



ANNUAL REPORT

ON PERFORMED AUDITS
AND OPERATION OF
THE STATE AUDIT OFFICE

2022



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Original title:

Годишен извештај за извршените ревизии и за работата на Државниот завод за ревизија за 2022 година

Title of the publication:

Annual Report on performed audits and operation of the State Audit Office for 2022

Publisher:

State Audit Office - Skopje
Pavel Shatev St no. 2, Palata Emanuel Cuckov, Skopje

About the publisher:

Maksim Acevski, MSc, Auditor General

Editor:

Maksim Acevski, MSc, Auditor General

Translation Macedonian to English:

Katerina Terzioska

Print:

Company for graphic printing activity, trade, production and services GETEO print Pero DOOEL export - import - Skopje

Computer and technical processing:

Company for production, trade and services KOMA DOOEL export import Skopje

Place of publication:

Skopje, 2023

Circulation:

100 copies

CIP - Каталогизација во публикација
Национална и универзитетска библиотека
"Св. Климент Охридски", Скопје

657.6(497.7)"2022"(047.31)

ANNUAL report on performed audits and operation of the State audit office for 2022 / [editor Maksim Acevski ; translation Macedonian to English Katerina Terzioska]. - Skopje : State audit office, 2023. - 260, [4] стр. : илустр. ; 30 см

Превод на делото: Годишен извештај за извршените ревизии и за работата на Државниот завод за ревизија за 2022 година. - Фусноти кон текстот

ISBN 978-608-5006-05-2

а) Државен завод за ревизија (Скопје) -- 2022 -- Извештаи

COBISS.MK-ID 60931589



British Embassy
Skopje



WFD

WESTMINSTER
FOUNDATION FOR
DEMOCRACY

The graphic design of this product is done within "Democracy Works" project implemented by the Westminster Foundation for Democracy (WFD) with support from the British Embassy in North Macedonia. The contents of this publication do not necessarily reflect the position or the opinion of WFD and UK Government.

Графичката подготовка на овој производ е подготвен во рамки на проектот „Практикувај демократија“, кој го спроведува Фондацијата за демократија на Вестминстер (ВФД), со поддршка од Британската Амбасада во Северна Македонија. Мислењата и ставовите наведени во оваа содржина не ги одразуваат секогаш мислењата и ставовите на (ВФД) и на Британската Влада.

Përgatitjen grafike të produkt është përgatitur në kuadër të programit "Praktiko Demokraci", i cili zbatohet nga Fondacioni për Demokraci Westminster (WFD), me mbështetjen e Ambasadës Britanike në Maqedoninë e Veriut. Përmbajtja e këtij publikimi nuk pasqyron domosdoshmërisht qëndrimin ose mendimet e Qeverisë së Mbretërisë së Bashkuar.



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Opening address by Auditor General

This Annual Report objectively depicts the results of our operation and the performed audits in 2022.

2022 Annual Work Programme of the State Audit Office (SAO) included 188 audits. With the implementation we identified 1242 shortcomings and made 775 recommendations contained in 223 audit reports where we present factual information about auditees' operation. Special emphasis, as in the previous year, was put on performance audits, which, to my satisfaction, gain more importance each year. We focus on topical issues of interest to the public and other stakeholders, and draw attention to sustainable development goals and their added value. When choosing and defining the scope of audits, we are guided by our strategic objectives, as well as the principles of transparent and earmarked spending of public funds for improvement of the quality of services worthy of the citizens of the Republic of North Macedonia.

With 2022 Annual Work Program, we completed the implementation of SAO Development Strategy 2018-2022, which served as our guide in achieving the strategic objectives aimed at maximizing our contribution to strengthening financial control and accountability of the public sector of the Republic of North Macedonia.

Concerning performance indicators for our operation, with the audits in 2022 we increased the scope of audited expenditure of total Budget funds. At the same time, we increased the added value of performed audits, primarily in the amount of identified less calculated, less returned or less paid funds in the Budget of the Republic of North Macedonia and in the budgets of the municipalities, which indicates that SAO contribution to strengthening institutions and managerial responsibility is becoming increasingly important in our society.

