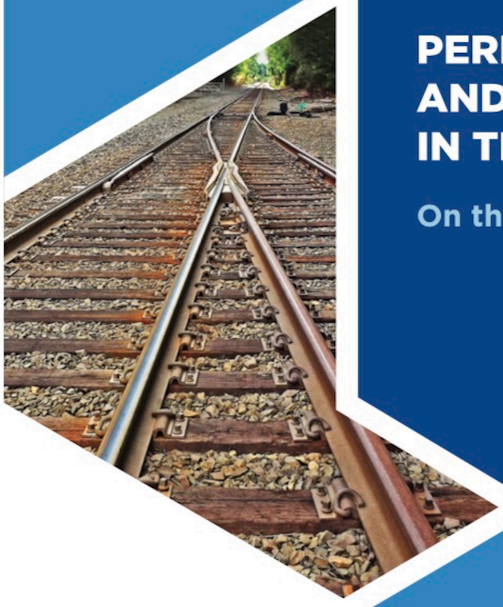

PERFORMANCE AUDIT AND POLICY EVALUATION IN THE WESTERN BALKANS

On the Same or Parallel Tracks?

TEN Think for Europe Network

EUROPEAN POLICY CENTRE

European Policy Institute. Skopje

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Belgrade, 2015

PERFORMANCE AUDIT AND POLICY EVALUATION IN THE WESTERN BALKANS

On the Same or Parallel Tracks?

Abstract

From a conceptual perspective, performance audit and policy evaluation are very close fields, with highly converging goals, methods and tools. At the same time, in the Western Balkans these two fields have been evolving without connection and reference to each other. How can the two processes be brought closer together in the three studied WB countries – Macedonia, Montenegro and Serbia – with a view to ensure efficiencies and synergic development of these rather novel performance management instruments?

Milena Lazarević, Miloš Đinđić,
Simonida Kacarska, Jovana Marović,
Marko Sošić, Kristina Cuculoska

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The RRPP promotes social science research in the Western Balkans (Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro and Serbia). Social science research aids in the understanding of the specific reform needs of countries in the region and in identifying the long-term implications of policy choices. Researchers receive support through research grants, methodological and thematic trainings as well as opportunities for regional and international networking and mentoring. The RRPP is coordinated and operated by the Interfaculty Institute for Central and Eastern Europe (IICEE) at the University of Fribourg (Switzerland). The programme is fully funded by the Swiss Agency for Development and Cooperation (SDC), Federal Department of Foreign Affairs.

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ABOUT THE PROJECT AND PARTNERS

About the Project

Aim of the project was to analyse the weaknesses, strengths, connecting spots and similarities between performance audit and policy evaluation in ***Macedonia, Montenegro and Serbia*** *so as to provide policy makers and supreme audit institutions in these countries with evidence-based policy options and recommendations for the promotion of good governance principles and contribution to the improvement of public administration performance. The inspiration for embarking on such analysis in these countries was found in: a) the need for synergies and efficiencies in reforming public administration especially in the event of pressing EU accession requirements and deficient resources for fulfilling them and b) in the acknowledgment that performance audit and policy evaluation are valuable tools for improving performance of public administration but remain underutilised or underdeveloped in these three countries.*

The study before you is the final product of a research project which lasted over twelve months. The project ***"Performance Audit and Policy Evaluation: On the Same or Parallel Tracks?"*** *is implemented in the framework of the Regional Research Promotion Programme in the Western Balkans (RRPP) with financial support of the Swiss Agency for Development and Cooperation (SDC).*

Draft policy study was presented at the regional conference in Belgrade on September 09-10. This final version of the policy study incorporates contributions of stakeholders from the conference.

About the Partners

Implementing partners of this project are member organisations of the ***Think for Europe Network*** *of Think Tanks and EU Policy Research Centres in South East Europe (TEN). Evidence based policy making and promotion of EU integration lie at the heart of TEN. Its members are non-profit, independent think-tank or policy research organisations focusing on the EU integration process and committed to evidence-based policy making and advocacy. The founding members of TEN are:*

European Policy Centre (CEP), Belgrade, SRB *- www.europeanpolicy.org*

European Policy Institute (EPI), Skopje, MK *- www.epi.org.mk*

Institute Alternative (IA), Podgorica, MNE *- www.institut-alternativa.org*

CONTENTS

ABBREVIATIONS TABLE

AWPG	Annual Work Programme of the Government
CDC	French Court of Audits (originally *Cour des Comptes*)
CoA	Court of Audit
EEF	Educational Endowment Foundation
GAWP	Government Annual Work Plan
GWAs	Government-wide audits (GWAs)
INTOSAI	International Organisation of Supreme Audit Institutions
ISSAI	International Standards of Supreme Audit Institutions
IT	Information Technology
LCSE	Law on Civil Servants and Employees
MF	Ministry of Finance
MFAEI	Ministry of Foreign Affairs and European integration
MIOA	Ministry for Information Society and Administration (Macedonia)
MIS	Management Information System
NAD	Needs Assessment Document
NCA	The Netherlands Court of Audit
NICE	National Institute for Health and Care Excellence
NIPAC	Secretariat of the National IPA Coordinator
NPM	New Public Management
PA	Performance Audit
PAR	Public Administration Reform
PE	Policy Evaluation

PIA	Policy Impact Assessments
PIFC	Public Internal Financial Control
PIS	Project Information System
PMO	Prime Minister Office
PPS	Public Policy Secretariat
RBB	Results Based Budgeting
RIA	Regulatory Impact Assessment
RoP	Rules of Procedures
SAI	State Audit Institution
SAO	State Audit Office
SEE	South-East Europe
SEIO	Serbian European Integration Office
SGMAP	The General Secretariat for Public Policy Modernisation (France)
SIPRU	Social Inclusion and Poverty Reduction Unit of the Government (Serbia)
SPD	Sector Planning Documents
TA	Technical Assistance
VBTB	Policy Budget and Policy Accountability Reform
VFM	Value for Money
WB	Western Balkans

0 EXECUTIVE SUMMARY

About the Study

The study addresses the issue of public sector performance in three Western Balkan countries - Macedonia, Montenegro and Serbia, with the goals of connecting two instruments for the improvement of policy learning and overall delivery of public administration. Performance audit and policy evaluation, despite their converging goals, methods and tools, have been evolving in isolation from each other, and without institutional or practical connections. How can the two processes be brought closer together in these countries, with the purpose of ensuring efficiencies and synergic development of these rather novel performance management instruments?

There is increased pressure on these states to adapt to the EU (as well as other international) requirements and models, and *inter alia* to introduce performance audit and policy evaluation functions into their systems. Given that resources in public administration systems of Macedonia, Montenegro and Serbia are too scarce to allow for the fulfilment of all requirements in the accession process at once, the authors of this study researched the connecting points between performance audit and policy evaluation in the three countries, in order to show their potential synergies for the benefit of public sector performance. Moreover, the complementarity and the similarities between these two fields have been emphasised in international literature and in comparative practice for decades, but have remained understudied in the context of the Western Balkans.

Performance audit and policy evaluation differ from an institutional perspective, while the former is performed by Supreme Audit Institutions (SAIs), the latter is a competence of policy evaluators within, or commissioned by, policy departments or units of public administration bodies. Still, they tackle the same phenomenon, i.e. assessment of governmental activities, by focusing on a comparison of final results to the initially defined goals. However, this is conducted through diverging philosophies, terminology, methodologies and tools.

Therefore, the purpose of the study is to examine the existing, as well as the potential, conceptual, methodological and institutional relations between performance audit and policy evaluation in the three countries,

which are the forerunners in the Western Balkan enlargement process. The study relies on a qualitative thematic analysis of documents and data from interviews with key stakeholders, who are involved and shape the processes of evaluation and performance audit in these countries. In addition, six EU Member States are analysed in order to gain insight into the practices of establishing links between performance audit and policy evaluation in countries with different administrative cultures and diverse administrative experiences (the Netherlands, France, United Kingdom, Finland, Estonia and Slovenia). Data was collected through document analysis which included legislation and relevant strategic documents on both policy evaluation and performance audit in the countries under examination, as well as the existing secondary literature on performance audit and its linkages to policy evaluation in order to locate this study in conceptual and empirical literature. Moreover, semi-structured interviews with stakeholders selected from SAIs and ministerial departments responsible for policy analysis or evaluation in countries under examination were conducted in order to collect first-hand information.

Performance Audit and Policy Evaluation - Emerging Concepts in WB

Firstly, the study focuses on policy evaluation systems or existing policy evaluation practices in the studied Western Balkan countries, and seeks not only to elaborate on the development of these practices and systems, which differ in terms of institutionalization and their goals and impact, but also to explore to what extent the existing evaluation practices are conducive to linkages and synergies with performance audit. It is concluded that policy evaluation is a novel concept that lacks a systemic approach, with the exception of Macedonia where (internal) ex-post evaluation of legislation has recently been introduced as a formal requirement. In contrast to Macedonia, in Serbia and Montenegro no formal requirements or a systemic approach to evaluation have been introduced to date. The existing policy evaluation practices are sporadic and ad hoc, often driven by external pressures (e.g. technical assistance projects). The EU accession, as a common denominator for all three countries, is expected to further push towards systemic solutions that would focus on the effectiveness of policies.

Further on, the study provides an analytical insight into the development of performance audit, but, similarly to the previous chapter, its primary intention is to determine the possibilities for bringing performance audit closer to policy evaluation. Namely, it examines whether performance audit can become more "evaluative" in nature. In all three countries performance audit is developing in overly

legalistic administrative cultures, which influence supreme audit institutions (SAIs) to focus more on traditional accountability aspects of audit, whereas the audit of effectiveness of government undertakings is still far from reach. Differences among countries extend beyond the simple number of performance audits conducted to date, to the general audit focus. Examples are the focus on individual institutions in Montenegro, the preference for specific policy programmes in Macedonia, or the audit of cross-cutting topics and their management aspects in Serbia. All in all, performance audit is not fully evaluative in nature and effectiveness studies would not be feasible at this stage.

The current circumstances in the three countries studied regarding performance audit and policy evaluation provided the basis for the examination of potential links between the two processes, which could potentially benefit the overall public sector performance, as well as policy making practices. Little or no evidence was found on the existing links, the awareness of the key stakeholders on the possibilities of establishing links, or even their potential usefulness. Different institutional roles, discrepancies in the level of institutionalization and formality, a lack of understanding of the roles and work of "the other side" have, *inter alia*, influenced such perceptions in all three of the studied countries. However, a positive finding for each country is that professionals from both sides, despite certain reservations, strongly support the idea that the two fields and their actors should be brought closer together.

The EU case study examples are particularly emphasised in the chapter on the interaction of performance audit and policy evaluation, as they have been used as a source of inspiration for defining the modalities of interaction between the two fields considered in the Western Balkan countries. The practices of the six selected EU countries demonstrated a variety of models for establishing more or less formalised links between performance audit and policy evaluation.

Modalities and Options for Western Balkan Countries: Which Way to Go?

The modalities describe the different approaches in establishing linkages and synergies between performance audit and policy evaluation. The five modalities are thus structured so as to present a progression from more simple to more challenging and complex modalities, in terms of their implementation.

The study also elaborates on the implementation options which policy makers can consider, with the purpose of institutionalising

these modalities. The options are, thus, defined in terms of the policy instruments through which the modalities can be implemented:

1) **Status Quo Approach**, which does not require new instruments to be adopted;
2) **Soft Law Approach**, relying on recommendations and guidelines;
3) **Hard Law Approach**, proposing a complex regulatory activity, i.e. adoption of binding primary and/or secondary legislation.

The **first modality** of establishing interaction between performance audit and policy evaluation was largely inspired by the informal practice of Dutch performance auditors and policy evaluators, who seek to connect the two professions and network with each other as much as possible, using resources at hand. This modality could be implemented without an additional regulatory activity, i.e. the Status Quo implementation option would be sufficient for its achievement. Informal cooperation could be supported by a more proactive role of the actors involved in performance audit and policy evaluation processes. This modality was supported by all interviewed stakeholders.

Inspired by the practice of the Netherlands Court of Audit, the **second modality** envisions a more proactive role of the SAIs in fostering an evaluation culture through the execution of systemic performance audits, which would identify the gaps in public performance management and measurement. This modality could be implemented through the Soft Law Approach (internal guidelines and methodologies of the SAIs) and was generally acceptable for the stakeholders. This modality would require that SAIs and governmental institutions act as allies in the shared task of improving the public sector performance, which is not always the case.

The **third modality** leans on the experience of the United Kingdom and the Netherlands where SAIs occasionally conduct meta-evaluations of policy evaluation systems or individual evaluations in respective countries, which essentially means assessing the quality of the government's evaluations. There is some reluctance among stakeholders in terms of whether this option is feasible or even desirable. In the current systems, where both performance audit and policy evaluation need further strengthening (and institutionalisation), this option is seen as too ambitious.

The **fourth modality** finds inspiration in the Estonian model where policy planning units, which are units in charge of policy evaluation

within the ministries, actively use performance audit reports and their findings in conducting their analyses. There is a general understanding among stakeholders in the SAIs and governmental institutions that referring to performance audit reports when conducting policy evaluation is useful and can substantively contribute to the quality of evaluations. In the current legal systems of the WB countries, the implementation of this option would most probably require the hard law approach, i.e. a systemic regulation of policy evaluation or at least a regulation of the requirement for policy evaluators to refer to relevant performance audit reports, and comment or report on whether the auditors' recommendations have been implemented by the relevant policy makers.

Finally, the **fifth modality** was inspired by the practice of the French Court of Audit, which has introduced policy evaluation as its own standalone activity, alongside performance audit. This modality entails two parallel, but complementary evaluation processes (one conducted by the SAI and the other by governmental institutions). Although attracting attention among stakeholders, there is unanimous agreement that, within the present circumstances of scarce resources or insufficient capacities of the SAIs, this modality would constitute an unnecessary duplication of functions.

The selection of the preferred modality and implementation option will be strongly influenced by the specificities of the country in question. Therefore, specific recommendations for each country will be proposed in the study in order to address local contexts and developments.

Concluding Remarks and General Recommendations

In conceiving the strategies for interlinking performance audit and policy evaluation, policy evaluators and performance auditors in each of the three countries will have to take into account the differences in government and audit agendas, be cautious when it comes to institutional roles and duties (particularly with respect to independence of SAIs), and start working in the direction of institutional awareness raising and learning about each other's roles and activities. Additionally, in order to get the most out of the potential synergies, current policy developments and public administration reform efforts, which might differ across countries, should be taken advantage of for creating a space for meaningful interaction between performance audit and policy evaluation (e.g. performance-based budgeting).

General recommendations highlight several steps that need to be taken in all three countries:

Recommendations to SAIs:

- It is recommended that SAIs monitor the developments in the area of policy evaluation and collect and analyse information about the conducted evaluations, as part of their PA planning methodologies and processes;
- To ensure that SAIs are better informed about the ongoing and completed policy evaluations, the policy units and/or centre-of-government institutions in charge of the evaluation systems could be obliged or recommended to regularly send such updates to SAIs;
- SAIs should devote a part of their performance audit work to system-oriented issues or causes of failures of policy implementation;
- It is important to establish follow-up mechanisms for monitoring the implementation of performance audit recommendations, which are distinct from other types of audit and sensitive to specific approaches of the three SAIs and to the stakeholders' needs in these countries;

Recommendations to SAIs and governments:

- Stakeholder consultations among auditees and performance auditors should be organized as often as possible, before the audit starts and throughout the stages of the performance audit process, provided that independence of SAI remains intact;
- The process of preparation of the final performance audit reports should be made inclusive by including the concerns and remarks of the auditees in collaboration with performance auditors;

Recommendations to governments:

- Consulting performance audit reports should be applied in the work of ministries and other administration bodies in the process of designing and evaluating policies, taking into account country-specific conditions;
- The formal requirement for conducting ex-post policy evaluations should be clearly emphasised by the legislation (primary or secondary), stipulating general types of ex-post evaluations to be performed, the level at which they will be conducted (policy, budget programme, law, etc.), and their scope and frequency;

- It is recommended to transfer evaluation-related competence to a single institution at the centre of government. This institution would not be in charge of conducting evaluations, but would act as the "driving engine" behind the development, implementation, oversight and quality assurance.

1 INTRODUCTION: THE EU DRIVE TO PERFORMANCE

1.1 Background: New Public Management and the Western Balkans

The EU accession process is triggering and driving a plethora of reforms in candidate countries, including the increasingly important and emphasized public administration reform. Acceding countries have adopted different models ranging from the more classical (neo) Weberian models of public administration to approaches inspired by New Public Management (NPM)[1] and the subsequently emerging perspectives, such as New Public Governance or Neo-Weberian State.[2] What they have in common is an attempt to introduce mechanisms and instruments for improving and measuring the performance of public administration. The experience of new Member States that joined the EU in 2004 and 2007 showed that NPM applied as a one-size-fits-all model has a debilitating impact in countries that do not have a well-functioning public administration based on a rule of law and a democratic administrative tradition with established management practices.[3] Therefore, it has been proposed that in emerging, new democracies advantage should be given to the building of a more classical – Weberian – merit-based administrative system, which would ensure proper embedding of accountability systems, respect for the rule of law, professionalism and transparency, before embarking on more "modern" models of public management.[4] Nevertheless, elements stemming from NPM are still being applied in the current EU enlargement to the Western Balkans (WB), albeit in a different atmosphere – one focusing much more on strengthening Weberian administrative concepts.

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[1] Christopher Hood, "A Public Management for All Seasons?", *Public Administration*, 69.1 (1991), 3–19.

[2] See, for example, Christopher Pollitt and Geert Bouckaert, *Public Management Reform*: *A Comparative Analysis - New Public Management, Governance, and the Neo-Weberian State*, 3rd ed. (Oxford: Oxford University Press, 2011).

[3] See, for example, Jane Finlay and Marek Debicki, eds., *Delivering Public Services in Central and Eastern Europe: Trends and Developments.* (NISPAcee Press, 2003). And Wolfgang Drechsler, "The re-emergence of "Weberian" public administration after the fall of New Public Management: The Central and Eastern European perspective," *Administrative Culture* 06 (2005), 94-108.

[4] For a discussion on this matter see: Tiina Randma-Liiv, "New public management versus the Neo-Weberian state in Central and Eastern Europe," *The NISPAcee Journal of Public Administration and Policy* 1.2 (2008), 69-81.

Macedonia, Montenegro and Serbia, as the case studies of this research, are under increased pressure to adapt to EU (and other international) formal and informal requirements and models. Some of those elements are quite explicitly stated by SIGMA in the Public Administration Principles published in November 2014 under the auspices of the European Commission. Cases in point are policy monitoring and evaluation as well as performance audit, which, albeit from different perspectives, have been made the necessary ingredients of public administration reform (PAR) in countries seeking EU membership.[5] In the international context, the development of both of these fields was greatly accelerated with the advent of NPM reforms across the globe and, although the Western Balkans were never captured by the NPM reform zeal which captured some of the CEE countries in their transitional period, the drivers for their development are still very much present. Thus, although one may argue that NPM never arrived in the Western Balkans, some of its ideas, those which have merged well into the Neo-Weberian state concept, have certainly come to stay.[6] The Neo-Weberian state model started to gain attention as the one which keeps certain elements of the NPM, while retaining crucial aspects of the Weberian model such as hierarchy, legality, or professional civil service.[7] This model is often seen as a rival of the NPM model, as it favours a strong over a minimal state, stability over flexibility, regulation over deregulation, *et cetera*.[8]

1.2 Purpose and Method of the Policy Study

Performance audit is defined by the International Organisation of Supreme Audit Institutions (INTOSAI) as an "independent, objective and reliable examination of whether government undertakings, systems, operations, programmes, activities or organisations are operating in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement."[9] On the other hand, evaluation is defined by the European Commission as the procedure of "assessing the relevance, efficiency, effectiveness,

[5] See: The Principles of Public Administration, OECD/SIGMA, available at: http://www.sigmaweb.org/publications/Principles-Public-Administration-Nov2014.pdf.
[6] See: Wolfgang Drechsler, "The Re-emergence of "Weberian" Public Administration after the Fall of New Public Management: The Central and Eastern European Perspective," *Administrative Culture* 06 (2005), 94-108.
[7] Wolfgang Drechsler, "The Rise and Demise of the New Public Management: Lessons and Opportunities for South East Europe," *Uprava*, letnik VII (2009), 12.
[8] See: Tiina Randma-Liiv, "New public Management versus the Neo-Weberian State in Central and Eastern Europe," *The NISPAcee Journal of Public Administration and Policy* 1.2 (2008), 69-81.
[9] ISSAI 300, Fundamental Principles of Performance Auditing, 2.

impact and sustainability of policies and programmes."[10] From an institutional perspective, performance audit and policy evaluation are separate processes. While the former is performed by independent Supreme Audit Institutions (SAIs),[11] the latter is a competence of policy evaluators within, or commissioned by, policy departments and/or units of state administration bodies. And yet, both tackle the same phenomenon i.e. assessment of governmental activities by focusing on the comparison of final results to the initially defined goals, although through diverging philosophies, terminology, methodologies and tools.

In an environment of limited resources and increasing pressure to downsize the public sector and "do more with less", it becomes paramount to inquire how both of these performance related requirements built in the EU accession process can be met both effectively and efficiently, and by ensuring maximum synergies between the two fields. Based on this assumption, the purpose of this study is to examine the existing, as well as potential, conceptual, methodological and institutional relations between performance audit and policy evaluation in three Western Balkan countries, all of which are candidates for EU accession, namely, Macedonia, Montenegro and Serbia. These three countries are the forerunners in the Western Balkan enlargement process; whereas Macedonia is the longest standing candidate for EU accession in the region since 2005, Montenegro and Serbia are already negotiating EU membership. Therefore, the analysis of these three countries brings insight into the incentives that operate at various stages of the EU accession process. At the same time, the three countries share a common pre-1990 administrative system that has developed, as will be shown, in somewhat different directions, thus shedding light of the importance of contextual factors.

In order to look for comparative practices at the EU level and possible inspiration for our recommendations to WB policy makers, we analysed the relationship between performance audit and policy evaluation in six EU member states. Based on preliminary research of all EU member states and after applying the criteria that countries should have both developed PA and policy evaluation systems, as well as taking into consideration the availability of information and data, we selected France, the Netherlands, United Kingdom, Slovenia, Estonia and Finland as out case studies. Additionally, the choice was

[10] European Commission, Quality of Public Administration – A Toolbox for Practitioners, Directorate-General for Employment, Social Affairs and Inclusion, 2015, 50. Available at: http://ec.europa.eu/esf/main.jsp?catId=3&langId=en&keywords=&langSel=&pubType=434.

[11] There is a separate and strong tradition of establishing internal audits in public sector organisations. Internal audits are, however, not the competence of SAIs but a function embedded within the public administration bodies and budget beneficiaries.

influenced by the consideration of the need to include countries from diverse institutional traditions as well as create a combination of "old" (pre-2004) and "new" (post-2004) member states. Such an approach in selecting the case studies promised to provide us with sufficient breadth of data for devising potential policy options and alternatives for the Western Balkans.

The research questions we asked and responded to in this study are:

- What is the nature of the relationship between performance audit and policy evaluation?
- How is that relationship mirrored in the existing practices of the three Western Balkan states and the six EU case studies?
- What can policy makers, public administration employees and SAIs in the WB learn from conceptual and empirical literature and the practices, from each other and from the six EU case studies?

In combining the traits of exploratory and descriptive research, justified by the novelty and underdevelopment of the studied concepts in the three WB countries, we relied on qualitative thematic analyses of documents and data from interviews with key stakeholders who are involved and shape the processes of evaluation and performance audit in these countries, as well as the EU case studies analysed. We adopted a qualitative approach given its suitability for "[engaging] in research that probes for deeper understanding rather than examining surface features."[12] In terms of the former, we studied the legislation and relevant strategic documents on both policy evaluation and performance audit in the countries under examination. These include constitutions, laws (for example on state audit institutions), as well as relevant reports, including performance audit reports and reports on policy evaluation, all of which were subjected to thematic analysis (for detailed methodology, see Annex). Furthermore, the existing secondary literature on performance audit and its linkages to policy evaluation was studied in order to locate this study in conceptual and empirical literature.

In order to study the operation of the two processes (PA and policy evaluation) in practice, and the potential and need for their linkage, we conducted "elite" and "expert" semi structured interviews using a common interview guide with key stakeholders in the three countries.[13]

[12] Scott D. Johnson, "From the Editor - Will Our Research Hold up Under Scrutiny?" Journal of Industrial Teacher Education, 32.3 (1995), 4.
[13] All of the interviews were transcribed, supplemented with notes and then subject to thematic analysis.

The objective of the interviews was to focus on implementation in order to supplement desk research conducted for the paper, as well as to increase awareness of the processes on both of the sides studied. In addition, "interviews may also help in the process of identifying which documents have been deemed to be important, read and acted upon.[14] In this direction, "one of the strongest advantages of elite interviews is that researchers can interview first-hand participants of the processes they are investigating and obtain accounts from direct witnesses to the events in question".[15] While recognizing the limitations of elite studies, the study adopts a view of elites as "experts which can provide high quality information and guidance," which is of primary concern to this research since the policies studied in this study depend largely on elites.[16]

The interlocutors were selected from SAIs and ministerial departments responsible for policy analysis and evaluation through a combination of non-probability purposeful sampling and the snowball technique. The sample of the potential interlocutors is very small and hence random sampling was not an option for this research. The focus was not only on appointed officials, but also civil servants who hold expertise relevant for the research. While there are limitations to these sampling techniques, the researchers encompassed a variety of stakeholders in the interviews and ensured that all relevant elements of the performance systems in the three countries are represented in the sample. Reliability was ensured by using data gathered both from secondary sources and from document analysis and interviews.

The paper fills a gap in both the conceptual and empirical literature. In relation to the former, the linkages and complementarities between performance audit and policy evaluation remain debated and largely understudied in general, but also for non-WB countries specifically. For this purpose, scholars have urged for the incorporation of performance information into the financial and policy cycle as there is lack of comparative data and an omitted link.[17] Empirically, the paper fills a gap in the study of performance audit and policy evaluation in the context of the Western Balkans. As such, it brings insight into the

[14] Lisa Harrison and Wolfgang Deicke, "Conducting Interviews in Political Research," in *Political Research - An Introduction*, ed. Lisa Harrison (London: Routledge, 2001), 94.
[15] Oisín Tansey, "Process Tracing and Elite Interviewing: A Case for Non-Probability Sampling," *PS: Political Science & Politics*, 04 (2007), 767.
[16] George Moyser and Margaret Wagstaffe, "Studying elites: theoretical and methodological issues," in *Research methods for elite studies,* ed. Wagstaffe, G. M. A. M. (London: Allen & Unwin, 1987), 16-17.
[17] See: Christopher Pollitt and Geert Bouckaert, *Public Management Reform: A Comparative Analysis - New Public Management, Governance, and the Neo-Weberian State*, 3rd ed. (Oxford: Oxford University Press, 2011).

operation of performance audit and policy evaluation in the conditions of post-communist transformations and under the pressure of the EU accession process.

1.3 Structure

The structure of the study is as follows:

- Chapter 2 sets out the wider context for the research of policy evaluation and performance audit, their linkages and interaction from the perspective of necessary preconditions for improved public administration performance. The emphasis is put on four aspects or preconditions related to performance management in Macedonia, Montenegro and Serbia.
- Chapter 3 provides an analysis of the state of play in the development and implementation of policy evaluation in three Western Balkan counties – Macedonia, Montenegro and Serbia, focusing on the patterns of development of policy evaluation and their potential for accommodating linkages with performance audit.
- Chapter 4 analyses the development and state of play in the area of performance audit in the three countries, primarily focusing on the patterns of development of the field in relation to the potential future linkages with policy evaluation.
- Chapter 5 focuses on the linkages and interactions between PA and policy evaluation, starting from a conceptual discussion and followed by a discussion of the main findings of the field research pertaining to the existing and perceived potential linkages in the three WB countries, as seen by the interviewees.

Chapters 3 to 5 conclude with key findings from the six European Union member states case studies presented as concise text boxes, with the purpose of illustrating examples of good practice that could serve as inspiration to WB policy makers in further developing the two fields. The EU case studies are particularly emphasized in Chapter 5, given that they represent the source and inspiration for defining the modalities of cooperation presented and discussed in the following chapter.

- In Chapter 6 specific modalities of cooperation between performance audit and policy evaluation are elaborated based on the main findings of comparative case studies (six EU member states). Based on the results and conclusions from discussions with key stakeholders conducted in the final stage of research,

options for implementation of the preferred modalities are constructed and evaluated for each of the three WB countries.

- Chapter 7 is the concluding chapter, which provides evidence-based policy recommendations for the policy makers and SAIs in the three WB states. Recommendations are structured in a way to reflect issues which are common to all three countries but at the same time the largest number of recommendations are tailor-made, fitting for particular context of a single country owing to the differences in institutional practices and level of experience;
- Annexes including detailed methodology, questionnaires and a list of interviewed institutions and organisations.

2 CONTEXT: WHAT ARE THE PRECONDITIONS FOR IMPROVED PERFORMANCE OF PUBLIC ADMINISTRATION?

Although the principal intention of this policy study is to focus on performance audit and policy evaluation, as well as the possibilities for linking these two processes in order to ensure better coordination and a more efficient approach in improving the targeted policy areas, a few words need to be said about the overall context within which these two process (should) operate. These contextual questions are not only relevant for a better understanding of the place of performance audit and policy evaluation in the overall public administration reform agendas of the WB countries, but are also useful to introduce, as they may serve as inspiration for future, follow-up research in the field.

On the whole, the concept which provides a wider context for both performance audit and policy evaluation, and which also integrates several important linked issues which were identified during the research for this study, is that of performance management. It can be defined as "an integrated set of planning and review procedures which cascade down through the organization to provide a link between each individual and the overall strategy of the organization."[18] Essentially, performance management in its purest form represents a framework of processes, methodologies, actors and responsibilities which serve to plan, formulate, implement, monitor and evaluate the policies, organisations and people in a government in order to maximise achievement of results in the most efficient manner. A performance management framework uses "interrelated strategies and activities to improve the performance of individuals, teams and organizations. Its purpose is to enhance the achievement of agency goals and outcomes for the government."[19] The key objectives of performance management include "(re-)

[18]Steve Rogers, *Performance Management in Local Government* (Harlow: Longman, 1990), 16, as quoted in: Geert Bouckaert and John Halligan, "A Framework for Comparative Analysis of Performance Management" (paper for presentation to Study Group on Productivity and Quality in the Public Sector, Conference of European Group of Public Administration, Università Bocconi, Milan, September 6-9, 2006).

[19] "Management Advisory Committee, Performance Management in the Australian Public Service: A Strategic Framework" (Canberra: Commonwealth of Australia, 2001), 14, as quoted in Geert Bouckaert and John Halligan, "A Framework for Comparative Analysis of Performance Management" (paper for presentation to Study Group on Productivity and Quality in the Public Sector, Conference of European Group of Public Administration, Università Bocconi, Milan, September 6-9, 2006).

allocation of resources (of which savings is one specific variant), increase in the performance of the public sector as such, and enhanced accountability."[20]

Performance audit and policy evaluation, as tools for assessing the efficiency, economy and effectiveness of government actions, play their roles in the wider performance management concept. In order for these processes to be successfully conducted, to thrive and yield results, certain preconditions are preferable. This brief chapter, based on a combination of archival research, interviews and notes from several expert discussions,[21] provides a succinct overview of the state of several important preconditions for and/or elements of performance management in Macedonia, Montenegro and Serbia, focusing on those considered as the most important for the development of performance audit and policy evaluation.[22] Therefore, the overview focuses on 1) *administrative culture,* 2) *overall strategic and policy planning at the macro-level (government level),* 3) *performance budgeting, 4) policy monitoring practices, and 5) lack of open and reliable data*, in order to set out the context in which performance audit and policy evaluation functions are developing.

2.1 Administrative Culture

As explained above, the concept of administration which is rule- and compliance-oriented, and resistant to change, coupled with a strong state that plays a major role in the economy and society, drives the administration away from highly performance-oriented paradigms, such as the NPM, reliant on the concept of the minimal state with application of business and market principles in the public sector,[23] and shifts the focus towards a Neo-Weberian state model. For Macedonia, Montenegro and Serbia, it is clear that the EU accession process is influencing and will continue to influence the future direction of public administration reform. Nonetheless, in the absence of a clear model at EU level, the legalistic administrative culture and tradition of these countries impede attempts of taking bolder steps towards introduction of performance management.

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[20] Ibid., 23.

[21] This chapter arose primarily out of the discussions during the Regional Conference "Improving Public Administration Performance in the Western Balkans: Current Practices and Future Perspectives," held in Belgrade on 9-10 September 2015, as part of the same project under which this study has been developed. For the report on the conference and its proceedings, please visit: http://ten.europeanpolicy.org.

[22] For example, the overview does not include a discussion of individual performance assessments and evaluations.

[23] Drechsler, "The Rise and Demise of the New Public Management: Lessons and Opportunities for South East Europe," 8.

Namely, the administration and legal systems of the countries in question are largely based on the continental legal tradition. As put forward by Thomas and Bojicic-Dzelilovic, "in looking at the formal policy making process in the Western Balkan countries [...], a picture emerges of a fundamentally legalistic approach that is rooted in the historical traditions of the Austro-Hungarian and the civil law system of the former Socialist Federal Republic of Yugoslavia."[24] Rabrenovic argues that "'over-legalisation' poses problems for the functioning of the system which lacks flexibility in its operation, as the 'rules of the game' can often be changed only by Parliamentary amendments."[25] Generally, legalistic administrative culture is considered to be resistant to the introduction of new practices which do not need some degree of regulation.

2.2 Macro-level Strategic and Policy Planning

Coherent and integrated policy and a strategic planning process are necessary elements of any comprehensive performance framework, as they create hierarchy and consistency of priorities at all government levels, functional links between different levels of prioritisation as well as a connection with the budgetary framework.

