAI audit report (AR) within three months of its availability and, most critically, whether the committee publishes a report with its findings and recommendations.

The issuance of a committee report is significant because, once adopted by Parliament, it typically requires the government to provide an official response to any recommendations contained in the report, indicating whether it agrees with the recommendations and how it plans to implement them. Additionally, the report establishes a basis for holding auditees accountable for recommendations that remain unimplemented.

One of the indicators (PEFA PI-31.3) also examines whether the legislature systematically follows up on the implementation of its recommendations. See Text Box 1 for how ‘systematically’ is defined by PEFA. Systematic tracking requires staff capacity within the parliament.

As per Table 4, the relevant indicators for this first KPI are OBS 118, PEFA PI-31.1, and PEFA PI-31.3. Details on these indicators are contained in Table 5, Table 6, Table 7, below:

According to PEFA 31.3, ‘systematically’ defined as: “where a system for tracking recommendations exists and it is used to record recommendations and to record action or lack of action taken on recommendations, and where for every recommendation, the executive and the legislature is notified during subsequent hearings whether recommendations have or have not been implemented”.

#### Text Box 1: “PEFA definition of ‘Systematically’”.

As per Table 2, the relevant indicators for this first KPI are OBS 118, PEFA PI-31.1, and PEFA PI-31.3. Details on these indicators are contained in Table 3, Table 4, Table 5, below:

Score	Criteria
A	A committee examined the Audit Report on the annual budget within three months of its availability, and it published a report with findings and recommendations.
B	A committee examined the Audit Report on the annual budget within six months (but more than three months) of its availability, and it published a report with findings and recommendations.
C	A committee examined the Audit Report on the annual budget, but it did so after the report had been available for more than six months or it did not publish any report with findings and recommendations.
D	A committee did not examine the Audit Report on the annual budget.

**Table 3: OBS Indicator 118: Did a committee of the legislature examine the Audit Report on the annual budget produced by the Supreme Audit Institution (SAI)?**



Score	Criteria
A	Scrutiny of audit reports on annual financial reports has been completed by the legislature within three months
B	Scrutiny of audit reports on annual financial reports has been completed by the legislature within six months from receipt of the reports
C	Scrutiny of audit report on annual financial reports has been completed by the legislature within twelve months from receipt of reports
D	Performance is less than required for a C score

Table 4: PEFA Indicator 31.1: Timing of audit report scrutiny.

Score	Criteria
A	The legislature issues recommendations on actions to be implemented by the executive and systemically follows up on their implementation
B	The legislature issues recommendations on actions to be implemented by the executive and follows up on their implementation
C	The legislature issues recommendations on actions to be implemented by the executive
D	Performance is less than required for a C score

Table 5: PEFA Indicator 31.3: Recommendations on audit by the legislature.

## KPI 2: Breadth and depth of participation in hearings

This second KPI assesses the extent to which senior members of the SAI participated in parliamentary committee reviews of the AR, as well as the extent to which representatives from audited institutions appeared before the committee.

In reviewing the AR, it is important for a parliamentary committee to obtain direct input from one or more senior SAI members. SAI representatives can speak to specific audit findings and clarify issues related to the findings and recommendations in the AR.

Many SAIs interact with the legislature in some form, but the nature and intensity of the interaction varies. Both frequency and quality should be considered in assessing SAI participation in parliamentary committee oversight. It is imperative to evaluate whether the SAI representative was not only present at these committee meetings but also engaged as an active participant rather than merely a passive observer or a resource used only when needed.

Meaningful participation from the audited entities is equally important to the AR review. Ultimately, the executive branch bears responsibility for implementing the recommendations contained in the AR. Therefore, it is essential for audited entities to appear before the parliamentary committee to address any deficiencies, often referred to as audit exceptions, highlighted

in the report. Their presence allows them to account for these issues and provide updates on the actions taken to rectify them.

As per Table 2, the relevant indicators for this second KPI are:

- OBS 124: In the past 12 months, how frequently did the head or a senior staff member of the Supreme Audit Institution (SAI) take part and testify in hearings of a committee of the legislature?
- PEFA PI-31.2: Hearings on audit findings: breadth of participation of audited entities.

It is also important to note that PEFA Indicator 31.2 not only underscores the significance of committee hearings on the AR but also evaluates the scope of those hearings. It emphasizes that any audited entity receiving a qualified or adverse audit opinion, or a disclaimer, should be required to appear before the committee. See Text Box 2 for definitions on audit opinions.

Based on the audit evidence, the SAI should assess whether the financial statements have been prepared in line with the applicable financial reporting framework and are free from material misstatements. An "unqualified opinion" indicates that the auditor has not identified any significant errors in the financial statements.

However, the SAI may issue three types of modified or qualified audit opinions:

- a qualified opinion – when the auditor concludes that, or is unable to obtain sufficient and appropriate audit evidence about, misstatements, whether individually or in aggregate are, or could be, material but not pervasive;
- an adverse opinion – when the auditor, having obtained sufficient and appropriate audit evidence, concludes that misstatements, whether individually or in aggregate, are both material and pervasive; or.
- a disclaimer of opinion – when the auditor is unable to obtain sufficient and appropriate audit evidence due to an uncertainty or scope limitation which is both material and pervasive.

### Text Box 2: "Understanding Audit Opinions: Unqualified vs. Modified Assessments by the SAI."<sup>6</sup>

Details on these indicators are contained in Table 6 and Table 7, below:

Score	Criteria
A	Frequently (ie, five times or more)
B	Sometimes (ie, three times or more, but less than five times)

<sup>6</sup> [https://www.intosai.org/fileadmin/downloads/documents/open\\_access/ISSAI\\_100\\_to\\_400/issai\\_200/ISSAI\\_200\\_en\\_2020.pdf](https://www.intosai.org/fileadmin/downloads/documents/open_access/ISSAI_100_to_400/issai_200/ISSAI_200_en_2020.pdf), pp. 20-21.

C	Never
D	Not applicable/other (please comment)

Table 6: OBS Indicator 124: In the past 12 months, how frequently did the head or a senior staff member of the Supreme Audit Institution (SAI) take part and testify in hearings of a committee of the legislature?

Score	Criteria
A	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
B	In-depth hearings on key findings of audit reports take place with responsible officers from most audited entities which receive a qualified or adverse audit opinion or a disclaimer
C	In-depth hearings on key findings of audit reports take place occasionally, covering a few audited entities or may take place with ministry of financial officials only
D	Performance is less than required for a C score

Table 7: PEFA Indicator 31.2: Hearings on audit findings.

### KPI 3: Tracking of government’s implementation of SAI/Parliament recommendations

This third KPI assesses whether the parliamentary committee, SAI, and/or the executive itself track budgetary recommendations made to the executive, and the extent to which this tracking is made available to the public.

After audit findings and recommendations are discussed and validated by a parliamentary committee, the executive should take corrective action to address the audit findings. For accountability purposes, the public needs to be informed about the status of those actions and steps the executive has taken to address audit recommendations. In addition to the executive reporting on its actions, the SAI and legislature — as the key oversight institutions — have a responsibility to keep the public informed by tracking, in a transparent manner, the executive’s progress in addressing audit recommendations. All stakeholders, including the legislature, SAI, and the public, should be made fully aware of efforts by the executive to meet parliamentary budgetary recommendations, and should be notified during subsequent hearings as to whether recommendations have or have not been implemented.

As per Table 2, the relevant indicators for KPI 3 are:

- OBS 102: Does either the Supreme Audit Institution (SAI) or legislature release to the public a report that tracks actions taken by the executive to address audit recommendations?

- OBS 101: Does the executive make available to the public a report on what steps it has taken to address audit recommendations or findings that indicate a need for remedial action?
- PEFA PI-31.3<sup>7</sup>: Recommendations on audit by the legislature.

Details on these indicators are contained in Table 8 and Table 9, below, and Table 5, above:

Score	Criteria
A	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.
B	In-depth hearings on key findings of audit reports take place with responsible officers from most audited entities which received a qualified or adverse audit opinion or a disclaimer.
C	In-depth hearings on key findings of audit reports take place occasionally, covering a few audited entities or may take place with ministry of finance officials only. D Performance is less than required for a C score.
D	Performance is less than required for a C score.

Table 8: OBS Indicator 102: Does either the Supreme Audit Institution (SAI) or legislature release to the public a report that tracks actions taken by the executive to address audit recommendations?

Score	Criteria
A	The executive reports publicly on what steps it has taken to address audit findings.
B	The executive reports publicly on most audit findings.
C	The executive reports publicly on some audit findings.
D	The executive does not report on steps it has taken to address audit findings. e. Not applicable/other (please comment).

Table 9: OBS Indicator 101: Does the executive make available to the public a report on what steps it has taken to address audit recommendations or findings that indicate a need for remedial action?

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<sup>7</sup> Note that PEFA PI-31.3 appears in both KPI 1 and KPI 3 because there are two distinct aspects to the 31.1 question: the first aspect deals with whether the parliamentary committee issues recommendations to the executive (which corresponds to KPI 1), whereas the second aspect deals with whether the parliamentary committee systematically follows up with the executive on its recommendations (which corresponds to KPI 3).

# Current Context in Montenegro

In December 2022, the government adopted a Public Finance Management (PFM) reform program for 2022-2026, along with an action plan. By February 2023, amendments to the Law on Budget and Fiscal Responsibility established the Fiscal Council, an independent oversight body, though it remains non-operational. Transparency challenges persisted through 2023, but the government made progress, including the proactive publication of all state budget expenditures.<sup>8</sup>

Montenegro's Parliament has a well-established relationship with the State Audit Institution (SAI), structured through cooperation protocols, the adoption of audit reports, and continuous parliamentary oversight:<sup>9</sup>

- **Established Cooperation Protocols:** The SAI and Parliament's cooperation is formalized through protocols covering audit reviews, implementation of recommendations, and financial monitoring. These protocols underscore Montenegro's structured oversight framework.
- **Adoption of Audit Reports:** The SAI submits an annual audit report on the Draft Law on the Final Account of the Budget to Parliament, which is reviewed by relevant committees. Parliamentary oversight is reinforced by adopting conclusions that call on the government to implement SAI recommendations, ensuring budgetary accountability.
- **Committee Involvement:** Various parliamentary committees, including the Committee for Economy, Finance, and Budget, and the Committee for Security and Defense, have played key roles in scrutinizing audit reports, especially in sectors like security, defense, and public administration.
- **Continuous Oversight:** Parliament monitors the implementation of SAI recommendations, requiring the government to report quarterly on progress. This ensures that audit findings lead to actionable oversight and policy reform.