We continuously point to systemic weaknesses, i.e. weaknesses and ambiguities in legal regulations for certain areas, and indicate the need to overcome thereof. Thus, we contribute to strengthening the legal system and creating favorable environment for further development of legal entities.

Transparency and accountability in SAO operation is also essential for building trust, responsibility and efficiency in the execution of state audit. To achieve our strategic objectives, we strive to collaborate and cooperate with citizens and the media, non-governmental organizations and other institutions and associations, with the aim of increasing transparency, accountability and responsibility in the use of taxpayers' funds. Therefore, we continuously put effort in increasing the number of stakeholders that receive timely information about SAO work. I can gladly point out that the number of SAO stakeholders in December 2022 is 1110.

The professionalism, responsibility, reliability, impartiality, independence, conscientiousness and ethics of SAO employees directly contribute to the quality of the work of our institution. Therefore, the role of each employee is significant for the overall successful operation of the State Audit Office. In 2022, we continued to invest in the professional development of the institution and in improvement of audit processes in line with the international standards and best practice of EU member states, as well as in the professional development of skills and knowledge of our auditors.

These values are prerequisite for performing SAO obligations aimed at providing the Assembly and other stakeholders with trust and assurance that final audit reports and the Annual Report as a whole, contain accurate and objective information based on facts, findings and recommendations.

Our priority in the upcoming period will be the implementation of activities defined in the new SAO Development Strategy SAO 2023-2027, aimed at strengthening the independence and integrity of the institution, professional development of employees and implementation of the provisions of the Memorandum signed with the Assembly of the Republic of North Macedonia.

We will also continue to put efforts in achieving constitutional anchorage and full financial and operational independence of the State Audit Office, maintaining high quality and trust, and acknowledgement of our work with the aim of safeguarding taxpayers' funds.



**“LET’S LEARN TO MANAGE RISKS
TO PREVENT CONSEQUENCES”**

Auditor General
Maksim Acevski, MSc

A handwritten signature in black ink, appearing to read 'Maksim Acevski'.