In ***Macedonia*** the introduction of the strategic planning system commenced as early as 2000 with the establishment of the General Secretariat of the Government of the Republic of Macedonia, and presently the strategic planning system seems to be functioning well. SIGMA assessment in 2014 addressed the policy planning system in detail and concluded, *inter alia*, that:

- There is no formal hierarchy of central planning documents, although the Government Political Programme is considered as the document with the highest status. At present, the main strategic document of the Government is the Pre-accession Economic Programme.[26]
- The planning system established by the rules of procedure of the Government and the Budget Law provides an effective link between the setting of strategic priorities, the budget process and the development of an annual work programme.[27]

[24] Margo Thomas, ed., *Public Policy Making in the Western Balkans* (Dordrecht: Springer Netherlands, 2015), 8.
[25] Aleksandra Rabrenovic, *Financial Accountability as a condition for EU Membership* (Belgrade: Comparative Law Institute, 2007), 174.
[26] SIGMA Assessment, the Former Yugoslav Republic of Macedonia, 2014, 8. Available at: http://www.sigmaweb.org/publications/FYRoM-Assessment-2014.pdf.
[27] Ibid., 9.

- The linkage between policy and financial planning is less clear with sectoral and horizontal strategies. Strategies are often considered as declarative documents and are not accompanied by action plans or fiscal impact assessments.[28]

In ***Montenegro***, there is no centre for coordinating strategic priorities at the administrative level and analyses of government work performance are not done centrally, although reports on the implementation of government conclusions and reports on the work of ministries are prepared.[29] There are persistent problems of inconsistency and lack of coordination among various sector strategies. Shortcomings of this system are best reflected in problems in medium-term policy resource planning, which is not developed to capture sector policies or their resource needs. Even when financing needs are presented in a sector strategy, they are not consistent with the annual budget or the IPA programmes.

In ***Serbia***, the planning process at the centre of the government has gradually evolved due to technical assistance projects which have been implemented for this purpose, albeit some decade-long problems are still present. Overall, strategic planning remains largely unconsolidated and top-down prioritisation is missing. There is no clear hierarchy between planning documents and different levels of prioritisation (strategic, policy and operational), and functional links between different strategies are weak. At the same time, the budget process is not reflected in the planning process as there is no "real and effective or, more importantly, causal link between the GAWP, the Budget Act and budget planning process and management of the Government."[30] The absence of a connection with the budget has far-reaching consequences for policy implementation, as well as monitoring and evaluation.

2.3 Performance Budgeting

Performance budgeting is another important component of a comprehensive performance framework, and one which can be an important precondition for the development and quality of performance audit and policy evaluation (although it cannot be considered

[28] Ibid., 10.
[29] See: Klas Klaas, "Policy Making Review Montenegro," SIGMA Papers, No. 51, OECD Publishing, 2014, http://dx.doi.org/10.1787/5jz15qwrt2vb-en.
[30] Milena Lazarevic and Marko Obradovic, "Map of Policy Cycle at Central Government Level in Serbia," Project Reforming Policy Coordination and the Centre of the Government – Third Phase, EuropeAid11SER01/03/21, 22.

an absolute prerequisite).[31] Regardless of the form performance budgeting might take, it is the only government document produced with the intention of connecting goals and indicators with financial resources in a binding manner. What is more, one of the basic features of performance budgeting is the emphasis on measurable results. In the research conducted for this study, stakeholders in all three countries referred to performance budgeting as an important precondition for performance management, and hence better implementation of performance audit and policy evaluation.

Programme budgeting has been developing in ***Macedonia*** together with strategic planning in co-operation with the IMF and a Twinning Project,[32] and international donors have supported programme-based budget related trainings in the past few years. As a result of this capacity building process, a number of budget beneficiaries have started implementing a programme budgeting structure. However, the approach undertaken in the implementation of programme budgeting is sectoral, i.e. through the adoption of pilot projects through selected ministries.[33] In that sense, there is "partial political will because PBB [performance-based budgeting] benefits have been identified at a case-mix (sectoral) level."[34]

On the implementation side, benefits of introducing programme-based budgeting are still missing. In Macedonia, budget beneficiaries lack output indicators and their correlation with result indicators. For instance, "50 out of 92 budget users, which is 54% of all budget users, have not specified output indicators in the 2015 budget (the situation is the same or even poorer in the budgets for previous years)."[35] When these indicators are in place, they are "poor and inconclusive (usually only one output indicator is referred) and cannot determine the performance, achievement and fulfilment of the planned objectives/ goals. The most commonly encountered indicators are the number of procedures, reports, projects, or permits to be issued/ or their issuance initiated, nevertheless, the output indicators do not include a part referring to the successful accomplishment of the goals."[36]

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[31] See: LinkedIn discussion "Performance Budget: Connecting Spot for Performance Audit and Policy/Programme Evaluation," within the Group "Performance Based Budgeting for Government," https://www.linkedin.com/grp/post/4518607-6041524285556695045?trk=groups-post-b-title.

[32] SIGMA Assessment Report, The Former Yugoslav Republic of Macedonia, 2013, 30.

[33] Aleksandra Maksimovska et al., "Performance-Based Budgeting in South-Eastern Europe: A Legal and Economic Perspectives," *Central European Journal of Public Policy*, 8.1, (2014), 64.

[34] Ibid.

[35] Marjan Nikolov, Borce Trenovski, and Biljana Tasevska, "Feasibility study: Performance Based Budgeting for Enhanced Budgeting Process and Increased Transparency and Accountability", Center for Economic Anaysis – CEA, Institute for Democracy Societas Civilis, 2014, 28.

[36] Ibid., 29.

The introduction of programme budgeting in ***Montenegro*** appears to be slow and hesitant. Although all spending units have their budget programmes on paper currently, those programmes still do not contain performance indicators to monitor the attainment of programme goals. Apart from dividing the existing line-item budget into programmes, non-financial elements of the programme budget (such as goals, starting positions, targeted indicators, etc.) have not been developed. Although announced in 2007 by the Ministry of Finance, the Action Plan for Introducing Programme Budgeting has never been adopted.

The main features of the process of implementing programme budgeting thus far have been overly ambitious regulatory solutions which are impossible to carry out in practice. All of this leads to a conclusion that this reform does not stem from the capacities of Montenegrin administration, as well as that it fails to include an analysis of the desired outcomes of the reform process. Therefore, the hitherto process of implementing programme budgeting has led not to greater accountability of spending units for the funds allocated to them, but to an even greater centralisation of responsibility within the Ministry of Finance.

In its 2012 report, SIGMA criticised the way in which programme budgeting was set up in Montenegro, claiming that it was not conducive to promoting accountability within spending units.[37] Furthermore, SIGMA recommended a reconsideration of the approach to programme budgeting, seeing it as unsustainable and overly ambitious at the time when some simple issues (such as multi-annual planning and consolidated planning in line with the changes in the structure of spending units) have not been resolved. Thus far, these recommendations have not been taken into consideration. Additionally, the Ministry of Finance is insisting that spending units should have as few budget programmes as possible (limiting it to five),[38] with the underlining rationale being that having fewer programmes simplifies planning, monitoring and reporting.[39] The consequence of this practice is a small number of large programmes which do not follow the division of competencies or an organisational structure with the spending units and the Ministries.

[37] SIGMA, Overall Assessment Montenegro, 2012, 16-22.
[38] Instructions for Preparation of Non-Financial Elements of the Programme Budget, in *National Budget Circular,* Part D, "Instructions and Guidelines for Preparation of Non-Financial Information for Budget Users," 2014.
[39] Decision on the Methodology of Preparation and Content of the Programme Budget, "Official Gazette of Montenegro" 38/2008.

Similar to Macedonia and Montenegro, performance budgeting in ***Serbia*** has been introduced as programme-based budgeting. It is a new concept, formally applied to the 2015 budget of the Republic of Serbia for the first time, and is yet to be fully implemented. Capacity building for establishing a performance structure has been implemented to a large extent for ministries and other budget beneficiaries. Programme structure consists of programmes, as the first level, and programme activities and projects as the second.[40] The development of objectives and indicators is required for both levels. Programmes are usually defined according to sectors in the ministries (usually 3-5 programmes per ministry) and are defined broadly enough not to be influenced by changes in competences of the ministries. Joint programmes spanning a few budget beneficiaries are also introduced in order to execute programme activities and projects that require interventions from different ministries. Defining objectives and output and outcome indicators is currently one of the major issues in the early stage of implementation, and capacity building for improving skills in that regard is ongoing.[41] Preliminary analysis of nine-months of implementation in 2015 showed that the realisation of budget appropriations was only 20-30%, which indicates low development of mid-term planning of budget beneficiaries.[42]

There is still a need to familiarise all budget users with this concept and improve definitions of indicators and objectives. In 2015 a review of programme structure and system of indicators and objectives will be performed. First monitoring reports will be delivered to the Ministry of Finance in 2016. In other words, in the inception year the main focus was on the introduction of a programme-based budgeting *structure*. The focus on results and performance is expected as soon as the system of objectives and indicators as well as mid-term operational planning at the level of budget users are improved.

2.4 Policy Monitoring Practices

Policy monitoring is generally viewed and accepted as a concept inherently connected to policy evaluation. Monitoring is more closely associated to the concept of performance measurement, it entails the systematic collection and analysis of data in the implementation of a policy (or a programme or project) in order to verify whether the course of action is kept (process monitoring) and whether results set

[40] Guidelines for producing a programme-based budget, available at: http://bit.ly/1W4hENc.
[41] Interview with USAID Business Enabling Project representative. USAID BEP is working together with the Ministry of Finance on the introduction, capacity building and development of programme-based budgeting.
[42] Interview with USAID Business Enabling Project representative.

are being achieved (result based monitoring). Generally, without some kind of policy monitoring, policy evaluation can be quite difficult, as the necessary inputs into the evaluation process might not be in place. Nevertheless, evaluation can be conceived of even if monitoring is not done systematically, especially in cases where information about achievements and measurement of performance indicators can be done post factum.

Policy monitoring in **Macedonia** has been formally introduced in the Government rules of procedure, especially in terms of top-down monitoring (Government work plan), but it is not done systematically at all levels, and monitoring and reporting systems are very weak within ministries.[43] Nevertheless, some of the basic preconditions for building up the monitoring practices in Macedonia have been met, as all ministries have formed Units for Strategic Planning, Policy Making and Monitoring, which currently differ with regards to capacity, but which do have an explicit responsibility to monitor policy implementation.

In **Montenegro**, although the Law on State Administration generally enlists monitoring as one of elements of the law implementation function of the administration,[44] the function itself has not been sufficiently elaborated and developed within the administration. Implementation of the Government's Work Programme is monitored by the GS, which prepares a quarterly report on its implementation and delivers it to the Government, but medium-term horizontal planning is missing, as well as the requirements to ensure that policy implementation is followed up by monitoring and analysis.[45]

Similarly, the **Serbian** Law on State Administration states "monitoring and determining of the situation in their areas of competence" as one of the tasks of the administration,[46] but the function is not further elaborated within the individual institutions and through standardized job descriptions and/or methods of work. Specific centre-of-government institutions are active in monitoring certain documents (plans or strategies), such as monitoring of the implementation of the Government Annual Work Plan by the General Secretariat of the Government, or of the National Plan for the Adoption of the Acquis

[43] SIGMA Public Administration Reform Assessment of the Former Yugoslav Republic of Macedonia, 2014, 11. Available at: http://www.sigmaweb.org/publications/FYRoM-Assessment-2014.pdf.
[44] Article 15, Law on State Administration, "Official Gazette of Montenegro" no. 38/03, 22/08, 42/11.
[45] SIGMA Country Assessment, Montenegro, 2013, 6. Available at: http://www.sigmaweb.org/publicationsdocuments/MontenegroAssessment_2013.pdf.
[46] Article 13, Law on State Administration, "Official Gazette of the Republic of Serbia" no. 79/2005, 101/2007, 95/2010 and 99/2014.

by the Serbian European Integration Office. However, no systematic approach exists at the ministry level, ensuring that individual, sectoral policies are regularly monitored and reported on, and the capacities of the ministries to engage in data collection, processing and analysis are, overall, very weak.[47] The Public Policy Secretariat, established in April 2014 as a new centre-of-government institution with the mandate to manage the reform of the policy planning and making system, has developed a legislative package on the planning system, which includes a methodology for policy management, on the basis of which this function can be expected to be developed more substantially in the coming period.[48]

2.5 Openness and Reliability of Data in the WB

One of the major problems affecting the overall performance management capacity of the WB countries, which also featured prominently in the discussions during the Belgrade regional conference,[49] is lack of open and reliable data. The statistical offices in these countries are undergoing reforms and catching up with EU methodologies and practices, but there is still a strongly prevailing doubt over the quality of the statistics produced by them. At the same time, administrative bodies rarely produce consistent and reliable data of their own, which was observed as one of major obstacles in the implementation of the first round of baseline assessments by SIGMA/OECD based on the new framework of *Principles of Public Administration* in early 2015.[50]

SIGMA country assessment reports also put emphasis on the absence of reliable data in budget and policy processes for different priority domains for SIGMA. For illustration purposes, the assessment for 2014 for Montenegro claims that the "lack of a long time series of data in Montenegro contributes to weaknesses in economic forecasting."[51] For Macedonia, the country report states *inter alia* that, even when a formal mechanism is in place, the quality of data and estimation may vary.[52]

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[47] Sena Maric, Jelena Zarkovic Rakic, Ana Aleksic Miric and Milena Lazarevic, *How to get Results in Public Policies: Monitoring and Evaluation with the Evidence Supplied by the Civil Society* (Belgrade: Foundation for the Advancement of Economics and European Policy Centre, 2014), 39.

[48] At the moment of the finalization of this study, the legislative package was still in the public consultation process and not yet adopted.

[49] See Conference Report at: http://ten.europeanpolicy.org/2-news/32-ten-held-regional-conference-on-improving-performance-of-public-administration.html.

[50] Based on the discussions at the Regional School of Public Administration (ReSPA) conference "Monitoring and Evaluation of Public Policies," held in Danilovgrad, Montenegro, October 13-14 2015.

[51] SIGMA Country Assessment Report, Montenegro, 2014, 7. Available at: http://www.sigmaweb.org/publications/Montenegro-Assessment-2014.pdf.

[52] SIGMA Country Assessment Report, Former Yugoslav Republic of Macedonia, 2014, 10. Available at: http://www.sigmaweb.org/publications/FYRoM-Assessment-2014.pdf.

Similarly, for Serbia, systematic and regularly updated databases are missing for specific areas.[53] Depending on sector policies, data accessibility and reliability among WB countries may differ, but as a rule, there is a general lack of systematic and consistent data which additionally makes comparability between WB countries harder.[54]

[53] SIGMA Country Assessment report, Serbia, 2013, 17. Available at: http://www.sigmaweb.org/publicationsdocuments/SerbiaAssessment_2013.pdf.

[54] Multiple assessments conducted for specific policies in the WB highlight the lack of reliable data in some instances and challenges for drawing conclusions based on this data. For example, see: 'Overview of the research and innovation sector in the Western Balkans' by the World Bank, available at: http://bit.ly/1LLppGA; or 'The Western Balkan in Transitions' paper by European Commission, available at: http://bit.ly/1RnYVec.

3 POLICY EVALUATION IN THE WESTERN BALKANS: A NASCENT CONCEPT

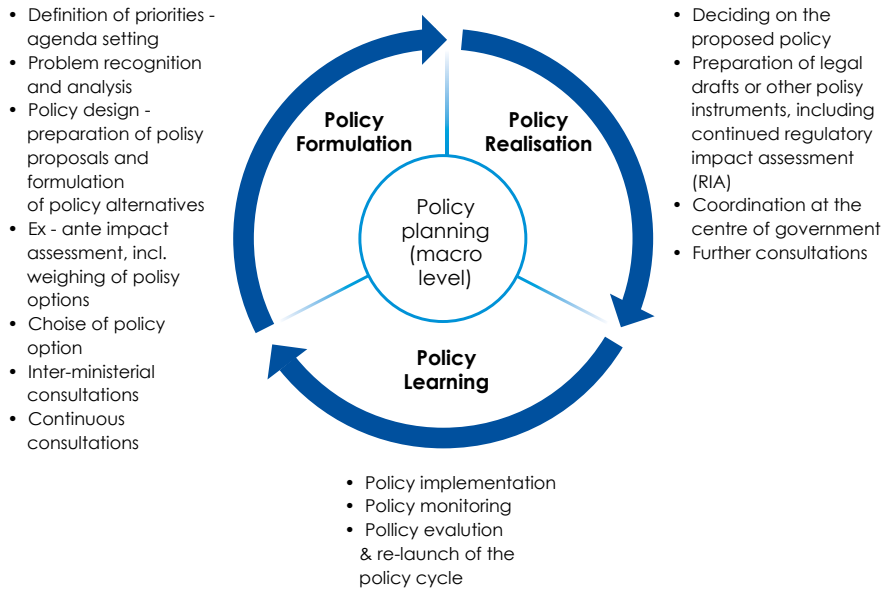
Policy (or programme, in the US tradition) evaluation is a part of the learning stage of the policy process, in which data and information collected in the process of implementing a policy are analysed in order to assess the worth of that policy (see illustration below). Evaluation should provide credible and useful information for incorporating the lessons learned in decision-making and policymaking processes.[55] Numerous types and approaches to policy evaluation have been recorded in international literature and practice. Howlett and Ramesh distinguish between administrative, judicial and political evaluations, with the first type being the most widely studied one. Administrative evaluations are "undertaken within the government" and they are usually "restricted to examining the efficient delivery of government services and attempting to determine whether or not 'value for money' is being achieved."[56] Effort (or input-oriented) evaluations, performance (or output-oriented) evaluations, effectiveness evaluations (or adequacy of performance), efficiency evaluations (which are mainly concerned with the relationship of inputs/costs and outputs), and process evaluations (dealing with process streamlining) are the most common types of administrative evaluations.[57] Evaluation is deeply related to concerns with performance measurement and improvement in public administrations.

Due to the novelty of the evaluation concept in the Western Balkan countries and the lack of wider debates on the types and purposes of different types of evaluations, this chapter treats as evaluation any activity, procedure or methodology aiming at analysing ex-post (i.e. after the initiation of the policy implementation) the effects (or results) of that policy in the broadest sense. Furthermore, as the concept of the policy cycle is still in development in the studied

[55] Jody Zall Kuzek and Ray C. Rist, "Ten Steps to a Results-Based Monitoring and Evaluation System," The World Bank, 2004, 12.
[56] Michael Howlett and M.Ramesh, *Studying Public Policy: Policy Cycles and Policy Subsystems* (Oxford: Oxford University Press, 1995), 210-11.
[57] Ibid., 211-12. Another categorization of programme (policy) evaluations is offered by the Government Accountability Office – the US SAI: 1) process evaluations; 2) outcome evaluations; 3) impact evaluations; 4) cost-benefit and cost-effectiveness evaluations. See: ISSAI 3000 Standards and Guidelines for Performance Auditing based on INTOSAI's Auditing Standards and Practical Experience, 24-25.

countries, the objects of evaluation are defined in the broadest possible manner: strategies and plans, budgets and budget programmes, legislation, technical assistance programmes and projects, in order to take stock of the various existing practices and trajectories of development of future/new evaluation systems. In this regard, practices and procedures of relevance for evaluation are, in some cases, taken into consideration in the analysis, for example regulatory impact assessment (RIA) as a type of ex-ante evaluation of legislation.

Illustration 1. Evaluation in the Policy Learning Stage of the Policy Cycle



The purpose of this chapter goes beyond taking stock – it sets out to determine which of the existing policy evaluation practices (and those under development) in the three WB countries are most conducive to establishing stronger linkages with performance audit, studied in the subsequent chapter. In that regard, the chapter focuses *inter alia* on the existing formal or informal practices of policy evaluation, actors and their capacities for conducting policy evaluation as well as the impact achieved so far. Reference is also made to the ongoing policy developments in all three WB countries of relevance for ex-post policy evaluation. Furthermore, it offers the most relevant highlights from the EU case studies, in particular having in mind the

performance audit link, selected according to their relevance for WB countries studied.

3.1 Policy Evaluation in Macedonia – the Challenge of Embedding It in the Policy Cycle

The ex-post policy evaluation was systematically introduced in the Republic of Macedonia with a Methodology for evaluating the implementation of legislation, adopted by the Government in March 2013.[58] On the basis of the Methodology, the Manual for its implementation was also adopted.[59] However, prior to the adoption of the Methodology, *ad hoc* evaluations were conducted primarily with the support of external actors such as the World Bank and the OSCE.[60] In fact, OSCE has been supporting the introduction of ex post evaluation in Macedonia since 2010, starting with the project "Strengthening the Process of Legal Drafting". Within the framework of this project, an assessment of the necessity for introducing an ex post policy evaluation system was undertaken.[61]

Systemic ex-post evaluation of legislation: the starting point

The Methodology for evaluating the implementation of legislation outlines the process of evaluation as the last phase in the policy cycle. Through ex post evaluation of implementation of legislation, ministries and other institutions can monitor and determine the level of success or deficiency in the process of legislation implementation, as well as the elements which influenced the outcomes. The aim of the evaluation is to produce drafts of future legislation which are higher in quality. One of the expected benefits of introducing ex-post evaluation

[58] Methodology for Evaluating the Implementation of Legislation, Ministry of Information Society and Administration, Republic of Macedonia, March 2013, http://www.mio.gov.mk/files/pdf/Ex_post_Metodologija.pdf.

[59] Manual for the Implementation of the Methodology, Ministry of Information Society and Administration, Republic of Macedonia, March 2013, available at: http://mioa.gov.mk/files/pdf/Priracnik_za_primena_na_Metodologijata_mk.pdf.

[60] Between 2003 and 2004 an ex-post policy evaluation on the impact assessment of the SME's policy was conducted. The evaluation resulted in a recommendation for the legislative amendments to meet the needs of businesses. In 2004-2006, within the framework of the WBO regional office in Macedonia, ex-post policy evaluations were undertaken on the national policy for the support of the education of Roma population and education policy concerning research and development. The policy evaluation on education policy and the connection between education and research and development resulted in the establishment of the Innovation Fund in 2010.

[61] Within this comprehensive project there was evaluation of the necessity of introducing an ex-post evaluation system (i.e. system of policy evaluation). In 2010, OSCE established a WG on ex-post policy evaluation which has since analysed numerous laws, such as the Criminal Code, the Criminal Procedure Code, legislation concerning work safety, and legislation concerning social welfare.

is the promotion of "performance-based management."[62] In the course of ex-post evaluation, the ministries and institutions should plan the implementation of legislation in a way that enables them to achieve better results and increase the efficiency of implemented legislation. The Methodology prescribes a 6-month time frame for ex-post evaluation, except for systematic laws where the evaluation process may take longer to complete. In the implementing phase, the department responsible for implementation of a certain piece of legislation within the ministry performs the ex-post evaluation. A working group, which includes representatives of all institutions which participate in the implementation of a specific legislative piece, is established for the evaluation process, but this approach remains essentially internal. Each ministry that performs ex-post evaluation determined in the AWPG is obliged to produce an Evaluation Report, which contains the results of the ex-post evaluation and lessons learned, as well as the proposed recommendations for the legislative process, ranging from amendments to enactment of a new law, or to status quo.

Since the adoption of the Methodology in 2013 two extensive ex-post policy evaluations have been conducted. These include evaluations on the Law on Anti-Discrimination and the Law on the Promotion and Protection of the Rights of Minorities representing less than 20% of the population of the Republic of Macedonia. The analysis in this section is based primarily on the latter, which we analysed using document analysis and interviews with the evaluators.

The evaluation on the implementation of the Law on the Promotion and Protection of the Rights of Minorities representing less than 20% of the population of the Republic of Macedonia was finalized in 2014 and we analysed that evaluative process as an illustrative example for this study. The beneficiary was the Agency Minority Rights Realization, which established a working group of stakeholders for the purposes of evaluation.[63] All of our interviewees emphasised the inclusion of a wide set of stakeholders as fundamental to obtaining a high-quality

[62] The need for increased awareness and a culture of performance measurement and its benefits has already been established in the literature, encompassing all parties involved in the policy cycle in Macedonia. See: Marjan Nikolov, Borce Trenovski and Biljana Tasevska, "Feasibility study: performance based budgeting for enhanced budgeting process and increased transparency and accountability," Centre for Economic Anaysis – CEA, Institute for Democracy Societas Civilis, 2014.

[63] The Agency with OSCE assistance and an external consultant formed a Work Group for evaluation, consisting of representatives from the Agency, Ministry of Justice, Ministry of Local Self Government, Ministry of Foreign Affairs, Secretariat for Implementation of the Ohrid Framework Agreement, Agency for development and promotion of the languages of minorities, Agency for promotion of the culture of minorities as well as representatives from the associations of all minorities groups living in the Republic of Macedonia as well as the NGO's working in this field.

and objective evaluation report. This specific evaluation produced numerous recommendations such as the need to adopt an Action Plan for the implementation of the Law, change the internal structure of the organisation, and increase the budget and visibility of the Agency. The main recommendation was for a legislative amendment and it is currently being followed up as a working group which was established within the Ministry of Justice for the purpose of drafting the amendments to the Law.

The process of evaluation planning is performed in parallel with the strategic planning process and the drafting of the Annual Work Programme of the Government (AWPG). Each ministry plans the implementation of at least two ex-post evaluations on an annual basis within the strategic planning process.[64] The proposals for ex-post evaluations are integrated in the AWPG. SIGMA has considered the "introduction of ex-post analysis for two laws per ministry per year is a proportionate approach that enables a staggered introduction".[65] In the planning phase, each ministry responsible for the implementation of the legislation, which will be subject to evaluation, is supposed to draft a plan for conducting the ex-post evaluation, which is to be published on the web page of that ministry and which includes the necessary resources and the time frame for the evaluations. Nevertheless, none of these plans has thus far been made available on the ministries' websites.

The introduction of ex-post policy evaluation was supported with a generic training for representatives from the key ministries and independent bodies.[66] According to our interviewees, further trainings are essential and necessary for all civil servants in the ministries dealing with ex-post policy evaluation, as is the hiring of additional staff dedicated specifically to this function. As it stands at this point, there was consensus among our interviewees that the ministries do not have the capacity for extensive data gathering and processing, as is needed for a substantial policy evaluation.

Furthermore, the monitoring by the ministries of their respective policies is usually weak and undermines the potential for substantive

[64] Initially ex post evaluation was envisaged for all laws, including in-depth analysis for some (for example the Packaging Law). However, after careful consideration, the Methodology includes ex post evaluation for only two laws per year.

[65] SIGMA, Public Administration Reform Assessment of the Former Yugoslav Republic of Macedonia, 2014. Available at: http://sigmaweb.org/publications/FYRoM-Assessment-2014.pdf.

[66] Such as the Ministry of Information Society and Administration, Ministry of Justice, Ministry of Agriculture, Forestry and Water Management, the State Audit Office, Ministry of Economy, General Secretariat, Ministry of Environment, and others.

evaluations. Most ministries have units for policy creation and analysis, however they do not conduct monitoring of policies, a challenge underlined by a number of our interviewees. The comments on weak monitoring were usually coupled with remarks on the lack of action plans for the implementation of legislation, which is fundamental for ex-post policy evaluation as a key segment of the strategic planning process.[67] Strategic planning deals with formulating government programmes and should be followed up with the monitoring of policy implementation, and concluded with ex-post policy evaluation.

Linking ex-post evaluation to the ex-ante RIA

Interviewed evaluators and officials coming from state institutions viewed the introduction of ex-post evaluation as a 'logical' step following the introduction of the ex-ante regulatory impact assessment (RIA).[68] Since 2009 there is an obligation for all new laws to be subjected to RIA, although the quality of these ex-ante assessments is still not satisfactory given that the documents have been largely superficial, i.e. without offering a substantial assessment of impact. On a similar note, the 2014 European Commission Progress Report on Macedonia notes that, whereas "procedures for policy development and coordination across the sectors are well defined, [they] are not always efficiently implemented," and that "thorough analysis and assessment of policies is often lacking."[69] Indicators of success, which could be potentially used for the evaluation of a specific law or policy, are supposed to be determined as a part of RIA, however this has not been put into practice so far. In fact, the two laws which were subjected to ex-post evaluation were adopted without an accompanying RIA report, which could have been beneficial for the purposes of evaluating the implementation of legislation as well. According to one of the interviewees, "RIA is very important, as well as the quality of RIA reports, since it creates a baseline containing indicators that are later on extremely useful for ex-post evaluation of policies. What was defined as an indicator is very important, since that will be measured later, in the performance audit and policy evaluation reports."[70]

[67] Interview with external evaluator, May 2015.

[68] The introduction of RIA was supported by the United Kingdom since 2005. RIA is defined as a policy tool which is used to make policies effective and efficient by providing stakeholders with high quality regulation. RIA in the Republic of Macedonia is part of the broader regulatory reform undertaken since 2006. The reform, still in progress, has been conducted in two phases. Regulatory Guillotine took place in the first phase, while RIA occurred in the second phase.

[69] European Commission, Working Document Progress Report on the Former Yugoslav Republic of Macedonia, 2014, 8. Available at: http://ec.europa.eu/enlargement/pdf/key_documents/2014/20141008-the-former-yugoslav-republic-of-macedonia-progress-report_en.pdf.

[70] Interview with external evaluator, May 2015.

Both the civil servants and the evaluators interviewed viewed RIA and ex-post evaluation as largely complementary in the approach adopted in Macedonia. However, different recommendations were provided in terms of how to advance and link these two processes. In the opinion of the interviewees, the ministries do not have the capacity to conduct meaningful and substantial RIA for all of the laws, hence it was recommended to limit the number of laws for the sake of quality. On the other hand, given the gradual introduction of ex-post evaluations by focusing on two laws per year, as a logical follow up, recommendations were given to extend ex-post evaluations to all legislation adopted.[71]

Overall, policy evaluation has been formally introduced in the policy making process in Macedonia and a track record of largely donor-supported evaluations has been produced. The process is still a novelty in civil service and the approach of gradual introduction limited to two laws per year per ministry is likely to provide a more quality- (rather than quantity-) oriented evaluation system. The methodology for evaluation formally includes a requirement for consulting independent reports (for example performance audit reports), which indicates an existing linkage for the purposes of our study. Its materialisation in practice is yet to be established due to the recent introduction of a formal policy evaluation process.

3.2 Policy Evaluation in Montenegro – the Missing Link of the Policy Cycle

Systematic ex-post policy evaluation has still not been established within the Montenegrin administration, although the country has been negotiating its membership in the European Union since 2012. The central part of the accession negotiation process is the harmonization with the EU acquis, but not all procedures that are supposed to increase the quality of regulations are in place. The Government Rules of Procedure (RoP) set the steps for the preparation of new legislative proposals, but do not prescribe a mandatory follow-up procedure for a ministry to assess the implementation and suitability of a policy.

Ex ante assessments as the antecedent of evaluation

Unlike the *ex-post* evaluation, *ex ante* mechanisms have already been established and some progress has been made so far. Since 2012, when it was formally introduced, the ministries have been conducting regulatory impact assessment (RIA) for all legislative acts, and this is

[71] Interview with external evaluator, May 2015.

the one of two continuous and obligatory evaluations of the regulations or programmes.

The requirement to apply RIA was introduced by the Government's RoP, which specifies that, in the preparation of laws, ministries are obliged to carry out an analysis of the regulatory impact assessment.[72] It further stipulates that the form of the RIA has to be approved by the Ministry of Finance, including an assessment of whether the analysis is carried out properly. At the same time as the obligation to apply this rule began, the application process was defined by specific instructions.[73] Only during the first year of the RIA implementation, the Ministry of Finance issued its opinion on 299 regulations, of which 203 were laws and 96 were by-laws. Despite the three-year long implementation process, RIA has not been fully implemented. Moreover, the quality of the RIA analysis is not high and it is usually prepared prior to submitting the draft law to the Government, and not before the public consultations.[74] Our interviewees believe that the reports should be made more extensive and comprehensive through the use of the *standard cost model*.[75]

If properly conducted and accompanied by specific indicators of success, RIA reports could become a suitable basis for extending the system towards ex-post assessments. Montenegrin policy makers can learn from the Macedonian experience of introducing legislative evaluations, thus making sure that a more explicit link between the two methodologies is put in place early on in the establishment of a possible future evaluation system.

At the same time, although performance-based budgeting was introduced in Montenegro six years ago, no requirement for evaluating budget programmes has been put in place, and this despite the fact that the same Ministry – Ministry of Finance – is in charge of both the existing evaluative practices in the policy cycle and the development of the performance budget system and procedures.

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[72] RIA is part of a broader regulatory reform with two additional pillars, the guillotine and the *ease of* doing business reform. The first action plan prepared to allow the regulations to provide simplicity, efficiency and legal security, was adopted by the Council for Regulatory Reform and the Improvement of Business Environment during 2009. As part of the project Guillotine a number of recommendations were prepared, but the majority has not yet been implemented, and this is re-defined as a priority in the draft of the new Public Administration Reform Strategy for the period 2016-2020, which is currently at a public hearing. Therefore, a new and unique overview has to be prepared with all the recommendations that have been implemented and regulations repealed.

[73] Instructions on Compiling Reports on Regulatory Impact, "Official Gazette of Montenegro" no. 09/2012.

[74] Klaas, "Policy Making Review Montenegro," 6.

[75] Interview with representative of the Ministry of Finance, March 2015.

Ad hoc evaluations – the donor projects

Another established and ongoing evaluation practice is the one which refers to the projects financed from IPA funds required by the framework agreement between Montenegro and the European Commission. As an instrument for monitoring and evaluation of projects financed from IPA funds, the Ministry of Finance has developed a so-called Project Information System (PIS) which is processing and recording all financial data and information in electronic format. However, this is just a step toward the establishment of a computerized Management Information System (MIS), which will be made accessible to all interested stakeholders.

In addition, the evaluation system includes a mandatory establishment of the "evaluation structure".[76] Therefore, the evaluation is also facilitated, to a certain extent, by the existence of units that manage IPA funds in all ministries and which are obliged to carry out the evaluation. The coordination unit is located within the Ministry of Foreign Affairs and European integration (MFAEI). In the EU Screening Report, it is stated that Montenegro "is gathering experience in monitoring and evaluating EU co-funded actions under the different IPA components, both at programme and project level".[77]

Ad hoc examples that lead the way

Even without a formally established framework, methodology and responsibilities, there are certain developments which could be considered as individual evaluation initiatives of the relevant PA bodies, an example being the one which is implemented and connected to the improvement of public administration reform. In fact, during 2014 and 2015 the Ministry of Interior, in cooperation with SIGMA, has prepared reports on the evaluation of the Law on Civil Servants and Employees (LCSE) and the Public Administration Reform Strategy implementation, both of which are mainly result-based. This dynamic is conditioned by at least two factors, the first being related to the prioritization of public administration reform by the European Union as one of the three pillars of the criteria relevant for assessing the country's progress in the negotiation process, while the other is linked to its "attention towards the extent of implementation of *acquis*-related legislation in Montenegro".[78] Moreover, OECD SIGMA has managed the process of preparing the methodology, in cooperation with independent local

[76] Screening report Montenegro Chapter 22 – Regional policy and Coordination of Structural Instruments, 2013, 2. Available at: http://bit.ly/1LEMrvk.
[77] Screening Report Montenegro Chapter 22 – Regional Policy Coordination of Structural Instruments, 7.
[78] Klaas, "Policy Making Review Montenegro," 37.

experts, and closely monitored the preparation of the evaluation report. The result of this process are, when it comes to the implementation of the LCSE, ten specific recommendations.[79] Immediately after the adoption of the report by the Government in June, the Ministry of Interior started establishing a working group which will, until the end of the year, work on amendments, with a special focus on the process and the period of employment, selection of candidates, assessment and promotion.