Despite these efforts, challenges in PFM persist. Major legislative proposals were adopted by the CEFB without sufficient discussion. Parliamentary committees held 27 consultative and nine control hearings, but lacked a consistent approach to hearings or legislative reviews. Key budgetary documents were published on time, though their readability remains an issue, and a transparency roadmap is still pending. Pre-budget and mid-year execution reports were

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8 EUCO, 2023. "Commission Staff Working Document: Montenegro 2023 Report." [https://neighbourhood-enlargement.ec.europa.eu/document/download/e09b27af-427a-440b-a47a-ed5254aec169\\_en?filename=SWD\\_2023\\_694%20Montenegro%20report.pdf](https://neighbourhood-enlargement.ec.europa.eu/document/download/e09b27af-427a-440b-a47a-ed5254aec169_en?filename=SWD_2023_694%20Montenegro%20report.pdf)

9 SAI Annual Report on Co-operation, 2023. <https://www.dri.co.me/doc/DRI%20GI%202022-2023%20konacni.pdf>

published, but public participation in the budget process remains weak. The 2023 budget was adopted as per the calendar, but lacked qualitative assessment.<sup>10</sup>

The remainder of this section specifically examines the performance of Montenegro’s Committee for Economy, Finance, and Budget (CEFB) in its ex-post parliamentary oversight role, with particular emphasis on its review of the annual Audit Report (AR) of the SAI. The three KPIs identified and described in the Methodology Section above are used to evaluate the CEFB’s performance in conducting ex-post oversight. Montenegro currently follows an integrated ex-post oversight model, where the CEFB handles both ex-ante and ex-post review.<sup>11</sup>

### KPI 1: Timing of Audit Report (AR) review and creation of report with findings and recommendations

KPI 1 scores for Montenegro are provided in Table 10, below. These scores are based on the 2023 OBS and the 2019 PEFA.

Key Performance Indicator (KPI)	Indicator	Indicator Description	Score
Timing of Audit Report (AR) review and creation of report with findings and recommendations	OBS 118	How soon after its publication was the AR reviewed by the parliamentary committee issues a report with findings and recommendations.	A
	PEFA 31.1	How soon after its publication was the AR reviewed by the parliamentary committee.	A
	PEFA 31.3	Does the parliamentary committee issue recommendations to the executive.	A

Table 10: Montenegro - KPI 1.

10 EUCO, 2023. “Commission Staff Working Document: Montenegro 2023 Report.” [https://neighbourhood-enlargement.ec.europa.eu/document/download/e09b27af-427a-440b-a47a-ed5254aec169\\_en?filename=SWD\\_2023\\_694%20Montenegro%20report.pdf](https://neighbourhood-enlargement.ec.europa.eu/document/download/e09b27af-427a-440b-a47a-ed5254aec169_en?filename=SWD_2023_694%20Montenegro%20report.pdf)

11 Data limitations prevent a thorough longitudinal analysis of Montenegro’s performance in these areas. For example, Montenegro was not included in the Open Budget Survey (OBS) prior to 2023, and Public Expenditure and Financial Accountability assessment (PEFA) Reports for Montenegro were only available for the years 2013 and 2019.

## Scoring details and contextual discussion

The SAI published its AR on the 2021 Year-End Report (YER) on October 13, 2022, and it was formally submitted to Montenegro's Parliament on October 17, 2022. See Text Box 3 for a backgrounder on the YER. The CEFB examined this AR at its 43rd session held on December 20, 2022, roughly two and a half months after it was submitted to the Parliament. In relation to the findings and recommendations of the SAI, the Committee proposed to the plenary to adopt a motion supporting the SAI's recommendations.<sup>12</sup>

The YER a key accountability document produced by the executive after the end of the fiscal year that reports extensively on the government's financial activities and its performance on implementing the budget during the entire fiscal year. In many countries, the executive issues one Year-End Report that consolidates information on revenue collections, debt, and expenditures for administrative units. In other countries, individual administrative units issue their own Year-End Reports. Similarly, Year-End Reports may be stand-alone documents or may be included in larger documents, such as the Executive's Budget Proposal. The form of the report is less important than its content. The reports ought to cover all of the major items included in the budget, explaining differences between the original estimates (as amended by the legislature during the year) and the actual outcomes for expenditure, revenue, debt, and the macroeconomic assumptions.

These reports should also review nonfinancial performance information and other important policy areas. They can also include a financial statement.

### Text Box 3: Year-End Report (YER) explainer.

Although Montenegro received an "A" for Indicator 118 on the Open Budget Survey (OBS), which evaluates the timeliness of the AR review, the actual depth of the CEFB's analysis remains limited. The OBS offers additional context that highlights the constrained nature of the review: "it is an unwritten practice to examine the Audit Report alongside the Year-End Report (YER) and the Executive Budget Proposal (EBP) at the same plenary session, typically within the same week of December. This means that the AR is discussed together with the YER, often reducing the time available for a thorough examination of the audit findings. Furthermore, the audit report and the annual report on the work of the Supreme Audit Institution (SAI) are reviewed by the CEFB in a single day before being forwarded for discussion at the plenary session of Parliament the following day. This tight timeline limits the committee's ability to conduct a deep, comprehensive review of the AR."<sup>13</sup>

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12 2023 Open Budget Survey Questionnaire, Montenegro, Indicator #118, p.141

13 2023 Open Budget Survey Questionnaire, Montenegro, Indicator #118, p.142. Note that the score of "A" for PEFA Indicator 31.3 appears to relate to the KPI 3 dimension around parliamentary committee follow-up on recommendations made based on the AR review: the justification for the score states that "The parliament formally requires and receives evidence of government follow-up on SAI recommendations." 2019 Public Expenditure and Financial Accountability (PEFA) - Performance Assessment Report, Montenegro, Indicator 31.1, p.109.

It should be noted that several sectoral committees have also been active in reviewing both the AR and the YER. For example, at the 37th session of the Security and Defense Committee, held in December 2022, on the occasion of the consideration of the Bill on the Final Account of the Budget of Montenegro for 2021 in the part relating to units in the field of security and defense, the SAI presented the findings and recommendations from the Report on the Audit of the Draft Law on the Final Account of the Budget of Montenegro for 2021, as well as from the Audit report on the Annual financial report of the National Agency for Security for 2021.

Beyond the review of the AR, several performance audit reports prepared by the SAI were reviewed by sectoral committees. For example:

- In April 2023, the Committee on Gender Equality considered the SAI's report on the audit of achievements "Success in the implementation of gender equality policy in Montenegro". The Committee on Human Rights and Freedoms, at its session held in May 2023, also considered the SAI's report on the performance audit "Success in the implementation of gender equality policy in Montenegro".
- In May 2022, a consultative hearing of the Committee on Health, Labor and Social Welfare was held for SAI's Performance Audit Report "Efficiency of the Management of Donation Funds for the Fight against Coronavirus".

Some sectoral committees also met to examine the status of the implementation of other prior audit reports. For example, in May 2023, the SAI informed the Chairman of the Committee on Health, Labor and Social Welfare about the status of the implementation of the recommendations from the success audit "Success of the implementation of the National Program for Early Detection of Breast Cancer".

The activity of sectoral committees in ex-post oversight reflects the fact that sectoral committees are quite active during the approval of the draft budget (EBP). For example, in 2022, the following sectoral committees examined the EBP and issued a report ("an opinion"):

- Committee for Tourism, Agriculture, Ecology and Spatial Planning;
- Committee for Gender Equality.
- Committee for Health, Labor and Social Welfare.
- Committee for International Relations and Emigrants.
- Committee for Political System, Judiciary and Administration.
- Committee for Human Rights and Freedoms.
- Committee for Education, Science, Culture and Sports; and.
- Committee for Security and Defense.<sup>14</sup>

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<sup>14</sup> 2023 Open Budget Survey Questionnaire, Montenegro, Indicator #113, p. 137.



Limited longitudinal data suggests that Montenegro has remained consistent in its approach to reviewing the AR and issuing findings and recommendations. The 2019 PEFA Report states that: “Based on its analysis of audit findings and recommendations from the annual Audit Report and SAI Activity Report, the CEFB adopts its own substantive report which documents the discussions and proposes Conclusions for the plenary session. In different reference years, these conclusions ranged from calling upon the government to implement SAI recommendations to summarizing/reiterating the main ones.”<sup>15</sup>

Previous PEFA reports also suggest historical continuity in the timeliness with which the CEFB reviews the AR. The AR was regularly tabled and scrutinized in the plenary within three months of the date of receipt from 2015 to 2017, earning Montenegro a score of ‘A’ on this indicator.<sup>16</sup>

In conclusion, Montenegro’s consistency with respect to KPI 1 is demonstrable but with two notable caveats: time devoted to an exclusive AR review by the CEFB is limited, and its conclusions and recommendations appear to often be limited to adopting SAI recommendations.

## KPI 2: Breadth and depth of participation in hearings

KPI 2 scores for Montenegro are provided in Table 11, below. These scores are based on the 2023 OBS and the 2019 PEFA.

Key Performance Indicator (KPI)	Indicator	Indicator Description	Score
Breadth and depth of participation in hearings	OBS 124	How often did senior SAI participate in the AR review	A
	PEFA 31.2	How many audited entities participated in the AR review	C

Table 11: Montenegro - KPI 2.

### Scoring details and contextual discussion

The 2023 OBS indicates that senior officials from the Supreme Audit Institution (SAI) appeared before parliamentary committees at least five times in 2022.<sup>17</sup> These appearances were for a range of important discussions, such as:

<sup>15</sup> 2019 Public Expenditure and Financial Accountability (PEFA) - Performance Assessment Report, Montenegro, Indicator 31.3, p.111.

<sup>16</sup> The 2013 PEFA Report also provides a grade of ‘A’ for 2013, but a score of ‘B’ for 2008, indicating that Montenegro improved in this indicator from ‘B’ to ‘A’ somewhere between 2008 and 2013. Note that no score for 2014 is available, nor are scores available for 2018 through 2021. 2013 Public Expenditure and Financial Accountability Assessment, Montenegro, Indicator PI-28, pp.80-81.

<sup>17</sup> OBS 2023, Q. 118.

- **Performance Audits:** For instance, the Committee for Gender Equality reviewed an SAI audit report on gender equality policies, while the Committee for Health, Labor, and Social Welfare examined the results of an SAI audit on early breast cancer detection.
- **Annual Review of the Audit Report:** SAI representatives participated in the discussions at the plenary session of Parliament on the 2021 Budget's final account, as well as in committee debates on both the Audit Report and the upcoming 2023 Budget Bill.