KEY RESULTS OF STATE AUDIT OFFICE OPERATION

106.200.612
Total assets/liabilities

1.464.468
Unpaid / less paid /
public duties / fees
in the Budget of the
Republic of North
Macedonia

441.862
Unpaid / less
paid fees in
the budgets
of audited
municipalities

2.341.039
Illegal use of
funds

6.089.138
Total amount
of public
procurements

2.953.311
Scope of
audited public
procurements

986.970
Total amount
of identified
irregularities
in public
procurements

**AUDIT
ADDED
VALUE**

139.337
Completed
procurements without
public procurement
procedure

602.006
Corrective
entries in
Balance
Sheets

9.716.228
Identified
shortcomings that
affect auditee's
activity and capital
investments

246.000
Canceled /
lost grants

6.303.750
Delayed investments
/ termination of
investment grants
(approved but
undrawn loans/
credits/grants)

32.700
Commitment fee
on undrawn credit
lines/loans

in 000 denars

STATE AUDIT OFFICE 2022 ANNUAL WORK PROGRAM



SUSTAINABLE
DEVELOPMENT GOALS
COVERED BY AUDITS

188 PERFORMED
AUDITS

170 Regularity audits

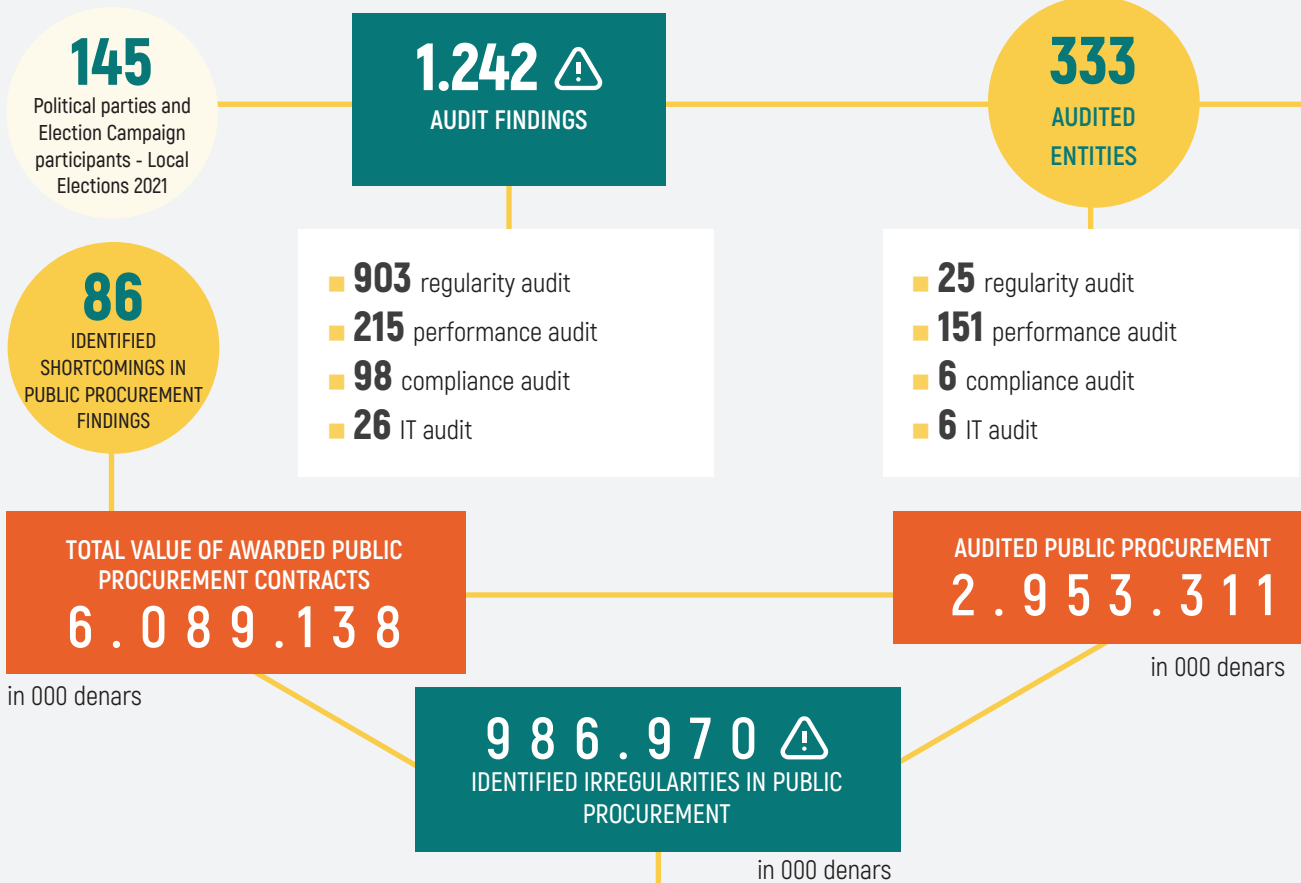
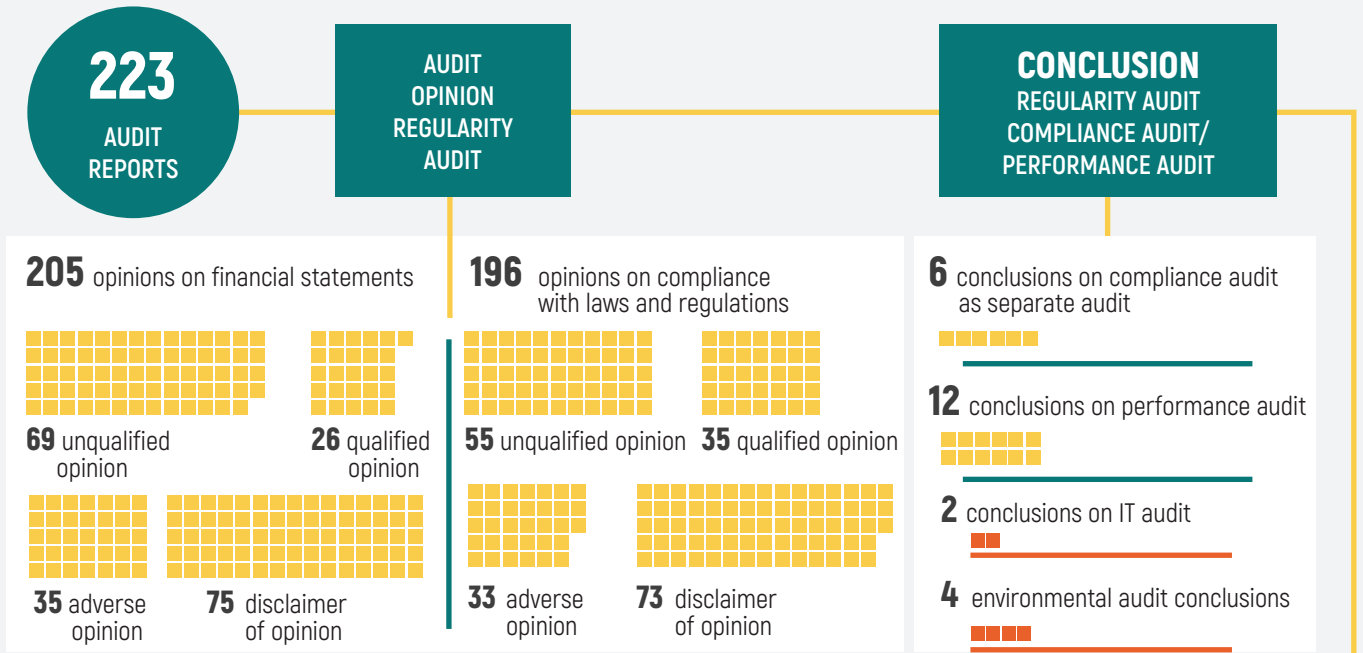
12 Performance audits
4 environmental audits and 2 IT audits