Activities which were conducted earlier, and which were focused on analysing the implementation of laws, did not serve their purpose. Moreover, prepared reports were not methodologically directed towards identifying problems in the implementation process, were missing clearly defined indicators, and contained only brief directions for improvement, which were already recognized in the state institutions or EU reports.[80] Therefore, the evaluation of the Public Administration Reform Strategy and the Law on Civil Servants implementation for the first time in a substantially different manner determined the impact of regulations and problems in implementation. The evaluation was made in accordance with clear methodological guidelines and in cooperation of state and non-state actors. Additionally, this is a good example of setting priorities in evaluation where the two documents are somehow connected. These positive developments can be a good basis for furthering activities intended to gradually introduce *ex-post* evaluation in the system.

Capacities and actors involved

As previously noted, the preparation of strategic documents and other legislative acts in Montenegro is usually not based on previous analysis, which would be able to demonstrate all deficiencies and problems in the previous implementation and incite policy learning. "It is hence evident that Montenegro does not have mechanisms for ensuring institutional memory. Consequently, at the start of each preparation of a new document, stakeholders are faced with the lack of analytic material that would make their job easier. This problem points to another one: weak analytical capacities of the state administration."[81] RIA and evaluation of IPA programmes are usually conducted with

[79] Information on the Law on Civil Servants and Employees Implementation, June 2015, 51, accessed on September 1, 2015, http://bit.ly/1krpTrb.
[80] Information on the Implementation of the Code of Criminal Procedure, The Ministry of Justice of Montenegro, December 2012, accessed on September 2, 2015, http://www.gov.me/files/1230044941.doc.
[81] "State administration reform in Montenegro – between ambitious plans and real possibilities", Institute Alternative, December 2012, 18. Avaiable at: http://bit.ly/1jU4cPR.

own PA capacities, while in all other cases external consultants and experts are engaged by the Government through a tender procedure.

Since there is no systematic approach to the process of policy evaluation in Montenegro, many different actors are involved in this process. Taking into account the aforementioned approaches, this process includes all ministries, but primarily the MF and the MFAEI. Institutions[82] involved in policy evaluation hold that the General Secretariat of the Government should play a central role in coordinating and initiating individual evaluations of public policies, and emphasize the need to strengthen their capacities. Also, as indicated by the European Commission with regard to the mechanisms established in the ministries, the necessity for strengthening the evaluation capacity in public administration and the audit functions is of increasing importance.[83] Support in strengthening the public administration capacity for monitoring and evaluation of public policies is provided by the NGO sector, from developing methodological guidelines for the evaluation of strategic development programmes to the implementation of training for parliamentary staff and that of the line ministries. Thus, for example, with the support of international donors and in cooperation with state institutions, NGOs presented in late 2012 the results of an evaluation of the education reform in Montenegro.[84]

To conclude, the implementation of the *ex-post* evaluation in Montenegro can be described as sporadic or *ad hoc,* with isolated cases pushed by the European Union and other stakeholders. These initiatives are often financed by international donors and backed by external support, NGO or foreign experts. While the relevant ministries are currently working on improving the existing regulations in line with the evaluation of the previous scope, it still remains uncertain to what extent the new legislation will respond to the identified problems, and how this will affect future activities. The logical sequence of stimulating RIA should be its linking with ex-post evaluation. Its gradual introduction could replace the current *ad hoc* schedule with priority laws defined on an annual basis until a system-wide evaluation framework is in place. Donor assistance in the preparation of these analyses is possible. The current challenges are related to insufficient capacity and a lack of training, experience, and understanding the concept as such, which was recognized by all interviewees.

[82] Interviews were conducted with representatives of the Ministry of Finance, the Ministry of Foreign Affairs and European Integration and the Ministry of Interior.
[83] Screening Report Montenegro, Chapter 22-Regional Policy and Coordination of Structural Instruments, 9.
[84] Available at website of the Ministry of Education: http://bit.ly/1RWeQBb.

3.3 Policy Evaluation in Serbia - from an *Ad Hoc* towards a Systemic Approach

Similarly to the other two WB countries, the concept of evaluating the effects of policies is a novelty in the administration system of Serbia and its policy making practices. Policy evaluation, as a distinct part of the policy cycle, is at present not separately treated through any particular piece of legislation or policy instrument. Introducing an obligation to perform policy evaluation would definitely be beneficial in terms of starting an overarching approach to evaluation and assessing policy effects in Serbia. However, even if a systemic framework was put in place, the process of making it fully functional would occur with difficulties. Using interviews with civil servants, we conducted an analysis of the current practices concerning evaluation, which provides an insight into the main characteristics of an *ad hoc* approach to evaluation. This means that evaluation needs are mostly conditioned by externally funded projects or programmes, which are oriented towards specific policy interventions, and limited in scope and time. This approach is based on the current or burning needs and requirements of the EU accession process or development assistance. The aim of this section is to analyse specificities of the current approach and to see if it contributes to the establishment of a well-defined evaluation system in Serbia. We focus on three aspects – *external drivers, capacities and actors*.

Nature of current evaluation practices: External drivers, poor sustainability

According to the interviewees, the evaluations conducted so far have mostly been externally initiated. This setting typically means that an external agency (EU, The Global Fund, Swiss Agency for Development and Cooperation etc.) provides financial and technical assistance to a domestic institution to implement a concrete project or programme towards the achievement of certain goals. In order to prove that these goals have been met and determine their actual effects, evaluations constitute an obligatory part of the project activities. For example, the Social Inclusion and Poverty Reduction Unit of the Government (SIPRU), as the project-based unit at the centre of the government, started producing analyses in the form of ex-post evaluation in 2008 in different domains that fall within SIPRU competences (social protection and education, mapping of social services etc.) in the period when the implementation of the Poverty Reduction Strategy was nearing its end.[85] Newly produced

[85] The Poverty Reduction Strategy was adopted for the period 2003-2008.

evaluations are in the form of so-called policy impact assessments (PIA) and their basis is defined in the project documentation.[86] SIPRU has been hiring experts for the production of evaluations on a contractual basis, as well as coordinating the evaluations process (producing contract documentation, tendering, monitoring etc.) and following up on the results. Reports have been produced on the implementation of recommendations for the first round of ex-post evaluations. The results of these reports were rather weak in the sense that most recommendations were not implemented and institutions/organisations in charge did not take ownership of the evaluation reports and their recommendations (areas of work of SIPRU are responsibility of different state institutions). These obstacles were taken into account in the sense that the approach to evaluation as a project activity has changed in the second phase of the evaluations.[87] On the other side, these evaluation reports have been referenced many times (according to the SCIndex[88]) and, as an exception, amendments of legal acts have taken place occasionally.[89] The lesson learned from these results, as stated in an interview, is that SIPRU should take a further step and start participating in the implementation of recommendations.

Additionally, there are other institutions that coordinate externally driven evaluations and, if there are differences among practices, they are mostly concerned with technical aspects or specificities of different policy areas. For instance, the Serbian European Integration Office (SEIO) has a responsibility to coordinate process of evaluation of IPA programmes and other development assistance. As in the previous example, these evaluations are posed as a requirement by the assistance provider/donor (e.g. European Union) and produced by the external evaluators. Tasks of SEIO included tendering, monitoring, ensuring access to institutions as well as consulting stakeholders, etc.[90] Evaluation report results are integrated in the planning documents for development assistance, as well as used for the next phases of assistance programming.[91]

A different example shows that evaluation can be a product of domestic demand. The former Office for Regulatory Reform of the Government had to perform impact analysis (evaluation) of the Regulatory Reform

[86] These ex-post analyses and PIA's are available at SIPRU's webpage: http://socijalnoukljucivanje.gov.rs/en/category/documents/.
[87] Interview with SIPRU representative.
[88] Serbian Citation Index, available at: http://scindeks.ceon.rs/?lang=en.
[89] Interview with SIPRU representative.
[90] Interview with SEIO representative.
[91] Interview with SEIO representative.

Strategy for the period 2004-2008.[92] The analysis, which represented an ex-post evaluation of the implementation of the Action Plan of the Strategy, was produced in 2011, as envisaged by the same Action Plan. Results of the analysis were used in drafting a new strategic document on regulatory reform.[93] Although a product of domestic demand, this type of analysis serves as a particular, time-constrained purpose.

In this type of setting, however, a few different elements limit the possibility for a spill-over to the national level. Firstly, externally driven evaluations are concentrated on very specific policy areas and are tailored to adjust to a certain policy instrument (in the example of SIPRU, instruments such as state support for the poor, pre-school programmes etc.). Potential policy evaluation requirements at the systemic level are expected to be more general in nature, i.e. outlining the types of evaluations to be done, objectives, responsible parties, timeframes, et cetera. If a general requirement for evaluation is in place, individual evaluations could be tailored later on, when they are applied to a specific instrument. The development of a methodology, analysis and preparation of the solutions for improvement are typically handed over to consultants from various organisations, institutes, universities, consultancies, etc. who are proven experts in their respective fields. As already mentioned, the process of hiring experts is conducted on a contractual basis through open calls or single sourcing, and their tasks and obligations are clearly defined through the terms of reference.

Capacities - missing, actors - undefined

The need for improving the analytical skills of civil servants in the Serbian public administration is acute and relevant for enhancing overall policy making capacities. This is of vital importance in order to establish not only capable evaluation units in the future, but also to equip units that should be with policy analysis, collection of evidence, problem analysis and other skills irreplaceable for producing high-quality and evidence-based policies.[94] In other words, critical skills

[92] Implementation of the Strategy was extended to 2011.
[93] Interview with representative of the Public Policy Secretariat of the Republic.
[94] "High-quality, obligatory policy analysis and writing skills trainings should be developed and implemented throughout the public administration. This type of training should be regarded as 'induction training,' necessary and obligatory for all civil servants (or at least a large majority), as analytical thinking and good writing skills should be regarded as a standard in public administration." Milena Lazarevic, Sena Maric and Amanda Orza, *Policy Making and EU Accession Negotiations – Getting Results for Serbia,* (Belgrade: Deutsche Gesellschaft, fur Internationale Zusammearbeit (GIZ) GmBH, 2013), 121. This study gives an in-depth assessment of policy making capacities in Serbia and provides recommendations for better policy formulation and coordination, especially in the EU accession context, based on the comparative case studies of the EU member states.

in all stages of the policy cycle, needed to properly evaluate policy effectiveness, are in fact missing. Given that they cannot be acquired overnight, but rather through an extensive public administration reform, the production of in-house evaluations is still far from home in Serbia.

Nonetheless, evaluation skills are not necessarily attached to administration bodies. Outsourcing to external actors is a viable option even in developed policy making systems of older EU member states (see the EU case studies highlights below). Instead, evaluation units could coordinate and monitor evaluations, making sure that, from start to finish – designing, structuring, timing, quality control – evaluations are done according to certain pre-set requirements and are tailored to the specific policy needs. In that sense, evaluation units could undertake the role of "clients" ordering a specific product (evaluation report), to be produced using defined standards and quality control,[95] given that, in their work "evaluators are influenced by and can influence entity's expectations for evaluation – its evaluation goals, its participants, its standards of quality and so on."[96] Nonetheless, building internal organisational skills for producing evaluation should, ideally, be a viable option as well. In that sense, it remains to be determined in practice which option – outsourcing experts, building own capacities, or a combination of the two – is the best one for the administration system in question when it comes to deploying resources.

At the moment it is not an easy task to delineate a clear hierarchy or a network of institutional *actors* performing evaluation in the administration system of Serbia. Although in their inception phase, policy evaluation practices extend across various actors including ministries and other government agencies, while contracted evaluators are currently not regarded as actors in an institutional sense. So far, evaluation has been most institutionalised through the competence of the Serbian European Integration Office and, more precisely, its Department for Planning, Programming, Monitoring and Reporting on EU Funds and Development Aid. The competence to monitor and report on the utilisation of IPA funds is the closest to the description of public

[95] According to the HM Magenta Book, quality control and assurance are crucial dimensions of evaluation. Quality control ensures that "the evaluation design, planning and delivery are properly conducted, conform to professional standards (such as ethical assurance), and that minimum analytical standards are adhered to." Also, "quality control will ensure consistency in data collection, methodology, reporting and interpretation of findings." In: *The Magenta Book: Guidance for Evaluation* (London: HM Treasury, 2011), 32.

[96] Leslie J. Cooksy et al., "Evaluation Policy and Evaluation Practice: Where do We Go from Here?", in *Evaluation Policy and Evaluation Practice, New Directions for Evaluations*, ed. W.M.K Trochim, M. M. Mark and L.J. Cooksy, 2009, 107.

agencies as ordering parties of evaluation. However, it should be noted that this institution has a central role in the EU integration of Serbia and, as the Secretariat of the National IPA Coordinator (NIPAC), also assumes responsibility to arrange evaluations of IPA programming and planning. The institution does not only focus on EU funds, but on overall bilateral and multilateral development assistance, i.e. a co-managed process of evaluating effectiveness and efficiency of all development assistance to Serbia per sector in the period 2007-2011. This was the first time that an evaluation covering all official development assistance for the whole country was conducted.[97]

Given this particular role of SEIO in the evaluation of EU funds, the role of establishing a central system and requirements for policy evaluation for all administration bodies should be assumed by another institution, with a more general policy management and coordination responsibility.

This role was recently taken up by a novel institution in the Serbian system – the Public Policy Secretariat of the Republic (PPS).[98] As a special organisation operating at the centre of government (its head being responsible to the Prime Minister), the PPS has been put in charge of improving policy coordination at the strategic level and policy making in general, which ought to include policy evaluation. The PPS has strong potential to provide top-down impetus for administration bodies to establish, develop and align evaluation practices across the board. It is additionally emphasized when considering that RIA unit in Serbia is already part of the PPS, and a link to the ex-post evaluations and analysis can be clearly made. The interviewees with PPS representatives have shown that this institution does see itself as responsible for setting up a future systemic approach to policy evaluation. Its recent initiative to regulate the country's planning system by law and set some standards for policy making practices through secondary legislation seems to be a step in this direction, although common rules, structures and methodologies for policy evaluation are not yet a part of those emerging documents. While still in its drafting stage, secondary legislation aims to introduce a methodology for better policy making practices by focusing on *impact assessments* of measures contained in policy papers and legal acts for the implementation of policies. The intention is to make these (ex-post and ex-ante) assessments obligatory and assess the possible and

[97] Final report Evaluation of Effectiveness and Efficiency of Development Assistance to the Republic of Serbia per Sector is available at: http://www.evropa.gov.rs/Documents/Home/DACU/5/194/Final%20Evaluation%20Report.pdf.

[98] Established by Article 33 of the Law on Ministries, "Official Gazette of the RS" no. 44/2014, 14/2015 and 54/2015.

real impact of measures of these documents. Although not conceiving systemic policy evaluation as such, once in place, this mechanism will certainly represent a step forward, given that no monitoring and evaluation of the implementation of laws and their effects has been performed thus far.[99] The potential value of this draft legislation is that, once in place, it should provide a link between the *ex-ante* and the *ex-post* part of impact assessment through the introduction of common standards for different policy documents.

The absence of systemic solutions in Serbia has certainly acted as an impediment for the introduction of evaluation. An unconsolidated policy planning system at the central level and a loose hierarchy of strategic and planning documents lie at the heart of the undeveloped policy making system, and, consequently, of policy evaluation as well. The high number of sectoral strategies with mutually mismatching objectives, which do not take into account development goals of the country, impede proper implementation and diminish evaluation efforts.[100] Additionally, a financial framework for implementing these strategies, as well as clear performance indicators, are missing, while budgetary planning is "not linked to the policy efforts, both strategic and operational."[101] Finally, "continuity in the budget planning process has been severely undermined by government changes and reshuffles and some elements of the process have never been implemented,"[102] which has rendered evaluation even more difficult to achieve.

Despite these circumstances, recent developments have created a more promising situation. The Public Administration Reform Strategy adopted in 2014 emphasizes that the existing monitoring and evaluation system is not regulated in a systematic way, and that this is the precondition for improving efficiency and effectiveness in the achievement of policy goals.[103] The Strategy also differentiates between internal evaluations and independent external evaluations through the involvement of expert institutions, civil society organisations, and international organisations as adequate independent control bodies.[104] Evidence produced within these evaluations will be used for introducing corrective measures in the implementation of Strategy.

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[99] Lazarevic and Obradovic, "Map of Policy Cycle at Central Government Level in Serbia," 87.
[100] Maric et al., *How to Get Results in Public Policies? Monitoring and Evaluation with the Evidence Supplied by Civil Society,* 39.
[101] Lazarevic and Obradovic, "Map of Policy Cycle at Central Government Level in Serbia," 5.
[102] Ibid.
[103] Section IV - Management of Public Administration Reform of the Public Administration Reform Strategy, "Official Gazette of the RS" no. 9/14, 42/14.
[104] Section IV - Management of Public Administration Reform of the Public Administration Reform Strategy.

A legacy for the future: What is the impact?

Only a systemic approach to the issues analysed in this section would pave the way for policy evaluation as a clearly structured mechanism for policy improvements. Currently, evaluation is essentially non-existent despite the *ad hoc* evaluation practices which develop with no systemic repercussions, as they are mostly externally driven and created for a single purpose. There is, however, a vaguely defined authority of ministries and other state administration bodies to monitor and assess activities within their competences, examine consequences and take certain actions, or to propose measures to the Government.[105] In practice, monitoring is mostly organized for strategies and action plans, in the form of reports on the state of implementation, but even this is not done on a regular basis.[106]

Consequently, it is not easy to measure the impact the evaluations conducted so far had on the policy making system in terms of its improvement. In a few cases, impact achieved so far could be analysed from the perspective of organisations that have been coordinating evaluations for the purposes of their own work. Nevertheless, there are some positive, visible trends when it to comes to the real impact of evaluations in specific domains. In that sense, SIPRU demonstrated that the evaluation efforts could yield results when it comes to their actual influence. Firstly, the results of the first round of policy impact assessments (PIAs) have been presented to government bodies and civil society organisations as a precondition for further actions in terms of legislative improvement and policy corrections. In the analysis of how new measures, policies and/or legal acts in the domain of social inclusion and poverty reduction were influenced by the evidence provided by PIAs, it was determined that new legal framework in education policy was indeed informed by these analyses.[107] Additionally, in the development of the strategic framework for rural development in Serbia, certain recommendations were applied, while the legal framework on employment introduced a mechanism for an annual planning cycle, which is a direct influence of the respective PIA.[108] In addition, findings and recommendations of PIAs were used in drafting a report on Millennium Development Goals, as well as in the preparation of IPA projects.[109]

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[105] Article 13 of the Law on State Administration, "Official Gazette of the RS" no. 79/2005, 101/2007, 95/2010 and 99/2014.
[106] Lazarevic and Obradovic, "Map of Policy Cycle at Central Government Level in Serbia," 87.
[107] Interview with representative of SIPRU.
[108] Interview with representative of SIPRU.
[109] Interview with representative of SIPRU.

Case by case evaluations managed by the SIPRU had their impact, mostly in terms of the improvement of the legislative/strategic framework. What is perhaps more important is that, in conducting evaluations, lessons have been drawn for the future. These lessons pertain to:

1. Better communication with decision makers in order to boost ownership and create greater demand (definition of evaluation subject and goals, organisation of standing meetings, and an increasing the role of decision makers in consultation processes with stakeholders);
2. Identification of all implementation agencies and interested parties, as well as better coordination among them (there is usually no single institution in charge for the policy domain);
3. Improvement of analysis through the modification of the selection procedure for hiring experts, taking into account their credibility and knowledge of the local context and capacities.[110]

With regards to evaluation work coordinated by the SEIO, effects of evaluations of EU and other development assistance implemented in Serbia were mostly used for the purposes of improving development assistance in the future, i.e. for the next programming period.[111] In other words, evaluation results have been incorporated into planning and programming documents such as the Needs Assessment Document (NAD) or the Sector Planning Documents (SPDs). In this regard, evaluation results are useful for the definition of baseline and target indicators that are used in the programming process and the production of planning documents.

The examples of SIPRU and SEIO prove that it is possible to achieve impact through an approach that is ad hoc and confined to serve the specific needs of a single institution or external requirements. Together, these two institutions were involved in managing more than 30 evaluations and there is a strong belief among the staff that they improved the legislative framework and the internal management processes. Still, these are exceptions and, from the perspective of evaluating ex-post policy implementation, there is no clear structure nor obligation. The system of responsible actors and their competences with a clear "leading" institution is missing in order to make policy evaluation more structured and transform it into a coherent systemic obligation, instead of an isolated activity.

[110] Interview with representative of SIPRU.

[111] Interview with representative of SEIO, Sector for Planning, Programming, Monitoring and Reporting on EU funds and development assistance. List of all evaluations conducted so far is available at: http://www.evropa.gov.rs/Evropa/PublicSite/Documents.aspx.

3.4 Highlights from the EU Case Studies – Evaluation Systems

Evaluation System in the Netherlands: Ever-growing Demand for Evaluation

Systematic evaluation in the Netherlands was the product of a multi-year period of demand and a series of attempts. It is said that the reasons behind the systematization and revival of evaluation are to be found in different influences. As Leeuw states, "*evaluation blossomed in the Netherlands and informal evaluation policy not only was formulated but began to evolve into formal policy [...] this dramatic transition can be attributed to four factors: (1) demands by Parliament, (2) new vigour in the NAO, (3) the New Public Management movement, and (4) the Dutch administrative culture.*"[112] As these demands and pressures were increasing, with a special role of the national audit office (The Netherlands Court of Audit - NCA) that will be explained further, formal institutionalization of evaluation started in the 1990s. Few things were, *inter alia,* clear at the beginning of this process: firstly, the importance of and the need for evaluation was clearly emphasized; secondly, there was an agreement that there is no need for a separate law; and lastly, evaluation had to be a responsibility of the top political and administrative management.[113]

Overall, the institutional design of evaluation is in the hands of the Ministry of Finance as the driving engine[114]. It is responsible for legislation and the assignment of roles and responsibilities. The correlation of evaluation with the budget is also visible through the *Policy Budget and Policy Accountability reform* (VBTB) in 1999, which introduced performance indicators in order to connect budgetary decisions to policy objectives (programme structured budget). In this regard, each minister is responsible for informing the NCA on policy effectiveness.[115] However, the experience has shown that, while performance indicators and a new way of structuring

[112] Frans L. Leeuw, "Evaluation Policy in the Netherlands," in *Evaluation Policy and Evaluation Practice. New Directions for Evaluation,* ed. W.M.K. Trochim, M.M. Mark, & L.J. Cooksy, 2009, 90.
[113] Ibid., 93-94.
[114] The strong role of the Ministry of Finance in the overall accountability and control structure is also visible through the Central Audit Service, part of the Ministry, which conducts audits on behalf of the ministries and is therefore a shared service organization for the central government. "Public Finance in the Netherlands" (2013), the National Academy for Finance and Economics, Ministry of Finance, 47.
[115] Mickie Schoch and Corina den Broeder, "Linking Information on Policy Effectiveness and Efficiency to Budget Decisions in the Netherlands", *OECD Journal on Budgeting*, 12.3 (2013), 6.

and reporting on budget were enough to ensure transparency of budgetary decisions, evaluations were needed in order to assess efficiency and effectiveness.[116] In other words, an additional reason for pushing towards more evaluation work was to see what is behind the figures. The table below illustrates the architecture of the current evaluation system in the Netherlands:

Table 2. Type of evaluations in the Netherlands

Type of Evaluation	Description	Responsible agency
Ex ante evaluations		
Social cost-benefit analysis	Analysis of costs and benefits in a society, expressed in monetary terms	Relevant ministry (most frequently Ministry of Infrastructure and Environment)
Other types of ex-ante studies	Cost-effectiveness studies; multi-criteria analyses etc.	Relevant ministry
Ex-post evaluations		
Policy review	Periodic evaluations of the current policy programmes (4-7 each year)	Relevant ministry
Effect evaluations	Effect evaluations assess to what extent the changes in policies can be attributed to a particular intervention incl. counterfactual analysis	Relevant ministry
Evaluations to identify savings and reform options		
Spending review	Identification of policy options for future savings and/or for more value for money	Ministry of Finance
Comprehensive spending review	Multiple spending reviews carried out simultaneously.	Cabinet (initiated by the Ministry of Finance)

From: Schoch and den Broeder, "Linking Information on Policy Effectiveness and Efficiency to Budget Decisions in the Netherlands," 7.

[116] Ibid., 4.

Evaluation System in France: Making Scenarios for the Future

With the public policies becoming more complex and inter-dependent, coupled with the growing public sector expenditures (government expenditures make 57% of the French national GDP in 2015)[117], the necessity for a more robust system of public policy evaluations inspired the creation of an institution in charge of steering all public policy evaluations as well as providing methodological support and quality control. The General Secretariat for Public Policy Modernisation (*Le secrétariat général pour la modernisation de l'action publique,* abbreviated from French as SGMAP) was established by a Prime Minister's Decree in 2012,[118] with the aim of acting as an essential instigator for the implementation of public sector reforms in the state.

While the SGMAP is the main coordinator of policy evaluations, the principal actor in charge of conducting them is the ministry with primary authority over the evaluation topic.[119] This lead ministry is appointed by the Prime Minister, who makes the decisions on evaluation topics based on the ministries' needs. The role of the lead ministry is to compose and preside over the evaluation committee (comprised of other ministries, territorial entities, social partners, associations, etc.) in charge of providing guidelines, as well as to appoint the evaluation coordinator and its team, who represents the operational actor responsible for carrying out the evaluation. What makes this evaluation system distinct is the fact that the evaluation teams consist not only of the experts, but also of beneficiaries, whose inputs are collected, assessed and taken into account in the course of conducting the evaluations.

Upon providing a "diagnosis" on the state of play of the topic being evaluated, each evaluation should develop and offer different policy options, or "scenarios for the future reform", with the explanation on their potential impacts, arguments for and against the implementation of each scenario and an estimation of costs.[120]

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[117] Index of Economic Freedom, 2015, available at: http://www.heritage.org/index/explore?view=by-variables.

[118] The SGMAP is under the direct authority of the Prime Minister and reports to the Secretary of State for State Reform, the Minister of Decentralisation and the Civil Service, the Minister of Finance and Public Accounts and the Minister of Economy, Industrial Renewal and Digital Economy.

[119] For example, the Ministry of Interior, together with the Ministry of Social Affairs, would be the lead ministries in charge of conducting evaluation on the policy towards newly arrived migrants in France.

[120] See, for example, the scenarios developed in the framework of evaluation of policy towards newly arrived foreigners in France, conducted in 2013 by the Ministry of Interior and the Ministry of Social Affairs and Health. Evaluation report is available at: http://www.modernisation.gouv.fr/sites/default/files/epp/epp_primo-arrivants_rapport.pdf.

Policy Evaluation in the UK: Multi-actor Approach to Producing Evaluations

The ex-post evaluations in the UK are produced by analysts in government departments, academics, consultancies, and other organisations commissioned by the government. In some cases, the government has set up arm's-length bodies which commission or synthesise evaluation evidence, with varying levels of autonomy and independence. These include the Educational Endowment Foundation (EEF), the National Institute for Health and Care Excellence (NICE), and the Independent Commission for Aid Impact (ICAI).

Recently, the UK government has set up a network of 'What Works' centres, which are responsible for synthesising evaluation evidence on the effectiveness of policy in a range of fields. Furthermore, think tanks, research centres and consultancy firms all offer reviews of public policy initiatives. However, independent evaluators coming outside of the government experience difficulties accessing a range of official and administrative data, which could be used to evaluate the impact of government interventions.

The Finnish Evaluation System: Centrally Developed Performance Indicators

In Finland, the Government Policy Analysis Unit is responsible for the development of the indicator service – Findicator, in cooperation with Statistics Finland and other ministries. Findicator is a service opened in 2009 provided by the Prime Minister Office's and Statistics Finland and it includes approximately 100 indicators for social progress. "The Findicator service is targeted at everyone needing up-to-date, reliable information on social progress in their work or other activities: decision makers, public servants, specialists, teachers, journalists, citizens. The indicators are selected in consultation with user groups and data providers."[121]

This Unit also produces data and prepares publications in support of the government work on economic policy decision making and foresight. The Unit prepares the Government annual report which contains information on the performance and self-evaluation of ministries and agencies. It is responsible for monitoring the implementation of the Government programme, and is used to communicate performance issues through a ''traffic light'' reporting system (RAG - red, amber, green, or inadequate, reasonable and ideal).[122]

[121] Findicator, available at: http://vnk.fi/en/findicator.
[122] OECD, Finland. Working Together To Sustain Success, Public Governance Reviews, 2010, 158-159. Available at: http://unpan1.un.org/intradoc/groups/public/documents/UN-DPADM/UNPAN042992.pdf.

Evaluation in Estonia: Through Budget Reform to Improved Effectiveness

An important part of developing the evaluation process in Estonia has been the reform of the budget system towards more performance-based budgeting. Estonia has reformed its public finance system and has "developed a strategic planning process based on a medium-term framework and incorporating performance information."[123] Although the budget law has the traditional line-item form, it also entails performance information. Performance information that is included in the explanatory note accompanying the budget law entails the ministries presenting their main goals, performance targets and activities as a part of their budget requests, indicating how much different activity areas would cost.[124]

The government system is in charge of developing methodologies on ex-post evaluations. This is important in order to improve policy making and facilitate policy learning in the administration. NAO of Estonia is trying to systematically ''make the Government'' improve their methodology and, after the Government has conducted ante and ex-post evaluation, regardless of whether it comes in the form of a strategy, legislation, policy paper, NAO forces it to develop the methodologies and conduct the evaluations. Representatives of NAO state that the Government must be forced to improve its methodology and that is the biggest impact NAO has in Estonia.

3.5 Conclusion: The Pervasive Influence of the Legalistic Tradition

The current practices of policy evaluation, which is still a novel and little-known concept in the Western Balkans, are dominated by an ad hoc approach, with Macedonia being the only country which has formally introduced a requirement, albeit limited to an evaluation of legislation. The current debate in Serbia seems to be moving in a similar direction, although the common methodology which is being developed by the Public Policy Secretariat pertains to the policy impact assessment methodology. The relevant documents are currently in the public discussion phase, which leaves space for instigating a debate on the various possible types of evaluations, as well as on the

[123] Dirk-Jan Kraan, Joachim Wehner and Kirsten Richter, "Budgeting in Estonia," *OECD Journal on Budgeting*, 8.2 (2008), 1-40.
[124] Raudla Ringa, "Pitfalls of Contracting for Policy Advice: Preparing Performance Budgeting Reform in Estonia," *Governance: An International Journal of Policy, Administration, and Institutions*, 26. 4, (October 2013), 605–629.

target documents for evaluations. There seems to be little initiative in Montenegro at the present moment in moving towards a more systemic approach to evaluation, although recent examples of evaluations of individual strategic documents do show a growing understanding of the need to assess the results and impacts of policies. External drivers and pressures, especially those coming from the EU accession process, to introduce evaluations are a feature in all three countries, which may mean that, with the acceleration of EU accession, bolder moves towards creating more systemic solutions can be expected. The impact of implemented evaluations in all three countries can be determined within the described common context which is lacking a well-rounded policy evaluation structure and where experience is limited. However, in all three countries evaluation recommendations have influenced or are expected to influence changes in legislation, as well as specific implementation aspects of policies in question.

Despite these recent developments, there seems to be little debate in all of the three countries with regards to different crucial evaluation-related questions. Firstly, different types of evaluations are essentially not defined. The highlights of the Dutch evaluation system demonstrate that different types of evaluation serve different purposes, and pertain to different levels and aspects of policy implementation. Secondly, the relationship between the overall strategic planning systems and policy evaluations is not tackled in WB countries. For example, the French system opted for an evaluation approach that includes the central authority (SGMAP) as an evaluation coordination unit that ties together all actors across different levels (government, line ministries, and operational units). Last but not least, there is no debate on how performance-based budgeting affects and sustains evaluation. In the cases of the Netherlands and Estonia the initial spark for evaluation actually arose from the need to reform the budget process in a direction of stronger performance information and linkage to policy objectives.

In the absence of answers to these questions, in all three WB countries, the new evaluation-related initiatives tend to opt for an extension of what is already familiar, e.g. RIA (developed and introduced similarly, under external pressure) as the only formal mechanism for assessing impacts of new policy instruments. Therefore, the focus of new evaluation requirements is mostly on legislation, leaving policy documents and (budget) programmes outside of the loop.

4 PERFORMANCE AUDIT IN WESTERN BALKANS: THE THIRD "E" DILEMMA

As the most novel form of external state audit, performance audit (PA) has developed in the context of government reforms and innovations that mainly had state modernizing, streamlining or even minimizing as the main objective.[125] Thus, PA is just one of the audit categories which tries to investigate the effectiveness of government actions, i.e. whether goals of the organization are achieved. In other words, effectiveness, referred to as the third "E", requires an auditing activity that would go beyond measuring the input-output relation of a budget activity (economy and effectiveness), which is characteristic for financial and compliance audits. Financial and compliance audits are much more common overall, not only for the WB countries, and are seen as self-evident audit activities for many SAIs.

