



## 1. Concept note proposal and SAI background

<b>1.1 Applicant</b>	<p><i>Audit Office of the Institution of Bosnia and Herzegovina (SAI BiH)</i></p> <p><i>Mr. Dragan Vrankic, Auditor General</i></p>
<b>1.2 Legal Applicant</b>	<p><i>Audit Office of the Institution of Bosnia and Herzegovina (SAI BiH)</i></p>
<b>1.3 Contact Details</b>	<p><i>Ms. Jamina Galijasevic, Head of International Cooperation Department;</i></p> <p><i>Tel: +387 33 703 842, email: <a href="mailto:igalijasevic@revizija.gov.ba">igalijasevic@revizija.gov.ba</a></i></p>
<b>1.4 Title and Duration</b>	<p><i>Capacity Development Support to SAI BiH, 2019-2020</i></p>
<b>1.5 Project Purpose</b>	<p><i>Increase SAI BiH's capacities in the field of financial and compliance audit (combined audit approach)</i></p>
<b>1.6 Project Outcome</b>	<p><i><u>The target outcome(s) attributable to the proposed project:</u></i></p> <p><i>Clear and effective procedures in line with ISSAIs with respect to financial/compliance combined audit approach.</i></p> <p><i>Improved capacities with regards to defining materiality (qualitative and quantitative) for compliance issues;</i></p> <p><i>Alignment with best international practices in reporting on financial/compliance audit;</i></p> <p><i><u>High-level measurable indicators to verify achievement of the target outcomes:</u></i></p> <p><i>Greater audit impact through improved quality of audit outputs.</i></p> <p><i>Identification of SAI's strengths and weaknesses as base for defining strategic objectives for the new strategic development plan (the current one expires in 2020);</i></p>
<b>1.7 Problem analysis</b>	<p><i>SAI of BiH was established in 2000. The Audit Act imposes an obligation for the SAI to perform financial and compliance audit of 74 auditees every year. The SAI's reports are structured in a way to give two separate opinions, opinion on financial statements and opinion on compliance with laws and regulations.</i></p> <p><i>During a recent review performed by SIGMA, within the framework of providing support to SAIBiH to develop a stakeholder engagement strategy, it was noted that the combined audit reports (which are too detailed in terms of audit findings) are not concise in what findings relate to audit of FI and what to audit of compliance issues. Audit reports, as such, lack impact and readability.</i></p> <p><i>On the other hand, the legislation defines financial audit only as combination with compliance and it would not be feasible to separate these two audit disciplines in terms of reporting to the Parliament.</i></p> <p><i>The SAI adopted the ISSAI framework in its entirety and is faced with challenges with respect to combining the application of ISSAIs related to financial audit (ISSAI 1000-</i></p>



	<p>1810), and the most relevant one for compliance audit ISSAI 4000. For example, ISSAI 1250 is more applicable to attestation engagements than direct reporting engagements in which case the ISSAI 4000 is more applicable. ISSAI 4000 gives possibilities for a wider audit scope and selection of multiple criteria which are not directly related to financial statements, while ISSAI 1250 gives a possibility to select only those criteria which are directly related to financial statements. In this regard we sometimes face challenges to separate issues that have a direct influence on financial statements from those that compliance only related.</p> <p>Another challenge lies in defining materiality levels for compliance related issues and properly reflecting these issues in the auditor's opinion (especially qualitative materiality).</p> <p>The SAI has 59 staff members. Financial Audit Department has 26 staff members.</p>
<p><b>1.8 Beneficiaries</b></p>	<p>SAI BiH + stakeholders (citizens and parliament). Bosnia and Herzegovina is a developing country.</p> <p>The SAI BiH would increase the quality of its audit and reports, as well as the effective level of the ISSAI implementation, while the stakeholders would benefit from greater readability and impact of audit outputs.</p>
<p><b>1.9 Financing Sought</b></p>	<p>The funding sought for the project:</p> <p>\$100,000-\$300,000</p>
<p><b>1.10 Implementing Partner(s)</b></p>	<p>An SAI or SAIs of developed countries with proficiency and experience in applying the financial/compliance combined audit approach in accordance with INTOSAI standards.</p>
<p><b>1.11 Delivery approach</b></p>	<p>The SAI proposes a peer support by one or more SAIs. The support would entail professional training of financial/compliance auditors, assistance in developing clear audit procedures in line with ISSAIs, bilateral exchanges where the implementing SAI would provide specialised workshops and insight for selected SAI staff into its good practices with respect to the subject matter, as well as a possible pilot audit under the supervision of a mentoring SAI.</p>
<p><b>1.12 Alignment with recent or ongoing support projects</b></p>	<p>Swedish National Audit Office has been providing support to the SAIBiH for a long period of time (both for performance and financial audits). SNAO had helped the SAIBiH to develop into a respectable institution. The institutional cooperation agreement with SNAO ended in 2017.</p> <p>SIGMA provides continued support to the SAI in the form of periodic peer reviews and through joint activities taking place under the umbrella of the Network of SAIs of Candidate and Potential Candidate Counties. SIGMA currently provides support to the SAI in developing the stakeholder engagement strategy. SIGMA supported the SAI's proposal to seek professional support and continue to evolve.</p>
<p><b>1.13 Existence of SAI-Donor Coordination Mechanism</b></p>	<p>N/A</p>



**1.14 Risk assessment of project**

*Critical Risks to Initiative Outputs and Outcomes:*

- i. The risk of reluctance to change and accepting transformation of the current model by the SAI staff;*
- ii. The risk that newly developed audit procedures will not be tested/implemented properly;*
- iii. The risk that implementing partners would not understand specific local circumstances and limitations;*
- iv. The risk of delayed results due to the required interpretation to and from English of both events and materials related to the project implementation.*

*Critical assumptions:*

- i. Readiness of the key decision makers (the AG) to support the project activities;*
- ii. The SAI management will ensure that key project team members are available as needed to complete project tasks and objectives.*
- iii. The relevant SAI staff are already trained in ISSAI framework and familiar with key methodological requirements;*

**1.15 Monitoring of the project**

*The SAI and the implementing partner will establish a project work plan identifying key activities and milestones, as well as liabilities for regular reporting on the progress of the project against the planned outputs.*