6 Compliance audits

TOPICS COVERED BY AUDITS





























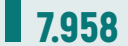









Audit activity through figures



- not implemented public procurement contracts
- weaknesses in public procurement planning phase
- irregularities in preparation of tender documents/technical specification
- weaknesses in deciding on public procurements
- restrictive elements in tender documents in relation to competition

AUDITED PUBLIC REVENUE AND PUBLIC EXPENDITURE

TOTAL **411.508 MILLION DENARS** audited public revenue and **284.839 MILLION DENARS** audited public expenditure in line with SAO Annual Work Program for 2022

	Audited public revenue	Audited public expenditure
Central Budget of the Republic of North Macedonia	227.343  217.686 	79.847  12.693 
Budgets of Funds	123.039  121.805 	115.742  115.718 
Budgets of local self-government units	12.515  3.393 	11.536  2.829 
Health Insurance Fund budget users	1.045  782 	1.014  773 
Political parties	766  397 	734  294 
Public enterprises	1.659  1.744 	1.709  1.953 
Other institutions /Legal entities in which the state is dominant shareholder	8.134  13.939 	7.958  15.220 
Audited public revenue with performance audit	35.322  94.878 	63.063  79.558 
Audited public revenue with compliance audit	1.685  57.299 	3.236  7.022 