The relevant INTOSAI standards and guidelines summarize the definition and scope of PA:

> *Performance auditing is concerned with the audit of economy, efficiency and effectiveness and embraces: (a) audit of the economy of administrative activities in accordance with sound administrative principles and practices, and management policies; (b) audit of the efficiency of utilization of human, financial and other resources, including examination of information systems, performance measures and monitoring arrangements, and procedures followed by audited entities for remedying identified deficiencies; and (c) audit of the effectiveness of performance in relation to achievement of the objectiveness of the audited entity, and audit of the actual impact of activities compared with the intended impact.*[126]

Whereas most SAIs around the world, including Europe, presently implement PA within their mandates, it is widely understood that "the form of public management employed will necessarily influence priorities in performance auditing. In countries where public

[125] See: Christopher Pollit et al., "Performance or compliance? Performance Audit and Public Management in Five Countries," *OUP Catalogue* (1999), 87.
[126] ISSAI 3000, Standards and Guidelines for Performance Auditing based on INTOSAI's Auditing Standards and Practical Experience, 11.

management is mainly concerned with means and less involved with ends, audits also tend to focus on whether rules have been observed and enforced rather than whether the rules serve or are seen to serve their intended purpose."[127] According to Pollitt and Bouckaert, among the twelve developed countries in their study, vast differences were observed in regard to the level of ambition, with some countries still maintaining a highly legalistic general culture.[128]

Additionally, this type of culture can certainly influence the willingness and readiness of a SAI to experiment and borrow the methods and approaches from the evaluation field and social science research, and generally engage in more evaluation-type studies. In PA, it is emphasized that it is more difficult to define and apply specific requirements and expectations, and that increased flexibility is necessary for all aspects, including the methods applied. Finally, PA should use "a wide selection of investigative and evaluative methods and operate from a highly different knowledge base to that of traditional auditing."[129] As the ISSAI guidelines recognise, in the process of performance auditing "specific skills may be required, such as knowledge of evaluation techniques and social science methods, and personal abilities such as communication and writing skills, analytical capacity, creativity and receptiveness. Auditors should have sound knowledge of government organisations, programmes and functions."[130]

The analysis of the development and state of play in performance audit in the three studied WB countries in this chapter is conducted mainly from the perspective of understanding its closeness to evaluation and the capacities for a development in that direction. The general traits of PA, such as its origin, development, the overall approach to PA, and the specific aspects of audit implementation and internal organisation are described to the extent necessary to understand the specificities of the field in each country. The chapter proceeds by "telling the story" of each country's PA, given that direct comparisons of the different traits would have limited value (and would, to an extent, be practically impossible to actualize), due to fairly divergent levels of experience with PA. Additionally, the impact of PA conducted so far is, in this chapter, analysed to the extent allowed by the experience of the respective SAIs. Following the WB case analyses, the main findings from the EU case studies are provided, selected so as to serve as good practices for

[127] Ibid., 20.
[128] See: Christopher Pollitt and Geert Bouckaert, *Public Management Reform: A Comparative Analysis - New Public Management, Governance, and the Neo-Weberian State*, 3rd ed. (Oxford: Oxford University Press, 2011).
[129] ISSAI 3000, 12.
[130] ISSAI 300, 8.

WB countries in their further development of PA. A concise conclusion is offered at the end of the chapter, summarising the most important findings with regard to the patterns of development of PA in the WB from the aspect of contributing to policy learning.

4.1 Performance Audit in Macedonia - towards a Decade Long Practice

Origin and Development. Performance audit was first introduced in the Republic of Macedonia in 2005, whereas the first annual Programme was adopted and the first performance audits were conducted in 2006. The introduction of this type of audit, according to the staff of the SAO, was highly influenced by its international (European) contacts at the time.[131] Between 2006 and 2014, a total of 48 performance audits were conducted, placing Macedonia as the frontrunner in terms of its experience in this type of assessment compared to the other two WB countries.[132] In addition, in 2014, for the first time since its introduction, the performance audits dominated the work of the SAO. A large performance audit on the financial management and control system, as well as the internal audit system, was conducted, covering 80 entities and resulting in a report offering recommendations for each of the auditees.[133]

Table 1. Number of performance audits conducted per year in Macedonia

2006	2007	2008	2009	2010	2011	2012	2013	2014[134]
3	3	3	3	6	7	10	7	6

Requirements and Guidelines. With regards to the legislative framework for conducting PA, pursuant to the 2010 State Audit Law[135], the State Audit Office (SAO) of Macedonia is in charge of conducting regularity audit (financial audit) and performance audit. The State

[131] Interviews with state auditors, April 2015.
[132] According to our interviewees, a number of performance audits are ongoing in 2015 as well.
[133] See Annual Report of the State Audit Office of the Republic of Macedonia, available at: http://www.dzr.mk/en/Uploads/SAO%20Annual%20Report%202014.pdf.
[134] The performance audit on the system of financial management and control and internal audit adds to this number. As mentioned before, this performance audit was conducted on 80 entities and 80 audit reports were produced. See Annual Report of the State Audit Office of the Republic of Macedonia, available at: http://www.dzr.mk/en/Uploads/SAO%20Annual%20Report%202014.pdf.
[135] State Audit Law, "Official Gazette of the Republic of Macedonia" no. 66/2010. The first Law on State Audit was enacted in Macedonia in 1997.

Audit Law prescribes the conditions and the manner of conducting state audit, as well as the SAO organization and competences. The state audit shall be conducted in accordance with the audit standards of the International Organization of Supreme Audit Institutions (INTOSAI), and the rules determined in the INTOSAI Code of Ethics, published by the Minister of Finance in the "Official Gazette of the Republic of Macedonia."[136] Consequently, INTOSAI standards for performance audit are practically directly applicable in Macedonia. Pursuant to this law, the performance audit is defined as an assessment of the economy, efficiency and effectiveness ***of the operation and use of funds*** in a defined ***area of activities or programmes.***[137]

SAO is guided by the following documents in conducting performance audit: the audit standards, PA standards and the State Audit Law. The first phase of conducting PA is the planning process which encompasses: preliminary research on the topic; risk assessment; ***approach and scope***; aim of the PA; a plan of activities along with a timeframe for performing activities, as well as a proposal for PA. The implementation phase encompasses: audit evidence (which needs to be competent, reasonable and reliable), methodology and analysis. The communication phase relates to the characteristics of the PA report, its quality, structure and manner of writing, which need to be easily understandable to a wider, non-expert audience. Quality control and quality assurance are conducted by a special organizational unit within the SAO, which is comprised of the most experienced state auditors. All the phases are implemented according to a well-established procedure in the PA Manual, one of the most important documents regulating PA.[138]

Planning of PA. There is a specific procedure for programming PA in the internal SAO Guidelines for drafting its Annual Programmes. Firstly, each of the auditors individually conducts an analysis of a sector or a government programme that needs improvement, and then drafts a summary. This 2-3 pages long summary includes the analysis, the aim of the possible PA, risk assessment, among other elements. After discussing the summary at a SAO staff meeting, a decision is adopted regarding choosing the sector which will be subject to PA for the following year. An annual programme for performing PA is adopted

[136] Article 18 of State Audit Law, "Official Gazette of the Republic of Macedonia" no. 66/2010.
[137] State Audit Law, "Official Gazette of the Republic of Macedonia" no. 66/2010.
[138] However, the PA Manual, as well as other internal documents for conducting PA, are not publically available on SAO's website. The first version of the Manual was adopted in May 2004. In December 2014, the SAO adopted a new PA Manual which is currently in force. The new Manual regulates the planning process, implementation, communication, quality control and it contains annexes for all the phases of the process.

in the period between September and November for the forthcoming year, and the PA is conducted in accordance with this programme. The internal manual for PA includes guidelines on how to conduct the research (analysis of the sector or the government programme), which can be included in the annual programme. Once one sector/programme was subject to PA, there is no repeat audit considering there are many other areas which were not subjected to PA. The SAO has identified that the PA process in Macedonia lacks a follow-up study, which is essential for monitoring the implementation of recommendations. This is expected to be dealt with in a new SAO Manual for follow-up of the PA reports' recommendations, which is currently in preparation.

Alignment with standards. According to the most recent report on the level of alignment of SAO's work with the audit standards of INTOSAI (ISSAI), SAO is 69% aligned with the standards, 29% partially aligned with the standards, and 2% of the standards are not applicable in the Republic of Macedonia. On the basis of this Report, the SAO adopted a Strategy for Implementation of ISSAI standards for the 2013-2017 period.[139] The prevailing strategic goal of SAO is the further development of the quality of state audit, including the sub-goal of enhancing the efficiency of the planning process and the process of programming PA, as well as improving the quality of performance audits.

Internal Organisation. Concerning the SAO organizational structure for conducting PA, from 2005 until 2009, there was a separate department conducting PA. This department consisted of a relatively small number of state auditors and could therefore produce only a limited number of annual PAs. In 2010, the SAO Organisational Chart was amended and PA has since been conducted by all departments horizontally. The auditors that had conducted PA within a separate PA department (for the period 2005-2009), after the change of the SAO organisational structure, were relocated to different departments, facilitating the transfer of know-how to other auditors. SAO concluded that this manner of managing PA, i.e. disseminating it to all departments, is more constructive.

Training and Background. The SAO state auditors have a practice of attending a five months in-service training in the EU Court of Auditors, which operates as a train-the-trainers scheme, with an obligation for these auditors to continue working for the SAO for a number of years.[140] Nonetheless, this is a general obligation for all auditors and there are no specific training and qualification requirements in order for a

[139] SAO Strategy for implementation of ISSAI standards is based on the following standards: ISSAI 100 – basic principles of public sector audit; ISSAI 300 – Fundamental Principles of Performance Auditing; ISSAI 3000 – Standards and Guidelines for PA, and ISSAI 3001.
[140] 16 auditors have completed this training so far.

person to work on PA, other than the general and specific conditions one has to meet to become an auditor. These include an educational background in economics, law, information sciences, or other relevant education for conducting audit, including an exam which can be taken after 5 years of experience in accounting or financial matters or three years of working experience on issues of audit or control.[141] From that criteria, and its application in practice, it is clear that there is no trend of diversification of the skills of the auditors, which are indispensable for conducting performance audit, as foreseen in the ISSAI standards.

Capacity Building and TA. The SAO has benefited from capacity/institutional building activities for many years, which was, according to our interviewees, fundamental for establishing the capacities for conducting PA, both in order to fulfil the SAO mandate pursuant to the State Audit Law and to establish PA as a corrector of policies.[142] One of the areas encompassed by foreign assistance was the development of PA methodology and practice. Between 2003 and 2005, the introduction of PA was reinforced by a World Bank project which supported trainings of SAO staff. After the World Bank project, the most substantial assistance was the technical assistance coming from the Netherlands.[143] In 2010, the Netherland Court of Auditors signed a cooperation project with SAO for the period of five years, which is still on-going. Within this cooperation project, the Court of Auditors of the Netherlands provides technical assistance to SAO for the implementation of performance audits, regularity audits, quality management, human resources management, and other topics. As a part of the set of performance audits, the SAO has also audited donor projects directed to national institutions, and has assisted and participated in coordinated international audits.[144] For example, in 2007, the performance audit of the Ministry of Justice project for procuring equipment, designated for

[141] Articles 14 and 15 of the State Audit Law, "Official Gazette of the Republic of Macedonia" no. 66/2010.
[142] This was the common opinion of all 8 interviewed state auditors from the SAO in Macedonia.
[143] For the period 2005-2008 there was a twining project and from 2008-2010 there was a MATRA project for technical assistance to SAO. The main aim of the MATRA project was strengthening SAO capacities for producing high quality audit reports in accordance with the EU acquis, as well as with the relevant international standards and best practices. The project activities were divided into four components: improving the legislative framework, strengthening the organizational and administrative capacities of the SAO, enhancing the audit skills and IT audit. SAO was also a beneficiary of a twinning project by the Netherlands Court of Auditors that lasted for 2 years (2011-2012).
[144] An international coordinated audit combines several audits on the same topic conducted by different SAIs in their respective countries according to an integrated planning approach. See: Victor Hart, Luciano dos Santos Danni, Paula Hebling Dutra, and Brazilian Court of Audit (TCU), "Coordinated Audits as a Capacity Building Strategy," *International Journal of Government Auditing* (October 2013), accessed September 4, 2015, http://www.intosaijournal.org/highlights/audits_capacity_building_oct2013.html.

the courts in Macedonia as a part of the 2000 PHARE programme, was realised.[145] The Ministry of Justice coordinated and implemented the Public Administration Reform – Judicial Administration project, while the European Agency for Reconstruction concluded and implemented the procurement contracts for goods and services, with funding coming from EU programmes for Macedonia. In the course of 2009, there was an international PA for a climate change project, while in 2010 a PA for the policies for employment of people with disabilities and a PA for managing public debt were conducted. Currently, that is, in 2015, SAO is participating in two international PA, one for tourism development policies with Croatia and the second for energy efficiency and renewable energy sources with Serbia and other countries from the region. State auditors consider the coordinated international audits as a very useful tool for capacity building.

Cooperation and Communication. As a rule, the institutions subject to PA cooperate with performance auditors. However, the level of cooperation depends on the subject matter and the ministries/institutions involved. The institutions are obliged to, within 90 days of the performed audit and submitted audit report, inform the SAO on what measures/activities they will undertake in order to implement the SAO recommendations. As argued by our interviewees, the implementation of the SAO recommendations is issue/institution-specific and depends primarily on the awareness of the management structure of the ministry/institution. The communication in all three phases of PA is specifically regulated by the PA Manual. Auditors regularly communicate with the institutions that have an on-going PA. After the PA is finalized, SAO organizes a presentation attended by all of the institutions involved. The draft reports are submitted to all relevant stakeholders. The PA reports are published on the SAO web page and are submitted to the Assembly of the Republic of Macedonia, as well as to all relevant stakeholders subject to PA.

Follow-up. In terms of follow-up, since 2009, the Government has been devoting a special session to the annual report and other audit reports of the SAO, signalling the increased importance of SAO's recommendations. However, as the SIGMA 2013 report notes, "the implementation of SAO's recommendations has apparently had no visible impact on the average number of auditees affected by an overly high level of irregularities."[146] Still, as was outlined by our interviewees, the focus of these cases was

[145] EU Project EuropaAid/112995/D/S/MK. PHARE programme 2000 – Procurement of IT equipment for Public Administration Reform- Judicial Administration with a value of 508.183,00 EUR.

[146] The Former Yugoslav Republic of Macedonia Assessment Report 2013, SIGMA Country Assessment Reports 2013/10. Available at: http://bit.ly/1LojOkK.

foremost on the regular financial audits, rather than PA per se. The interviewed SAO auditors also hold the opinion that institutions are more responsive to the performance audit reports than to the financial reports. A specific positive example in this respect is the 2010 PA report on the programmes and measures for increasing employment of persons with special needs, which determined that the provisions of the laws were not correctly implemented. The PA report focused on three main points in order to improve the legislative framework: strengthening the control over the implementation of the laws, ratifying the Convention on the Rights of persons with disabilities, as well as the European Social Charter, and determining another mode of funding. According to the interviewees, the PA report contributed to the adoption of a new law in line with the recommendations. Several other examples such as changes in the laws on health care were also given. They also emphasise that the degree of implementation of the recommendations from the PA report depends on the area and the character of the measures that should be adopted. Interviewees viewed that the main challenges in the implementation of the PA reports, in addition to increasing their number in general, are: raising awareness among the institutions, improving the dissemination of the reports, public/open discussions, and introducing mechanisms for monitoring of the implementation. The institutions need time to implement some of the measures, especially concerning specific and sensitive issues. Concerning the follow-up, the institutions have 90 days to inform the SAO on whether they have implemented the recommendations from the PA Report. Presently, the SAO is drafting a new Manual planned to be adopted in September 2015, which will introduce a new manner of follow-up regarding the recommendations from the PA reports.

Quality. In 2007, the German state audit institution, in its Peer Review Assessment of the State Audit Office of Macedonia, assessed that "the audits did not address government performance in a wider sense but rather the compliance of the programmes with the set objectives or EU rules. The question as to whether the effects achieved are in a reasonable proportion to the allocated funds and whether there are alternative, more efficient options, did not play a major role. The audits generated a large number of findings that rather address regularity aspects e.g. the compliance with requirements for approval or with reporting duties".[147]

The essential question is to what extent the SAO has managed to improve the quality of its performance reports. Although the

[147] Bundesrechnunghof, Peer Review Concerning the Macedonian State Audit Office Final Report, Gz.: I 5 – 2007 - 1009 Bonn, 2007.

interviewees have assessed the quality of PA reports positively, local research reveals several shortcomings. Performance audit reports in Macedonia are "missing a vital part to complement performance based budgeting, i.e. the efficiency and effectiveness audit in comparison with the set/planned performance/goals and evaluation of the taxpayers' value for money".[148] As is the case in other countries as well, the lack of performance-based budgeting has been identified in local research and confirmed by our interviews as an impediment to achieving the full potential of performance audit in general.

Our comparison of the performance audit reports in 2007 and the performance audit reports in 2014 leads to the conclusion that the quality of the audits has improved.[149] The goal of the audit is more clearly set in terms of economic, efficiency and effectiveness criteria. Although compliance is still in focus, performance is analysed much more thoroughly, based on the identification of risks, which results in more elaborate audit findings that can be valuable for policy evaluation. Still, it cannot be claimed that audits address government performance in a wider sense. In addition, the SAO does publish the audit findings, but does not publish the applied methodology, which is annexed to the Audit report. The focus of SIGMA assessments has been on regulatory and compliance audit. SIGMA has assessed that performance audit is "developing gradually, but at a steady pace."[150] This general assessment corresponds to our findings.

Overall, it can be concluded that, with a decade long experience of PA, Macedonia can serve as a valuable source of experiences and lessons learnt for other countries in the region. Performance audit is well-established both in procedural terms and in practice, largely because of the pro-active role of the SAO. The main challenges lie in improving the quality of performance audit, introducing mechanisms for monitoring implementation of the recommendations, and raising awareness among the institutions on the role of performance audits in general.

[148] Nikolov, Trenovski and Tasevska, "Feasibility study: performance based budgeting for enhanced budgeting process and increased transparency and accountability," 37.
[149] Two performance audits were compared: Performance audit of the programme for the protection of children in 2005 and 2006 (2006) and Performance audit on the efficiency of the measures to ensure ambient air quality in the Republic of Macedonia (2014).
[150] OECD/SIGMA, The Former Yugoslav Republic of Macedonia Assessment Report, 2013, 40. Available at: http://bit.ly/1GAk8fb.

4.2 Performance Audit in Montenegro - a Thorny Road towards Performance

Background. Recently marking its ten year anniversary, the State Audit Institution in Montenegro is a relatively young institution which has produced over 150 audit reports on budgetary units, funds, public companies, municipalities, et cetera. A great majority of these reports are compliance and financial audits, while there are some follow-up (control) audits, as well as very few performance audits, taking into consideration that some of the early work classified as PA does not really satisfy the relevant international standards. SAI classified some of its early audits as "performance audits", simply because they stepped out of the narrow financial and compliance audit barriers. It seems as something that the SAI always wanted to do, but did not know exactly how to or had the resources to conduct. It is important to emphasize that SAI's mandate to specifically conduct the audit of "success" or performance of managing state funds and property has been enshrined in the Constitution itself.[151] The current situation is not much better and SAI faces both internal constraints and outside barriers to performance auditing. Besides lacking experienced staff and resources, SAI is operating in an environment that does not have a culture of measuring performance or thinking about goals in relation to public funds allocated for the implementation of policies.

The usual domestic audiences of SAI's work in Montenegro (journalists, NGOs, MPs, independent experts and, more rarely, government officials) do not exert pressure upon SAI to conduct more performance audits. The emphasis is still on compliance and financial audits that are more straightforward and often carry revelations of gross and significant misuses of public funds, misdemeanours and irregularities. Additionally, there are constant requests for more reports and the SAI must increase the number of audit reports published annually, in order to cover as much of the public sector as possible. Performance audit in this kind of environment is perceived as too advanced, whereas the simpler forms of audit reveal results that are more "sensationalist," easier to understand and report on. The pressure to develop performance audit seems to be coming externally, mainly as a part of the EU accession process and membership negotiations.[152] The Chapter

[151] Article 144 of the Constitution of Montenegro, "Official Gazette of Montenegro" 01/07. In some countries, the constitution or legislation in force do not always confer on the SAI the authority to audit "effectiveness" or "efficiency" of the financial management of the executive.

[152] The latest, 2014 European Commission Progress report on Montenegro emphasizes low capacities for PA. See: Page 59 of http://ec.europa.eu/enlargement/pdf/key_documents/2014/20141008-montenegro-progress-report_en.pdf.

32 Screening Report has indicated the low level of development of performance audits as one of the stumbling blocks.[153]

Organisational setup. Montenegrin SAI has wandered around a bit when it comes to institutional set up for conducting performance audit. SAI's Strategic Development Plan outlines the introduction of performance audit as one of the goals for the period from 2012 to 2017, but does not go into much detail about the specific goals that are to be achieved in this area.[154] The first scenario, which was tried out in 2011, was based on the model previously used for the audit of IPA funds. It consisted of setting up a department that would be tasked with developing a performance audit methodology which was not attached to any of its five sectors,[155] and was headed by one of the senior auditors. This body was cooperating with the Swedish NAO in terms of expert help, while its task was to develop methodological guidelines for performance audit, as well as to conduct pilot audits of this type. Its first performance audit was focused on the topic of the system for collecting the income tax.[156] However, this audit was abandoned and never published, as this whole working mode proved to be ineffective. In February 2014, a new PA Department was created as a special unit within one of the SAI's sectors, directly run by one of the SAI Senate members. The Department has since conducted two performance audits and played a key role in defining the methodological guidelines for performance audit which were adopted in 2015. It is safe to say that even this solution is not viable in the long term, due to the difficulties that will arise from the fact that the PA department operates within a sector which clearly has a limited scope of audit entities, in accordance with the general organisation and division of work in the SAI.[157] As a result, it is not clear if the PA department can encroach on another sector's turf with its audits, or if it is limited in its scope to the audit entities which fall under its sector's purview. Although it is too early to discuss radical organisational changes caused by the PA requirements, it is expected that the SAI will eventually end up forming a special sector which will conduct only this type of audit, run by one of the

[153] Screening report Montenegro, Chapter 32 – Financial control, 2013, available at: http://ec.europa.eu/enlargement/pdf/montenegro/screening_reports/screening_report_montenegro_ch32.pdf.
[154] SAI's Strategic Plan of Development 2012-2017, 34. Available at: http://www.dri.co.me/1/index.php?option=com_wrapper&view=wrapper&Itemid=52&lang=en.
[155] SAI is divided in five sectors, each covering a number of audit entities or thematic areas, and headed by one Senate member. The division is not clear-cut, and certain areas spill over to different sectors, while others, such as municipal budgets or the security and defence sector, belong to specific sectors as a whole.
[156] SAI's 2012 Annual report, 208. Available at: http://www.dri.co.me/1/images/godisnji%20izvjestaj.pdf.
[157] The list of Sector Two's audit entities is available here: http://bit.ly/1M6SF6i.

Senate members. The question to be answered here is whether it is realistic to expect that the expertise for conducting performance audits can be developed across the institution or whether this should be reserved for a special department, while the rest of the SAI deals with compliance and financial audits.

Human resources. Montenegrin SAI is a relatively small institution, with 80 work positions systematised. Out of that number, 76 positions are intended for audit staff, while the rest is administration. Only 47 auditors have been hired, while the remaining 29 posts remain vacant.[158] That means that the SAI currently operates with around 60% of its planned human resources, and that the PA department is understaffed as well. Currently, there are five work positions systematised in the performance audit section, only two of which are filled. These two persons are experienced auditors that had previously worked in the same sector on financial and compliance audits, and have been transferred to conduct PA. There are various issues related to filling these vacant positions, they range from the shortage of qualified staff on the labour market, to a great disparity in wages between the state and commercial audit sector, which makes SAI less attractive,[159] as well as a complicated procedure in which the SAI is obliged to have the approval of the Ministry of Finance for each new hiring.[160] In these conditions, it is particularly demanding to plan human resources for the performance audit division. Issues of capacities for PA are even more important when the ratio between the number of staff and obligatory annual audits are taken into account.[161] On the other hand, performance audit can be seen as a tool for increasing the audit scope (coverage of public spending), due to the fact that it allows for an approach focused on topics covering a large number of entities at the same time. This was one of the recommendations of the SAI's peer review report, seen as

[158] Data from the latest SAI's Annual Report, 319. Available at: http://bit.ly/1MEkXFL.

[159] The only available data on this disparity (from the 2010 Government's answers to the EC Questionnaire) shows that the average salary of a state auditor is three times lower than that of an auditor in the private sector.

[160] As an additional burden for its capacities, for almost five years SAI has been functioning with only four out of five of its Senate members (who are collegially running the institution, with the Senate President being the first among the equals), due to the inability of the political parties to agree upon a suitable candidate.

[161] For example in 2012, the Law on Financing of Political Parties was amended and an obligation for SAI to conduct audits of annual financial statements of all political parties was included, along with the obligation to conduct an audit of electoral campaign financial reports. Along with the obligatory audits of the final national budget statement (year-end budget report), this represents a significant burden on the capacities of SAI.

a way for a small institution such as SAI to meet its challenging audit remit.[162]

SAI's official examination tests for passing the state auditors' exam or its official training plan do not cover performance audit topics. SAI is in charge of conducting official national tests for certification of state auditors, as well as conceiving the programme, contents and procedure of the tests.[163] Its outdated programme for the official examination process (adopted back in 2006) does not mention performance audit, nor does it cite any resource which indicates that the examinee has to be informed about the performance audit methodology or standards.[164] On the positive side, there are no formal barriers for people with diverse backgrounds to become state auditors. The Law does not exclude those with a background other than economics and law to become state auditors. An individual coming from any educational or professional background can become a state auditor, as long as the official test is passed, along with some formal requirements set out by the Civil Service Law.[165] This is important for the future development of human resources in the field of performance audit given that they should encompass a staff incorporating a variety of backgrounds. Additionally, there is a legal possibility for the SAI to contract services from external experts for conducting audits,[166] however, this option is rarely used, and has not been utilised for the purposes of PA so far.[167]

One of the ways external pressure acts as a motivation for developing capacities for performance audit is the regional process of learning through practice in the form of conducting parallel performance audits. The European Court of Auditors has supported the network of candidate countries' SAIs in carrying out a parallel performance audit on energy efficiency,[168] by providing experts on the subject matter and on the methodology of performance auditing.[169] In addition, financial aid from the EU has helped achieve concrete steps in building organisational capacities and human resources for performance audit.

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[162] Peer Review of the National Audit Institution of Montenegro, 2011, 26. Available at: http://bit.ly/1hTP9nT.
[163] Law on State Audit Institution, "Official Gazette of the RS," no. 101/2005, 54/2007, 36/2010, Article 38.
[164] Rulebook for the programme of passing the state auditor's exam, "Official Gazette of Montenegro" 44/06. Available at: http://www.dri.co.me/1/doc/Pravilnik-o-programmeu-polaganja-ispita-za-drzavnog-revizora.pdf.
[165] Law on SAI of Serbia, Article 45.
[166] Ibid., Article 46.
[167] Information from interview with SAI staff, March 2015.
[168] See more at: http://bit.ly/1W5N3nH.
[169] European Court of Auditors' 2014 Activity Report, 41. Available at: http://bit.ly/1INTWl1. Additionally, Montenegrin SAI 2013 Annual Report, 380. Available at: http://bit.ly/1jTLjwx.

An EU-funded project has, since 2009, laid the foundation for the development of performance audit in Montenegro. It produced the first seminars on this topic and the formation of a special performance audit department in the SAI.[170] This work was continued with the EU-funded project on audit quality control, during which the organisational set-up was redefined and methodological guidelines for performance audit were adopted.[171]

What has been done so far - classification troubles. When determining the number of performance audit reports, one can have a particularly hard time coming up with an exact figure. This is an indicator of the thorny road of the Montenegrin SAI towards developing its PA methodology. In its work so far, SAI has officially conducted two performance audits, the first dealing with the work of the Secretariat for Development,[172] and the other with the Tax Administration.[173] These are the only reports which can be found under the *Performance Audit* heading at the SAI's website,[174] although there are other audit reports classified as *performance audits* from earlier years. The first performance audit, focusing on the Human Resource Management Authority, was published in 2009, barely five years after the establishment of the institution. In the meantime, other institutions, mainly smaller budgetary units, have been subjects of PA: the Property Administration, the Fund for Minorities, Montenegrin Agency for Foreign Investment Promotion, and the Department for International Scientific, Cultural, Technical and Educational Cooperation. However, PA in Montenegro is objectively "still in its infancy."[175] The reason why these earlier performance audits "don't count" anymore is not only the adoption of a special methodology for PA in 2015,[176] but also an acknowledgment of the fact that these reports did not exactly adhere to the international

[170] SEA EU Project, 'Strengthening of external audit in Montenegro, 09ME01.10.1, entailed a realization of the institutional cooperation with the National Audit Office of Sweden referring to conducting performance audit, setting up the Performance Audit Authority for development of performance audit within the organisational structure of the SAI, as well as drafting a Pre-study for pilot performance audit and beginning the process of performing this audit.

[171] IPA 2012 Twinning Light Project, "Audit Quality Control in the State Audit Institution of Montenegro."

[172] Performance Audit Report on Secretariat for Development Projects "Monitoring the Status and Dynamics of Investment Projects", 2014. Available at: http://bit.ly/1NTZxuh .

[173] Performance Audit Report on Efficacy of the Tax Administration in payment of Tax Debt, 2015. Available at: http://bit.ly/1W4fhdq.

[174] Performance audit section at the SAI's website: http://www.dri.co.me/1/index.php?option=com_content&view=article&id=165&Itemid=212&lang=sr.

[175] SIGMA's Public Administration reform assessment of Montenegro, April 2014, 26. Available at: http://www.sigmaweb.org/publications/Montenegro-Assessment-2014.pdf.

[176] Full title: Instruction on Methodology for Conducting Performance Audit, adopted in January 2015.

standards of performance auditing. Before the adoption of special methodological guidelines for PA and the establishment of the special PA department, there seemed to be a tendency to introduce some elements of the performance audit methodology in the "classic" audits. In some of the compliance and financial audits, special attention was paid to the elements of performance, while others were initiated as compliance audit, only to turn into a performance audit during the process. While the auditing standards foresee the possibility of such an overlap, the newer tendencies in the SAI adhere to a more strict methodological division.

Performance vs. financial/compliance audit. Methodological differences between the compliance and financial audit on one hand, and the performance audit on the other, as understood by the SAI through it methodological guidelines, are numerous. Perhaps most importantly, the process of preparing and proposing an audit for the annual audit plan is different. Performance audit requires the auditor to prepare the so called pre-study, a detailed research concept that would prove why the chosen topic is important and whether the conditions in place would enable SAI to conduct a performance audit. In a very detailed procedure, the auditor must conduct a thorough research into the topic and present the case to the head of the Sector, who then decides whether the actual performance audit is necessary or feasible. Only then can the auditor create a detailed audit plan. This procedure is completely different and much more demanding than the one required for a compliance or financial audit to be proposed for the SAI's annual audit plan. One of the differences in the methodology for writing audit reports that distinguishes the performance audit, is the exclusion of the opinion (adverse, qualified or unqualified) which is obligatory for the compliance and financial audit reports.[177]

Scope of the performance audits. The policy basis of government programmes has not been tackled in the SAI's performance audits. All published performance audits are related to the functioning of individual institutions (audit entities) and not to horizontal processes. This is perhaps a reflection of a narrower definition of performance audit that is given in SAI's audit reports (not present in the legal acts or methodological papers), and which states that the goal of the PA is to see whether the "*institutions* are doing the right job and are they doing it in the right way, with the least expenses possible."[178]

[177] As foreseen by the Instruction on Methodology of Conducting Financial and Compliance Audit, "Official Gazette of Montenegro" no. 07/15.
[178] Performance Audit Report on the Secretariat for Development Projects "Monitoring the Status and Dynamics of Investment Projects", 2014, 3-4.

Quality of PA reports and follow-up. One characteristic trait of Montenegrin PA reports is that they cite international good practices. In both of the audit reports, secondary literature (SIGMA's papers, European Commission's and World Bank's materials, academic papers and best practices from various sources) was used, in addition to the usual audit source materials. Also, in both reports, comparative insights and examples from other countries are used as additional arguments as to why a change is necessary and why the model proposed by the SAI is viable. Additionally, these reports contain the audit question with sub-questions which were defined in the beginning of the audit process, and which the whole process should give an answer to, as well as including a detailed elaboration of the methodology.

In the Audit of the Secretariat for Development Projects, one of the two audit question the SAI answers is *"Does the Secretariat have an impact on the enhancement of investment and business environment?"* However, instead of measuring the impact of the Secretariat's work, which would entail a wider study of its role, position and consequences of its activities, the SAI narrows down its focus to a slightly modified version of a compliance audit, in which it inspects whether the Secretariat is doing its job and fulfilling all of the obligations and competencies it has, with an overview of the overlapping of competencies of other state bodies in conducting this policy. The audit of the Tax Administration is a similar case which, instead of examining the effects of the operations of the Tax Administration, comes down to inspecting whether it implements all the legally prescribed procedures in order to lower the level of tax debt. In both cases, however, auditors do come up with systemic recommendations about the impact of certain actions of the auditees and, in some cases, ambitious recommendations on what needs to change.

SAI's recommendations in PA reports resemble those of a policy paper, with multiple policy options given for certain areas, though with little or no rationale about the advantages and disadvantages that the choice of a certain option would have. In addition, as it is sometimes the case in other types of audits, recommendations stemming from performance audits demand action from a variety of actors, which then makes it unclear on who should report to SAI. At the end of each audit report, SAI demands that the audit entity reports back after a certain time period (usually six months). It is the legal obligation of audit entities to report back to SAI on what they have done to tackle the problems and implement the obligations stemming from SAI's recommendations.[179]

[179] Law on SAI, Article 15, "Official Gazette of the Republic of Montenegro" no. 28/04, no. 27/06, no. 78/06, no. 17/07, no. 73/10, no. 40/11, and no. 31/14.

However, there is no defined template for this report, which is abused by the auditees, with some of them sending in only yes-no answers with little or no explanation of which concrete steps have been taken. Unlike the usual audit report follow-up demands, in PA there is an obligation for the audit entity to prepare a plan for the implementation of the recommendations as well. However, according to our findings, neither of the institutions targeted by the two aforementioned performance audits has yet delivered such a plan.