However, the data reveals a mixed track record when it comes to the consistency of these hearings over the years. Although there were full AR hearings in 2016 with involvement from key institutions, including the Ministry of Finance and heads of audited entities, no hearings were held in 2017 and 2018. This inconsistency resulted in a “C” score for PEFA Indicator 31.2 during the 2016-2018 period. In earlier years, such as 2008 and 2013, only occasional hearings were held, but a slight improvement was noted over time.<sup>18</sup>

KPI 2 assesses the participation of both senior SAI members and representatives of audited institutions in the parliamentary scrutiny of ARs. While the latest data from the 2023 OBS reflects strong and consistent participation by senior SAI officials, the OBS does not cover the involvement of audited entities in appearing before the committee. The most recent available data for this dimension, which dates to the 2016-2018 period, reveals inconsistency in the participation of audited entities, with limited hearings taking place.<sup>19</sup> This is consistent with the fact that the CEFB scrutinized the AR for one day in 2024. This practice limits the depth of oversight, as multiple critical reports and audits are often compressed into a single session, reducing the opportunity for thorough discussions.

### KPI 3: Tracking of government’s implementation of SAI/Parliament recommendations

KPI 3 scores for Montenegro are provided in Table 12, below. These scores are based on the 2023 OBS and the 2019 PEFA.

Key Performance Indicator (KPI)	Indicator	Indicator Description	Score
Transparency of parliamentary resorts and tracking of government’s execution of budget recommendations	OBS 102	Does the parliamentary committee or SAI track actions taken by the executive branch to address audit recommendations; and is this tracking publicly available	C
	OBS 101	Does the executive make available to the public a report on what steps it has taken to address audit recommendations or findings that indicate a need for remedial action	B
	PEFA PI-31.3	Does the parliamentary committee systemically follow up on actions recommended to the executive	A

Table 12: Montenegro - KPI 3.

18 PEFA 2019 PI 31.2; PEFA 2013 #PI-28

19 PEFA 2019, #31.2.

## Scoring details and contextual discussion

Based on the 2023 OBS, Montenegro's SAI reports publicly on the implementation of most, but not all, audit recommendations. The tracking that it does conduct is made publicly available. This result earns Montenegro a score of "b" on OBS Indicator 102.

In each audit report on the YER, Montenegro's SAI gives an overview of what has been done to address the recommendations from the previous year's report, divided into specific areas (e.g., public procurement, state property, internal audit) with a status scores assigned to each individual recommendation (implemented, not implemented, ongoing, partially implemented). However, there is no further elaboration on these latter status scores (e.g., if a particular recommendation is marked as "implemented," there is no indication as to how the recommendation was implemented).<sup>20</sup>

According to Montenegro's SAI, it did undertake a review of the government's execution of proposed recommendations for the 2020 budget during 2021 and 2022, publishing information on the status of implementation of the recommendations from the audit on its official SAI website. The SAI states that, based on established protocols, it conducted this review by verifying the accuracy of information contained in reports submitted by the audited entity on the implementation of recommendations.<sup>21</sup> It should be noted as well that the SAI website contains a register of recommendations.

Additionally, the SAI publishes several follow-up audit reports on a sample of the most problematic individual audits. According to the OBS research team, the percentage of such reports was low in 2022. The SAI itself, however, disputes this OBS finding, arguing that in 2022, it published three follow-up audits and 28 reports on the implementation of recommendations.<sup>22</sup>

Montenegro scores a 'C' regarding the executive's public reporting on steps taken to address audit recommendations or findings requiring remedial action (OBS 101). The government issues quarterly reports as mandated by Parliament, but these reports only cover the main Audit Report (AR) and exclude individual audits of ministries and other institutions conducted throughout the year. Additionally, the reports often lack detailed information, merely copying the SAI's recommendations without specifying responsible institutions, deadlines, or operationalizing the recommendations into concrete, measurable actions. This limited scope and detail contribute to Montenegro's modest performance in this area.<sup>23</sup>

With respect to (OBS 102) whether a parliamentary committee or SAIs track actions taken by the executive branch to address audit recommendations (and is this tracking publicly available), Montenegro's SAI notes:

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20 OBS 2023 Q. 102

21 OBS 2023 Q. 102

22 OBS 2023 Q. 102

23 OBS 2023 Q. 101

“The Action plan of the Government of Montenegro only contains the recommendations given in the Audit of the Proposal Law on the final state budget account of Montenegro. The recommendations given in the individual audit reports of other audited entities are followed up through regular monitoring process according to the Guidelines on developing, control and monitoring the SAI’s recommendations, i.e. through submission of the reports on implementation of recommendations and control of the accuracy of the information contained in the reports of the audited entities on implementation of audit recommendations.”<sup>24</sup>

Limited longitudinal data suggests a slight decline in Montenegro's performance on transparent tracking of budget recommendations. The 2019 PEFA Report gave an 'A' for PEFA PI-31.3 for 2016-2018, noting that Parliament formally requires and receives evidence of government follow-up on SAI recommendations, with proceedings open to the public and available on the Parliament’s website (except for defense and security).<sup>25</sup> However, the report also highlighted issues: several high-profile recommendations were repeatedly made over the years, and there was no clear link between audit hearings and parliamentary recommendations. This suggests that while the system met formal requirements, substantive follow-up by Parliament was limited.<sup>26</sup>

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24 OBS 2023 Q. 101

25 PEFA 2019, PI-31.3

26 PEFA 2019, PI-31.3

# COMPARATOR COUNTRIES

## CROATIA

This section examines the performance of Croatia's Finance and Central Budget Committee's (FCBC) in performing its ex-post parliamentary oversight role, with particular emphasis on its role in reviewing the annual Audit Report (AR) of the Auditor General. The three KPIs identified and described in the Methodology Section, above, are used to evaluate the FCBC performance. Only the OBS is used to evaluate the KPIs as there are no national-level PEFA reports available for Croatia.

There is no committee dedicated solely to review the audit reports of the SAI, referred to in Croatia as the State Audit Office (SAO). The FCBC meets several times for this purpose. During these meetings the FCBC reviews the audited consolidated financial statements, regulatory/compliance audits and performance audits.

The FCBC's mandate is very broad, however, so time available to consider SAO reports is limited. The terms of reference of the committee can be found in Text Box 4.

The Finance and Central Budget Committee shall establish and monitor the implementation of policies, and in procedures to enact legislation and other regulations it shall have the rights and duties of a competent working body in matters pertaining to:

- the system to finance public needs in the Republic of Croatia;
- the Central Budget, the final settlement of the Central Budget and funds;
- the report of the State Audit Office on conducted audits;
- the tax system and tax policy;
- financial relations with foreign countries;
- the foreign currency system;
- credit relations with foreign countries;
- the customs system;
- the credit and banking system;
- the state treasury;
- securities;
- the monetary system;
- the Croatian National Bank;
- the system of insurance for property and persons and other issues pertaining to the budget and finances;
- matters pertaining to the structure, authority and operating procedures of the State Audit Office and the Financial Agency.

The Committee shall debate draft legislation which gives rise to financial commitments and report to the Sabor (Parliament) on its opinions, positions and proposals.

### Text Box 4: Mandate of the Finance and Central Budget Committee.

## KPI 1: Timing of Audit Report (AR) review and creation of report with findings and recommendations

KPI 1 scores for Croatia are provided in Table 13, below. These scores are based on the 2023 OBS.

Key Performance Indicator (KPI)	Indicator	Indicator Description	Score
Timing of Audit Report (AR) review and creation of report with findings and recommendations	OBS 118	How soon after its publication was the AR reviewed by the parliamentary committee issues a report with findings and recommendations.	A

Table 13: Croatia - KPI 1

### Scoring details and contextual discussion

Croatia's FCBC, with its broad mandate over financial matters, may face challenges in allocating sufficient time and focus on audit report reviews. This could dilute the depth of scrutiny given to reports from the State Audit Office (SAO). Given that the FCBC is not a specialized audit committee, it may not provide the in-depth oversight that a dedicated public accounts committee could yield.

Croatia performs strongly in KPI 1, as the FCBC consistently reviews the annual Audit Report within the legally mandated timeline of three months after publication. This adherence to established timelines demonstrates a well-functioning procedural framework for parliamentary oversight, bolstered by the Croatian Budget Act and the State Audit Office Act.

The OBS states that a committee examined the Audit Report on the annual budget within three months of its availability, and it published a report with findings and recommendations.<sup>27</sup> Upon completion of its review of the SAO Audit Report, the FCBC publishes a report with its findings and recommendations. This report was completed for both 2022 and 2020. See Text Box 4.

In 2022, the Audit Report on the annual budget was published on June 14, 2022. The FCBC examined the Audit Report on the annual budget on October 7, 2022.<sup>28</sup> In 2020, the Audit Report on the annual budget was published on June 12, 2020. The FCBC examined the Audit Report on the annual budget on November 3, 2020.<sup>29</sup> In 2018, the Audit Report on the annual budget was published on May 30, 2018. The FCBC examined the Audit Report on the annual budget on September 20, 2018.

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<sup>27</sup> OBS 2023, Q. 118; OBS 2021, #118

<sup>28</sup> OBS 2023, Q. 118

<sup>29</sup> OBS 2021, Q. 118

The strong performance in this key performance indicator (KPI) is consistent with Croatian legislation, particularly Article 110 (2) of the Croatian Budget Act, which mandates that the Government...shall submit to Parliament or the relevant representative body the annual budget execution report for adoption by 15 June of the current year for the preceding year.

At the same time, according to Article 19 (2) of the Act on the State Audit Office, the SAO conducts its own audit of the Report on State Budget Execution which is submitted to the Croatian Parliament by the same day. In this respect, the SAO tables its audit report on the financial statements in parliament six months or less after the end of the budget year. The report is generally referred to the FCBC for review and is examined by the PAC within three months of its receipt.

In addition to its report on state budget execution, the SAO conducts compliance and performance audits. For example, the SAO submitted, for the 2019 financial year, 25 performance audit reports. In 2019, the FCBC reviewed performance audit reports on: the management and disposal of football stadiums and playgrounds; establishment and use of the information system of centralised payroll; and the audit of the effectiveness of the implementation of the concession agreement for the Adriatic Motorway (Istarski ipsilon) and the concession of the Zagreb - Macelj Motorway.<sup>30</sup>

## KPI 2: Breadth and depth of participation in hearings.

KPI 2 scores for Croatia are provided in Table 14, below. These scores are based on the 2023 OBS:

Key Performance Indicator (KPI)	Indicator	Indicator Description	Score
Breadth and depth of participation in hearings	OBS 124	How often did senior SAI participate in the AR review	A

Table 14: Croatia - KPI 2.