 2022 Annual work program  2021 Annual work program

in 000.000 denars

AUDIT RECOMMENDATIONS AND IMPLEMENTATION

2022

775
AUDIT
RECOMMENDATIONS

■ **390** RECOMMENDATIONS FOR WHICH 90 DAYS' FEEDBACK DEADLINE HAS EXPIRED

■ **385** RECOMMENDATIONS FOR WHICH 90 DAYS' FEEDBACK DEADLINE HAS NOT EXPIRED

■ **98** RECOMMENDATIONS FOR WHICH 90 DAYS' FEEDBACK DEADLINE HAS EXPIRED WITHOUT VERIFIED STATUS

80%
ACTING UPON AUDIT
RECOMMENDATIONS

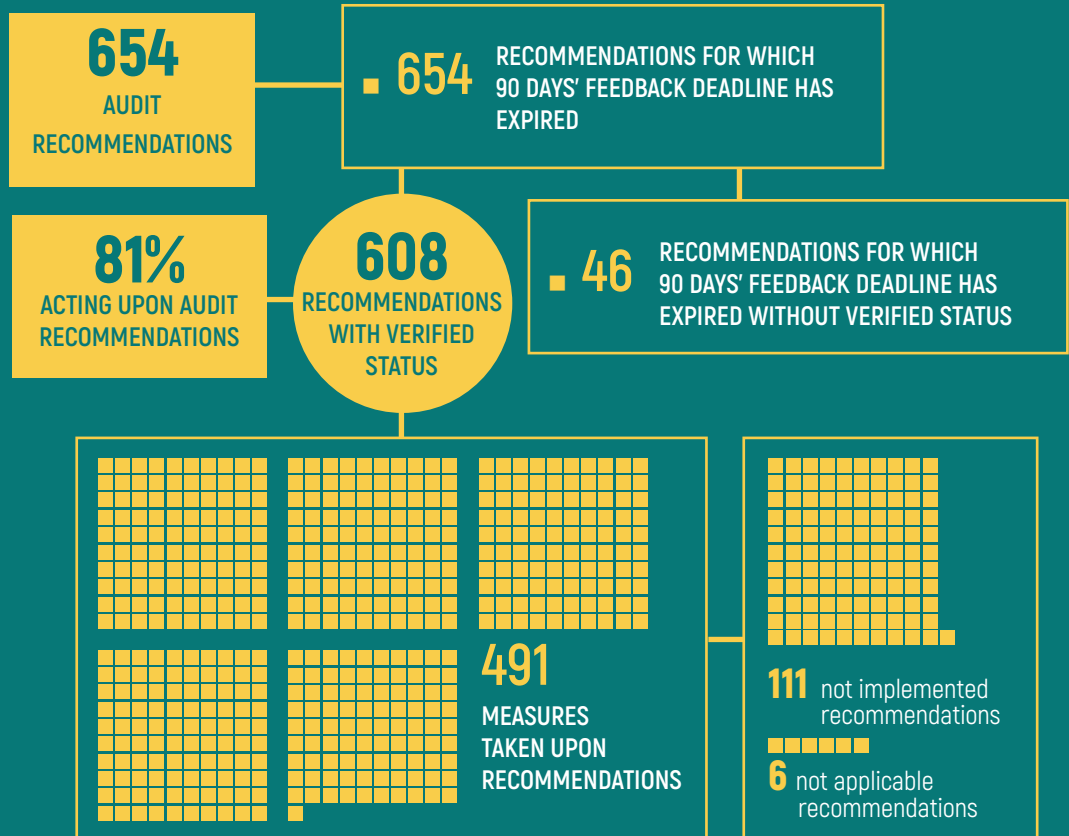
292
RECOMMENDATIONS
WITH VERIFIED
STATUS