Performance-based budgeting as a precondition for performance audit. An important factor which influences the use of performance auditing in Montenegro is that very little emphasis is placed on results-oriented functioning of the public administration and the goals of public finance management.[180] Accordingly, one of the great barriers to a more successful and methodologically sound performance auditing is the lack of performance-based budgeting. In international literature, it has been observed that "in general it appears that performance auditing and performance budgeting have developed along separate paths, but recently have been brought more closely together through increasing emphasis on published performance indicators."[181] Although this reform of the public finance system has been ongoing for over ten years, it has not brought any results thus far. This means that the budget users at the central level do not plan their work in accordance with goals and activities, therefore not identifying indicators for measuring their success. This lack of strategic planning in the administration as well as a complete absence of goals and set targets, is a considerable

[180] "In countries where public management is mainly concerned with means and less involved with ends, audits also tend to focus on whether rules have been observed and enforced rather than whether the rules serve or are seen to serve their intended purpose. In countries that have acknowledged management by objectives and results, the audit focus is different. Public sector management generally displays a combination of these philosophies." ISSAI 3000 Standards and Guidelines for Performance Auditing based on INTOSAI's Auditing Standards and Practical Experience, 20. Available at: http://www.issai.org/media/13224/issai_3000_e.pdf.

[181] David Shand, "Performance Auditing and Performance Budgeting,' in *Performance Budgeting: Linking Funding and Results,"* ed. Marc Robinson (International Monetary Fund, 2007), 88-112.which aims to link the funding of government agencies to the results they deliver to improve the efficiency of public spending. In a combination of thematic studies and case studies, it clearly presents the diverse range of contemporary performance budgeting models and examines their effectiveness. Its coverage is truly international, spanning developed, developing, and middle-income countries. Reflecting this, its case studies range from the cutting-edge use of performance targets in the budget process in the United Kingdom to the implementation of performance-based university funding in Ethiopia. The prerequisites for effective performance budgeting--including the development of good performance measures and accounting systems for costing the results delivered by government--are systematically treated, as is implementation strategy. For more information on how to purchase a copy of this title, please visit http://www.palgrave.com/economics/imf/index.asp.","ISBN":"978-1-4639-2070-8","shortTitle":"Performance Budgeting","language":"en","author":[{"family":"Robinson","given":"Marc"}],"issued":{"date-parts":[["2007",10,17]]}}],"schema":"https://github.com/citation-style-language/schema/raw/master/csl-citation.json"}

obstacle for the development of both evaluation and performance audit. There are announcements that, during the next two years, this reform of public finance will have high priority for the Ministry of Finance. Any progress made in this area can only help performance auditors do their work better and more systematically, but can also create the currently non-existent culture of measuring performance in the public administration.

Impact of PA reports. It is fairly early to discuss the impact of the two performance audit reports published by the SAI due to the fact that both were published in the last 12 months, the first being published in July 2014, and the second in June 2015. Experience from the country cases such as Estonia and Finland shows that actual changes in the administration, as a consequence of SAI's reports, take several years to be implemented.[182]

While it is still early to talk about the substantial impact of the reports, in the terms of changing policies, regulation or the way the institutions function, both of them had topics that were relevant in the daily political debate as well as in policy cycles. It is important to note that there were no public arguments over the audit reports and that the audit entities did not dispute the SAI's findings.

The Audit of the Secretariat for Development Projects has a number of recommendations that aim to solve the problems that have been registered by the SAI and which relate to imprecise and overlapping functions of several institutions, as well as poor oversight of the concluded contracts and projects in implementation. The situation has not yet changed in this regard, although the report has had a lot of publicity and various actors (such as the Speaker of the Parliament and the smaller member of the ruling coalition[183]) are pushing for it to be implemented.

The performance audit on the work of the Tax administration has revealed new and confirmed the previously rumoured issues in the work of this institution, as well as the whole system of tax revenue. The Ministry has published a press release stating that they agree with the findings and the recommendations in the SAI's report, and

[182] Reports which achieved the most impact in Estonia were the ones which dealt with auditing state companies and the report on sustainability of the pension system. The latter was produced in 2010, while the most important changes occurred in 2014. State officials, such as the Minister of Finance, the Minister of Social Affairs, the Minister of Defence, and the Minister of Interior expressed their accordance with the NAO findings defined in the Report and promised to conduct certain measures in order to fulfil NAO recommendations.

[183] See: "Krivokapić: Parliament is not stopping Government's projects," *Vijesti*, October 4, 2015, http://www.vijesti.me/vijesti/krivokapic-netacno-da-skupstina-koci-vladine-projekte-854251.

that they will act in order to implement them.[184] This explicit statement was issued after extensive media coverage of the report that brought to light many inefficiencies in the tax collection system and register. A couple of months later, the Head of the Tax Administration submitted his resignation, citing personal reasons for such a decision.[185]

4.3 Performance Audit in Serbia - Accountability before Effectiveness

Origin and Development. The Serbian SAI has taken a cautious approach with regards to developing performance audit, as it is methodologically the most complex type of audit and an "advanced management tool."[186] It was introduced very recently, in 2013, and hence represents a novel mechanism for improving the management of public funds in the country. The State Audit Institution (SAI) is still developing its internal performance audit capacities and is yet to accumulate more substantial experience in this field of audit. Moreover, the concept of performance *per se* is still underappreciated in the Serbian public sector as a whole and, if there is a notion of performance in the public sector at all, it only echoes in the distance rather than being clearly defined, the administrative culture being "based on rule compliance rather than performance and characterised by a high degree of risk aversion."[187] This has affected the work of SAI, which, in its first 6-7 years, primarily focused on financial irregularities and non-compliance aspects of the operations of public entities, with a goal of merely creating order in the management of public finances. While almost all the workload pertains to the financial and compliance audits, SAI has managed to fully implement two pilot performance audits. Accordingly, there has been a strong dependency on experience derived from financial auditing in conceiving and implementing the first performance audits.

It can be said that this focus on compliance is not without a reason and that the strengthening of the performance audit function is not

[184] See: "Ministry and the Tax Administration will implement SAI's recommendations," *Vijesti*, June 16, 2015, available at: http://www.vijesti.me/vijesti/ministarstvo-finansija-i-pu-ce-postovati-preporuke-dri-838424.

[185] See: "Lakićević resigns, succumbing to criticisms and pressure," *Vijesti*, September 19, 2015, available at: http://www.vijesti.me/vijesti/podlegao-pritiscima-i-kritikama-milan-lakicevic-podnio-ostavku-852011.

[186] Dalia Daujotaite and Irena Macerinskiene, "Development of performance audit in public sector" (paper presented at the 5th International Scientific Conference Business and Management, Vilnius, May 2008), 184.

[187] Vid Štimac and Mina Lazarević, "Public Management Work Context and Reform in Serbia, Results from a Large Scale Survey of Senior Public Executives," Belgrade Fund for Political Excellence, The Social Inclusion and Poverty Reduction Team of the Government of the Republic of Serbia (2013), 48.

only dependent on the willingness of SAI. The screening report of the European Commission states that it takes a lot more work on the systemic level, meaning that "Serbia needs to ensure parallel improvements in the overall public financial management system for the SAI to assess performance in a meaningful manner."[188]

Capacities. The initial workforce of SAI consisted almost exclusively of professionals in law and accounting, with previous work experience in the public sector. Thus, the overall state of capacities, in terms of staff and skills needed, have probably influenced the delay in the introduction of performance audit, while it has become evident that capacity development is necessary. The performance audit function of SAI has been considerably strengthened since the beginning of the work of SAI in 2007, owing to a great extent to development assistance. In general, there are two methods commonly used for strengthening staff capacities for performance auditing, recruitment of new staff for performance auditing purposes only, and/or retraining of financial/compliance auditors at disposal.[189] Serbian SAI opted for the latter option which was conducted through the EU and other technical assistance. It can be discussed if the selected option was preferable in terms of advancing the nascent performance auditing function, however, it should be noted that "newly recruited staff, with a different background than those recruited in the past for financial auditing, would have to undergo training in performance auditing, as this is hardly a profession taught at universities, but a highly specialised type of investigative work which has to be understood in the context of the national accountability framework and the internal procedures of the SAI concerned."[190] In that regard, there is no right or wrong approach for SAI's staffing policy, but a combination of these approaches should be taken into consideration if performance auditing is to be further developed. This variety in thinking and approaches can be particularly beneficial in the development of performance audit, in view of its specificity with regards to other types of audit, emphasized also in the international auditing standards.[191] In that sense, it is important

[188] Screening Report Serbia, Chapter 32 – Financial Control, 2014, 10. Available at: http://ec.europa.eu/enlargement/pdf/key_documents/2014/140429-screening-report-chapter-32-serbia.pdf.

[189] Mose Apelblat, "The Status of Performance Auditing in the Enlargement Countries – Results of Findings in Questionnaire to the Supreme Audit Institutions," European Commission, DG ELARG, draft discussion note (2013), 6.

[190] Ibid.

[191] ISSAI 300 Fundamental principles of Performance Auditing state that "[...] it should be borne in mind that performance auditing focuses on activity and results rather than on reports or accounts, and that its main objective is to promote the economy, efficiency and effectiveness, rather than report on compliance," 4.

for Serbian SAI, as a newcomer in performance auditing, to carefully assess these aspects.

Normative focus. Overall, external audit in Serbia is characterized by its *normativity*. However, this is something that characterizes audit as such: "One of the characteristics of auditing is the normative perspective where discrepancies between 'the norms and the reality' – the actual findings – are expressed explicitly, and assessments and recommendations are provided as 'normative'."[192] Performance auditing, on the other hand, could be more flexible. One of the basic questions performance auditing is trying to answer – i.e. "Are the right things being done? – demonstrates this clearly. This question goes beyond addressing the stated objectives and goals of a policy, also implying how a policy change influences a specific group or the society as a whole. Thus, if necessary, it tends to bypass normative rigour.

Analysis of the first performance audit reports produced by the Serbian SAI shows that focus is still to a large extent on compliance with norms or their absence. Broadly speaking, dealing with the management of public vehicles, the first performance audit yielded recommendations for: the adoption of necessary legal acts and documents, keeping regular and updated records of the usage of vehicles, the introduction of necessary (cost) analysis before using, procuring or disposing of vehicles, et cetera.[193] In other words, the discrepancy between the norms and the actual state of affairs was emphasized, coupled with an actual absence of rules to adhere to. For this particular topic it was clear that goal-achievement of policy was hard to measure simply because there had been no clearly defined goals (or a clearly defined policy to begin with). Moreover, SAI itself contributed to the normative side by defining the goal of the audit as "to gain insight into financial materiality and management of public vehicles of direct beneficiaries of the budget of the Republic of Serbia and to give recommendations for the improvement of public vehicles management systems."[194] From the definition of the audit goal it is clear that the focus of PA was on the *operational* efficiency of the audited policy, rather than on effectiveness. However, this approach can be easily understood given an environment with little to no performance information on the delivery of policies, or even the majority of public services. In such an environment, in order to audit effectiveness of a policy, the SAI would need to assume what the objectives and performance indicators of a

[192] ISSAI 3000, 12.
[193] Performance Audit Report on the Management of Public Vehicles, 2014, 3. Available at: http://www.dri.rs/images/pdf/revizija2014/konacan%20izvestaj%2025%2006%202014%20sajt.pdf.
[194] Ibid., 6.

policy are. Furthermore, it was probably a wise choice for the Serbian SAI to begin its PA work with a topic which is relevant for the use of public finances in terms of economy and efficiency, but not really defined as a distinct government policy, as a result of which it did not require an inquiry into the appropriateness of goals and objectives.

A similar approach is followed in the second performance audit which deals with the management of public property (immovable property), although the topic itself is fairly more complex and sensitive due to the higher budgetary implications. This time, however, SAI came closer to a policy debate in terms of its findings and recommendations. After establishing the existence of severe breaches of procedures, miscommunication among managing authorities, and a lack of coordination, it focused its recommendations on the *adoption of strategic documents*, as well as normative corrections, coordination issues as well as procedures for inventorying, monitoring and managing immovable public property.[195]

The topics of the two audits were mostly focused on management practices (vehicles and real estate) and auditing of cost-efficiency was expected. However, the SAI's findings in both of these audits also illustrate that the normative approach of SAI is conditioned by the culture and operation of the Serbian administration itself, i.e. inefficient control mechanisms and an absence of performance measurement systems. Thus, the prevailing "normative mindset" is the result of two parallel features – the limited experience of SAI staff coupled with a traditional, norm-oriented administration.[196] Still, these first performance audit reports also illustrate a high level of ambition by the Serbian SAI to take up system-wide issues and problems in selecting performance audit topics (wide, cross-cutting policies rather than policies constrained to one or a few institutions/ bodies). The possibility to promote and generate change is more achievable if the audit approach is systemic in nature, which is line of distinction between performance and compliance audits.[197] Lastly,

[195] Performance Audit Report on the Management of Public Property in Serbia, 2015, 1. Available at: http://dri.rs/images/pdf/revizija2015/izvestaj_rns2015.pdf.

[196] A majority of SAIs in the Western Balkans are of the opinion that these are the reasons why performance audit is lagging behind. The most repeated explanations are: a lack of adequately skilled personnel, lack of performance measurement at audited bodies, focus on building capacities for financial and compliance auditing, lack of programme-based budgeting, etc. In: Apelblat, 7.

[197] Assessment report concerning the first performance audits in the Western Balkans, done by the SAI of Sweden in 2011, claims that the "feature characterising the reports is their orientation towards audit of compliance, i.e. whether rule and regulations are followed or violated [...] By focusing the audits on compliance the actual causes to problems are not addressed [...] Because of the limited approach of these audits the possibility to improve systems and promote change is limited." In: Apelblat, 18.

the debate on the "normative" focus of Serbian SAI should not be erroneously narrowed to a debate on the "right" or "wrong" approach. In the opinion of SAI Performance Audit management, every audit needs to begin with a compliance with the rules as the starting point, performance audit included.[198]

Methods. INTOSAI standards suggest that performance audit should not be streamlined, as it is a "complex investigatory work that requires flexibility, imagination and a high level of analytical skills. Streamlined procedures, methods and standards may in fact hamper the functioning and the progress of performance auditing."[199] When choosing a methodology, one has to take into consideration the audit goals, scope and limitations. So far, the Serbian SAI has chosen audit methodologies in relation to these considerations. For example, in auditing the management of public vehicles, SAI mostly relied on analysing data previously requested from and sent by 126 budget users, regarding the different features of vehicles (number, brand, procured/current value, consumption, expenses etc.). In the next step, 15 budget users were subject to a detailed analysis on the basis of predefined benchmarks. The sample was deemed plausible having in mind that it contained 88% of all public vehicles and 84% of total expenses. Conversely, the second performance audit relied on a case study methodology due to certain objective limitations such as the low quality of available data, inappropriate record keeping of immovable property and shortcomings in the central registry. Case studies included 5 categories of immovable property and their users were selected as sources of information. The selection of users was conducted through scoring according to determined basic and derived criteria. Pollitt suggests that use of case studies in PA is an innovative approach, one that was not apply in the early period of PA development in Western Europe,[200] which points to the openness of the Serbian SAI to apply a wider spectrum of social science methods, albeit carefully adjusted to the current needs and resources. This conclusion has been corroborated by our SAI interviewees, who explained that they had already used international policy evaluation guidelines and methodologies as references in preparing the pre-studies for the two performance audits.

INTOSAI guidelines suggest that there are two traditions when it comes to the auditing approach. These two approaches are a results-oriented and a problem-oriented approach. According to these guidelines, in the

[198] Interviews with a Performance Audit Sector Manager and a certified state auditor.
[199] ISSAI 3000, 29.
[200] Christopher Pollitt, "Performance Audit in Western Europe: Trends and Choices," *Critical Perspectives on Accounting*, 14.1 (2003), 159.

result-oriented approach "the auditor studies performance (concerning economy, efficiency and effectiveness) and relates observations to the given norms (goals, objectives, regulations, etc.) or the audit criteria (more or less precisely defined before the main study begins)".[201] In a nutshell, this approach is considered as more likely to determine "deviations" from norms, and is thus more normative in nature. Conversely, the problem-oriented approach "deals primarily with problem verification and problem analysis, normally without reference to predefined audit criteria. A major task in the audit is to verify the existence of stated problems and to analyse their causes from different perspectives (problems related to economy, efficiency, and effectiveness of government undertakings or programmes)."[202] The guidelines refer to this approach as more analytical and instrumental in comparison to the previous one, since it is based on an analysis and causes of problems.

Broadly speaking, SAI of Serbia could belong to both traditions if we consider the audit work implemented so far. There is still insufficient information in order to group SAI into one of these two traditions, especially knowing that performance audit work will enlarge in scope and that capacities will evolve in the future. Published audit reports clearly reveal that the main audit questions, as well as the audit goals raise concerns on management and compliance. For example, the audit goal of the first report seeks to *improve* management systems, whereas one of the audit questions is to examine *whether inappropriate record keeping, monitoring and control increase the risks of mismanagement*? Auditors were already certain and hypothesized that there are irregularities or errors on the basis of previous analysis. While it is common for performance audit to prepare a pre-study before starting the real audit work, the previous research in this case was actually the audit performed beforehand by the SAI. Both reports state that the reasons for selecting this topic go back to the findings of financial and compliance audits in the past. Firstly, this demonstrates that, in the absence of vast experience, SAI is utilizing all disposable resources for accelerating performance audit. Secondly, it reveals that the financial and non-compliance aspects of audit do heavily influence SAI's work. The interviewed performance audit managers and auditors themselves stated that the focus of performance audit work is, for the time being, mainly on efficiency and economy, while effectiveness is still far from reach.[203] When it comes to the actual "approach" of Serbian SAI in performance audit, it is still in the making and dependent on the future development of SAI and the Performance Audit Sector.

[201] ISSAI 3000, 26.
[202] Ibid.
[203] Interview with certified state auditor from Performance Audit Sector of SAI.

Qualifications and skills. The qualifications and skills required for auditors dealing with performance are more demanding than in financial audits. They include knowledge of methods applicable to performance auditing, knowledge of the government, specifically tailored communication skills, as well as "special skills depending on the nature of the specific audit (e.g. statistics, information technology (IT), engineering etc., or expert knowledge of the subject matter concerned)."[204] Ensuring the necessary qualifications and skills of its employees for PA seems as one of the major challenges for the Serbian SAI. In practice, limitations are at least twofold. Firstly, the education and certification requirements for state auditors are almost entirely conceived for professionals in the fields of law and finance/accounting. Secondly, a majority of the staff in the performance audit sector previously worked in other audit departments, dealing with financial and compliance audits,[205] which may require a robust retraining scheme for acquiring critical skills. Although highly skilled in audit and with extensive knowledge of the public finance system and the public administration, there is a need for more diversity among auditors, which would mean opening up to hiring of people with different backgrounds and skills (e.g. in social science or statistics). Interviewees from SAI agree that this is indispensable. Knowing that performance audit is more than just determining "right" or "wrong" answers, recruitment of staff for this particular sector is definitely the first in line for changes. Of course, this entails changes in the SAI philosophy, as well as a clear emphasis on the performance auditor's role. Ideally, there should be a minimum requirement for a university degree with the possibility of hiring experts from different fields.[206] A university degree requirement with an additional emphasis on the experience in investigative and evaluation work is also required by the INTOSAI standards, in addition to personal qualities of the auditor which are of "considerable importance," such as creativity, analytical and social skills, receptiveness, judgment, oral and writing skills etc.[207]

The internal structure of SAI resembles the current philosophy and state of capacities – out of the seven audit sectors, only one is conducting performance audit, whereas six others are occupied with financial and compliance audits in different fields. It is not known at the present moment whether performance auditing in the future will become horizontal and cross-cutting in all audit departments. For now, even the interviewed performance auditors are convinced that this

[204] ISSAI 3000, 38.
[205] Interviews with a Performance Audit Sector Manager and a certified state auditor.
[206] Interviews with a Performance Audit Sector Manager and a certified state auditor.
[207] ISSAI 3000, 37.

would be premature given that performance audit represents just a small portion of the overall audit work.

This comparison of INTOSAI guidelines with the performance audit practice in Serbia served to examine to what extent this type of audit is structured in a way which is conducive to influencing policies, and therefore contributing to policy evaluation, rather merely than holding individuals accountable. While it is not the intention of Serbian SAI to simply ensure accountability when conducting performance audits, it is still early to measure how valuable performance audit findings are for policy learning. Nevertheless, before we continue with the next section, two more things should be considered in performance audit planning and conducting, both of which are important in this regard – *topic selection and the relationship with auditees*.

Planning of audit. The topics for the two pilot performance audits were drawn from the findings of financial audits. Procedurally, performance audit management proposes topic(s) to the SAI Council, whose role is decisive in approving the annual audit programme. However, performance audit management is free to nominate any topic that is deemed relevant for their work. This opens the door for a more creative approach and interviews have shown that potential sources for topic selection are also found in the media, and even through social networks. Tapping into popular demand and the social-political surrounding for clues is definitely a new way of thinking for SAI of Serbia. After selecting the topic, the sector prepares three to four preliminary studies each year as the basis for the final Council decision.[208] These preliminary studies represent a kind of ex-ante risk assessment to see whether an audit is needed for the matter in concern. They are needed before the main study in order to better understand the problem, as well as to justify the audit. Preliminary studies represent an actual spot where audit becomes more "evaluation-oriented," i.e. based on research, possibly with the introduction of a variety of methods.

Relationship with auditees. Partly due to the established practice of the Serbian SAI instigating misdemeanour and criminal proceedings in the aftermath of its audit work, auditors tend to be perceived as investigators or inspectors whose task is to check for errors and determine individual responsibility rather than produce recommendations for improved work. Although this is mainly relevant for compliance/financial auditors, performance auditors have experienced the same reactions in their recent work. However,

[208] In the organizational concept of the Serbian SAI, the heads of the individual sectors are not members of the SAI Council and they do not participate directly in the decision-making process of selecting performance audit topics.

it is the intention of the performance auditors to take on a different approach to auditees and foster a stronger sense of cooperation in order to increase the level of trust. They apply several approaches to achieve this: they carefully explain what the purpose of performance audit is, they keep regular communication with the auditees and take into account that deadlines for implementing SAI recommendations should be more loose (as performance audit often concerns systemic and deeper policy issues), and lastly, as an internal rule of thumb, they do not initiate proceedings before courts because it is not the ultimate audit goal (one which is strongly emphasized by the other departments). This approach by performance auditors suggests that, despite its strong orientation towards accountability and sanctioning, SAI has also – through PA – created a space concentrating on policy learning.

Follow-up and learning. To conclude this brief analysis of the development of performance audit in Serbia, it is useful to look beyond what SAI needs to improve or do. It is clear that capacity development will go on and that SAI will need to develop strategies for informing and "educating" stakeholders and the public on the role of performance auditing. There is, however, an important question of who exactly are the users of performance information produced by the SAI. In the current state of affairs, the Parliament remains only formally interested in discussing SAI reports in its plenary and committee sessions, while the executive bodies and agencies remain defensive, and the public at large is too diffuse to claim that there are specific demands or pressures. In addressing the demand for performance information in democracies, Pollit suggests that politicians in general do not just pick reports containing performance information and apply recommendations.[209] However, performance audit reports demand at least a procedural response (within a rather short, legally prescribed deadline of 90 days), but this does not guarantee impact, let alone policy change. This describes the case with SAI of Serbia – performance audit is developing in the context of low domestic awareness and the responses to the audit reports are still a formality. With the increasing number of performance audits conducted, it should be expected that the general awareness will also increase.

Impact. The impact can be assessed with respect to the early stage of development and small number of performance audits conducted. In that regard, the assessment of impact is approached in a way as to analyse the impact of the two individual audits that have been

[209] Christopher Pollitt, "Performance Information for Democracy - The Missing Link?", *Evaluation*, 12.1 (2006), 48.

performed recently, since there is no sufficient data to assess the overall impact of performance audits on the system. Analysis will be focused on the first performance audit on the management of public vehicles, which was officially published in 2014. Given its novelty, assessing the impact of the second performance audit would be premature.

The audit results arrived at the same time when the Government started to newly regulate and manage the usage of public vehicles. In its report, SAI advised that the Government should adopt a legal act as the foundation for a comprehensive and sound management of all aspects of utilising public vehicles. Even before the final report of SAI was prepared and published, the Government adopted the Regulation on using official vehicles.[210] It can be said that the performance audit already exercised an impact during the auditing process. It is, however, noteworthy that the Regulation exempts ministries in charge of defence and internal affairs, and that these ministries were part of the second-tier sample of SAI. In accordance with this Regulation, a Government Commission will be formed for granting approvals for using vehicles.[211]

It is not only that the management of vehicles was regulated anew, but also that the Government decided in the beginning of 2015 to put on the market over 1,500 vehicles in official use (most of which constitute middle and low category vehicles). There is still insufficient data on how many vehicles have been sold and what the consequences are in terms of economy, efficiency and effectiveness, which should be the ultimate appraisal of this effort. Ex-post analysis of these measures will surely provide more detailed findings. Nevertheless, although the government measures came in about mostly as "austerity measures," the undisputed impact of SAI was that it raised this topic publicly and influenced the agenda. Lastly, a certain level of impact on auditees was already achieved during the audit process. This includes the usage of GPS devices in the Ministry of Economy, the adoption of internal procedures and instructions for the usage of vehicles by a few budget beneficiaries, as well as new cost monitoring mechanisms in the Tax Administration.[212] In a nutshell, performance audit did exercise an impact that is tangible and measurable in the sense that it provoked measures of the government institutions. It still remains to be seen what the consequences are in terms of better management of vehicles in official use in general, as well as in terms of effectiveness of the budget users' transactions.

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[210] Regulation on Using Vehicles in Official Use, "Official Gazette of the RS" no. 49/14. Available at: http://www.uzzpro.gov.rs/doc/podzak/uredba-o-nacinu-koriscenja-sluzbenih-vozila.pdf.
[211] Regulation on Using Vehicles in Official Use, Article 9.
[212] From the summary of the performance audit report. Summary accessible at SAI website: http://bit.ly/1JUTdLl.

4.4 Highlights from EU Case Studies

Performance Audit in the Netherlands: The "Mother" of Evaluation

The types of performance audits conducted are sometimes referred to as *systemic and substantive audits*. "With regard to the substantive audits the focus is not only on programmes and activities but also on organizations as such (how well are they organized and do they achieve the goals set?). With regard to the systemic audits the Netherlands national audit office also highlights the so called government-wide performance audits (GWAs) which focus on policy instruments, programmes and activities relevant for all or most of the ministries. These audits are comparative in nature. Since the late 1980s they have formed an important part of the agenda of the Netherlands Court of Audit. GWAs mirror the current state of the art with regard to different policy instruments such as subsidies, grants, levies, loans and public information campaigns."[213]

Furthermore, the NCA has been known as innovative due to the introduced improvements in its work. With regard to performance audits, these innovations came out of necessity, i.e. the need to make the audit work more in line with real world policy problems – "an important risk of performance audits that focus only firmly on objectives and indicators is that the auditor misses the true explanation of disappointing agency or programme performance. Such performance audits may even become less relevant. The objective-and-indicators-driven approach also carries the risk of (1) misunderstanding of stakeholders' needs, (2) resistance to change, and (3) dysfunctional strategic behaviour."[214]

One of the examples which demonstrates the development of this participatory and more open approach in accordance with the needs of those whom policies affect are *reality checks*. The idea behind the reality checks, as a specific type of activity that lies between audit and evaluation, is to examine the problems that end users of government policies face (citizens, businesses etc.) and see whether the policy making process incorporates these problems into the formulation of policy measures or objectives. These audits concern all stakeholders,

[213] Frans L. Leeuw, "Performance Auditing, New Public Management and Performance Improvement: Questions and Answers," *Accounting, Auditing & Accountability Journal*, 9.2 (1996) 95.
[214] Peter van der Knaap, "Making Performance Audits More Responsive," *International Journal of Government Auditing* (2012), 10.

not just government bodies.[215] After such audits are completed, the results are presented to the policy makers.[216]

The UK Value for Money Audits: Efficiency over Effectiveness

Performance audit in the UK is called value for money (VFM) audit. As the second stream of audit, it aims to stimulate a change, make recommendations and give a clear conclusion on a given problem. Each study covers a major area of government expenditure, and the main goal is to form a judgment on whether value for money has been achieved. The VFM audits must provide independent and rigorous analysis to the Parliament on the way in which public money has been spent to achieve policy objectives. The VFM concept does not question government policy objectives, which is an activity that should be accomplished through policy evaluation. With the conducted PA/VFM, recommendations are made on how to achieve better value for money and to improve the services under examination. In particular, the NAO examines the management practices (in 92% of its reports). Regarding effectiveness, it is seldom examined in the reports.[217] In the UK, management issues are priorities, whereas policy evaluation is secondary.[218] The NAO examines the management level (strategic planning, implementation, performance measurement, etc.) and the relationship between the government and the customers. The main norm for NAO is a customer-oriented, efficient, and effective management.[219] NAO Recommendations are addressed solely to departments or agencies.

Performance Audit in Finland: In the Service of Performance Management

The process of developing performance measurement in Finland has been one of the more important functions of the Finnish NAO, which

[215] The following questions have been used: "How do these stakeholders relate to the objectives, criteria, and intervention logic (or policy theory) of central government? Do they recognize the relevance and value of those elements, and do they use them? How do they appraise the actual interventions or policy tools and the way the policy programme has been implemented? To what degree did the targeted spending actually land on target? What concrete effect has the policy had on those who are directly concerned? What information is provided by central government on the effectiveness of the policy measures taken?" Peter van der Knaap, "Making Performance Audits More Responsive," *International Journal of Government Auditing* (2012), 11-12.

[216] Examples can be found in Peter van der Knaap, "Sense and Complexity: Initiatives in Responsive Performance Audits," *Evaluation*, 17.4 (2011), 358-360.

[217] Jeremy Lonsdale, Peter Wilkins and Tom Ling, *Performance Auditing: Contributing to Accountability in Democratic Government* (Cheltenham: Edward Elgar Publishing, 2011), 78.

[218] Ibid.

[219] Ibid., 81.

has been a proponent of strengthening the performance management system. Whole of government performance reporting is contained in the *Report on State Finances and Adherence to State Budge*t. This report is a constitutional requirement, containing the main performance information and analyses of the effectiveness of policies, economy and productivity of the operations, together with general information on the implementation of the budget. In its work, NAO has audited the performance of ministries against their stated objectives. These reports have been critical of the way the information about the effectiveness of the budget spending has been produced as well as used in the planning of work of the administration. Apart from issues in the methodology and the way the data is measured, collected and presented, a major dispute concerning the state of the performance management system is about the use of information. Other issues include the lack of consequences at the organizational level of the administration,[220] after a failure or success to meet strategic objectives, as well as too much focus on detailed processes instead of strategic actions to support the Government programme. Based on the NAO reports, reviews of performance management system have been conducted by the Ministry of Finance.[221] In April 2009, a project to evaluate the performance management system was launched by the Ministry of Finance following the recommendation of the annual report of the NAO. This project evaluated the operability of the present performance management system from the perspectives of steering public service production, managing fiscal policy, and setting and evaluating performance targets set across the various sectors.[222]

Performance Audit in Estonia: Making a Change that Matters

The performance audit department of the Estonian NAO has a 15-year long tradition, and has gradually become the largest department of the Institution, consisting of 30 auditors (out of the total number of 80 auditors).[223] It comprises of people coming from diverse

[220] Ministries and agencies which are legally required to report on the achievement of results-targets together with their financial results. NAO is mandated to audit the performance information, as well as the way the performance management and budgeting systems are implemented. However, failure to achieve the desired results-targets does not give rise to legal liability, and no sanctions or rewards are generally connected to performance – neither "organisational sanctions" (for example, changes in the level of funding for agencies) nor "individual sanctions" for staff and management. OECD, Finland. Working Together To Sustain Success, 155.

[221] Ibid.

[222] OECD, The Call for Innovative and open Government: An Overview of Country's Initiatives, 2011, 97.

[223] According to the *Annual report on work of the NAO in 2010*, which is the latest report issued on a website of the Institution, there were 31 positions in the department of a performance audit, including 1 director of audit, 5 audit managers, 10 senior auditors and 15 auditors. There were no vacancies at the start of 2010. The department hired 4 auditors and 1 senior auditor in 2010, and 1 senior auditor left the department. By the end of the year, 35 positions were filled.

educational background structure, some of whom are teachers, public administrators, economists, lawyers, etc. NAO usually conducts 12-15 performance audits per year and they are written in simple and understandable language.[224] According to the representatives of NAO, this is one of the reasons why the media follows the performance audit results with great interest, resulting in significant publicity for the reports.[225]

NAO is working on improving performance auditing, thus a follow-up model was created for monitoring the effects of individual audits after their completion. Hence, NAO is capable of collecting data on improvements and implemented measures by the auditees two years after a certain performance audit has been conducted.

A recent survey targeting Estonian public officials shows that the perceived usefulness of performance audit is significant.[226] The survey included representatives of auditees who were asked about their impressions of the impact that performance audit has had on the functioning of their institutions and it showed that 40% of respondents "found performance audit to be useful," while a smaller percentage (21%) agreed with the statement that performance audit led to the adoption of changes in the audited organisations.[227]

[224] ''Our reports without exception get attention. Those which are politically interesting get more attention. We are getting harder to be ignored'', Mr Urmet Lee, Advisor to the NAO of Estonia.
[225] Interview with the Head of Performance audit department in the NAO of Estonia, Mr Tarmo Olgo.
[226] Ringa Raudla, Külli Taro, Cherlin Agu and James Douglas, "The Impact of Performance Audit on Public Sector Organizations: The Case of Estonia" (paper presented at EGPA conference, Speyer, September 10-12, 2014), 2.
[227] Ibid., 8.