### Scoring details and contextual discussion

In 2022 and 2020, a senior staff member of the SAO took part and testified in parliamentary committee Audit Report hearings at least five times.<sup>31</sup> The head of the SAO presented the findings of its audit reports to the members of the Committee. Following this process, the Committee issues a report. For example, in 2020, the SAO took part in the following hearings:

<sup>30</sup> "Report on the work of the State Audit Office for 2019" [https://www.revizija.hr/UserDocImages/ENG/Reports/2019/REPORT\\_ON\\_THE\\_WORK\\_OF\\_THE\\_STATE\\_AUDIT\\_OFFICE\\_FOR\\_2019.pdf](https://www.revizija.hr/UserDocImages/ENG/Reports/2019/REPORT_ON_THE_WORK_OF_THE_STATE_AUDIT_OFFICE_FOR_2019.pdf)

<sup>31</sup> OBS 2023, Q. 124; OBS 2021, Q. 124

- Report on the Financial Audit of Political Parties, Independent Representatives, and Members of Representative Bodies of Local and Regional Self-Government Units Elected from the Voter Group List for 2018 (March 4, 2020);
- Report on the Audit of the Effectiveness of Management and Disposal of Football Stadiums and Playgrounds Owned by Local Self-Government Units (March 11, 2020);
- Report on the Financial Audit of Local Units for 2018 (May 18, 2020);
- Report on the Work of the State Audit Office for 2019 (September 11, 2020); and.
- Report on the Financial Audit of the State Budget Users (October 8, 2020).<sup>32</sup>

The SAO provides Parliament with an Annual Work Report, an Annual Report on the Implementation of the State Budget, and audit reports (individually, or a group of thematic reports). Reports are discussed at meetings of the respective committees and in plenary sessions.

The FCBC, as well as other committees, depending on the audit topic, discuss the audit reports, in the presence of the Auditor-General and representatives of the SAO. The respective committee then adopts a conclusion on the audit reports.

### KPI 3: Tracking of government’s implementation of SAI/Parliament recommendations

KPI 3 scores for Croatia are provided in Table 15, below. These scores are based on the 2023 OBS:

Key Performance Indicator (KPI)	Indicator	Indicator Description	Score
Transparency of parliamentary reports and tracking of government’s execution of budget recommendations	OBS 102	Does the parliamentary committee or SAI track actions taken by the executive branch to address audit recommendations; and is this tracking publicly available	A
	OBS 101	Does the executive make available to the public a report on what steps it has taken to address audit recommendations or findings that indicate a record for remedial action	D

Table 15: Croatia - KPI 3.

<sup>32</sup> The web links from the 2022 OBS response to Q. 124 were not accessible.



## Scoring details and contextual discussion

In accordance with OBS 102, the SAO reports publicly on what steps the executive has taken to address all audit recommendations.<sup>33</sup> Steps taken to address recommendations from previous audits are always included in the latest Audit Report by the State Audit Office. For instance, the Audit Report on the Executed State Budget of the Republic of Croatia for 2021 brings the overview of the executive's responses to the recommendations from earlier audits.

However, audited entities do not report on steps they have taken to address audit findings.<sup>34</sup>

In 2022, Croatia's legislature used its authority in law to amend the Executive's Budget Proposal, and (at least some of) its amendments were adopted. According to one source, the Parliament proposed 400 state budget amendments, 10 of which were accepted by the government. Among those accepted are six opposition ones: three from the SDP, two from the Social Democrats, one from the IDS, three from the majority (one from the HNS, two from the HDZ), and a joint amendment by the ruling party, and the opposition, i.e. HDZ, HDS, and the Social Democrats. "This is how we show openness to the suggestions of some of the opposition representatives and parties, which we consider good," said Prime Minister Andrej Plenković and stated that these amendments are worth around 9.5 million euros."<sup>35</sup>

Sector committees had less than one month to examine the Executive's Budget Proposal, and they published reports with findings and recommendations prior to the budget being adopted. The Parliament received the 2023 Executive's Budget Proposal on November 14, 2022. The Health and Social Policy Committee had a session regarding the 2023 State Budget Proposal on November 23, 2022. The Education, Science, and Culture Committee had a session regarding the 2023 State Budget Proposal on November 22, 2022. The 2023 State Budget was adopted by the Parliament on November 29, 2022.<sup>36</sup>

## Legal and parliamentary committee procedures for handling the audit report

Croatia's Parliament plays a crucial role in the review and oversight of audit reports submitted by the State Audit Institution (SAI).

Under **Article 19 of the Audit Act**, the SAI is required to submit its annual audit report on the state budget execution to the Parliament by June 15 of the current year, covering the previous

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<sup>33</sup> Open Budget Survey. 2019 Questionnaire (detailed responses) for Georgia, OBS 102. The "Recommendations Implementation Monitoring System" can be found online at: Public Expenditure and Financial Accountability (PEFA), Performance Assessment Report. June 2018, p. 30.

<sup>34</sup> OBS 2023 Q. 101

<sup>35</sup> OBS 2023 Q. 111

<sup>36</sup> OBS 2023 Q. 113

year.<sup>37</sup> Additionally, the Parliament can request specific audits, provided that the Auditor General deems such requests justified.

The responsibility for reviewing these reports primarily lies with the **Finance and Central Budget Committee (FCBC)**. According to the **Standing Orders of the Croatian Parliament**:<sup>38</sup>

- **Article 44** establishes that working bodies such as committees and commissions are to review reports submitted by public entities. Specifically, the Parliament must deliberate on the reports from the State Audit Institution concerning the state budget execution and the SAI's own work, and these reports are to be debated at a parliamentary session.
- **Article 59** designates the FCBC as the relevant body responsible for reviewing financial matters, including the audit reports provided by the SAI.
- **Article 73** details the FCBC's responsibilities, including the review of audits conducted by the SAI, making recommendations to Parliament, and debating any legislation arising from the audit findings that may have financial implications.

Through its working bodies, especially the FCBC, the Croatian Parliament ensures comprehensive oversight of state budget execution and holds public entities accountable, further promoting transparency and accountability in public financial management.

## SLOVENIA

Slovenia has an oversight committee devoted to the audit/oversight stage. The mandate for the Commission for Public Finance Control (CPFC) can be found in Text Box 5.

- The Commission for Public Finance Control (CPFC):
  - controls the implementation of the state budget and the financial plans of the Pension and Disability Insurance Institute of Slovenia, the Health Insurance Institute of Slovenia, and the public institute Radiotelevizija Slovenija in terms of legality, purpose and efficiency of spending, and the accuracy of their financial statements on the basis of Court of Audit reports,
- Monitors the implementation of the budgets of local communities which receive financial resources to balance their accounts, and controls the intended use of resources allocated from the state budget,
- Controls the implementation of financial plans and the accuracy of the financial statements of public funds, public enterprises, and public institutes founded by the Republic of Slovenia,
- Reports to the National Assembly on the control performed and proposes necessary measures.

### Text Box 5: Mandate of the Commission for Public Finance Control.

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<sup>37</sup> Act on the State Audit Office, Article 19(1), Article 19(2), Article 19(4)

<sup>38</sup> Parliament of Croatia, 2020. "Croatia's Parliament's Standing Orders." [https://legislationline.org/sites/default/files/documents/dc/Croatian-Parliament-Standing-Orders\\_Consolidated-Text\\_November-2020.pdf](https://legislationline.org/sites/default/files/documents/dc/Croatian-Parliament-Standing-Orders_Consolidated-Text_November-2020.pdf)

The CPFC invites the President of the Court of Audit and other representatives of the Court of Audit, as well as representatives of the audited users of public funds, to sessions where audit reports are discussed.

The Court of Audit (CoA) of the Republic of Slovenia produces and tables an annual report entitled “Proposal of the Annual Financial Statement of the Budget of The Republic of Slovenia”. In Audit Report 2017 all three types of audits—financial, compliance and performance—are involved and presented in different chapters and sections. This report on the implementation of the budget is tabled nine months after the end of the budget year and within 1-2 months of its tabling is referred to the CPFC.

### KPI 1: Timing of Audit Report (AR) review and creation of report with findings and recommendations

KPI 1 scores for Slovenia are provided in Table 16, below. These scores are based on the 2023 OBS:

Key Performance Indicator (KPI)	Indicator	Indicator Description	Score
Timing of Audit Report (AR) review and creation of report with findings and recommendations	OBS 118	How soon after its publication was the AR reviewed by the parliamentary committee issues a report with findings and recommendations.	C

Table 16: Slovenia - KPI 1.

### Scoring details and contextual discussion

The CPFC is supposed to examine this report within three months of its availability and publishes a report with findings and recommendations. This CPFC meets once a year to review CoA audited consolidated financial statements and regulatory/compliance statements. In 2022, the CPFC examined the report within three months of it being tabled but did not publish a report with its findings and recommendations.<sup>39</sup> In 2020, the CPFC examined/discussed the report and produced its own (short) report for the plenary session of the National Assembly.<sup>40</sup>

Slovenia scores moderately on KPI 1; although a parliamentary committee reviews the AR within three months, a report with its findings and recommendations is not published in a consistent or comprehensive manner.

39 OBS 2023 Q. 118

40 OBS 2021, Q. 118

## KPI 2: Breadth and depth of participation in hearings

KPI 2 scores for Slovenia are provided in Table 17, below. These scores are based on the 2023 OBS:

Key Performance Indicator (KPI)	Indicator	Indicator Description	Score
Breadth and depth of participation in hearings	OBS 124	How often did senior SAI participate in the AR review	B

Table 17: Slovenia - KPI 2.

### Scoring details and contextual discussion.

In 2022, senior members or the head of the CoA participated in Commission Audit Report hearings between three and five times, whereas in 2020, this participation in hearings occurred five times or more.<sup>41</sup>

The President of the CoA generally appears before the Committee when CoA reports are discussed. These committee proceedings usually take 3-4 hours which include witnesses from the Ministry of Finance.

Representatives of the Court of Audit are often invited and consulted with respect to sessions of various committees, such as the:

- Commission for Public Finance Control;
- Committee on Finance;
- Commission of Inquiry for determining the possible political responsibility of holders of public office for financially inappropriate measures and the allegedly unjustified restriction of rights in the implementation of measures related to Covid-19 epidemic; and
- Commission of Inquiry for investigating the procurement of protective equipment and the measures taken by institutions and holders of public office to curb the spread of Covid-19 between 1 February 2020 and the start of the parliamentary inquiry.<sup>42</sup>

Besides attending the committee sessions where various audit annual reports are presented, there are also sessions at which the expertise of the CoA is consulted in various matters, such as public procurement, efficient use of public finance etc.

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41 OBS 2023, Q. 124; 2021 OBS #124

42 OBS 2023, Q. 124

Slovenia scores moderately on KPI 2. But this score is based on 2022, when senior members or the CoA head only appeared 3-5 times, whereas in 2021, appearances numbered more than five times.

In 2023, senior members or the head of the CoA participated in Commission Audit Report hearings more than five times, which would raise Slovenia’s score (OBS 124 as per Table 24) to an ‘A’.

Specifically, in 2023, the Commission for the Supervision of Public Finances reviewed or was informed of six reports from the Court of Audit:

- Accounting statements and the correctness of operations of the Pension and Disability Insurance Institute of Slovenia for 2020;
- Accounting statements and the correctness of operations of the Health Insurance Institute of Slovenia for 2020;
- Accounting statements and the correctness of operations of the Health Insurance Institute of Slovenia for 2021;
- Accounting statements and the correctness of operations of the Pension and Disability Insurance Institute of Slovenia for 2021; and.
- The proposed final account of the budget of the Republic of Slovenia for 2022.