234 MEASURES TAKEN UPON
RECOMMENDATIONS

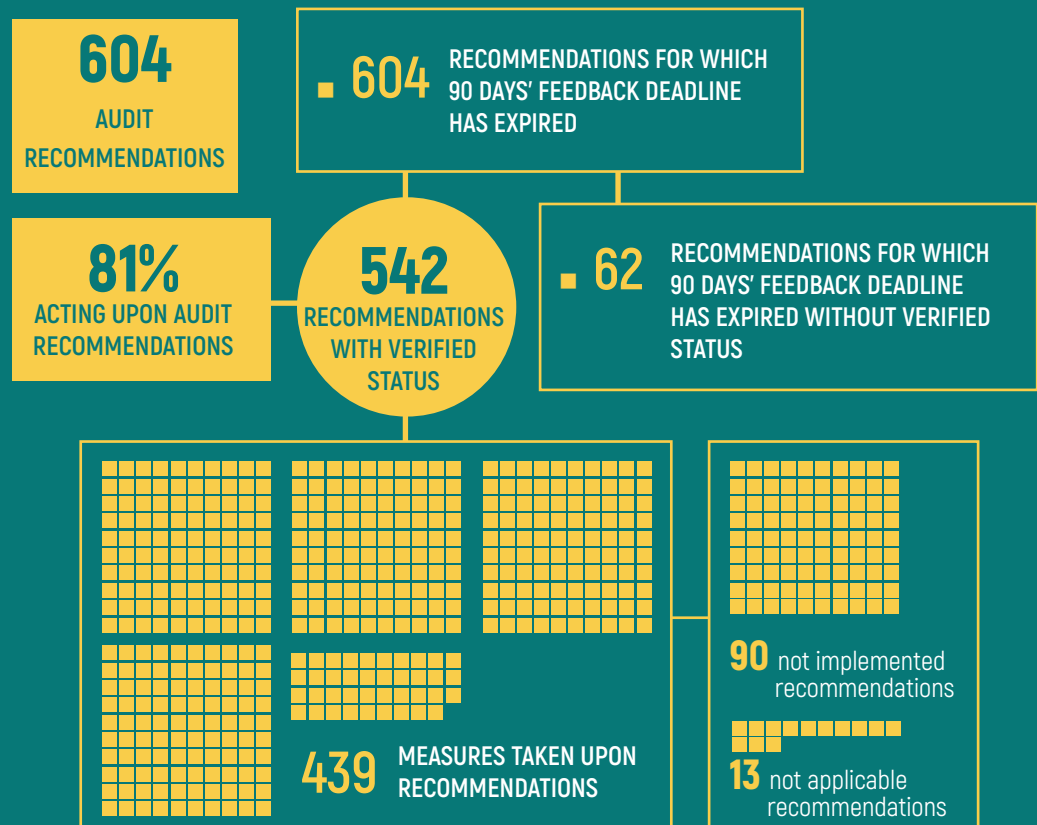
44 not implemented
recommendations

14 not applicable
recommendations

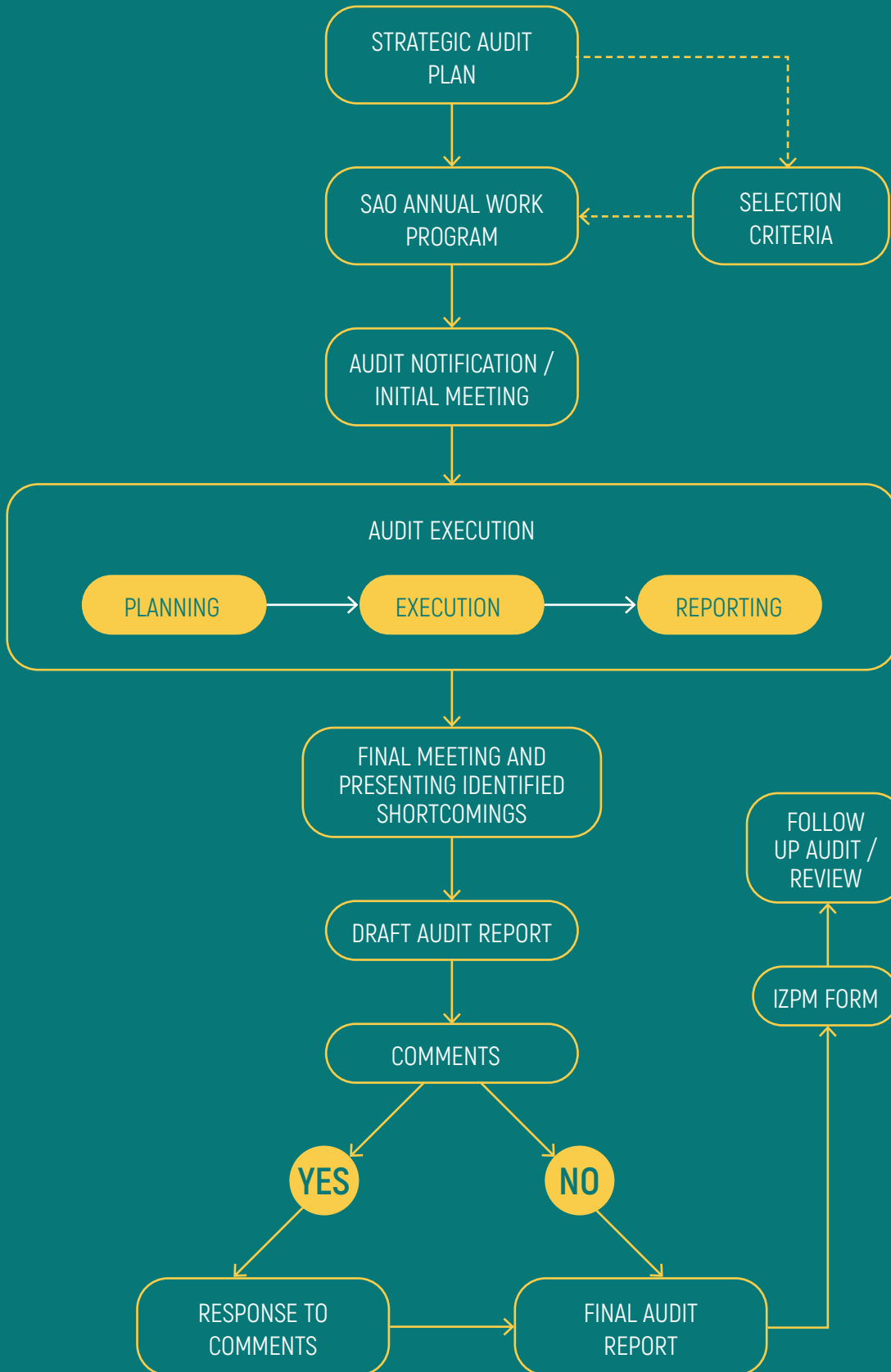
2021



2020



AUDIT PROCESS





**ABOUT THE
STATE AUDIT
OFFICE**

The State Audit Office (SAO) is the independent supreme audit institution of the Republic of North Macedonia, which transparently, timely and objectively informs the competent institutions and the public about the audit findings from conducted audits for more than 20 years.

SAO is conducting audits in line with the auditing principles, standards and guidelines contained in INTOSAI Framework of Professional Pronouncements (IFPP).

The independence of the institution is stipulated in the State Audit Law, which regulates SAO competencies, the broad mandate for conducting audits with unlimited access to all information, documentation and records necessary for conducting state audit. SAO independently prepares the Annual Work Program, objectively decides on the entities to be subject to audit, and the audit method and contents of the reports on performed audits, without bias and free from influence from the legislative and the executive power.



MISSION WHO WE ARE AND WHAT WE DO



SAO is the supreme audit institution of the Republic of North Macedonia with a mandate to perform state audit. SAO performs audit of financial statements, compliance audit and performance audits in accordance with the requirements of INTOSAI standards (ISSAIs).

Our task is to *examine/investigate, evaluate and issue an opinion* for the performed audit that will add value to the entire community.

The results of our work and our mandate aim to fulfil the needs and expectations of our users for promoting and ensuring accountability, objectivity and transparency in support of the country, as well as for wise and honest public funds management.