4.5 Conclusion: A Long Way from the Third "E"

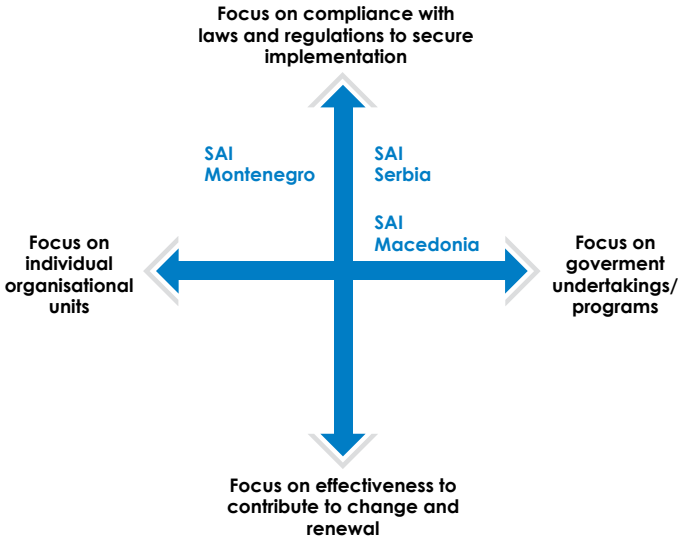
Given the recent introduction of performance audit in all Western Balkan countries (regardless of the currently visible advantage of the Macedonian SAI, PA is still a new and developing practice in all of the countries) and the legalistic public administrative culture, SAIs of the region still mainly recur to the examination of the economy and efficiency when conducting PA. The work of the Serbian and Montenegrin PA is still strongly influenced by compliance audit. The Serbian SAI has been particularly cautious when introducing PA and it only approached this complex form of audit work when proper external support and guidance was made available from experienced European SAIs, which is generally a positive practice (also supported by SIGMA/OECD). Conversely, the audit work in Montenegro was dubbed as performance audit long before external support or methodological manuals, or even a specialised department, were at hand, showing that the term was perhaps used with less caution than it deserves. The most recent PA work has shown significant improvements, though effectiveness is still far from sight and might not even be in the planning stage, especially given the sole focus on individual entities/institutions in PA.[228] However, this point is potentially misleading if conditions within the local SAIs are not taken into consideration. For example, Estonian NAO produces over ten performance audit reports annually with performance audit department being the largest one, and with almost fifty percent of audit staff educated in diverse disciplines. This is not the situation with the three WB countries and it could be easily argued that the audit of effectiveness is something that SAIs in WB do not have the capacity for pursuing, as opposed to not being willing to try it. Based on the analysis of the PA in the WB countries, the following summary graph, inspired by the illustration in the international ISSAI standards on PA, is proposed.

In any case, true effectiveness studies are not as frequent even in the SAIs of developed Western European countries, as was found by Pollitt in the study of five SAIs (Finland, France, the Netherlands, Sweden and the UK).[229] Even in the cases of countries with a longer tradition in performance management, certain SAIs centre their performance audit activities around improving management practices, as described above in the case of the UK NAO. Effectiveness studies are admittedly much more costly and they do require support from a shift in the overall

[228] Pollitt suggests that, in order to study effectiveness, SAIs need to "shift the focus of audit from individual institutions to policies and programmes (because individual institutions seldom make sense as units in which to analyse effectiveness)." See: Pollitt, "Performance Audit in Western Europe: Trends and Choices," 166.
[229] Pollitt, "Performance Audit in Western Europe: Trends and Choices," 160.

public management culture, as suggested by Pollitt. Nevertheless, the Dutch scenario does show that the NCA was in the driver's seat of improving the public management and especially performance management culture in the Netherlands. One more conclusion inspired by the Dutch scenario is that, if purposeful, creativity in thinking by the performance auditors could lead to a better implementation of performance audits and greater ownership among auditees (reality checks). This "creativity" however, even if allowed by the international standards, is not a necessity *per se*. It should lead to a better understanding of the nature of performance audit in general and of specific audit goals and engage auditees through dialogue and ownership.

Illustration 2. Selected approaches by the SAIs in three WB countries



Despite the differences in numbers of PA among WB countries and the different approaches of the SAIs, the general impact of PA would be easier to identify once the quality of PA and performance management in the government improves and the understanding of PA in public administration increases. For now, the impact of individual PAs could only be assessed in relation to the number of recommendations implemented.

5 INTERACTION BETWEEN PERFORMANCE AUDIT AND POLICY EVALUATION

This chapter opens with a discussion mainly focused on the conceptual relationship between performance audit and policy evaluation, based on the gathered international academic and professional literature. The section serves to set the framework for understanding why the two fields can – and should – be institutionally connected, in particular in environments of very limited financial and human resources in the wider areas of performance management and policy making, the Western Balkans being a fitting example. The discussion goes on to present the findings of field research in the three WB countries on the existing linkages between the two fields, and the perceptions of the interviewed stakeholders with regards to the need and the possibilities of linking them. Additionally, a selection of cases from EU member states is offered with the purpose of establishing links between PA and policy evaluation. The cases were selected according to their potential to serve as good practices for WB countries in envisioning the potential interaction between the two fields. The chapter ends with a short summary outlining the main arguments and, lastly, conclusions drawn for Macedonia, Montenegro and Serbia.

5.1 The Conceptual Relation: The Converging of the Twin-Tracks

Whereas their origins differ and are based in different disciplines,[230] both performance audit and policy or programme evaluation evolved in the age of New Public Management, which was characterized by a strong focus on performance in the public sector and which sought to introduce private sector management tools into the public management sphere. As early as the second half of the 1980s, a body of literature appeared in the Anglo-Saxon part of the world (mainly the USA and Australia) focusing on the question of relating policy evaluation and performance audit. Since these were countries with considerable experience with both policy evaluation and performance audit, researchers and practitioners started to

[230] Eleanor Chelimsky, "Comparing and Contrasting Auditing and Evaluation Some Notes on Their Relationship," *Evaluation Review*, 9.4 (1985), 483–503.

inquire about the common traits and differences between the two. There were several reasons for conducting these inquiries. For some authors, the motivation to write about this topic was to offer guidance as to whether and when policy makers should choose one or the other field,[231] whereas others inquired about their contribution to accountability and/or performance improvement.[232] Others simply sought to differentiate between the two, given that both fields were being developed in very homogenous policy environments.[233] Few authors from the identified literature tackled the question of an actual convergence between PA and evaluation in their implementation,[234] how they could be better integrated, and what efficiencies would be gained from that.[235] Whatever their motivation for studying this topic, most authors focused on the methodological and conceptual similarities and differences of the two fields.

The differences between the two fields pointed out by different authors vary from their different origin, both in terms of age and the actual fields from which they have developed,[236] the level of development of quality control rules and professional norms (both in favour of PA),[237] the level of independence in choosing the topics they work on,[238] to the obvious differences such as the legal basis and the institutional setting,[239] the level of authority,[240] the level of independence from the executive, as well as the types and targets of reporting.[241] The INTOSAI guidelines for PA strongly emphasise

[231] Dwight F. Davis, "What Do You Want a Performance Audit or a Program Evaluation?," *Public Administration Review*, 50.1 (1989), 35-41.
[232] See, for example, Ian McPhee, "Evaluation and Performance Audit: Close cousins – or Distant Relatives?", Australian National Audit Office (February 2006), 3; Frans L. Leeuw, "Performance Auditing, New Public Management and Performance Improvement: Questions and Answers," *Accounting, Auditing & Accountability Journal*, 9.2 (1996), 92–102.
[233] See, for example, Ian McPhee, "Evaluation and Performance Audit: Close cousins – or distant relatives?"
[234] Leeuw, "Performance Auditing, New Public Management and Performance Improvement," 95-96.
[235] Pat Barrett, "Evaluation and Performance Auditing: Sharing the Common Ground," Australian National Audit Office (October 2001), 30-31.
[236] Chelimsky, 484-7. It should be noted, however, that Chelimsky was comparing more traditional forms of audit (compliance and financial) to evaluation, and not performance audit.
[237] Davis, "Do You Want a Performance Audit or a Programme Evaluation?" 38.
[238] Pollitt and Summa, "Performance Audit and Evaluation: Similar Tools, Different Relationships," *New Directions for Evaluation*, No. 71, (Fall 1996), 47.
[239] For Arthur et al., "one of the main differences seems to be the legal mandate of the institution that performs the study: performance audits are conducted by SAIs with the legislatures as main recipients, while evaluations, tailored to address the clients' research questions, are carried out by various organizations". See: Arnfrid Arthur, Lars Tore Rydland and Kristin Amundsen, "The User Perspective in Performance Auditing—A Case Study of Norway," *American Journal of Evaluation*, 33.1 (2012), 47.
[240] Pollitt and Summa, "Performance Audit and Evaluation: Similar Tools, Different Relationships," 32.
[241] McPhee, "Evaluation and Performance Audit: Close cousins – or distant relatives?" 17-18.

these latter elements, choosing in particular the aspects that most vividly differ from policy evaluation:

> *Legitimacy and trust are essential values in all government undertakings, and performance auditing may contribute to strengthening these values by producing public and reliable information on the economy, efficiency, and effectiveness of government programmes. This is facilitated by the fact that performance auditing is independent of the government ministries whose activities are subject to the audit. In this way, an independent and reliable view of the performance of the audited programme or objects is obtained. The performance audit does not represent any vested interest and has no ties, financial or otherwise, to the audited objects. By producing independent assessments, performance auditing may also serve as a basis for decisions on future investments and activities.*[242]

Unlike the incontestable institutional differences, most of the more conceptual differences remain contested among various authors and sources. One of the most important ones relates to the question of whether performance audit can, and should, address the effectiveness or impact of a policy, and to what extent it should aspire to do so.[243] In fact, the effectiveness and impact question may be at the root of the most relevant differentiation between PA and policy evaluation – what we might call the "level of ambition" with regards to actually influencing or changing a policy. Pollitt and Summa call this the difference between the "What" question, whether what has been done has conformed to standards, and the "Why" question, i.e. trying to understand what would produce certain desired or undesired effects.[244] Put differently, while evaluation often has a strong focus on policy and is able to make a qualitative assessment of *policy* effectiveness, performance audit is focused on evaluating the economy, efficiency and effectiveness of *public administration*."[245] One may safely state that an approach which questions the effectiveness and the impact of a policy under review – which is what evaluations do – actually demonstrates an

[242] ISSAI 3000, 13. Emphasis by the authors of this study.
[243] Davis, 37. Since 1990, Davis argued that: "Auditors are more likely to address programme impacts now than they used to be, but they are still less likely to do so than evaluation researchers."
[244] Pollitt and Summa, "Performance Audit and Evaluation: Similar Tools, Different Relationships," 31.
[245] Author's emphasis. See: McPhee, "Evaluation and Performance Audit: Close cousins – or distant relatives?" 17-19.

ambition for affecting the design or even the very existence of the evaluated policy. Hence, whereas evaluation can pose questions regarding the very appropriateness of a policy (and could thus even lead to an abandonment of a policy), PA remains restricted to the questions of whether a policy has been *implemented* in accordance with the three E's.[246] In other words, PA must "take government policy as given,"[247] but it can question the "operational effectiveness" of a policy or programme.[248] At the same time, INTOSAI standards clearly state that, despite the general requirement to take "political decisions and goals established by the legislature" for granted, SAIs may "make critical comments on the goals, for example if they are inconsistent or if it proves impossible to follow up the extent to which they have been achieved. Consequently, a performance audit report may in fact question the merits of existing policies or decisions."[249] The international standards even go as far as to propose that the second question posed in PA - "Are the right things being done?" can be interpreted as to "imply that a government undertaking – or a chosen measure to achieve a certain objective – runs the risk of being contested."[250]

These discrepancies in the proposed conceptual differences (leaving aside the obvious institutional differences) are, on one side, connected to the differences in approaches and perspectives in performance audit which were discussed in Chapter 2. On the other side, they are related to the angle of observation, given that many professional auditors and evaluators participate in this debate and, therefore, might not be completely unbiased in their observations. The original distance between the two fields, due to their separate origins and development paths, has certainly negatively affected the extent of communication and even mobility between them, which plays in favour of such possible bias.

On the other hand, when discussing the conceptual similarities between PA and policy evaluation, many authors start from observations related to the general purpose of both processes, i.e. that "[both] auditing and evaluation research are concerned with assessing the worth of government actions."[251] In fact, some

[246] Author's emphasis. For a discussion on this issue see, for example, Barrett, 30.
[247] Richard Mulgan, "Policy versus Administration: The Auditor General's clash with Finance and the Minister," Canberra Bulletin of Public Administration, Issue 101, September 2001, 39, as quoted in: McPhee, "Evaluation and Performance Audit: Close cousins – or distant relatives?" 18.
[248] McPhee, "Evaluation and Performance Audit: Close cousins – or distant relatives?"21.
[249] ISSAI 3000, 34.
[250] Ibid., 14.
[251] Davis, "Do You Want a Performance Audit or a Programme Evaluation?" 35.

authors, who approach performance audit from the perspective of its contribution to "wider policy debates"[252] or its contribution to the "evaluative state"[253] rather than focusing strictly on its accountability role, essentially treat performance audit as a type of policy or programme evaluation.[254] One such definition describes performance audit as "an evaluative activity which produces assessments regarding performance or information about performance."[255] These authors argue that the purpose and the role of performance audit extend far beyond the improvement of accountability and enter the sphere of (policy) learning. Contrary to the idea that PA is a type of evaluation, but still corroborating the idea about the closeness of the two fields, ISSAI 3000 states that "[programme] evaluations are one type of study that might be executed by a SAI under the general heading of performance audits."[256] Without entering the "chicken and the egg" debate, we can conclude that the scope of both fields allows for a complementarity hypothesis to be raised.

From the institutional and the methodological perspective, several authors emphasise that both fields put great emphasis on the importance of independence of their professionals from "what they evaluate,"[257] thus impugning the INTOSAI's and several audit-originating authors' argument that this is a distinct feature of performance audit. Whereas the institutional position of SAI certainly makes it easier to ensure independence, the evaluator's profession also requires adherence to certain standards, including independence. Nevertheless, this argument might be easier to support in the case of external, contracted evaluators, while in the case of internal administrative evaluations conducted by civil servants, such an argument might be more difficult to uphold.

A number of authors focus on the fact that PA and evaluation apply similar tools in their work.[258] Whereas evaluation is traditionally embedded in social science research, performance auditors

[252] Raudla, Taro, Agu, and Douglas, "The Impact of Performance Audit on Public Sector Organizations: The Case of Estonia," 2.
[253] David Clark, 'The Changing Face of Audit and Evaluation in Government: A Franco-British Comparison'', *Public Policy and Administration*, 16.4 (2001), 20–33 (23)..
[254] See: Clark, "The Changing Face of Audit and Evaluation in Government"; Davis, "Do You Want a Performance Audit or a Programme Evaluation?" 35-41; Barrett, "Evaluation and Performance Auditing," 30; and McPhee, "Evaluation and Performance Audit: Close cousins – or distant relatives?", 21.
[255] Jan-Eric Furubo, as quoted in Raudla et al., "The Impact of Performance Audit on Public Sector Organizations: The Case of Estonia," 2.
[256] ISSAI 3000, 23.
[257] Davis, "Do You Want a Performance Audit or a Programme Evaluation?" 38.
[258] See: Pollitt and Summa, 2; McPhee, "Evaluation and Performance Audit: Close Cousins – or Distant Relatives?" 2.

increasingly borrow methods and techniques from evaluation and, in a number of SAIs of Western Balkan countries, they have immensely expanded the range of methods and data collection techniques they employ.[259] INTOSAI supports this claim by stating that "guidelines in performance auditing cannot comprehensively embrace all possible approaches, methods and techniques, since in practice that would include everything in the social sciences."[260] Nevertheless, comparative studies have observed differences among SAIs in terms of the tools and the methods applied,[261] which probably means that PA and evaluation come closer in those terms only in countries with "bolder" and more ambitious SAIs, i.e. those willing to innovate.

All authors agree on the importance and necessity of both approaches to serve the policy makers' and managers' needs. As Dwight puts it, "[policy] makers need both process/managerial data and impact/outcome data for full evaluation of policy alternatives and priorities,"[262] and goes on to explain that different concerns should be addressed at different stages of policy development. A "toolbox for practitioners" developed by the EU claims that PA has filled in a part of the gap in the EU countries which was created by insufficient development of policy evaluation, and, in fact, does not even make the semantic differentiation between the two fields with regards to whether *operational* or overall effectiveness of a policy is tackled by each of them.[263] To conclude, the extent of the contribution and influence (whether intentional or as a "side-effect") of PA on policy learning depends certainly on the concrete practices of a particular SAI,[264] the methods and the tools applied by a SAI, or even the educational or training background of auditors.[265]

5.2 Macedonia - a Promising (yet Still Unattained) Objective

As has been shown above, the processes of performance audit and policy evaluation have been institutionally developed independently

[259] Pollitt, "Performance Audit in Western Europe: Trends and Choices," 159.
[260] ISSAI 3000, 7.
[261] Pollitt, "Performance Audit in Western Europe: Trends and Choices," 159.
[262] Davis, "Do You Want a Performance Audit or a Programme Evaluation?" 40.
[263] Quality of Public Administration: A Toolbox for Practitioners, European Commission, 50.
[264] Pollitt suggests four different roles that SAIs (can) perform with regards to their PA activity: 1) public accountant; 2) management consultant; 3) scientific or research based organization; 4) judge or magistrate. See: Pollitt, "Performance Audit in Western Europe: Trends and Choices," 164.
[265] Pollitt gives examples from France, where performance auditors are usually trained as lawyers, the UK, where they have an accounting background, and Sweden where they are likely trained as social scientists. See: Pollitt, "Performance Audit in Western Europe: Trends and Choices," 161.

in the context of Macedonia, even though the two processes have been largely influenced by the prospect and the processes of EU accession, as well as by external financial support. Furthermore, different aspects of the policy cycle have been tackled by different interventions and projects, resulting in a scattered introduction and implementation of the different phases and aspects (strategic planning, policy analysis, monitoring and evaluation).

With the 2013 Methodology for ex-post evaluation, the examination of independent reports, performance audit reports among others, is embedded in the process of conducting evaluations of policies. Hence, one can formally conclude that a link has been established between the two processes in the context of policy making in Macedonia. Nonetheless, the practice of evaluation is too recent for us to be able to derive a meaningful conclusion as to how this provision is implemented in practice. The civil servants and evaluators interviewed for this study supported this provision and considered the PA reports as crucial for any successful evaluation.

On the other hand, the process of performance audit is largely linked with policy per se, while policy evaluation is, at the moment, more linked to a specific legal act, than to a policy. In addition to the largely legalistic culture of the public administration, this is an impediment for further enhancing policy evaluation and, consequently, linking performance audit with policy evaluation.

In terms of the perceptions of the actors involved, the possibilities for linking were recognised by both evaluators and performance auditors. As was to be expected, performance auditors were more cautious about the possibilities for linkages due to their *independence* and their constitutional role which places them outside of the executive. They did not view the independence of the policy evaluation reports as a given since it is partly conducted by the same actors that create the very policies.[266] Yet, they did not completely reject the potential for linking the two processes or building professional ties with evaluators. Still, given that the systematic introduction of ex-post evaluations is fairly recent in comparison to performance audit in the country, the interviewees believed that a certain track record of evaluations needs to be established to see how such reports operate in practice.

[266] The caution of independent bodies, such as the Audit office, to involvement in "policy" of any kind, can also be explained by the lack of linguistic and conceptual differentiation between "politics" and "policy", for which the same word is used in the languages of the region.

On the other hand, the civil servants and evaluators we interviewed were very familiar with performance audit reports and their impact in terms of changing policies. In addition, the civil servants and evaluators were aware of the requirement in the Methodology for evaluation to consult independent reports for the purposes of evaluation. The performance audit reports were considered to be beneficial for policy evaluation, yet it was underlined that this is an assessment from an independent body which is wider in scope than policy evaluation (currently conducted solely on legislation). While this group of interviewees was also supportive of the potential bridging of the two processes, they considered the need for increasing the capacity for policy evaluation before this could be achieved.

On a more general level, however, a systemic problem of policy planning was mentioned as an impediment to the linking of the two processes. For either of these reports to be substantially included in policy planning and analysis, the problem identification phase needs to be much more developed than is currently the case in the country.[267] Most legislation is adopted under shortened procedures, which do not allow for a complete policy cycle to take place before the enactment of new measures. This problem has also been highlighted in the SIGMA 2014 Public Administration Assessment, where the experts underline that "in terms of regulatory and legislative matters, government and parliamentary procedures that were designed for exceptional cases are being used routinely; this has several implications: less time is devoted to developing policy proposals, and legislation is being developed prematurely, prior to any appraisal of the impact being undertaken".[268] In such circumstances, however, both the policy evaluation reports and the performance audit reports can add a much needed missing link in the policy planning process.

5.3 Montenegro: Foes Rather than Friends

There are no institutional mechanisms in place which would ensure the linking of policy evaluation and performance audit in Montenegro. The key topic that concerns SAI is how to ensure that its recommendations have an impact and are implemented by the audit entities. The high pressure stemming from the public has

[267] Interview with representative of the Ministry of Information Society and Administration, May 2015.
[268] OECD/SIGMA, Public Administration Reform Assessment of the Former Yugoslav Republic of Macedonia, 2014. Available at: http://sigmaweb.org/publications/FYRoM-Assessment-2014.pdf.

guided the Government to establish a practice of adopting an annual action plan of implementing SAI's recommendations. Furthermore, in 2014, the Government formed a cross-sectoral, Coordination Body for monitoring the implementation of this Action Plan, which can perhaps serve as a nucleus for linking the two processes.

However, this process and the significant public attention given to the particularly critical audit reports (financial and compliance ones), has created a kind of barrier between the SAI and the government officials dealing with evaluation. Performance auditing has still not gained ground among the policy makers and government experts as an activity of the SAI which is different from usual audits. In the usual audits, SAI is always perceived as someone that is "out to get them", rather than to provide evidence-based data to feed the policy making process. The fact that performance audit has been centred on single institutions, more than on processes or policies, results in the impression that SAI is "trying to find the guilty ones", i.e. to find proof of the management's mistakes, rather than to help.

Interviewed officials dealing with evaluation believe that SAI needs to enhance its methodology in order for their reports to be more applicable and objective (i.e. tailor-made to the specifics of the institution or the process being audited). They claimed that SAI deservedly enjoys a relatively high level of respect and acceptance in the society, but emphasize the fact that its methodology for performance audit reports and classical audits with elements of performance auditing has never been truly contested by the expert public, which has either ignored it or taken it for granted. Among some of our interviewees, we registered a dose of reservation towards SAI's work and its findings, specifically concerning the basis of the expertise of auditors and the credibility of their methodology. On the other hand, the representatives of SAI are almost completely unaware that there are policy evaluation efforts going on in the state administration. In cases where they are informed about them, they appear sceptical of their value, objectivity and methodology. There seems to be professional rivalry and enmity arising between performance auditors and evaluation experts, primarily based on a lack of communication and cooperation.

The representatives of the Government also claim that a greater interaction with the SAI is necessary in the phase of adopting the final version of the audit report. They want their suggestions on the preliminary audit report to be taken more seriously by the SAI and to actually have an impact on the published report. One of the

steps needed for achieving better cooperation and exchange of communication is to enhance this part of SAI's methodology, and have more intense cooperation with the audit entities during the formulation of the final report. This is particularly important for performance audit, whose recommendations are generally more ambitious, advanced and demanding than those from other types of audit, and thereby require a higher awareness and understanding from the audit entity in order to increase the chances of their implementation.

One interlinking point for these two processes is the implementation of performance-based budgeting. SAI has been one of the most vocal proponents of intensifying the implementation of performance-based budgeting, which has come to a standstill around 2009 when the budget programmes were formally introduced into the Budget Law, without any progress being made since.[269] One of the significant cooperation opportunities is the process of defining the so-called non-financial elements of the budget, goals and performance indicators, which is supposed to start with financial assistance from the EU in the near future, as part of the preparations for the direct budget support. It would be productive to have SAI on board from the start, as an evaluator of draft non-financial elements, at least for a sample of budget users.

The potential of internal audit as a tool for horizontal implementation of the SAI's recommendations is not recognized nor utilised. Internal audit (as part of the Public Internal Financial Control system) should also be utilised to ensure that the findings of the policy evaluation are taken into account and actually implemented. Although it is not directly associated with policy evaluation, it can serve to enhance relations with the executive.

One of potential actions that can be taken is to amend the SAI's procedure for formulating the annual audit plan, in order to somewhat align the priorities with the Government regarding the performance audit. Without infringing on the SAI's constitutional independence, it would be beneficial if SAI contributed through performance to the policy changes the Government is planning in the future, and that pertain to the amendments of systemic laws or institutional reconfigurations. The approach of SAI is clear — rather than waiting for a policy window to open or trying to create it single-handedly through the strength of its report and presentation,

[269] See: "Budgeting the Cost of Reforms – Programme Budget for Police and Prosecution," Institut Alternativa, Podgorica, 2014. Available at: http://media.institut-alternativa.org/2014/12/ProgrammeskoBudzetiranje-ENGL.pdf.

alignment with the Government's schedule increases SAI's chances to exert an impact and meaningfully contribute to the policy cycle. Additionally, the executive should, in principle, be interested in hard data and evidence to accompany the process, even if its own form of evaluation is also ongoing. This kind of interaction would increase contacts between SAI and the policy evaluation cycles, and perhaps foster mutual cooperation or at least increase the attention that both sides are devoting to strengthening their methodologies and capacities in this regard.

5.4 Serbia - the Newcomer in Audit and Evaluation

The interaction between performance audit and policy evaluation can be approached in different ways. Institutionally, two processes are characterised by a different institutional position, design and competences, this being one of the main concerns of actors on both sides. As for the actors, there are two relevant aspects when speaking about the possibility of interaction: *what* is the general perception of actors (i.e. how auditors perceive evaluation and vice versa) and *where* do they see interaction or opposition. It is this perception which will be illustrated in this section.

Before we proceed, it is useful to look back to approaches elaborated in the previous sections with regard to Serbia. Differences in approaches relate to many aspects of the processes, but a few should be highlighted. Firstly, timing is very important. SAI decides on the subjects of audit on an annual basis and there is small room for working around it. The timing of evaluation, on the other hand, is dependent on the implemented project or programme, and follows the logic of the policy cycle. Understandably, different priorities influence differences in timing, which can be seen as a potential deadlock in interaction. Secondly, audit and evaluation work can vary greatly in terms of research means, but performance audit has the potential of being more "evaluative" if it focuses on effects and problem solution. What is encouraging is that performance auditors have started utilising techniques that generally belong to the social science domain (such as interviews, case studies etc.) and undertaking a less rigid approach in relation to the auditees. Thirdly, it is evident that skills may also differ significantly, owing to the specific requirements for state auditor status, on one side, and on the diversity of the professional background of the evaluators, on the other. It can be said that evaluators have more options in terms of methodology, whereas performance auditors are more authoritative

in their work. Lastly, the range of performance audit and evaluation can be quite different. The first two performance audits that were conducted, focused on horizontal issues and overall management and procedural aspects, whereas evaluations were more specific or narrower. All these differences are influencing the possibility of interaction and the individual perceptions of actors.

It is important to stress that performance audit staff and management are generally inclined to have a positive attitude towards evaluation as a process which can improve transactions of budget users. The biggest concern, however, is the "commercial" aspect of evaluation. Outsourcing a single evaluation activity for a stand-alone project lacks reliability in the eyes of the auditors. Normally, supreme audit institutions are safeguarding their independent position and are relying on their high professional standards, as well as on their integrity and ability to provide authoritative recommendations. Furthermore, the perception of interaction with policy evaluation is influenced by the constitutional role of SAI of Serbia and *de jure* responsibility before the parliament and the public, whereas evaluation is perceived as a predominantly government domain.

On the different side of the spectrum, there are two tendencies when it comes to perceptions of interviewed civil servants. The first tendency is that audit is perceived in a narrow sense as a control or inspection activity. Unsurprisingly, the only experience they had with SAI is in financial and compliance audits, and with accountability mechanisms the Serbian SAI has on disposal, which include initiating misdemeanour and criminal proceedings. Indeed, all audit work so far has been conducted in a way as to determine the damage done. The second tendency shows that performance audit, given its recent introduction, is barely distinguished from other types of audit. This is, again, definitely not a surprising finding, but it is an important tendency since it directly influences the perception of SAI. The more performance audits SAI implements in the future, the greater the chance of a change of perception.

Finally, where do the actors see room for interaction and opposition if we take into account all that has been said thus far? In the eyes of performance auditors and management, there are currently no direct links with policy evaluation, nor does communication between them exist. However, when it comes to establishing an initial link, there is general acceptance among performance audit staff of the idea that consultation mechanisms between stakeholders can promote performance audit findings before the decision-makers, as

well as promote SAI as an institution. Consulting SAI through the entire policy cycle could help stakeholders realise the potential of performance audit for policy making in general, and therefore for policy evaluation as well.

Civil servants from the interviewed institutions have not had the chance or the need to use the performance findings of the audit reports, although they can hypothesise on the benefits of performance audit in terms of improving evaluation. Examples vary and include benefits of performance audit results in developing assistance programming or in comparing methodologies and data. Yet, in individual cases, findings from financial and compliance audit reports which indicated deficiencies in the legal framework, the methodologies or the implementation mechanisms, were used as inputs for the production of documents as sources of information.[270] Performance audit reports could be even more useful sources of information, provided that there is more of them in the future.

In a nutshell, interviewees from both sides agree that the overall link between the processes could be useful. It is clear from the interviews that additional awareness raising of the role of SAI's is needed since, in most cases, audit is equalised with accountability in a strict sense, without connection to the learning aspect. Moreover, insufficient experience in conducting both performance audit and evaluation is influencing the way interaction is perceived. Without filling the void in experience, this perception will remain contemplative in nature and prevent more elaborated approaches in bridging performance audit and evaluation.

[270] Data from financial or compliance audit reports have no use for evaluation in most cases. However, SIPRU used findings from SAI report in producing the study on the establishment of social inclusion fund (Interview with SIPRU representative).

5.5 Highlights from the EU Case Studies

The Netherlands: The Perennial Link

It is said that the NCA has been one of the major drivers for increasing attention to evaluations. This trend started with the so called ***government-wide audits (GWAs)*** which represented an innovative way of conducting performance audits. According to Leeuw (2009), these comparative studies were benchmarks in the sense that they, at least once per year, inventoried and audited what government bodies knew about the economy, efficiency and effectiveness of the policies they implement.[271] It appeared that the government and their agencies had no or very little information by their side.

One of these audits found that "*information about financial costs and benefits of new laws was hardly available, despite the fact that hundreds of new laws were implemented over a couple of years [...] it turned out that, of the more than 700 central government subsidies and grants, ministries had information on the three Es for only a tiny fraction of them. Further, in 1989 it was discovered that 28 inspectorates [...] knew little about the impact of what they were doing and how it related to the costs involved*"[272] etc.

Although not in direct connection with policy evaluation (which was not formally established when first GWAs were implemented), these audits pushed policy evaluation on the agenda. The NCA was not alone in pursuing more performance-based government actions. This came in line with more proactive parliamentary scrutiny, as well as with changes in the philosophy of public administration and management. The NCA could not introduce evaluation mechanism by itself and could not intervene into the policy domain more than its competences allow. Yet, the credibility of the institution, as well as the specific relationship with the parliament and the government, had their role and the NCA actually co-framed the introduction of evaluation in the Dutch administration. This lesson can be valuable for the Western Balkan countries in the sense that supreme audit institutions of these countries could put emphasis on performance related issues and especially effectiveness of government spending and policies in general.

A relatively recent performance audit practice of the NCA ***is auditing evaluation systems of the ministries***. These audits are not traditional audit types as they summarize evaluation requirements posed on ministries, examine their evaluation work and, in the end, provide recommendations for the improvement of evaluation practices. In this

[271] Leeuw, "Evaluation Policy in the Netherlands," 91.
[272] Ibid.

sense, they represent specific type of performance audits which aim to improve the effectiveness of the evaluation work of the government. In this regard, there is a practice of sending evaluation reports to the NCA for their examination even though there is no legal requirement to do so.[273]

The latest such performance audit report was published in 2012.[274] Apart from summarizing evaluation requirements on the part of ministries, this report emphasises the importance of effectiveness research and concentrates only on evaluations that measure effectiveness, i.e. focus on causality between the policy instruments and the achieved or intended social effects. As can be expected from the nature of audit, the report also calculates how much policy expenditures have been evaluated for effectiveness.

The NCA's role in the evaluation analysis is sometimes referred to as twofold in nature. In that regard, the NCA can make use of *meta-evaluation* and *evaluation syntheses*. The first is concerned "*with assessing and enhancing the quality of evaluative information*"[275] provided by the ministries, while evaluation synthesis serves "*to encourage ministries themselves to undertake this kind of study. By giving examples of how this might be done and by making public the manual of the NCA (HANDAR) on performing evaluation syntheses, the NCA tries to reach this goal.*"[276]

France: Evaluation as the *Sui Generis* Activity of CDC

Since 2011, evaluation of public policies has become a constitutional obligation for the French Court of Audits (*Cour des Comptes*, hereinafter referred to as CDC).[277] This is a particularity of the French system, and of the Finnish one to a lesser extent, since, at the international level, there is no consensus over the question whether the evaluation of

[273] Interview with employees of the NCA performance audit directorate.
[274] Algemene Rekenkamer, Effectiviteitsonderzoek bij de rijksoverheid (2012), http://bit.ly/1W4D1OA.
[275] Andrea Kraan and Helenne van Adrichen, "The Netherlands Court of Audit and Meta-Research: Principles and Practice", eds. Robert Schwartz and John Mayne, *Quality Matters: Seeking Confidence in Evaluating, Auditing and Performance Reporting*, Comparative Policy Evaluation, Volume XI, (New Brunswick, New Jersey: Transaction Publishers, 2005), 115.
[276] Kraan and van Adrichen, The Netherlands Court of Audit and Meta-Research: Principles and Practice," 115.
[277] Namely, article 47(2) of the French Constitution stipulates that "The Court of Accounts assists the Parliament in controlling the Government's action. It assists the Parliament and the Government in controlling the enforcement of finance laws and the implementation of laws on the financing of social security as well *as for the evaluation of public policies.* It contributes to informing the citizens through its public reports." Available at: http://www.assemblee-nationale.fr/connaissance/constitution.asp.

public policies should become a part of INTOSAI professional standards on performance audit.[278]

The evaluations can be carried out either at the request of the Parliament, or on the basis of the Court's self-initiative. Since 2012, four comprehensive evaluations have been conducted on topics that span various public policies and different governmental and non-governmental stakeholders, such as the anti-smoking policy, social housing and the anti-alcohol policy.[279] There are several features that distinguish the work of CDC from the work done by SGMAP (i.e. the ministries and the Government) on public policy evaluations:

1) *Comprehensive approach* - although the evaluations steered by SGMAP normally cover more than one public policy, the Court seeks to evaluate topics that concern several complex public policies, which require greater time and human resources than required for policy evaluation conducted by the ministries. While the average duration of evaluation conducted in the case of SGMAP is 7 months, for CDC it takes 12 to 18 months;

2) *Independence* - the independent status allows the Court to provide critical assessment of the ministries' results and performance, which may be a considerable comparative advantage to the evaluations conducted by the ministries themselves, and

3) *Easy coordination* - the Court as a single institution does not encounter issues such as conflict of interest or difficulties in coordination, which commonly emerge when the ministries conduct evaluations.