### KPI 3: Tracking of government’s implementation of SAI/Parliament recommendations

KPI 3 scores for Slovenia are provided in Table 18, below. These scores are based on the 2023 OBS:

Key Performance Indicator (KPI)	Indicator	Indicator Description	Score
Tracking of government’s implementation of SAI/Parliament recommendations	OBS 102	Does the parliamentary committee or SAI track actions taken by the executive branch to address audit recommendations; and is this tracking publicly available	A
	OBS 101	Does the executive make available to the public a report on what steps it has taken to address audit recommendations or findings that indicate a need for remedial action	C

Table 18: Slovenia - KPI 3.

### Scoring details and contextual discussion

In 2022 and 2020, the CoA or CPFC reported publicly on what steps the executive has taken to address all audit recommendations. The post-audit report provides post-corrective measures concerning the proposal of the annual financial statement of the budget of the Republic of Slovenia for the years 2021 and 2019. In the report, the following is provided:

- Issues/irregularities that were identified in the audit report and action required.
- Summary of the corrective measures undertaken.
- An opinion is expressed by the SAI on the adequacy of corrective measures.<sup>43</sup>

Slovenia's executive reports publicly on only some audit findings.<sup>44</sup>

The executive is obliged by law to respond to the findings of the SAI by producing a response report (see Article 29 of the Court of Audit Act) – i.e., a follow-up document produced by the executive on issues identified by SAI with respect to corrective measures undertaken. While the SAI publishes its audit reports, response reports of the executive are not enclosed. Responses provided by the executive are usually not made public. Nevertheless, these can be obtained via a request for access to public information.

### Parliamentary committee procedures for handling the audit report

Slovenia has established robust internal procedures for reviewing audit reports, particularly through the **Commission for Public Finance Control**, which oversees the implementation of the state budget and ensures that public funds are used lawfully, efficiently, and transparently. The Commission reviews the financial plans and statements of several key public institutions, including the **Pension and Disability Insurance Institute**, the **Health Insurance Institute**, and **Radiotelevizija Slovenia**, using reports from the **Court of Audit**.

Working bodies of the **National Assembly** are responsible for discussing audit reports submitted to Parliament within three months of receipt. These bodies also prepare draft laws or other acts when necessary to address the findings of the audit reports, ensuring that financial management practices align with legal and regulatory standards.

The **Financial and Budgetary Committee** conducts a detailed review of findings from the **State Audit Office (SAO)** on a monthly basis, ensuring continuous oversight over public financial management (PFM) and accountability.

According to Slovenia's **Auditing Act**, while the reporting requirements to Parliament are not extensively detailed, **Article 10(2)** specifies that the **National Assembly** must discuss the **Slovenian Institute of Auditors' annual report**, and **Article 29(2)** mandates an annual review of the **Agency for the Public Oversight of Auditing's report** by the National Assembly.

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43 OBS 2023 Q. 102, OBS 2021, Q. 102

44 OBS 2023 Q. 101, OBS 2021, Q. 101

The specific articles in Slovenia's **rules of procedure** that govern Parliament's role in handling audit reports include: <sup>45</sup>

- **Article 324:** Establishes working bodies to monitor the state of affairs in individual areas and prepare policy decisions. These bodies also discuss draft laws and acts of the National Assembly, playing a crucial role in reviewing and responding to audit findings.
- **Article 35:** Lists the **Commission for Public Finance Control** as one of the standing commissions responsible for ensuring proper financial management of public institutions based on audit reports.
- **Article 41(4):** Sets the timeframe for discussing reports forwarded to the National Assembly, stating that responsible working bodies must address these reports within three months of receiving them.
- **Article 42:** Mandates that working bodies submit reports regarding their discussions to the **President of the National Assembly**.
- **Article 39:** Details the **Commission for Public Finance Control's** specific role in controlling the state budget, financial plans, and accuracy of financial statements of key public entities, based on the **Court of Audit** reports. The Commission **reports to the National Assembly on the control performed and proposes necessary measures** to address any issues identified.
- **Article 167:** States that the Government must submit the draft state budget accounts for the previous year to the **National Assembly**, together with the audit report from the **Court of Audit**, by no later than **October 1st** of the current year.
- **Article 168:** Establishes the process for debating the state budget accounts in Parliament. First, a representative of the Government provides an explanation of the accounts, followed by a report from the responsible working body. The debate may be divided into a general discussion and specific debate on individual parts of the budget. Finally, the **National Assembly** votes on the state budget accounts in their entirety.

## GEORGIA

The State Audit Office of Georgia audits the annual budget execution report of the Government as well as the expenditures of budget allocations in accordance with the rules prescribed by the legislation. According to the Law of Georgia on the State Audit Office: "Within 45 days after receiving an annual account from the Government of Georgia on the execution of the state budget, the State Audit Office shall notify the Government of Georgia of the completion

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<sup>45</sup> Parliament of Slovenia. "Rules of Procedure of the Parliament of Slovenia." <https://imss.dz-rs.si/IMiS/ImisAdmin.nsf/IMiSNetAgent?OpenAgent&2&DZ-MSS-01/ecba208564d333f66a6eabfb7c5e9d06ed97e54277741a40748a99c7efa33072>

of a report on the submitted annual account and shall present the report on the annual account of the execution of the state budget to the Parliament of Georgia”.<sup>46</sup>

In 2019, the Budget and Finance Committee created a Permanent Audit Group to review reports by the State Audit Office. The Permanent Audit Group comprises seven members of the Budget and Finance Committee. Audit Group members are “determined in proportion to the representations of factions and the MPs who are not united in any faction.” Permanent Audit Group sessions are open and must be called at least once per month during a session period.<sup>47</sup>

According to the Rules of Procedure of the Parliament of Georgia, the activities of the Audit Group include the review of the reports submitted to the Parliament of Georgia by the State Audit Office. The Audit Group reviews audit reports prepared at the central level and submits the relevant draft recommendations to the Finance and Budget Committee of the Parliament of Georgia, which approves the recommendations and submits them to the Auditee for implementation.<sup>48</sup>

It is critical to note that the European Council and European External Action Service have expressed serious concerns over anti-democratic processes currently unfolding in Georgia that are impeding its full European integration. In particular, the European Council has stated serious concern over Georgia's recent adoption of a law on transparency of foreign influence, viewing it as a step backward in meeting the requirements for EU candidate status and urging its reversal to prevent halting the accession process. Additionally, the Council condemned the increasing acts of intimidation, threats, and physical assaults against civil society representatives, political leaders, activists, and journalists, emphasizing the importance of upholding EU values. It called for free and fair parliamentary elections with robust observation and reaffirmed its support for Georgia's territorial integrity and European aspirations.<sup>49</sup>

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46 Open Budget Survey. 2019 Questionnaire (detailed responses) for Georgia, OBS 102. <https://www.internationalbudget.org/sites/default/files/2020-05/georgia-202002150030.pdf> The "Recommendations Implementation Monitoring System" can be found online at: <http://sao.ge/audit/recomendationimplementation-monitoring-system>

47 Public Expenditure and Financial Accountability (PEFA), Performance Assessment Report. June 2018, p. 30. <https://openknowledge.worldbank.org/bitstream/handle/10986/31001/132115-WP-REPLACEMENT-P165226-PUBLIC.pdf?sequence=1&isAllowed=y>

48 2022 PEFA #31.1. In addition to the annual budget execution report, twenty-three financial audits reports were submitted to the Parliament by the State Audit Office in 2019-2021. The meetings of the Audit Group and the Finance and Budget Committee of the Parliament are held periodically with many reports considered together given the Parliamentary timetable.

49 European Council, 2024. "European Council conclusions, 27 June 2024." <https://www.consilium.europa.eu/media/ga3lbg/euco-conclusions-27062024-en.pdf>



## KPI 1: Timing of Audit Report (AR) review and creation of report with findings and recommendations

KPI 1 scores for Slovenia are provided in Table 19, below. These scores are based on the 2023 OBS and 2022 PEFA:

Key Performance Indicator (KPI)	Indicator	Indicator Description	Score
Timing of Audit Report (AR) review and creation of report with findings and recommendations	OBS 118	How soon after its publication was the AR reviewed by the parliamentary committee issues a report with findings and recommendations.	A
	PEFA 31.1	How soon after its publication was the AR reviewed by the parliamentary committee.	A
	PEFA 31.3	Does the parliamentary committee issue recommendations to the executive.	A

Table 19: Georgia - KPI 1.

### Scoring details and contextual discussion

In 2022, the Permanent Audit Group also examined the AR on the annual budget within three months of its availability.<sup>50</sup> In 2020, the Parliamentary committee examined the Audit Report on the annual budget within three months of its availability, but it did not publish any report with findings and recommendations.<sup>51</sup> More historical data from the 2014-2016 period indicates that a parliamentary committee reviewed the AR within three to six months of its availability. In 2018, several Committees of Parliament examined the Audit Report on the annual budget within three months of its availability and published a report with findings and recommendations. A final report was prepared by several committees: European Integration, Regional Policy and Self - Government Committee, Healthcare and Social Issues Committee, Sector Economy and Economic Policy Committee and others.<sup>52</sup>

Georgia scores strongly on KPI 1. Information around the timeliness of the Permanent Audit Group's review is especially reliable because it is corroborated by both OBS and PEFA. Although historical data indicates somewhat mixed results in terms of timeliness, the AR has been appropriately reviewed within a three-month window since the creation of the Permanent Audit Group. However, PEFA does not provide information with regard to the Permanent Audit

<sup>50</sup> OBS 2023 Q. 118

<sup>51</sup> OBS 2021, Q. 118

<sup>52</sup> Open Budget Survey. 2019 Questionnaire (detailed responses) for Georgia, OBS 118. <https://www.internationalbudget.org/sites/default/files/2020-05/georgia-202002150030.pdf>

Group’s publishing of findings and recommendations, and the OBS information on this issue lacks details around the nature and scope of this reporting. These latter factors should be taken into account with respect to Georgia’s strong score for KPI 1.

## KPI 2: Breadth and depth of participation in hearings

KPI 2 scores for Georgia are provided in Table 20, below. These scores are based on the 2023 OBS and 2022 PEFA:

Key Performance Indicator (KPI)	Indicator	Indicator Description	Score
Breadth and depth of participation in hearings	OBS 124	How often did senior SAI participate in the AR review	A
	PEFA PI-31.2	How many audited entities participated in the AR review	A

Table 20: Georgia - KPI 2.