VISION WHAT WE STRIVE FOR



In striving to fulfill our mission, we hope to continue maintaining our independence, professionalism, ethics and integrity, carry out our tasks in accordance with the law and mandate, ensure continuous promotion of objectivity and transparency, be inspiring and innovative and lead by example for protecting the public interest and achieving high level of public trust.

To achieve these values, all our employees work devotedly as highly skilled professionals, protecting and respecting the interests of the audit profession.



1.1

LEGAL FRAMEWORK

INDEPENDENCE AND LEGAL COMPETENCES

The State Audit Law ["Official Gazette of the Republic of Macedonia" no. 66/10, 145/10, 12/14, 43/14, 154/15, 192/15, 27/16 and 83/18 "Official Gazette of the Republic of North Macedonia" no. 122/2021] regulates the conditions and the manner of performing state audit, as well as SAO organization and competences.

Aimed at improving state audit legal framework for achieving constitutional independence and strengthening financial and operational independence in line with the international standards and EU best practice, which is SAO strategic objective as well as requirement of:

- INTOSAI P-10 Mexico Declaration on SAI Independence;
- National Programme for Adoption of the Acquis Communautaire (NPAA) 2021-2025, Chapter 3.32. Financial control adopted by the Government of the Republic of North Macedonia and
- Public Finance Management Reform Program "SMART PUBLIC FINANCE" 2022-2025 and the draft Action Plan for implementation for 2022, for pillar 7 - External control and parliamentary oversight,
- an assessment of the state audit legal framework was made and recommendations were given within the twinning project titled "Improving external audit and parliamentary oversight".