In order to avoid duplication and ensure that existing resources are used efficiently, the Court follows closely the activities of SGMAP when deciding on the evaluation topics. Aside from the differences in length and complexity mentioned above, the two evaluation systems differ in the sense that the ministries' evaluations offer policy options or scenarios as a final result, while the Court evaluations provide policy recommendations. Moreover, evaluation "*is not aimed at apportioning blame, still less at designating who is responsible. It starts with a neutral outlook and seeks to highlight positive aspects as well as criticising negative aspects. It may help to confirm a public policy or call into action its very existence, if this policy does not appear to be appropriate.*"[280]

[278] Phone interview with the magistrate at the Cour de Comptes, June 11 2015.
[279] Evaluations are available at: http://bit.ly/1LLKDUz.
[280] Evaluations are available at: http://bit.ly/1LLKDUz.

The UK: Assessing Strengths and Weaknesses of Evaluation through PA (1)

According to NAO, the two main approaches to evaluation are summative and formative evaluation.[281] Summative evaluation - impact evaluation, asks questions about the impact of a specified programme on a specific group of people. Summative evaluation examines how the impact compares to the original objectives, to some other programme, or to doing nothing at all. Formative evaluation - process evaluation, is more oriented towards how and why a programme has worked or failed. This type of evaluation is typically oriented towards the process of policy development, as well as its implementation and delivery.

In December 2013, the National Audit Office (NAO) adopted a Report on Evaluation in government assessment of the quality of cost-effectiveness evaluations.[282] The Report is a part of a wider NAO project on the use of cost-effectiveness evidence in the Government, and is based on a retrospective review of a selection of 35 UK government evaluations in policy areas of active labour markets, business support, education and spatial policy. According to this report, the three main uses for policy evaluation are: to inform strategic resource allocations, such as in spending review; to inform decisions about policies and programmes, in terms of the design of new programmes, and improving or stopping existing programmes; and to support accountability, by demonstrating the costs and benefits of spending.[283]

The Report highlighted the strengths and weaknesses of policy evaluation, assessed the usefulness of evaluations for policy makers, and suggested improvements. One of the major findings was that the quality of cost-effectiveness reports varies widely both within and across policy areas. High quality evaluations were conducted in the areas of the active labour market and education. In contrast, evaluations in areas of business support and spatial policy were considerably weaker (none of the business support or spatial policy evaluations provided convincing evidence of policy impacts).[284] The same report from NAO finds that the government spends significant resources on evaluating the impact and cost-effectiveness of its spending programmes and other activities. The coverage of evaluation

[281] See: "Evaluation," UK National Audit Office, accessed September 21, 2015, http://www.nao.org.uk/successful-commissioning/monitoring-evaluation/evaluation/.
[282] "Evaluation in Government," UK National Audit Office, accessed September 12, 2015, http://www.nao.org.uk/wp-content/uploads/2013/12/10331-001-Evaluation-in-government_NEW.pdf.
[283] Ibid., 27.
[284] "Evaluation in Government," 7.

evidence is incomplete and the rationale for what the government evaluates is unclear.[285] Finally, the report finds that evaluations are not always robust enough to identify the impact, and the government fails to learn from these evaluations, with regard to how it can improve impact and cost-effectiveness.

Slovenia: Assessing Strengths and Weaknesses of Evaluation through PA (2)

Probably the best systematic report on policy evaluation and impact analysis has been done by the Court of Audit in Slovenia in 2007.[286] The Court recommended that the government should adopt guidelines for the preparation and implementation of ex-ante impact analysis, consider to monitor the effects of already adopted legislation, and, in particular, encourage the work of the inter-ministerial working group, which should provide efficient dissemination of regulation for impact assessment in the administration.

A response to this Report by the Government came in 2009. The Resolution for drafting legislation was prepared that regulated the procedure for adoption of the legislation. The Resolution included policy evaluation, involvement of the stakeholders in the procedure, and a framework for evaluation of the already adopted legislation. Additionally, it states that, in formulating and implementing policies which include administrative, organisational, and political activities, it is of crucial importance to conduct a regulatory impact assessment, which should be a reflection of the policy in a given field. However, in 2012, the Court of Audit published its second Report on the Impact Assessment in which it assessed that, although there have been legal changes, the situation has not changed substantially.

Finland: Getting Auditors and Policy Makers Together "On Board"

The Advisory Board of the NAO in Finland is prescribed by law and the Board invites representatives of key cooperation partners, as well as experts on financial administration and public finances. The Advisory Board also includes the Auditor General and one member elected to represent the National Audit Office's staff, and has a maximum term of three years. The Advisory Board maintains and strengthens the NAO's connections with cooperation partners, presents initiatives to develop auditing, and monitors the effectiveness of audits and their ability to

[285] Ibid., 45.

[286] Bojan Radej, "Osnove vrednotenja politik za občasne uporabnike Inštitut za politike prostora," Slovensko drustvo evaluatorjev (2010), http://www.sdeval.si/attachments/article/298/Osnove-vrednotenja%20(XI%202010)).pdf.

serve different cooperation partners. This board is composed of 19 members, among whom are members of the Government, Parliament, and the academic community.

The Finnish NAO has also been formally given the mandate to perform independent monitoring and evaluation of the fiscal policy, which is their regular, obligatory task and which effectively makes the SAI an integral part of the country's policy evaluation system. As a part of this task, "the National Audit Office is responsible for monitoring the drawing up and implementation of the multi-annual plan for general government finances [...]" and monitoring and evaluation results are "submitted to the Parliament in the middle and at the end of electoral period. The Government must either defer to the opinions publicly adopted by the National Audit Office or publicly state why not."[287]

Estonia: PA Feeding into the Heart of Policy

When it comes to the cooperation between performance audit and policy evaluation, connection is currently mostly functioning one-way, in terms of performance audit being used to feed the policy evaluation process. One of NAO's annual reports state that the main objectives of the performance audit department was to give the Parliament and the public an overview of the sustainability (...) the success, the effectiveness (...) of state's activities.[288] However, the main "consumers" of the performance audit reports are the policy planning units in the Ministries and the Prime Ministers' Office.

Additionally, each ministry has a policy planning department which takes performance audit reports into consideration. At the central level, the State Secretary at the Prime Minister's Office is an example of a department which significantly takes into consideration the performance audit findings.

In conducting their performance audits, auditors from NAO are using materials produced within the policy evaluation system, special manuals, methodologies, and regulatory impact assessments conducted by the executive.[289]

[287] National Audit Office of Finland, accessed on September 9, 2015, https://www.vtv.fi/en/functions/fiscal_policy_evaluation.
[288] See: Annual Report NAO of Estonia, 2010, 9.
[289] Interview with Mr. Urmet Lee, Advisor to the NAO of Estonia.

5.6 Conclusion: PA and Policy Evaluation as Estranged Friends in the WB

Although conceptual and comparative literature suggests a very high degree of closeness and convergence between PA and policy evaluation, with EU case studies showing a wide range of possibilities to create interactions between the two fields, the study of the practices in the three WB countries reveals little to no existing links, or indeed awareness of the key actors that such links and interactions are both possible and useful. While in Macedonia at least an indirect link was created through a general obligation for evaluations of legislation to take into account the reports of independent bodies (without, however, substantially elaborating this general obligation and its purpose), in Montenegro and Serbia – *inter alia* due to the current ad hoc approach to policy evaluation – no such requirements or recommendations exist. Moreover, interviews have shown that the main actors are often not even aware that there are evaluative efforts going on outside of their own branch of work and have, in some cases, shown very little knowledge or understanding of each other's roles. At the same time, it is encouraging that the learning effect of the interviews was rather strong and that most interviewees expressed strong support for the idea that the two fields and their practices should be connected in a tangible way.

Comparative case study examples given above demonstrate that it takes time for meaningful and sustainable correlation to be established. It is usually the case that SAIs try to investigate how evaluation systems in the government work and, according to the audit findings, propose recommendations for a better functioning of the system and follow-up on the evaluations (UK and Netherlands). Similarly, SAIs try to push governments to adopt necessary legislation and procedures for conducting impact analysis or monitoring already adopted legislation (Slovenia). In some cases, a more institutionalised relation between performance audit and policy units is already achieved through consultative bodies (Finland) or through an understanding of evaluation as an activity that should fall within the competences of SAIs (France). Finally, the example of Estonia demonstrated that an increased level of performance culture in the administration is necessary if performance audit findings are to be meaningfully observed when conducting evaluation, even if there is no formal requirement to do so. However, regardless of the approach, the tangible results of the links between performance audit and policy evaluation are not necessarily obvious, which means that the work on performance issues is steep and narrow. Also, the work on performance audit and evaluation can be very costly, which was emphasised in the interviews with performance auditors

and public administration officials in case study countries. This is one of the reasons why SAIs in WB countries give priority to financial and compliance audits, especially in the light of capacity and financial constraints.

6 WHICH DIRECTION TO TAKE IN THE WB? MODALITIES OF INTERACTION AND EVALUATION OF IMPLEMENTATION OPTIONS

This chapter is comprised of two main sections. The first one elaborates on the modalities for establishing the interaction and cooperation between the fields of PA and policy evaluation, based on all relevant research findings (from WB and EU case studies alike, although the latter were a major source of inspiration). Following the description of the five modalities, we offer a discussion on the feasibility of their application in each of the three WB countries, based on the meetings with stakeholders which were organised in the final research phase. The second section of the chapter turns to a discussion of implementation options for the preferred modalities, where three basic options are discussed. That part also offers an evaluation of each of the options for the three WB countries in table format, based on the experiences from similar fields and reforms that have been implemented in the three countries in the given administrative and legal culture.

6.1 Modalities of Establishing Interaction between Performance Audit and Policy Evaluation

6.1.1 Description of Identified Modalities

I. Communication and professional cooperation

Even though the status quo still prevails due to a lack of a systematic approach to policy evaluation and the early development phases of performance audit, this interaction modality between the two fields uses the available opportunities for creating relationships of trust and cooperation between actors in the area of performance audit and the decision and policy makers, without interfering in their institutional roles and jurisdictions. In other words, communication and professional cooperation implies a more intensive interaction between the actors involved in PA and policy evaluation, an interaction that is not exhausted in the auditor-auditee relationship. The value of this modality lies in mutual learning and in raising the awareness of the similarities and differences between performance audit and policy evaluation. Moreover, a positive aspect of this modality is that the first interactions are bottom-up initiatives, initiated by performance auditors and policy evaluators themselves, or by respective managers.

In the absence of regulated ways for interaction, auditors and evaluators are creating demand for more exchange among professions for the benefit of both sides.

According to this modality, performance auditors and decision makers or policy evaluators create a common informal professional network through participation at conferences and other expert events in the country and abroad, as well as by connecting on professional social networks and using other opportunities to communicate. The Netherlands are an example of such cooperation, where performance auditors and evaluators actively use opportunities provided by the associations and initiatives for exchanging expertise and knowledge (European Evaluation Society, LinkedIn, auditors and evaluators associations etc.). Experience of performance auditors of the Netherlands Court of Audit also shows that few other SAIs participate in these and similar initiatives.

II. SAI develops an evaluation culture through systemic performance audits

Following the example of The Netherlands Court of Audit model which started conducting broad, system-oriented performance audits a few decades ago, SAI can also initiate performance audits that would have a more systematic character, where the focus would be shifted from sector issues or specific institutions within a certain field, to the performance of public administration in general. Such audit would include processes, procedures and measurements that public administration bodies use in order to collect information on all three aspects of organisational performance, namely economy, efficiency and effectiveness. The result of such specific performance audit is that it would point out potential gaps in the realization of activities and the budget spending of auditees in relation to the defined goals. In cases where an inconsistency between the proclaimed goals of the organisation and the actual budget is proved, or where there is an absence of adequate measurement and performance monitoring systems, SAI can recommend establishing adequate monitoring and evaluation procedures for a specific case, as well as at a systemic level. Moreover, SAI could use its institutional relation with the parliament and the committees in charge of the budget and the public accounts to further present and discuss the findings of such systemic performance audit reports. This in turn could produce more reverberation of these reports in the public and, most importantly, among policy makers.

Systemic performance audits are implemented with full SAI autonomy in defining the audit programme, and they are not one-time activities, but instead take place regularly. Having in mind that performance audit

has the potential to be more flexible than other types of audit, public administration bodies are supposed to implement recommendations from systemic performance audit reports both in the mid- and the long-term, whereas recommendations are treated as a body of knowledge for improving their own work. This can be made possible through a special mechanism introduced by SAI for monitoring the implementation of performance audit report recommendations. Monitoring follow-up to the recommendations is different from financial and compliance audits in terms of the deadlines and obligations, thus influencing the increase in trust and mutual cooperation in the relation between the performance auditor and the auditee.

III. SAI conducts PA of the policy evaluation systems or of individual evaluations (meta-evaluations)

In the process of planning performance audit topics, special attention is given to evaluation systems and evaluation activities in the ministries and other state bodies. In other words, SAI conducts an audit of quality and usefulness, as well as of the fiscal impact of the evaluation reports. Quality checking includes methodologies for data collection, relevance of sources, findings and data, resources used for conducting the evaluation, expenditures, as well as the usefulness of these reports for decision makers and the sustainability of recommendations in terms of improving the effectiveness of budget spending. The case studies of the Netherlands and the United Kingdom show that this sort of "meta-evaluation" is a significant instrument for revealing the shortcomings in the implementation and the effects of the evaluations. In that sense, they provide incentives for the improvement of individual evaluations. As evidenced from these case studies, SAI could concentrate on policy evaluations that deal with effectiveness research, i.e. those examining the usage of budget allocations and policy instruments for achieving socially desirable goals. As an alternative, it could put more emphasis on cost-effectiveness or cost-efficiency studies, or investigate the performance of an organisation's management and operations. Moreover, in this modality SAI can also decide to audit multiple policy evaluations at once, provided that its capacities allow it. This modality is especially useful in administrations which allocate significant budget resources to evaluation studies, as they can examine whether such studies are worthwhile.

IV. Policy evaluation system actively and systematically uses performance audit reports

Inspired by the findings of the Estonian model, this modality implies that policy planning units, which are in charge of policy evaluation within the ministries, actively use performance audit reports and their

findings in conducting their analyses. This modality presupposes that a policy evaluation system has already been established and causes certain consequences in the policy-making process. The actors and institutions which influence the policy evaluation process actively work in the direction of its improvement, including the centre off government institutions in charge of steering policy coordination, planning and evaluation (Government Secretariats, Policy Secretariats, etc.). A systematic usage of performance audit reports by policy units means that this is not an *ad hoc* activity which depends on the tastes and affinities of policy analysts and evaluators in administration. If not regulated in a way which makes the usage of performance audit mandatory, this exchange between performance audit and the policy domain can function based on a mutual understanding of the benefits of the performance audit findings for improving policy making in general and policy evaluation in particular.

V. Evaluation as a distinct activity of the SAI

Policy evaluation as a separate, *sui generis* activity of the supreme audit institution has recently been introduced in France. According to this modality, in addition to performance audit and other types of audit, SAI also has a constitutional and legal obligation to conduct evaluations upon the parliament's or its own request. Such a system consists of two parallel evaluation systems which provide mutually complementing insights on the performance of public administration bodies – one that is introduced at the level of executive and the other which is a part of external audit. In this setting, SAI capacities are strengthened to a large extent, satisfying the needs for expertise and knowledge in different fields, as well as the need for diversity when it comes to the methods used and the analytical, social and writing skills.

Evaluations conducted by the SAI in this modality would need to differ from those produced by the administration, by being more comprehensive, but at the same time more objective, given that they are conducted by an institution that is not a part of the policy implementation process. These two systems can be differentiated by the length and complexity of evaluations, as well as by the purpose of recommendations and their focus. In order to avoid a duplication of evaluation activities, actors in these two evaluation systems need to be in constant communication, while simultaneously performing counselling and information exchange regarding methodologies and organisational issues. The undeniable quality of this modality is the existence of parallel evaluation systems which are not conflicted, but which complement each other. More specifically, by engaging directly

in policy evaluation, SAI advocates for a system of double-checking policy effects.

6.1.2 Discussion of the Implementation Modalities based on Stakeholder Meetings

The discussions with key stakeholders (SAIs and evaluation related authorities mainly) in each of the three countries have yielded the following conclusions:

Serbia

- All stakeholders agreed that the first modality should be implemented in the shortest possible timeframe and expressed interest in connecting with their colleagues from the other field. Nevertheless, they could not predict exactly how the professional connections would be facilitated, who would be in charge of organising meetings and events, etc. Therefore, the instigation of such professional networks and networking events would need to rely on actors outside of the government sector, i.e. mainly on non-governmental organisations and their initiatives.
- Most stakeholders agreed that the second and third modality could be implemented in some kind of a sequence, with the second modality clearly preceding and being the precondition for the third one. In fact, it was emphasised that, through the implementation of the second modality, the SAI would serve as a powerful ally to the governmental institutions in charge of developing and/or reforming strategic planning or policy-making systems and practices. The established practice within the Performance Audit Sector of Serbia to refrain from filing requests for misdemeanour proceedings and proceedings for criminal offences, as well as SAI's focus on system-wide problems and topics in the two PAs conducted so far, positively contribute to the development of the second modality.
- One of the stakeholders expressed doubt as to whether the implementation of the third modality in the medium term would be cost-effective, given that it would presuppose focusing two different evaluative efforts on the same policy. At the same time, concerns were raised as to the poor quality and applicability of many of the (ad hoc) evaluations which have been produced so far, which could be remedied if meta-evaluations were produced. Nevertheless, there seemed to be a prevailing agreement that

the third modality is still out of reach and would be viable only in the longer run.

- The fourth modality was well-received by both stakeholders from SAI and from the government institutions, with some concerns raised by one of the stakeholders from the latter group as to the quality and policy learning potential of SAI's reports. This issue certainly corroborates the conclusion from the interviews that SAI needs to work on its image and the awareness of the key stakeholders of its work, particularly of the specificities of PA compared to traditional forms of audit. Naturally, an important caveat was stressed on both sides – in order for this modality to be implemented, a more systemic approach to policy evaluation would firstly need to be put in place (although PA results can generally be used in policy formulation as a source of policy learning). Nevertheless, the stakeholders mainly agreed that the very design and development of the evaluation system would in fact be the proper time to think about installing a requirement (a substantive one, rather than a vague and general one) for policy evaluators to refer to relevant performance audit reports and comment or even report on whether the auditors' recommendations have been implemented.
- The fifth modality both attracted the most attention (especially on the part of the SAI interlocutor) and raised the most concerns as to the feasibility of its implementation in the mid-term. The government interlocutors unanimously agreed that the Serbian SAI would not be able to apply such a model, with which the SAI interlocutor partly agreed, although she expressed a strong affinity towards the consideration of the "French model" one day, when SAI's capacities are much stronger.

Macedonia

- In the discussion with stakeholders it was explained that the first modality is ongoing in continuity (according to staff of Macedonian SAO as well as of the Ministry of Information Society and Administration). In the view of civil servants in the ministry it can be accepted as the preferred modality given that policy evaluation is in the early stage of development. It was noted in the discussion that the voluntary aspect of the modality can generally be considered as a continuation of the status quo.

- According to SAO representatives, the second modality is implemented through a systemic approach to financial management and control systems, including internal audit. However, the level of success in its implementation is dependent on the capacities of the institutions in question. Additionally, when conducting performance audit SAI requests opinion from all relevant stakeholders, e.g. in the ongoing international performance audit on tourism, universities and professional associations are consulted. For SAO staff, every performance audit is an evaluation in the sense that the objective is to evaluate the three Es, the possibility of which depends on the circumstances. On the other hand, a lack of indicators for performance measurement in the programme budget impedes the process of further developing systemic performance audits.
- According to the SAO, the third modality is not feasible at the current stage of development. It can be achieved only far into the future given that the development of policy evaluation is still in its early stage. However, this modality was not discarded and was considered as a long term goal.
- According to the stakeholders that deal with policy evaluation, the number and scope of performance audits need to increase, and SAO's reports need to be made more accessible and visible in order to fully make use of the fourth modality. Therefore, the implementation of this modality is possible in the medium term with significant training efforts for the staff in charge of policy evaluation, guided by the Ministry of Information Society and Administration. It is suggested that a manual for cooperation would be useful for achieving the goal of consulting performance audit reports in the practice of policy evaluation.
- The fifth modality is not feasible in the opinion of SAO staff given the institutional tradition of the Macedonian SAO and the potential duplication in the circumstances of scarce resources. In the Ministry in charge of administration, which is the central institution in the country in charge of policy evaluation, the idea of having two parallel evaluation systems was an option, although they considered it imperative for the executive to engage in the policy evaluation process. For the latter, the institutions that draft a policy have to evaluate it in order to discern the errors in its implementation.

Montenegro

- Regarding the first modality, both the auditors and the state administration personnel involved in policy evaluation have no objection to establishing this kind of cooperation in Montenegro. However, the problem with this modality in Montenegro is that the SAI does not know whom to dial when they want to reach the policy evaluation structures. This is due to the fact that there are no specific policy evaluation bodies and no professionalised policy evaluation officials, meaning that it is hard to establish permanent forms of consultation and networking. Also, policy evaluation practitioners in the administration are at the same time assigned different functions, sometimes even senior positions. This in turn could make them reluctant to cooperate with SAI, considering that auditors are sometimes perceived as investigators.

- At present, the kind of scope for a performance audit suggested by the second modality is too ambitious for the Montenegrin SAI, whose audits are still almost exclusively focused on individual institutions. Currently, the only topic that was considered for such a wide ranging audit was the internal audit, as SAI plans to increase its cooperation with this segment of the PIFC system. The ambition of SAI is to continue auditing the internal audit system in the future, as well as to conduct regular checks of its functioning. On the other hand, the development of a comprehensive system to monitor the follow-up to reports is being considered in the SAI, with plans to set the foundations by developing methodological guidelines for verifying the implementation of recommendations. This mechanism, once set up, would serve for future developments in the performance audit sector, including systemic performance audits.

- There were considerable objections on the part of staff in charge of policy evaluation to the kind of SAI intervention proposed by the third modality. This is particularly due to their conviction that SAI is still not in the position to assess their work and lacks the knowledge and experience for such assignments. Similarly, SAI methodology for choosing performance audit is detailed and extensive and stakeholders from SAI are sceptical that such a topic would be given priority, especially having in mind the low capacities of the Performance Audit Department. In these circumstance, the third modality is given a long-term priority.

- In order for the fourth modality to be in place, a more structured approach to policy evaluation is required in the first place. This was recognised by the stakeholders in the public administration. Thereby, it is not feasible to implement this modality in the short term.
- Neither the stakeholders in the state administration nor those in SAI consider the fifth modality as a viable option. On one side, stakeholders within the SAI claim that it is in the mandate of SAI to conduct evaluations as such, while on the other, public administration representatives are of the opinion that SAI's capacities are insufficient for conferring it to policy evaluation competences.

6.2 Evaluation of Implementation Options

Based on the identified modalities in the previous section, and taking into account the discussions with relevant stakeholders in the three WB countries, we have established three basic options for the implementation of the preferred set of modalities for all three countries. Given that the preferences of the local stakeholders differ substantially when it comes to the modalities which they consider desirable and feasible within their national contexts, the evaluation of options is done for each country individually. Implementation options are not modelled after strategic choices and/or policy directions, but after the alternatives for implementing the preferred options. The three options identified are: A) Status Quo; B) Soft Law Approach; C) Hard Law Approach. What follows is a concise delineation and description of each option, followed by their evaluation, and based on a predefined set of criteria.

Option A: Status Quo

The first option implies that no new policy instruments are designed and adopted in order to ensure the implementation of the preferred modalities. This option, thus, continues the current state of affairs in terms of regulation and institutionalisation of links and relations between PA and policy evaluation, which, in practice, means that no regulated links are achieved (with a partial exception of Macedonia where a link has been determined through the obligation to consider the reports of independent bodies prescribed by the Methodology for evaluating legislation).

Option B: Soft Law Approach

The soft law approach entails the mildest possible way to regulate a relationship between PA and policy evaluation. It is distinct from Option A, as it does require a new policy instrument (one or several) to be prepared and adopted, although a number of possible sub-options could be designed for the exact forms of such instruments. What distinguishes this option from Option C (see below) is that it proposes a soft instrument, which is not binding for its addressees, but only provides recommendations and guidelines.

There are various ways to put Option B in practice. One way is for the SAIs to develop their internal guidelines for identifying topics for performance audit in a manner which is more conducive to better coordination and/or interaction with policy evaluation, i.e. preference for systemic audits rather than institutional ones or a focus on the audit of government performance systems (such as management of the programme budget, civil service appraisal systems, internal audit systems, etc.). Another way would be for the institutions coordinating policy evaluations in the administrations (e.g. Government Secretariats, Policy Secretariats, Ministries in charge of public administration) to adopt guidelines, methodologies, or checklists for evaluations which require consultation of performance audit reports. The hardest sub-option in this soft-law approach would be for the Government to adopt guidelines recommending all ministries and other administrative bodies to consult the performance audit reports when conducting policy evaluations, which would also potentially improve the overall culture of follow-up to audit reports. All of these variants of the option would only provide recommendations (rather than obligations).

Option C: Hard Law Approach

The hard law approach presupposes the adoption of primary (statutory) or secondary legislation, and is thus the most sophisticated option in terms of the complexity of the regulatory activity which needs to be invested in its implementation. Unlike in the Option B, the policy instrument of this option would be binding for all ministries and other administrative bodies conducting evaluations.

In most administrative systems originating from the ex-Yugoslav system, secondary legislation (regulations, bylaws) can only be adopted by the Government if there is a clear basis for it provided in the law. Therefore, a combination might be needed of a more general legal basis in primary law and a more specific provision in bylaw. It should be specified here that such a legal basis could be provided for

in any relevant law which regulates the policy process and represents the basis for passing a bylaw on the process for policy formulation, monitoring and evaluation (e.g. in Serbia the Law on the Planning System which is currently in the adoption procedure, or even a more generic law, such as the Law on State Administration, if it gives the basis for setting out the policy evaluation process). In such a case, the obligation for the evaluation process (in both the planning and the realisation phase) to consult performance audit reports would be included in the bylaw defining the process of policy evaluation.

Evaluation of options has been done on a predefined set of criteria, comprising four questions:

Q1 Can the option ensure implementation of preferred modalities of interaction?

Q2 How does the option fare against perceptions and preparedness of key stakeholders?

Q3 How does the option fare within the existing legal and administrative culture?

Q4 Can the option be implemented in the medium term (2-3 years)?

Evaluation of implementation options per country

It should be kept in mind that this evaluation table refers to the implementation options (status quo, soft law approach and hard law approach), and how those options can help achieve the preferred modalities of interaction between PA and policy evaluation.

		Macedonia	Montenegro	Serbia
Option *1: Status Quo*	**Q1**	Allows for implementation of the first modality, which does not normally require any regulation. As evidenced by the interlocutors, there is already communication in place, however it can be increased in the future. Cannot ensure the implementation of other preferred modalities.	Allows for implementation of the first modality, which does not normally require any regulation. The stakeholders need to be more familiarised with the role of performance audit and policy evaluation in order to successfully implement this option.	Allows for implementation of the first modality, which does not normally require any regulation, but depends on voluntary actions and external (CSO) support and initiative. Cannot ensure implementation of other preferred modalities.
	Q2	Generally positively both within SAO and the government stakeholders.	Generally negatively with both the SAI and the government stakeholders.	Generally positively with SAI, less positively with government stakeholders.
	Q3	Voluntary aspect makes it clear that solutions that do not require any degree of regulation could actually impede more meaningful interaction.	In a generally administrative culture, the lack of regulation increases the likelihood that the modality is not given adequate priority or that it will not be implemented once it is agreed.	Poorly – in the Serbian legal and administrative culture it is widely considered that most new practices need some degree of regulation, otherwise they will not happen.
	Q4	N/A	N/A	N/A
Option 2: *Soft Law Approach*	**Q1**	The soft law approach is preferred among relevant stakeholders in the implementation of modalities. The fourth modality can be implemented (or strengthened given that there is an actual obligation to consult independent reports when conducting evaluation) through the introduction of a manual for cooperation which would provide more detailed guidance on how to incorporate findings from performance audit reports when practicing policy evaluation.	Currently, the level of development of policy evaluation and the focus of performance audit in Montenegro do not render the soft law approach adequate.	It would not cover the first modality, as it does not need regulatory action. The second modality can be implemented only with a formulation of internal SAI recommendations related to the scope and target of PA and the ensuing increased focus on performance systems and policymaking processes. The fourth modality is not likely to be implemented through the soft law approach.
	Q2	There is no resistance among stakeholders towards the soft law approach. However, it is clear that there is a need for more capacity building on both sides in order for the soft solutions to work. Extensive trainings and capacity building/ HR development are necessary. Furthermore, informal dissemination should be used.	There is no resistance nor explicit approval of the soft law approach among stakeholders. They do not object, but also fail to see the benefits for their respective work by implementing this option, and therefore, do not "own" the option but would implement it on paper if it was required of them by a higher instance (the EU).	There is no resistance among stakeholders on either side in applying the soft law approach. However, there is no obligation for SAI to participate in any activity initiated by the government bodies. In that sense, this approach would be based on the voluntariness and flexibility of the SAI management and staff.

		Macedonia	Montenegro	Serbia
Option 2: *Soft Law Approach*	**Q3**	In the administrative culture where the introduction of new solutions into the system requires a certain amount of time to work and there is a need for more capacity building and learning, soft instruments do not necessarily deliver the results that are intended.	The use of soft law approach in Montenegro to arrange inter-institutional relations generally signals the intent or obligation to implement something, without the real intention of following through and establishing a new practice. An additional problem that was registered is possible inconsistency that would exist due to the different actors developing their own guidelines.	In general, soft law is not a good instrument in the Serbian legal and administrative culture, and frequently fails to deliver results. A sense of obligation is usually needed to ensure results, although an active implementation monitoring role by a specific body can help. A government-adopted guideline document, monitored by the competent centre-of-government institution could, therefore, produce results.
	Q4	This option can be implemented in the medium term with technical assistance.	This option could be implemented in the medium term, but stakeholders on both sides would need the expert assistance from the civil society organisation that has raised the initiative.	Yes, especially given that soft law documents produce less reaction and resistance from within the conservative elements in the administrative system.
Option 3: *Hard Law Approach*	**Q1**	As this option is not preferred, implementation through this option is not considered.	Application of this option would most likely ensure implementation of the fourth modality, except for the first which does not require a hard law approach.	Apart from the first modality, this option would be the one most likely to ensure the implementation of the other preferred modalities (2 and 4).
	Q2	Soft law approach is preferable among stakeholders both in the administration and within the SAI.	There is no resistance to the hard law approach among stakeholders in Montenegro, but rather an ambiguity related to the selection of a preferred modality.	It resonates well within both the government and the SAI. The opinion of the stakeholders is that for any solution to be implemented with certainty, hard regulation is required.
	Q3	Given the highly regulatory culture, this would be the preferred option on this criterion.	Given the highly regulatory culture, this would be the preferred option on this criterion.	Given the highly regulatory culture, this would be the preferred option on this criterion.
	Q4	Yes, if extensive capacity building and trainings for the staff engaged in policy evaluation are implemented.	Hardly likely due to the complex processes of getting new legislation on the agenda, if it is not directly required by the EC and the negotiation process at the moment, in exactly this form of hard law approach.	If the currently ongoing process of adopting the Law on Planning System and its bylaws (methodologies) is not stopped by a lack of political will or the announced general elections, it is feasible.

Out of the three proposed option for the implementation of modalities, the one that stood out as the preferable one in the discussions with stakeholders in Montenegro and Serbia, is the Hard Law Approach, i.e. the one requiring binding regulatory activity. The reasons for this preference are discussed previously in the study and pertain to the legalistic administrative cultures. Highly regulatory cultures focus on binding solutions as the foundation for any action. Conversely, in Macedonia, the Soft Law Approach has been the preferred one among the stakeholders. Justification for this choice is found in the opinion of stakeholders from Macedonia that some of the modalities are already in place, at least partly. Therefore, what is necessary is not a new binding provision, but the improvement of the existing solutions, such as the requirement of the Methodology for ex-post evaluation to consult the reports of independent bodies.

As was expected regarding the modalities for establishing a link between PA and policy evaluation, not all of them are preferable or even possible to implement. In Montenegro, there is an ambiguity among stakeholders when it comes to selecting a single preferred modality and the only modality that did not raise considerable objections was the first one. In Macedonia, the most preferred one is the first modality due to the early stage of development of policy evaluation. At the same time, second preference is given to the fourth modality due to the already institutionalised requirement to consult reports of independent bodies in legislative evaluation. However, before full acceptance of this modality there is a need for extensive capacity building for evaluation. In Serbia, the second and the fourth modality received the most praise. The second was well-received in the SAI owing to the readiness of the Performance Audit Sector of SAI to further develop its own work. Still, whether or not implementation of this modality is feasible will depend on the SAI Council as the decision-making body. The fourth modality was also well-received among all stakeholders, particularly having in mind the first steps in the introduction of the evaluation system in Serbia through PPS. However, this modality faces two conditions – the necessity to 1) establish a system-wide evaluation system, and 2) improve and further develop performance audit work of SAI.

7 CONCLUSION AND POLICY RECOMMENDATIONS

The authors of this study have raised the question of the possibility of establishing links between performance audit and policy evaluation in the three Western Balkan countries that are in the process of EU accession – Macedonia, Montenegro and Serbia. Argumentation was based on two driving factors. Firstly, while the complementarity and the similarities between the two fields have been emphasised in international literature, they remained understudied in comparative practice in the context of the Western Balkans. Secondly, the EU accession process itself requires acceding countries to develop effective performance audit and policy evaluation functions for the purposes of achieving greater effectiveness of the public sector delivery. The authors gave an analytical insight into the development, functioning and consequences of performance audit and policy evaluation alike for each of the countries. This was done not only for the purpose of describing the local contexts and the nascent nature of these two functions, but also in order to research the possibilities of creating synergies and links between the two fields, for the benefit of better performance of the public sector and policymaking that is enrooted in credible evidence and analysis. On the basis of this analysis, the authors examined the current state of interaction between these two functions, as well as the related obstacles and opportunities. Moreover, the study incorporated elements of six case studies (EU Member States), and their experience and practice in linking performance audit and policy evaluation. This was added in order to provide a body of evidence for constructing the modalities of interaction between the two functions, as well as the options for implementing the preferred modalities. Modalities of interaction and implementation options were developed so as to present multiple choices in terms of their complexity and types of policy instruments required for implementation. In this final chapter, we draw general concluding remarks, followed by general recommendations focusing on commonalities and identified parallels in all three countries. Finally, we offer specific recommendations for each country, based on interviews, discussions and own insight, in order to account for the specific Macedonian, Montenegrin and Serbian local contexts.