### Scoring details and contextual discussion

During its 2022 examination of the Audit Report, a senior member or head of the SAO participated in hearings at least five times.<sup>53</sup> During its 2020 examination of the Audit Report, a senior member or head of the SAO participated in hearings at least five times despite some complications and delays caused by the COVID-19 pandemic.<sup>54</sup>

Audited entities regularly participate in the AR review. In 2021, hearings on audit reports are held where a qualified or adverse or disclaimer audit opinion is issued by the SAO. All meetings of the Audit Group were attended by members of the Permanent Audit Group, Deputy Auditor General, and responsible officials of the State Audit Office, as well as relevant Deputy Ministers and other responsible officials of the Auditees. Members of the relevant committees of the reviewed reports were invited to attend the meeting. The meetings were also attended by interested members of parliament, employees of the committee and other stakeholders of the community.<sup>55</sup>

In the "in-depth-hearing" session of the audit group, representatives of the State Audit Service involved in the audit presented the findings and recommendations revealed within the scope

53 OBS 2023 Q. 124

54 OBS 2021, Q. 124

55 2022 PEFA #31.2

of the audit to the participants of the session. The audit objects recorded relevant explanations regarding the revealed findings, as well as presented information about the deadlines for the implementation of the recommendations and the measures to be taken. The members of the audit team and all the interested persons participating in the sessions had the opportunity to discuss, ask questions and state their positions.<sup>56</sup>

Based on the 2018 PEFA, it is evident that Georgia has improved in its performance around participation by audited entities since the 2014-2016 period.<sup>57</sup>

Based on its 2019 PEFA results, which demonstrated a lack of comprehensive parliamentary AR review, it appears that Georgia has improved markedly in this dimension and is now scoring very strongly on KPI 2.<sup>58</sup> This strong scoring is reliable with information coming from both OBS and PEFA, although the OBS data is lacking in detail.

### KPI 3: Tracking of government’s implementation of SAI/Parliament recommendations

KPI 3 scores for Georgia are provided in Table 21, below. These scores are based on the 2023 OBS and 2022 PEFA:

Key Performance Indicator (KPI)	Indicator	Indicator Description	Score
Tracking of government’s implementation of SAI/Parliament recommendations	OBS 102	Does the parliamentary committee or SAI track actions taken by the executive branch to address audit recommendations; and is this tracking publicly available	A
	OBS 101	Does the executive make available to the public a report on what steps it has taken to address audit recommendations or findings that indicate a need for remedial action	A
	PEFA PI-31.3	Does the parliamentary committee systemically follow up on actions recommended to the executive	A

Table 21 - Georgia KPI 3.

56 2022 PEFA #31.2

57 PEFA 2019

58 PEFA 2019

## Scoring details and contextual discussion

In 2022 and 2020, the SAO or legislature reported publicly on steps the Executive had taken to address their budgetary recommendations.<sup>59</sup> The Audit Group and Committee recommendations are submitted to the Bureau of Parliament and Parliament's decisions are then placed on the Committee website. However, the OBS notes that public availability of SAO information is limited: "The recommendation monitoring system is password protected and only [the] Audit Office can register a user. The staff of the Audit Office and the representatives of the inspection objects are registered in the system."<sup>60</sup>

The Audit Group is constantly monitoring the follow-up of the recommendations issued. Based on the PEFA 2022, all the agencies to which the recommendations have been submitted are required to provide written information to the Parliament of Georgia on the follow-up of the issued recommendations. According to the information provided, most of the recommendations had been followed-up or were in the process of implementation by state agencies.<sup>61</sup>

In exceptional cases where the recommendations approved by the committee are not followed-up, the Audit Group, shall, for monitoring purposes, invite the relevant agencies to a meeting and consider the unfulfilled recommendations. The Parliament of Georgia, in accordance with the current legislation, has significant leverage to monitor the implementation of recommendations. The Parliamentary Resolution may reflect the recommendations developed by the Audit Group of the Finance and Budget Committee and adopted by the decision of the committee, which indicates the deadlines for their implementation. The Finance and Budget Committee of the Parliament oversees the implementation of this resolution through the Audit Group and, if necessary, submits information on the enforcement to the Parliamentary Bureau. According to the decision of the Parliamentary Bureau, this information can be submitted to the plenary session of the Parliament and become the subject of its discussion.<sup>62</sup>

In terms of transparency of this tracking system, all hearings are conducted in public. The budget execution reports and qualified audit reports are debated in the full chamber, and all reports are published.<sup>63</sup>

Meetings are convened by the Audit Group in full compliance with the requirements set out in the Rules of Procedure of the Parliament and the Statute of the Audit Group. Also, under the Economic Governance and Fiscal Accountability program, the Audit Group conducted its activ-

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59 OBS 2023 Q. 118; OBS 2021, Q. 102

60 OBS 2023, Q. 102

61 PEFA 2022 PI-31.3

62 PEFA 2022 PI-31.3

63 PEFA 2022 #31.4

ities in a public and transparent manner. In particular, three days before a meeting of the Audit Group, information on the venue, time and agenda of the meeting was publicly announced on the website of the Parliament of Georgia. In addition, the Audit Group meetings are broadcast live and are publicly available to interested parties.<sup>64</sup>

The Finance and Budget Committee of the Parliament provides its reports to the full chamber of Parliament and its reports are published on Parliament's official website.<sup>65</sup>

Based on the 2018 PEFA, it appears that Georgia's tracking of budget recommendations has improved since the 2014-2016 period, although the transparency has remained consistently high.<sup>66</sup>

As with its Parliament, Georgia's Executive's budget review process is publicly tracked: a distinct report is published publicly online that details what steps the Executive has taken to address audit findings.<sup>67</sup>

Georgia has improved on its historical performance around transparent tracking of audit recommendations and now performs very strongly in KPI 3. This conclusion is based on detailed information provided by OBS and PEFA.

### **Parliamentary committee procedures for handling the audit report**

The SAO conducts financial audits in accordance with the Organic Law of Georgia on the State Audit Office and international standards, and auditors are selected according to the rules set out in Article 166(9)–(12) of the Rules of Procedure of the Parliament of Georgia. Financial Audits and Auditor Selection: The SAO conducts financial audits in accordance with the Organic Law of Georgia on the State Audit Office and international standards.

Article 165 of Georgia's parliamentary *Rules of Procedure* stipulates the following regarding the reporting relationship between the Parliament and the SAI:<sup>68</sup>

The subsections to Art. 165 state that:

1. Parliamentary Oversight: The Parliament of Georgia controls the activity of the State Audit Office (SAO) in accordance with the Constitution of Georgia and other legislative and normative acts.

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64 PEFA 2022 #31.4

65 PEFA 2022 #31.4

66 PEFA 2018 #31.3 and #31.4

67 OBS 2023, Q. 101

68 Parliament of Georgia, 2018. "Rules of Procedure of Parliament of Georgia." <https://matsne.gov.ge/en/document/view/4401423?publication=27>

2. **Biannual Reports on Budget Execution:** The SAO submits both a preliminary report and a complete report on the execution of the State Budget, along with a statement, twice a year.

3. **Annual Report Submission:** The SAO submits its annual report on its activities to Parliament no later than June 1 of the following year, with the results of a financial audit attached as an annex. This report is also published on Parliament's website.

**Parliament's Resolution:** After reviewing the SAO's annual report, Parliament adopts a resolution. This resolution may include recommendations from the Financial and Budgetary Committee's audit group, with specific performance timelines. The Financial and Budgetary Committee presents the issue at a plenary session.

4. **Supervision of Resolution Enforcement:** The Financial and Budgetary Committee supervises the enforcement of Parliament's resolution and reports to the Parliamentary Bureau as needed, through the audit group. The Parliamentary Bureau may bring this information to a plenary session for further discussion.

5. **Audit Group Creation:** The Financial and Budgetary Committee establishes a standing audit group consisting of committee members to review the reports of the SAO. The group's size and composition are determined by the Financial and Budgetary Committee, which also coordinates report reviews by other parliamentary committees.

6. **Audit Group Accountability:** The audit group is accountable to the Financial and Budgetary Committee, which approves the group's statute.

7. **Audit Group's Role:** The audit group's primary function is to review the reports as outlined in Article 24 of the Organic Law of Georgia on the State Audit Office and submit appropriate recommendations to the Financial and Budgetary Committee.

8. **SAO Report Submission:** The SAO submits audit reports to Parliament as outlined in paragraph 8. Additionally, twice a year (before September 10 and February 10), the SAO submits written information on reports deemed of particular importance.

9. **Audit Group Reporting:** The audit group is required to report its activities to the Financial and Budgetary Committee at least once during each parliamentary session.

10. **Open Sessions:** The audit group holds open sessions, convening at least once a month during each parliamentary session.

11. **Draft Decisions:** The audit group develops draft decisions of the Financial and Budgetary Committee based on recommendations and submits them to the committee.

12. **Activity Planning:** When drawing up its activity plan, the SAO considers the proposals of parliamentary committees, temporary investigation commissions, and temporary commissions.

## UNITED KINGDOM

The United Kingdom has a parliamentary dedicated ex-post oversight committee focusing on post-expenditure review. The Committee of Public Accounts, or Public Accounts Committee (PAC), is appointed by the House of Commons to examine: "the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the Committee may think fit" (Standing Order No 148).

Drawing on the work of the National Audit Office (NAO), the Committee scrutinises the value for money—the economy, efficiency and effectiveness—of public spending and generally holds the government and its civil servants to account for the delivery of public services. As delivery models for public services have changed, so the reach of the Committee, in following the taxpayer's pound, has spread beyond government departments to also examine public bodies and private companies providing public services.

### KPI 1: Timing of Audit Report (AR) review and creation of report with findings and recommendations.

KPI 1 scores for the United Kingdom are provided in Table 22, below. These scores are based on the 2023 OBS:

Key Performance Indicator (KPI)	Indicator	Indicator Description	Score
Timing of Audit Report (AR) review and creation of report with findings and recommendations	OBS 118	How soon after its publication was the AR reviewed by the parliamentary committee issues a report with findings and recommendations.	B

Table 22 - United Kingdom KPI 1.

### Scoring details and contextual discussion

In 2022, the UK's PAC reviewed the NAO Audit Report on the annual budget four months after its release, and published a report with its findings and recommendations.<sup>69</sup> In FY 2020-21, the PAC conducted its review of the NAO's Audit Report within three months of its release and published a report with findings and recommendations. For example, in January 2021, the PAC published "Inquiry - HMRC performance and efficiency in 2019-20" on the NAO's findings on the management of tax reliefs and tackling the tax gap and government's response to the Covid-19 crises.<sup>70</sup>

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69 OBS 2023 Q. 118

70 OBS 2023 Q. 118

## KPI 2: Breadth and depth of participation in hearings

KPI 2 scores for the United Kingdom are provided in Table 23, below. These scores are based on the 2023 OBS:

Key Performance Indicator (KPI)	Indicator	Indicator Description	Score
Breadth and depth of participation in hearings	OBS 124	How often did senior SAI participate in the AR review	A

Table 23 - United Kingdom KPI 2.

### Scoring details and contextual discussion

In 2022 and 2020, senior members of the UK's NAO regularly participated in the PAC's review of its Audit Report. The 2021-2022 NAO Annual Report and Accounts states that in FY 2021-22, NAO staff supported 69 evidence sessions; the annual NAO report confirms that staff participated in 63 evidence sessions and select committee sessions.<sup>71</sup> In both 2022 and 2020, the NAO completed and published reports utilized by the PAC; Examples from 2020 include: Departmental overview: Department for HM Treasury (March 2020), The cost of EU Exit preparations (March 2020), The management of tax expenditures (February 2020), British Business Bank (January 2020).<sup>72</sup>

In 2023-24, the NAO used its audit findings to support 56 PAC Parliamentary evidence sessions examining the value for money of Government projects, programmes and service delivery, around two sessions a week when Parliament was sitting. It also briefed and assisted other Parliamentary select committees in their scrutiny of government, publishing 13 departmental overviews and having 10 of its colleagues work with committees, the House of Commons Scrutiny Unit, and other teams under secondment arrangements. The NAO also participated in public evidence sessions held by select committees in both Houses of Parliament, and its work was referenced an average 6.6 times per Parliament sitting day in 2023-24, two more times per day than in 2022-23.<sup>73</sup>

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71 OBS 2023 Q. 124

72 OBS 2023 Q. 124; OBS 2021, Q. 124

73 NAO 2024 Annual Report pp.6, 10, 28.



### KPI 3: Transparency of parliamentary reports and tracking of government’s execution of budget recommendations

KPI 3 scores for Georgia are provided in Table 24, below. These scores are based on the 2023 OBS:

Key Performance Indicator (KPI)	Indicator	Indicator Description	Score
Tracking of government’s implementation of SAI/Parliament recommendations	OBS 102	Does the parliamentary committee or SAI track actions taken by the executive branch to address audit recommendations; and is this tracking publicly available	A
	OBS 101	Does the executive make available to the public a report on what steps it has taken to address audit recommendations or findings that indicate a need for remedial action	A

Table 24 - United Kingdom KPI 3.

#### Scoring details and contextual discussion

In both 2022 and 2020, the NAO reported publicly on what steps the Executive took to address audit recommendations.<sup>74</sup> The NAO has introduced a Recommendations Tracker which is published online.<sup>75</sup> According to its website, "for each recommendation published between 1 April 2019 and 31 March 2021, the tracker provides information on whether government has accepted the recommendation, and if so, the progress it has made with implementing the actions required." The legislature also reports publicly on its own recommendations which are based on audit recommendations, and these are tracked through the Treasury Minute and Treasury Minute progress report processes.<sup>76</sup>

In 2022, UK’s Executive reported publicly on what steps it had taken to address audit findings. The Government also published a Treasury Minute responding to the PAC’s report (the third section of a Treasury Minute responding to several PAC reports).<sup>77</sup>

74 OBS 2023 Q. 102; OBS 2021, Q. 102

75 <https://committees.parliament.uk/work/758/whole-of-government-accounts201819/publications/>

76 See <https://www.nao.org.uk/nao-recommendations-tracker/>

77 OBS 2023, Q. 101

The NAO maintains an online Recommendations Tracker.<sup>78</sup> The tracker brings together NAO recommendations published in its reports since 1 April 2019. The stated aim of the tracker is to increase transparency on the outcomes of NAO recommendations and promote scrutiny and parliamentary accountability for government spending. For recommendations published between 1 April 2019 and 31 March 2023, the tracker provides information on whether the government has accepted the recommendations, and if so, the progress it has made with implementing the actions specified. For recommendations published between 1 April 2023 and 30 April 2024, the tracker includes descriptive data but may not include information on their acceptance or implementation.<sup>79</sup> The tracker is updated by the NAO every six months.

### **Parliamentary committee procedures for handling the audit report**

The Standing Orders of the House of Commons outline the internal procedure for handling audit reports, with the PAC playing a key role in overseeing government spending. Established under Section 148 of the Standing Orders, the PAC is a select committee responsible for the "examination of the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure". This means that the PAC reviews financial records to ensure that the government has spent the money granted by Parliament in the way it was intended, such as funding public services and programs. The PAC ensures that these funds were used according to the law and within the limits set by Parliament.<sup>80</sup>

The NAO also conducts audits of government departments, public agencies, and other bodies. Under Section 6(1) of the National Audit Act, the Comptroller and Auditor-General (C&AG) may also carry out examinations into the economy, efficiency, and effectiveness with which any department, authority, or other body to which this section applies has used its resources in discharging its functions.<sup>81</sup>

Under Section 10 of the National Audit Act, 1983, the C&AG reports the results of these audits to Parliament. It is a matter of parliamentary practice that these reports are referred to the PAC for review, where they form the basis for inquiries on government spending.<sup>82</sup>

The PAC relies on the NAO's independent audits to scrutinize how public funds are used and to hold the government accountable.

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78 <https://www.nao.org.uk/recommendations-tracker/>

79 Dates valid as of August 25, 2024.

80 House of Commons, "Standing Orders: Public Business 2024", 23 May 2024.

81 United Kingdom, National Audit Act 1983, c. 44.

82 Parliament of the United Kingdom, 2024. "MP's Guide to Procedure." <https://guidetoprocedure.parliament.uk/dist/mps-guide-to-procedure.pdf>

Under s. 55 (2d) of the Standing Orders, if any department exceeds the spending limits authorized by the House of Commons, the C&AG reports this excess to the PAC. The committee examines the reasons for the overspending and submits its opinion to the House. Subsequently, the Treasury presents a statement of excess, typically alongside any supplementary estimates, seeking the House's approval for the excess spending. If the PAC reports that it has no objections to the excess being authorized, the matter is put to the House without debate.

# Recommended Option for Montenegro

The recommended option for Montenegro is to retain the current integrated model of ex-post parliamentary oversight, whereby the CEFB is responsible for both the ex-ante and ex-post oversight role.

One key consideration is that with 15 existing parliamentary committees, many of which are active sectoral committees, the current integrated structure already requires significant involvement from Members of Parliament (MPs) across various areas of oversight. Establishing a standalone ex-post parliamentary oversight committee would further stretch their capacities, as MPs would need to take on additional responsibilities. Given the limited number of MPs in Montenegro's 81-seat Parliament, this could dilute the effectiveness of both the new committee and the existing sectoral committees, reducing the quality of scrutiny and oversight. Retaining the integrated model ensures that resources are efficiently allocated, allowing MPs to focus on both ex-ante and ex-post oversight without being overburdened.

A second key consideration is that the CEFB possesses a thorough understanding of the entire budget cycle, which allows it to build a cohesive picture of fiscal performance from budget formulation through execution. This integrated approach supports more informed decision-making by leveraging the committee's oversight at multiple stages of the process. Notably, the scrutiny of the Annual Audit Report (AR) is aligned with the approval of the Executive Budget Proposal (EBP), further enabling the CEFB to evaluate budgetary outcomes alongside planned allocations, ensuring consistency across both phases.

However, the CEFB has responsibilities for both ex-ante and ex-post oversight, which can limit its ability to dedicate adequate time and resources to scrutinize the AR and performance audits in depth. This challenge is compounded by the fact that, as seen in 2024, the CEFB scrutinized the AR in just one day while also concluding its scrutiny of the Executive Budget Proposal (EBP). This compressed timeframe reduces the depth of review of the AR. For the CEFB to deepen its parliamentary review of the AR, the following steps could be taken:

- (a) The adoption of the AR in a timely manner should not preclude the CEFB from selecting audited entities to appear before the committee at a later date, such as in the new year. The CEFB could choose a handful of audited entities to address the audit findings and provide updates on corrective actions being implemented. To assist with this process, committee staff could develop a set of criteria to help identify the audited entities most in need of further scrutiny, particularly those with significant or recurring issues that require attention. These criteria could be based on factors such as the financial impact of the audit findings, the frequency of previous issues, and the strategic importance of the entity's operations to public service delivery. This approach would ensure that the committee focuses its limited time and resources on the most critical areas, providing a more targeted and meaningful oversight process.

(b) A sub-committee of the CEFB could then hold the hearings with the selected audited entities. This sub-committee would allow for a more flexible and dedicated approach to addressing the audit findings, while freeing up the main CEFB to focus on broader fiscal issues. The sub-committee could be composed of a small group of CEFB members with expertise in audit and financial oversight, supported by technical staff to assist in the evaluation of audit responses. This would enable a more detailed examination of the corrective actions being taken by the audited entities, ensuring that accountability is maintained and that audit recommendations are followed through in a timely and effective manner.

(c) More detailed Standing Orders could be developed to solidify the CEFB's relationships with the State Audit Office, formalizing the procedures for regular communication, joint reviews, and the systematic follow-up of audit findings. These rules would strengthen the CEFB's capacity to hold audited entities accountable and ensure that corrective actions are effectively implemented."

A third key consideration is that Montenegro's sectoral committees are already actively engaged in reviewing performance audits, a practice that enhances the depth of parliamentary scrutiny and represents a significant positive development, especially when compared to other parliaments where such engagement is less common. By leveraging the specialized expertise of these committees, the Parliament of Montenegro ensures that performance audits receive the attention they deserve, thereby contributing to more robust oversight of public spending.

However, to further strengthen this process, it is recommended that the CEFB take on a formal coordinating role for all audits conducted by the SAI, including both performance audits and the Annual Audit Report (AR). This would enable a more streamlined and comprehensive approach to audit oversight.

The CEFB could establish regular meetings with the President of the Senate of the SAI to review and prioritize the performance audits that have been tabled in Parliament. To ensure effective follow-up, the CEFB or a designated sub-committee could select specific performance audits for in-depth scrutiny, based on their relevance and impact.

The CEFB could establish regular meetings with the President of the Senate of the SAI and invite the relevant sectoral committees to participate in the review and prioritization of performance audits that have been tabled in Parliament. To encourage ongoing engagement from sectoral committees, the CEFB may consider granting them the "first right of refusal," allowing them to take the lead in scrutinizing performance audits. However, this would require sectoral committees to commit to scrutinize the audit reports within a reasonable timeframe, typically 2-3 months. If a sectoral committee opts not to exercise its right to review an audit, or does not do so within the set timeframe, the CEFB or a designated sub-committee could then step in to select and conduct an in-depth scrutiny of the performance audit in question. This approach ensures that all audits receive thorough parliamentary attention, while promoting accountability and a structured division of oversight responsibilities.