7.1 Concluding Remarks

Performance audit and policy evaluation have different origins with regards to the disciplines they evolved from, but the question of their relationship started to emerge in the advent of transformations in the public sector philosophy a few decades ago. This change was reflected in the efforts to make the public sector more performance-oriented, and outlining conceptual, institutional, as well as methodological similarities and differences between performance audit and policy evaluation has become a part of the academic agenda. While some of the differences, such as the institutional ones, have remained undisputed, discussions on conceptual similarities are still ongoing. Similarities are found in the general purpose of both processes, which extends beyond the improvement of accountability and enters the policy learning arena. Additionally, the possibility to apply similar tools and methods in their work, emphasised by a number of authors, builds on the conceptual similarities and highlights another connecting point. While the actual influence of performance audit on policy learning depends on the respective administrative culture and approach of local SAIs, there seems to be an agreement that both performance audit and policy evaluation should also serve to improve policy results.

There are no predefined concepts leading towards the creation of links between performance audit and policy evaluation. As can be seen from the case study examples, the applied approaches are mainly contextually driven in order to satisfy domestic needs and complement institutional arrangements, taking into account institutional memory and the administrative culture. In that sense, the Western Balkan countries will have to look into these (in)variables, while at the same time learning from past experiences. However, parallels between Macedonia, Montenegro and Serbia shed light on a few aspects of performance audit and policy evaluation that need to be considered before proposing recommendations.

Namely, in order to establish links between performance audit and policy evaluation it is useful to consider the differences between government and performance audit planning. Government priorities could be observed more closely by SAIs during the process of planning performance audits. However, in the current circumstances, when performance audit experience and orientation differ across WB countries (focus on institutions, specific sector/programmes or horizontal issues), and policy evaluation practices differ in terms of their institutionalisation and focus (project, programme, or legislation), each country would have to approach the matter of "aligning" agendas at

both ends and take domestic nuances into account. The question which remains is in what way and to what extent should audit planning monitor government priorities when SAIs have their own risk assessments and methodologies for selecting the audit topics. Furthermore, low quality of strategic and policy planning would hamper the efforts to "align the agendas" in the sense that it would prevent the SAIs from having a clear understanding of government priorities and how public administration organisations measure and monitor results.

Moreover, independence is a critical feature safeguarded by the international audit standards, and one of the major concerns of SAIs in the studied Western Balkan countries. It was made evident by the interviewees from SAIs that independence in organising their audit work is crucial for the credibility of the external audit function and their institutional integrity. In general, however, there is support for the idea of bringing performance audit and policy evaluation closer together, as long as this relation does not thwart institutional roles. In some cases, there are already visible traces of how these relations could be established without questioning the independence of SAI and its neutral position, as could be seen in the example of the Methodology for ex-post evaluation in Macedonia. It could be hypothesised that the concern over independence is influenced by the need to reiterate the distinct position and status of SAIs, since these are (relatively) new institutions in the studied WB countries.

Consequently, the need for mutual learning and institutional awareness raising is pending and equally relevant, regardless of the differences in their experience, for all three countries studied. Perceptions of stakeholders are influenced by limited experience in communication, hence, they have resulted in a narrower understanding of each other's roles among performance auditors and representatives of public administration bodies alike. Given that support from within the relevant institutions is key for the sustainability of any links created between the two fields (regardless of the modality or the approach chosen), it is crucial for the institutions in charge of performance audit and policy evaluation to communicate with each other. That communication should focus on covering their objectives, approaches and the tools they apply, so as to get the most out of potential synergies. Two major conditions need to be met as the first step in the establishment of connection: 1) raising the awareness among stakeholders that performance audit is crucially different from financial and compliance audit, and 2) acknowledgment by the SAIs that policy evaluation is a complementary activity in improving public sector performance.

Finally, complementary policy developments in the respective countries could provide a solid foundation for identifying points for interaction and

thus facilitate synergies. Several interviewees emphasised the importance of performance-based budgeting (or programme-based budgeting), both in the context of policy evaluation and performance audit. They considered it as an important precondition supporting development and quality in both of the fields we have studied. The logic is clear: the programme budget is the only government document which fully connects goals and indicators with financial resources in a binding manner, and whose execution is regularly monitored. While the programme budget is officially introduced in all three WB countries, there are efforts to improve its implementation. If properly implemented in all three WB countries, the programme budget could, in the future, represent a strong connecting point between PA and policy evaluation, as professionals in both fields should seek to analyse and compare budget information with other relevant sources of data and information. Similarly, the reform of the official statistics systems and the resulting improvement of the availability and quality of data was particularly emphasised as a critical condition for making progress in any area which requires the measurement of performance against set indicators.

7.2 General Recommendations

The SAIs are autonomous in deciding the performance audit agenda and should be able to decline any requests coming from external actors. Nevertheless, "maintenance of the SAI's independence does not preclude requests to the SAI from the executive, proposing matters for audit."[290] The institutions in charge of establishing and coordinating the policy evaluation system could potentially be a useful source of information for the identification of performance audit topics, based on the focus and findings of evaluation reports, which could then result in the establishment of a meaningful link between PA and evaluation. As the case studies have shown, it is not uncommon for SAIs to examine policy evaluation reports sent by policy units in the ministries.

Recommendation to SAIs:

- It is recommended that SAIs monitor the developments in the area of policy evaluation and collect and analyse information about the conducted evaluations, as part of their PA planning methodologies and procedures. Information from evaluation reports could indicate risks and uncertainties in the execution of government programs as well as a lack of reliable data. This in turn, could increase the need to take up performance audit.

[290] ISSAI 3000, 44.

Recommendation to governments:

- To ensure that SAIs are better informed about the ongoing and completed policy evaluations, the policy units and/or centre-of-government institutions in charge of the evaluation systems could be obliged or recommended to regularly send such updates to SAIs.

As suggested by ISSAI 3000, performance auditing may differ in approaches and it should not be streamlined, in order to preserve its creativity and flexibility.[291] The EU practices have shown that it is up to individual SAIs to decide which approach is to be applied and what are the goals of individual performance audits. The research has revealed significant differences between the countries – both EU and WB ones – in the orientation of PA towards single institutions and specific programmes, or towards more horizontal, system-wide issues. At the same time, a shift in focus towards systemic issues could be beneficial in terms of avoiding the "name and blame" game or pure accountability checks, and instead ensuring a better understanding of the underlying policy problems. A systemic focus of PA can, thus, increase the level of usefulness of performance audit reports for the improvement of policy implementation, i.e. for policy evaluation, and render them more relevant for policymakers and the overall policy cycle.

Recommendation to SAIs:

- SAIs should devote a part of their performance audit work to system-oriented issues or causes of failures of policy implementation. Such audits could examine the existing performance measurement systems and approaches, provide recommendations for improving them, and lead to the creation of more systemic approaches to policy monitoring, as well as policy evaluation.

The study has shown that the deadlines for follow-up in the performance audit process do not differ from those in compliance and financial audits in the studied countries. In order to facilitate meaningful and real policy learning, it is important to consider extending deadlines and approaching the follow-up to recommendations in a significantly different manner, given that recommendations of performance audit reports usually tackle issues which go beyond compliance and institutional procedures, requiring more systemic and policy-based interventions.

[291] Ibid., 29.

Recommendation to SAIs:

- It is important to establish follow-up mechanisms for monitoring the implementation of performance audit recommendations, which are distinct from other types of audit and sensitive to specific approaches of the three SAIs and to the stakeholders' needs in these countries.

A recurrent obstacle for establishing a link between the two processes is found in rigid existing ties between SAIs and public administration bodies, where auditees feel they are in a position to only account for potential mismanagement. While fully applicable to Western Balkan countries, this obstacle is also common for the EU case studies. Increased communication throughout the performance audit process could increase the sense of ownership of the performance audit reports among the stakeholders, which would consequently "contribute to better knowledge and adequate improvements."[292]

Recommendations to SAIs and governments:

- Stakeholder consultations among auditees and performance auditors should be organised as often as possible, before the audit starts and throughout the stages of the performance audit process, provided that the independence of SAI remains intact. It can help stakeholders understand the concept and the goals of performance audit, and respond to performance audit requirements in a more meaningful manner;
- The process of preparation of the final performance audit reports should be made inclusive by including the concerns and remarks of the auditees, in collaboration with performance auditors. The focus should be less on procedural aspects, and more on the substantive aspects of communicating findings.

Systemic ex-post policy evaluation (targeting policy programmes, instruments etc.) is still to be fully introduced into the administrative systems of all studied WB countries. This, however, does not prevent potential efforts to address performance audit reports, specifically in different stages of the policy cycle.

Recommendation to governments:

- Consulting performance audit reports should be applied in the work of ministries and other administration bodies in the process of designing and evaluating policies, taking into account country-

[292] ISSAI 3000, 72.

specific conditions. The first steps in this direction have been taken in Macedonia through the Methodology on ex-post evaluation and the consultation of reports of independent agencies – "In the process of ex-post evaluation the ministries acquire information from all the independent bodies that perform external evaluation of the level of successfulness of the policies and the efficiency of the regulations." In Montenegro, the first traces are found through the Action plan for the implementation of SAI recommendations and the Coordination body which is in charge of monitoring. However, the need to consult performance audit reports specifically should be emphasized and integrated into current and future reform processes, especially performance management-related reforms, including policy planning and management reforms.

The evaluation structure in the studied countries is either missing (Montenegro, Serbia) or the focus is put on legislation (Macedonia). Major efforts still need to be made for the introduction of a clear ex-post *policy* evaluation structure, with clear competences and division of duties.

Recommendations to governments:

- The formal requirement for ex-post policy evaluation should be clearly emphasized by the legislation (primary or secondary), stipulating general types of ex-post evaluations to be performed, level at which they will be conducted (policy, budget programme, law, etc.) and their scope and frequency;
- It is recommended to transfer evaluation competence to a single institution at the centre of government. This institution would not be in charge of conducting evaluations, but acting as the "driving engine" behind the development, implementation, oversight and quality assurance. This institution would assign roles and responsibilities to lower tiers of the evaluation structure. A clear hierarchy of competences would facilitate monitoring the functioning of the evaluation system.

7.3 Specific Recommendations for Macedonia

The main challenges for performance audit in Macedonia are: improving the quality of performance audit, introducing mechanisms for monitoring the implementation of the recommendations, and generally raising awareness among the institutions regarding the role of performance audits. As for the ex-post evaluation, there is a need to gradually increase their number and to enhance the capacities for policy evaluations in the ministries.

Therefore, it is recommended to SAO to:

- Continue and intensify the process of increasing the number, quality and visibility of all conducted performance audits;
- Monitor the existing obligations of the ministries to publish on their websites the plans for conducting ex-post evaluations (for 2 laws per year);
- Increase the cooperation with the parliamentary committees (especially the Finance and Budget Committee). In addition to this, there is a need for strengthening the oversight capacity of the Parliament, especially with regards to deliberation on performance audit reports.

It is recommended to the government and other administration bodies to:

- Gradually introduce the concept of programme-based budgeting, including performance indicators and objectives. This would allow the performance audit to focus on efficiency and effectiveness in comparison with the planned goals, and evaluation of the taxpayers' value for money;
- Implement capacity building activities with the goal of enhancing the capacities of the ministries for conducting policy evaluation, especially gathering data and data analysis, which includes analysing the findings of the relevant performance audit reports. In this regard, it is necessary to improve the communication and cooperation between SAO and the units in charge of policy evaluation in the ministries, especially the Ministry of Information Society and Administration (MIOA), as it is the key institution responsible for the process of introducing policy evaluation;
- Gradually increase the number of ex-post evaluations while improving their quality, taking into account the lessons learned from the earlier policy evaluations;
- Improve the process of follow-up for performance audit reports, with a greater focus on embedding the lessons learned in the policy cycle.

7.4 Specific Recommendations for Montenegro

Considering the long road ahead of Montenegro regarding developing and reaching full potential of policy evaluation and performance audit, it is especially important to ensure a correlation between the priorities, objectives, form and structure of these reports. In order to achieve

progress in these areas, a multifaceted set of reforms is needed. An analysis of policy options and the stance of main stakeholders towards different modalities of cooperation and coordination, shows a high degree of mistrust and low level of understanding of each other's work. Before having more advanced forms of cooperation, thorough reforms are needed in both PA and PE, as well as gaining common ground in terms of mutual communication and trust. Additionally, there are horizontal issues that deal with the development of the medium-term budget planning, performance budgeting and policy coordination that should be dealt with for a proper development of both PA and PE.

Given that Montenegrin stakeholders did not clearly opt for any of the proposed modalities of establishing interaction between PA and PE, we propose recommendations which would first ensure that these two fields achieve a level of development where they are recognisable in their respective and each other's professional communities, which would ensure a better understanding of each other's roles. The first step in this direction is to provide a channel of communication between performance auditors and civil servants who deal with policy evaluation.

Regarding performance budgeting, the Ministry of Finance should in the short term:

- Establish a separate Programme Budgeting Unit, which will be tasked with the development and technical support to spending units in terms of defining the non-financial elements of programme budgeting, and offering training programmes in the future;
- Prepare an action plan for implementing the programme budgeting for a three-year period, in which special attention would be given to the plan of developing the non-financial elements of programme budgeting and to the programme objectives and indicators in several pilot institutions.

Regarding policy evaluation development, the short term priorities should be:

- Adopt amendments to the Government's Rules of Procedures and formally make ex-post policy evaluation obligatory;
- Identify priority areas for evaluation in the Government's working plan, or in a separate document which will be prepared by the General Secretariat of the Government (GSG) in cooperation with the policy units in the ministries;

- Improve the capacity of the GSG, since this body could potentially be the administrative and professional core of providing support to other policy units related to policy evaluation;
- Ensure that existing experience with RIA is used as the basis for developing ex-post evaluation; units in ministries that implement RIA and evaluation of the IPA funds could be trained for the implementation of policy evaluation;
- With expert support, formulate methodological guidelines for policy evaluation which could also define how to use the findings of the performance audit in these processes.

Regarding the further development of performance audit, the short to mid-term recommendations are:

- Performance audit department should be strengthened regarding human resources, both in terms of the size and the type of personnel;
- The number of positions systematised for the Performance Audit Department should be increased, namely, doubled. Therefore, the decision on the amendment of the Regulation on systematisation and internal organisation should be adopted by the SAI Senate;
- The Law on SAI should be amended in order to allow professionals with a background in fields other than law and economics to gain the state auditor certificate, and thus provide the needed basis for a multidisciplinary approach in performance audits;
- In the mid-term period, the SAI should make a transition from institution-based to policy-based performance audit, moving further away from the patterns of financial and compliance audit;
- Government's Coordinating Body for monitoring the implementation of SAI's recommendations should expand its remit in order to include performance audit as well, and report quarterly on what has been done to implement the recommendations;
- SAI should do more to follow up on the implementation of its performance audit recommendations, mainly through monitoring the work of the administration, and making public all of the documents received from the auditees, such as the plan for implementing the recommendations and follow-up reports; follow-up audit on the performance audit reports should be mandatory, however, this should be granted a longer time for implementation compared to financial and compliance audits, whose recommendations require less time to be implemented;

- SAI should adopt a methodological manual for formulating the recommendations and policy options, in order to make them more operative and avoid hitherto experienced problems of vague, abstract or non-implementable recommendations;
- SAI should amend its methodological guideline and practice in order to be more extensive, and devote more time to discussing and shaping the preliminary performance audit report and its recommendations in cooperation with all relevant auditees, as well as the related institutions before its final adoption;
- Parliamentary Committee for the economy, budget and finance should review each performance audit report at a separate session, and engage in monitoring the execution of the action plan for implementing the SAI's recommendations.

For first steps in establishing the link between PA and PE, it is necessary to:

- Improve communication between the policy units in the ministries and the GSG on one hand, and the Performance Audit Department of the SAI on the other. This could be done through regular consultations or online communication through interactive tools and instruments;
- Amend SAI's procedure for formulating the annual audit plan, with the goal of creating some alignment with the Government work plan, but without infringing on SAI's constitutional independence. This would mean that performance audits could be planned in policy areas where more radical changes are planned by the Government in the coming period, where systemic legislation will be changed or amended, or where restructuring of the institutional framework is planned. That way, the results of PA reports could directly feed into the policy formulation stage and serve an evaluative purpose.

7.5 Specific Recommendations for Serbia

In the discussion of the implementation of modalities with stakeholders, three of them stand out as the most preferable ones – modalities 1, 2 and 4. In this section, recommendations for the implementation of these modalities are provided. For the reasons discussed in the evaluation of implementing options for Serbia, the hard law approach is held as the most appropriate one for establishing links between performance audit and policy evaluation, especially for the implementation of modality 4. At the same time, modality 2 is more suitable for a soft-law

approach, whereas modality 1 cannot really be regulated and could only be achieved through voluntary actions of performance auditors, policy evaluators, and interested third parties (civil society, technical assistance projects, etc.).

Recommendations for the implementation of preferred options are designed in a way as to emphasise who is called for intervention, SAI or government bodies, as well as to propose the time needed for their implementation.

7.5.1 Recommendations pertaining to the first modality of establishing interaction

Currently, there is a lack of communication between performance audit and policy evaluation, i.e. performance auditors and civil servants whose tasks relate to policy evaluation are mostly unaware of each other tasks and roles, and, consequently, of the potential impact that mutual communication would entail. Stakeholders expressed that the first modality of cooperation is the most feasible one, since it does not require implementing regulations.

Short-term recommendations to SAI:

- It is recommended that SAI of Serbia launches an overall performance audit promotion campaign. This could be done through the existing channels of communication (media and online presentation) or through specifically tailored tools, such as a subdomain for performance audit within the SAI official internet presentation, promo materials, public events for raising awareness of performance audit in general or specifically focused on meetings with policy evaluation-related units and institutions within the administration;
- SAI of Serbia should use existing institutional connections with the National Assembly to promote the PA function and its importance for the improvement of policy design, implementation and effectiveness. In particular, this could be done through the Committee on Finance, State Budget and Control of Public Spending or, more specifically, the Subcommittee for the Consideration of Reports on Audits Conducted by the SAI. Relevant stakeholders from the public administration should be invited to participate in sessions of the committees;

Short-term recommendations to SAI and government:

- It is recommended to the SAI, Public Policy Secretariat, as well as civil servants engaged in policy analysis tasks, to join and participate in domestic and international professional bodies and discussion forums on evaluation in the broadest sense. Participation in such venues could ensure a better mutual understanding, sharing of practices and experiences, and result in stronger professional bonds between the two fields.
- It is recommended to the SAI of Serbia and relevant state authorities to participate in the events and project activities of civil society organisations which promote public sector performance (policy monitoring and evaluation, performance-based budgeting etc.).

7.5.2 Recommendations pertaining to the second modality of establishing interaction

The potential of SAI to contribute to the development of an evaluation culture through its performance audit function is currently not recognised. In order to stress this potential role of SAI, it is necessary to consider changes in the way performance audit work is done, especially in the early stage of development of this function of SAI.

Mid-term recommendations to SAI:

- It is recommended that SAI of Serbia issues internal guidelines related to the scope and target of performance audit, which would include performance management systems and policymaking processes as potential topics for PA. Implementation of this could be achieved either through the adoption of a separate internal document of SAI, which explicitly contains such provisions, or through the amendments of the SAI manual on performance auditing. This should be done in close consultation and with participation of the Performance Audit Sector;
- SAI of Serbia should adopt and make available an internal instruction or methodology for planning performance audit, outlining a wide range of tools and methods for the implementation of PA. This would strengthen the evaluative aspect of performance audit and make SAI a relevant actor in the promotion of the evaluation culture and related practices;

- ✦ The Law on State Audit Institution should be amended so as to allow for:
  - Engagement of professionals of multiple disciplines in audit work.[293] Entry requirements should be tailored to suit the specific needs of individual sectors. In this case, the Performance Audit Department should be allowed to employ professionals of any field relevant for the performance audit function, including a range of social science disciplines or even wider;
  - Follow-up to SAI recommendations which takes into account the stakeholders' needs, in terms of the time needed to address policy and systemic issues which those recommendations often tackle. Strict timeframes for implementation might cause poor implementation of more systemic and strategic recommendations.[294] A PA-specific mechanism for communicating with auditees regarding the implementation of recommendations could also be introduced. This could include the development of action plans for implementation by the auditees, in a consultative and iterative process with the SAI.
  - Exemption of PA from the possibility to file requests for (misdemeanour and criminal) proceedings. Although this has not been the practice of the Performance Audit Department so far, such a legislative change would provide a positive signal to government stakeholders that PA is conceptually different from financial and compliance audits;
  - In essence, an overall clearer distinction between PA and other types of audit.[295]

7.5.3 Recommendations pertaining to the fourth modality of establishing interaction

The utilisation of audit reports by the public administration bodies in policy development is exceptional and rare. In the case of PA, we cannot even speak about such practice yet, given that only two reports have been published so far. In order to incorporate PA findings into

[293] Currently, from the perspective of making synergies between performance audit and policy evaluation, staff recruitment is narrowly focused on experienced individuals in the field of (traditional) audit through the state exam (Article 28 of the Law on State Audit Institution).
[294] Article 40 of the Law on State Audit Institution, prescribes that SAI can require response reports from auditees in the period between 30 and 90 days, which may diminish the possibilities for implementing more demanding performance audit recommendations.
[295] Article 2 of the Law on State Audit Institution presently defines than clearly distinguishes between audit types.

policymaking in a meaningful manner, new solutions are needed in the evaluation domain.

Short-term recommendation to government:

- Draft legislation on the planning system in Serbia should contain a clear provision indicating policy evaluation as the integral part of the policy cycle. Consultation with the Ministry of Finance, as well as with the State Audit Institution, is deemed valuable in order to adapt the newly introduced mechanisms to the important existing processes, such as performance audit and programme-based budgeting;
- The bylaw on methodology for policy management, impact assessment and content of policy papers (which includes ex-post evaluation) should explicitly state at what point of the process, and in what way do the PA reports need to be addressed, provided that PA has been conducted in a respective policy area. More specifically, in conducting policy impact assessments, it should be made obligatory to check and make notes on whether SAI recommendations have been implemented, provided that PA has been conducted for the policy domain in question;
- Public administration bodies should be obliged to disseminate evaluation reports to the Performance Audit Department of the SAI of Serbia, so the auditors could familiarise themselves with the ongoing evaluation work and the results achieved so far. More precisely, public sector units responsible for the coordination of evaluation should disseminate these reports to SAI once they are completed and submitted. This should be stipulated by the bylaw which regulates the methodology for policy management, impact assessment and content of policy papers that is currently being drafted, or by the legal act introducing a binding ex-post policy evaluation requirement once it is adopted by the government.

Mid-term recommendation to government:

- In the mid-term, policy evaluation needs to be systemically developed, which would include institutional changes at the level of each ministry, as well as a set of procedures and processes for conducting policy evaluation. There is a need for an institution which would be in charge of steering and monitoring the whole system, as well as coordinating, especially when the policy evaluation system is newly introduced. The Public Policy Secretariat is seen as an institution at the centre of the government, which would naturally initiate and later on coordinate the evaluation structure at the

systemic level and perform quality assurance of the system. Therefore:

- A government decision on establishing a system-wide ex-post policy evaluation requirement should be made and materialised;
- In the process of drafting policy evaluation requirements, necessary consultations and coordination between all relevant institutions should be made, i.e. ministries in charge of public administration, the ministry in charge of finance, and other institutions at the central level of importance such as the SEIO and the PPS;
- PPS should be assigned the leading role in the evaluation structure owing to the competences of this institution in facilitating policy making and coordination at the central level, as well as connecting strategic planning and budget programming. Competences should include assistance to public administration bodies (especially in the formative years of evaluation), monitoring and reporting to the government;
- More detailed elaboration on the evaluation system and its necessary elements should be made through the adoption of a regulation by the government, prepared through the assistance of the PPS. This secondary act would be a backbone of the evaluation system which derives from a more general requirement prescribed in the law, distinguishing between evaluations types and tiers in more detail. This piece of legislation would clearly state the duties and competences of PPS, as well as those of the units/organisations conducting evaluation;
- Government guidelines for evaluation should be adopted, defining the main mandatory features of the evaluation process. Moreover, in drafting the guidelines, it would be useful to include professional opinions of the SAI Performance Audit Department and, consequently, start creating synergies. The monitoring of implementation of these guidelines should be delegated to the PPS, with responsibility for the overall policymaking reform, which could in turn inform not only the government, but also the SAI on the state of performance in the public sector annually.

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ANNEXES

Annexe 1 – Methodology

This research relied on a qualitative methodology, i.e. thematic analysis of documents and interview data. The researchers in the three country teams had employed two parallel research strategies depending on the case studies concerned. The three case studies of the Western Balkans were subject to comprehensive explorative research of the processes of performance audit and policy evaluation, as well as the link between the two. The EU countries studied were analysed for lesson drawing purposes with a more targeted approach and with a limited scope. This annex briefly outlines the methods of data collection and analysis employed in the study.

Data collection

Desk research

For the conceptual approach policy and academic literature on performance audit and policy evaluation, as well as on the link between the two processes, was consulted. A common reference list of key articles was compiled and shared among the researchers from the three teams. For the purposes of data collection in the three Western Balkans case studies, each country team relied on a common set of sources of data collection. These included:

- Relevant legislation;
- Strategic documents on performance audit/ policy evaluation in the specific countries;
- Performance audit reports;
- Reports on policy evaluation;
- EU guidelines and recommendations on performance audit and policy evaluation;
- EU progress reports;
- SIGMA reports on Public Expenditure Management and Control (external audit) and Policy Making and Co-ordination (policy evaluation).

A similar set of documents (albeit less extensive) was consulted in the case of the EU member states studied.

Field work - semi structured interviews

In order to supplement the findings from the desk research, we have conducted 54 semi-structured interviews with stakeholders in all of the countries studied (list of interviewed institutions in Annexe 3). In the Western Balkan case studies, the interviews were conducted face to face, whereas in the EU countries the researchers interviewed stakeholders via Skype. The interviews in all countries were conducted using the same interview guide, which was developed in cooperation with the three research teams (see below). The research guides were slightly adapted and shortened for use in the EU countries.

In addition to supplementing the findings of the desk research, the interviews were essential for this research since the understanding of both processes studied among the interlocutors set the basis for devising policy options and recommendations. Moreover, in the last phase of the research, the interviews were also used for testing the policy options of the study, i.e. checking for the level of acceptance among key stakeholders. Our interviewees include:

- Staff from state audit institutions that have engaged in performance audit;
- Staff from the institutions at the centre of government, in charge of horizontal overview of the policy making process (for example, Public Policy Secretariat in Serbia);
- Staff in policy analysis/evaluation departments;
- Staff in the institutions which were subject to audit;
- International staff that has acted as expert support through projects to both SAIs and policy evaluation departments;
- External evaluators.

The interlocutors were selected from SAIs and ministerial departments responsible for policy analysis and evaluation through a combination of nonprobability purposeful sampling and snowballing technique. The sample of the potential interlocutors is very small and hence random sampling was not an option for this research. The focus was not only on appointed officials, but also civil servants that hold expertise relevant for the research. While there are limitations to these sampling techniques, the researchers encompassed a variety of stakeholders in the interviews and ensured that all relevant elements of

the performance systems in the three countries are represented in the sample. The first interviewees were the state auditors/civil servants in policy evaluation departments. This sample of interviewees has provided us with enough background information (technical details), assessment of both processes studied as well as the relationship between them.

The interviews were subject to detailed note taking so as to ensure consistency in the analysis. The notes were prepared in native languages of the respective countries, as all of the researchers are fairly familiar with each other's languages for the purposes of consultation. They were identified solely according to the position of the individual relevant for the research. Access to the interviews was only available to the research teams of the project.

Data analysis

The basic approach of this study is qualitative because "it seeks to understand the experiences and practices of key informants and locate them firmly in context".[296] In light of the research question and the need for in-depth analysis of both cases, this study is based on a case oriented research, as it seeks to understand complex units.[297]

The data collected from documents and interviews were subjected to thematic framework analysis. On the basis of the data collected the researchers set common themes which were used for analysis of the specific case studies. In our analysis, we study the impact of the context in which an organization operates, allowing more leeway in developing policy proposals. At the same time, we use the distinction between the formal (legal) and substantive aspects of the processes and policies studied. The discordance between the two, i.e. a *de jure* and *de facto* situation, has been a key theme in our analysis, not surprising because of the novelty of many of the processes and policies studied.

The documents and the interview data have served different purposes in the analysis. First, the primary documents (audit reports, evaluation strategies etc.) were used to set the formal aspects of performance audit and policy evaluation. They set the context and modalities of performance audit and policy evaluation in the Western Balkans countries, while providing potential lessons from the EU countries studied. The document analysis also served as a baseline for studying

[296] Fiona Devine, "Qualitative methods," in *Theory and Methods in Political Science*, ed. D. Marsh and D. Stoker, (New York: Palgrave Macmillan, 2002), 197-215.
[297] Donatella della Porta, "Comparative analysis: case-oriented versus variable-oriented research," in *Approaches and Methodologies in the Social Sciences*, ed. D. Della Porta and M. Keating (Cambridge: Cambridge University Press, 2008), 198.

the positioning of both performance audit and policy evaluation within the broader policy cycle of the case studies.

The data from the interviews has provided insight into the substantive operation of the studied processes, as well as the link between performance audit and policy evaluation in practice in all countries studied in the research. In addition, the understanding and positions of the interviewees in both the SAI and the state administration, were, in fact, a key element of the analysis and crucial for our recommendations and analysis of policy options. Hence, as a last step in this research, the policy options were discussed with the stakeholders in order to assess the likelihood of their acceptance. Reliability was ensured by using data gathered both from secondary sources and from document analysis and interviews.

Annexe 2 – Semi-structured questionnaire

General guiding questions for SAI staff

1. When and why was performance audit introduced in the country?
   - 1.1. Is there a separate unit within the SAI conducting performance audit?
   - 1.2. How equipped is it technically and personnel-wise? Is this sufficient?
   - 1.3. Are there special training/qualification requirements in order to work in performance audit?
2. How do you prepare the annual programmes for performance audit?
3. Do audited organizations generally cooperate with performance auditors?
4. What are the major challenges you have encountered in your work?
5. What have been the most common responses to the reports (public response, institutional in terms of Parliament, audited institution etc.)?
   - a. Are the recommendations from the reports implemented?
   - b. Are there mechanisms for monitoring implementation?
6. What kind of impact do you think performance audit has or had in the country?
7. What measures do you think should be taken to improve performance audit in the country?
8. Have you been through any training on policy evaluation in general?
   - 8.1. If yes, are you familiar with the concept of the policy cycle?
   - 8.2. If no, show and explain graph. Where do you see your work fitting in the policy cycle?
9. In your opinion, is there a link between your work and policy evaluation?
   - a. If yes, elaborate.
   - b. If no, why?
10. What do you see as the key contributions and differences between the two processes?

11. Should there be a link between performance audit and policy evaluation overall?
12. If yes, are there any ways in which you think the link between the two can be improved?
13. Would you say that the performance auditing has led, or that it could, lead to improved governance in the respective country?

Additional (optional):

14. Has the SAI received foreign assistance for the purposes of introducing or developing the performance audit methodologies and practice? Which EU member states have been involved in the TA?
15. What usually happens after the performance audit report is published in terms of responses from the audited institutions?
16. How would you assess the fit between performance audit and the institutional and political culture in the country? (optional depending on the interviewee)

General guiding questions for staff of evaluation departments

1. How long have you been doing policy evaluation?
2. What kind of preparation have you had for the purposes of policy evaluation?
3. What are the primary guidance documents you use in the policy evaluation?
4. What are the major challenges you have encountered while conducting policy evaluation?
5. What would you say is the role of the policy evaluation reports in practice and what should it be?
6. Have you ever used information/reports from the SAI in policy evaluation and how?
7. What about specifically performance audit reports? If yes, how? If no, why?
8. What did you think of these reports and was there something missing in order to increase their use for policy evaluation?
9. How applicable are the recommendations from the performance audit reports in practice, from the perspective of evaluating and improving the audited policies or programmes?

10. Do you think performance audit is important for policy evaluation and, if yes, how?
11. In your opinion, is there a link between your work and the performance audits in the policy cycle and in practice in the country?
    a. If yes, elaborate.
    b. If no, show and explain graph. Where do you see the work of performance auditors fitting in the policy cycle?
12. What do you see as the key contributions and differences between the two processes?
13. Should there be a link between performance audit and policy evaluation overall?
14. If yes, are there any ways in which you think the link between the two can be improved?

Additional (optional):

15. What sources of information or documents do you use when conducting policy evaluation?
16. Is the department/office sufficiently equipped to organize, manage and support evaluations?
17. What kind of trainings do you think you need for advancing your capacity for evaluations?

Annexe 3 – List of Interviewed institutions and organisations per country

Estonia

- The National Audit Office (NAO)(Department for International Relations, Department for Performance Audit)
- Ministry of Finance, Deputy Secretary General for Public Governance Policy
- Ministry of Education and research
- Secretary of State - Government Office's Head of Communication

Finland

- Prime Minister´s Office
- Ministry of Social Affairs and Health (Administration and Planning Department)
- Ministry of Employment and the Economy (Employment and Entrepreneurship Department)
- National Audit Office (NAO) (Performance Audit and Fiscal Policy Audit Department)

France

- The Court of Audit
- The General Secretariat for Public Policy Modernisation (SGMAP)

Macedonia

- Agency of Realisation of Minority Rights
- External evaluators
- Ministry for Agriculture, Forestry and Water Supply
- Ministry for Information Society and Administration (MIOA)
- State Audit Office (SAO)

Montenegro

- State Audit Institution (SAI) (Senate, Performance Audit Department)
- Audit Authority (for the Audit of EU funds)

- Ministry of Finance (Central Harmonisation Unit, Budget Directorate)
- Ministry of Foreign Affairs and EU Integration
- Ministry of Interior

Serbia

- Audit Authority Office of EU Funds
- Ministry of Health (former employee on the project within the Ministry)
- Ministry of Labour, Employment, Veterans and Social Affairs
- Public Policy Secretariat (PPS)
- Serbian European Integration Office (SEIO)
- Social Inclusion and Poverty Reduction Unit of the Government (SIPRU)
- State Audit Institution of Serbia (SAI)
- Resident Adviser, EU Twinning Project to SAI
- USAID Business Enabling Project

The Netherlands

- Ministry of Economic Affairs
- Ministry of Finance
- The Netherlands Court of Audit (NCA)

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