# Specific Recommendations for Strengthening the Current Integrated Model in Montenegro

To improve the efficiency and effectiveness of Montenegro's current integrated oversight model, where the CEFB reviews the Annual Audit Report (AR) and sectoral committees focus on the Supreme Audit Institution's (SAI) performance audits, the following recommendations can be implemented:

## 1. Extend the Timeframe for AR Review

Given the compressed timeframe in which the CEFB currently scrutinizes both the Annual Audit Report (AR) and the Executive Budget Proposal (EBP), it is essential to allocate more time specifically for the detailed review of the AR. This would allow for a more thorough examination of audit findings and improve follow-up on recommendations. Extending the review period would prevent critical reports from being rushed through and enable a more comprehensive assessment of the government's budget execution. The current assumption is that the required period for adopting the AR is tied to the adoption of the EBP. While it makes sense to close the loop on audit findings before adopting the EBP, this timeline inevitably subordinates the AR to the EBP, limiting the time and attention available for detailed scrutiny of audit findings.

Options to address this include adjusting the approval date of the AR to provide more time for scrutiny or permitting the CEFB to formally approve the AR within the current timeframe while allowing inquiries with relevant ministries to take place after its adoption. This staggered approach would ensure that the CEFB can address key issues raised in the audit findings without being constrained by the deadline for AR approval, thereby enhancing the depth and quality of parliamentary oversight.

## 2. Strengthen Sectoral Committee Involvement

Sectoral committees should formalize and expand their role in reviewing performance audits conducted by the SAI. By institutionalizing sectoral committee involvement, Montenegro can ensure more consistent and specialized scrutiny of public spending. This would enhance the depth of review and allow for the identification of sector-specific inefficiencies or discrepancies. Encouraging regular and consistent hearings involving audited entities would further improve the committees' effectiveness in following up on audit findings. As a coordinating body, the CEFB could further encourage sectoral committees to scrutinize performance audits.

## 3. Establish a Structured Tracking of Recommendations

In addition to the need for more focused post-expenditure oversight, it is essential that both the CEFB and sectoral committees allocate sufficient time and resources to track the implementation of recommendations from both the Annual Audit Report (AR) and performance audits. Continuous monitoring is critical to ensuring that recommendations are followed through and that corrective measures are properly implemented across all sectors. Without a structured

process for tracking and revisiting these recommendations, the impact of parliamentary oversight diminishes, leading to accountability gaps and undermining efforts to improve budget execution and governance practices.

The 2023 OBS highlights that while Montenegro's SAI publicly reports on the implementation of most audit recommendations, follow-up remains incomplete. Moreover, the Government's action plan focuses only on the Year-End Report audit, leaving recommendations from individual audit reports related to ministries and other institutions without adequate follow-up. This weakens the overall effectiveness of oversight in ensuring that recommendations are fully implemented, and accountability is upheld.

To address these gaps, it is essential to establish a formal and structured tracking system. Committee staff, in collaboration with the SAI, should systematically monitor the implementation of recommendations from both the AR and performance audits. This system should require regular progress reports from audited entities on their efforts to implement recommendations. For entities that fail to act on recommendations, follow-up hearings should be held by the CEFB or sectoral committees to address delays and corrective actions.

Additionally, the scope of follow-up should extend beyond the AR to include all recommendations from performance audits. Strengthening tracking mechanisms and ensuring comprehensive follow-up across all audit findings will enhance the functionality of the integrated model. To this end, rules and legislation should be updated to mandate action plans for all audit reports, ensuring that every audit is followed by a clear and enforceable pathway for implementation. By assuming responsibility for this process, the CEFB could create a more coordinated and proactive oversight mechanism, leveraging a balanced mix of capacity between SAI and parliamentary staff to monitor progress and ensure timely implementation of recommendations across government institutions.

#### **4. Introduce or Strengthen Follow-Up Hearings**

To ensure that audit recommendations are effectively implemented, the CEFB and sectoral committees should conduct follow-up hearings with audited entities. These hearings would provide a platform for discussing the progress of implementing recommendations and for addressing any challenges or delays in execution. Such follow-up mechanisms are essential for maintaining momentum on corrective actions and ensuring long-term improvements in public financial management.

For entities that are falling behind or failing to act on the recommendations, there should be a formal requirement for them to appear before the CEFB or relevant sectoral committees. These appearances would allow the entities to explain the reasons for the delays and outline their corrective actions, ensuring accountability. This approach would foster a more proactive stance towards implementing audit recommendations.

#### **5. Increase Capacity and Resources for Oversight**

Both the CEFB and sectoral committees need adequate resources, including staffing and ana-

lytical capacity, to thoroughly review the AR and performance audits. By increasing the capacity for parliamentary oversight, these committees would be better equipped to conduct in-depth reviews, track the implementation of recommendations, and hold the executive accountable. Additional training for committee members on understanding performance audits and fiscal transparency could further enhance their ability to conduct effective oversight.

To enhance the effectiveness of parliamentary oversight in Montenegro, staff capacity within both the CEFB and sectoral committees must be significantly strengthened. The following areas require attention to ensure that these bodies can meet the growing demands of both ex-ante and ex-post scrutiny, particularly regarding the Annual Audit Report (AR) and performance audits:

**(a) Expanded Analytical Capacity:**

- **Financial and Audit Expertise:** Staff members supporting the CEFB and sectoral committees should have a strong background in financial oversight, audit procedures, and public finance management. This specialized expertise would enable them to thoroughly review audit findings, identify critical issues, and assist in developing inquiries for follow-up hearings.
- **Data Analysis Skills:** With an increasing volume of data from audits, there is a need for staff skilled in data analysis. This would help in the interpretation of complex financial information and tracking trends across multiple reports, enabling MPs to focus on the most pressing areas during reviews.

**(b) Enhanced Staffing Levels:**

- **Dedicated Support for Follow-Up Mechanisms:** Ensuring that recommendations from the AR and performance audits are tracked and implemented requires dedicated staff. These staff members would be responsible for monitoring the progress of audited entities, compiling progress reports, and preparing briefings for the CEFB and sectoral committees to inform follow-up hearings.
- **Sub-Committee Support:** If sub-committees are formed within the CEFB to focus on in-depth audit scrutiny, these sub-committees will require additional technical and administrative support. Staff should be specifically tasked with organizing hearings, preparing inquiry materials, and coordinating with audited entities.

**(c) Training and Professional Development:**

- **Audit and Oversight Training:** Ongoing training should be provided to staff to enhance their understanding of audit principles, financial transparency, and public sector accountability. This would include training on how to scrutinize performance audits, interpret audit recommendations, and develop strategies for improving implementation.
- **Capacity Building for MPs:** Staff could also play a key role in organizing training



sessions for MPs, particularly on how to effectively question audited entities and engage in oversight processes. Strengthening the capacity of MPs through staff-led workshops would improve the overall effectiveness of parliamentary scrutiny.

#### **(d) Coordination and Collaboration:**

- **Liaison with the SAI:** Staff responsible for supporting the CEFB and sectoral committees would need to work closely with the SAI to ensure smooth coordination of audit reviews. This includes ensuring that the SAI provides timely information and assisting in organizing regular meetings between the CEFB, sectoral committees, and the SAI.
- **Cross-Committee Collaboration:** Staff should facilitate communication between the CEFB and sectoral committees to ensure that performance audits are reviewed efficiently and that all relevant entities are scrutinized. Staff would play a pivotal role in coordinating the review process to prevent duplication of efforts and ensure comprehensive coverage.

#### **(e) Technical Tools for Monitoring and Reporting:**

- **Audit Tracking Systems:** To monitor the implementation of recommendations from the AR and performance audits, a robust digital tracking system is required. Staff would need to manage this system, ensuring that progress reports are updated regularly, and that key data is accessible to the CEFB and sectoral committees.
- **Reporting Templates:** Staff should develop standardized reporting templates to be used by audited entities, ensuring consistency in how they report on the progress of implementing recommendations. These templates would make it easier for MPs to assess the status of recommendations and identify areas where further action is needed.

## **Suggested Timeline For Implementation of Recommendations**

### **1. Extend the Timeframe for AR Review**

By Priority:

- **Immediate (Next Budget Cycle):** Propose adjusting the approval date of the AR to allow more time for review before the adoption of the EBP.
- **Short-Term (1-2 years):** Implement a staggered approach, allowing the CEFB to approve the AR while continuing inquiries with ministries after adoption.

- Medium-Term (2-3 years): Conduct a review of parliamentary procedures to determine if additional changes can further enhance scrutiny without compromising the overall budgetary process.

## 2. Strengthen Sectoral Committee Involvement

By Priority:

- Immediate: Formalize sectoral committee involvement in reviewing performance audits through updated standing orders.
- Short-Term: Encourage regular hearings with audited entities, requiring annual reports from committees on their audit reviews.
- Medium-Term: Establish clear guidelines for the CEFB to coordinate sectoral committees in reviewing performance audits and holding follow-up hearings.

## 3. Establish a Structured Tracking of Recommendations

By Priority:

- Immediate: Establish a digital tracking system for audit recommendations with clear roles assigned to committee staff for monitoring progress.
- Short-Term: Require regular progress reports from audited entities and organize follow-up hearings for entities failing to implement recommendations.
- Medium-Term: Update legislation to mandate action plans and tracking mechanisms for all audit reports, extending beyond the AR to include performance audits.

## 4. Introduce or Strengthen Follow-Up Hearings

By Priority:

- Immediate: Implement formal follow-up hearings for any entity not meeting deadlines for implementing recommendations, with these hearings scheduled quarterly.
- Short-Term: Require audited entities to provide updates at least annually, with a formal process for them to explain delays during hearings.
- Medium-Term: Mandate a comprehensive review of follow-up hearings every two years to ensure continuous improvement in oversight.

## 5. Increase Capacity and Resources for Oversight

By Priority:

- Immediate: Provide additional training to CEFB and sectoral committee staff on audit procedures and financial oversight.

- Short-Term: Allocate resources for data analysis and financial experts to support committee staff.
- Medium-Term: Increase staffing levels for the CEFB and sectoral committees, focusing on providing dedicated support for follow-up mechanisms and coordinating with the SAI.

By enhancing staffing levels, improving analytical capacity, and investing in training, the CEFB and sectoral committees would be better equipped to perform their oversight functions effectively. This capacity building would ensure that both the AR and performance audits are scrutinized in detail, that recommendations are tracked and implemented, and that Montenegro's parliamentary oversight mechanisms are strengthened.

# Conclusion

This paper has evaluated whether Montenegro should maintain its current integrated model of parliamentary oversight, in which the Committee for Economy, Finance, and Budget (CEFB) handles both ex-ante and ex-post functions, or whether it should adopt a standalone ex-post oversight committee model such as exists in the UK and Slovenia. This paper has used comparator countries to gauge strengths and weaknesses of various approaches to ex post oversight. The recommendation of this paper is that Montenegro retain the integrated model, but with important enhancements.

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