In the period 2021-22, with the support of the above project activities, the output was the following:

Proposals of amendments to the Constitution of the Republic of North Macedonia to set forth SAO as constitutional category

SAO submitted draft text of the constitutional amendments to the Ministry of Justice, as the competent authority, to the Assembly and to the Government. The competent authorities informed SAO that this initiative aims to strengthen SAO independence and it will be paid due consideration. However, due to the fact that these draft amendments are proposals, they require special treatment in the legislation and involvement of all stakeholders in process. Thus, SAO will be promptly notified of all actions taken. Therefore, we anticipate that the competent ministry, in coordination with all stakeholders in the process, will submit an initiative to the Assembly of the Republic of North Macedonia to regulate SAO independence in the Constitution of the Republic of North Macedonia.

Draft State Audit Law

The new Draft State Audit Law foresees strengthening SAO financial and operational independence, acting upon audit recommendations and creates opportunities for reviewing final audit reports by the Assembly of the Republic of North Macedonia. These are significant improvements to the state audit legislation in accordance with the requirements of the European Union and international auditing standards.



- Directorate-General for Budget of the European Commission (DG Budget),
- INTOSAI Development Initiative (IDI) and
- the twinning partners - SAO Croatia and NAO Bulgaria, have provided opinion on this Draft Law.

In March 2022, in cooperation with the Westminster Foundation for Democracy, SAO organized an event/public hearing on the Draft Law with representatives of the Government and the Assembly of the Republic of North Macedonia, state institutions, EU Delegation, professional institutions, the academic community, civil society organizations and SAO employees.

In April 2022, Auditor General officially submitted the Draft State Audit Law to the Ministry of Finance, as the competent authority for regulating public finance policy. In February 2023, Ministry of Finance started the public consultation process for the Draft Law on the Single National Register of Regulations of the Republic of North Macedonia (www.ener.gov.mk).

Initiation of a procedure for adoption of the new State Audit Law and the constitutional amendments is expected in the upcoming period.

With the aim of synchronized and uniform approach to public finance regulation, assessments were made and proposals were prepared for systemic improvement of the new regulations in this area, particularly in the new Law on Budgets, which regulates audit of financing of political parties and election campaigns, as well as public procurement.

1.2 STRATEGIC DOCUMENTS

Strategic development of any organization requires vision of the desired future and creation of a plan, to make that vision a reality. Therefore, development of strategic documents is one of the key steps in SAI development for realization of its vision, mission and objectives. Progress Reports of the European Commission on the Republic of North Macedonia in relation to external audit area, which is under SAO competence, indicate aspects that require action by competent authorities in relation to:

- SAO independence to be guaranteed in the Constitution of the Republic of North Macedonia;
- legal framework to ensure SAO independence in line with INTOSAI standards;
- systematical and prompt implementation of audit recommendations;
- discussion on audit reports in the Assembly.

The strategic approach in SAO operation resulted in adoption of several strategic documents aimed at identifying and setting activities for the objectives to be implemented currently and in the upcoming period.

SAO has adopted the following strategic documents:

Development Strategy 2018 – 2022

SAO development strategy 2018-2022 contains commitments to strengthen independence and integrity as prerequisites for achieving professionalism and credibility in operations, promoting and improving implementation of international principles, standards and guidelines contained in INTOSAI IFPP, as well as for continuous monitoring of the effects of performed audits and the degree of implementation of audit recommendations. SAO has fully implemented this Strategy.

New Development Strategy 2023 – 2027

For timely action on determining strategic objectives for the upcoming period 2023-2027, SAO adopted new strategic document. SAO Development Strategy 2023-2027 and the action plan for its implementation are part of the activities accomplished with the twinning project "Improving External Audit and Parliamentary Oversight".

In this Strategy, SAO has set the key priorities and goals, identified through the strategic objectives:

STRATEGIC OBJECTIVES



IT Strategy 2018 – 2022

In 2022, SAO carried out activities for implementation of the existing IT Strategy 2018-2022 to increase the efficiency of SAO information system. This Strategy contains four goals:

- providing and maintaining necessary resources for continuous development of SAO IT system (human resources, policies and procedures for managing work processes),
- continuous development and maintenance of ICT architecture in accordance with the development of new technologies and standards,
- continuous development and maintenance of application solutions and ICT audit support,
- presentation of the results of SAO operation.

The implementation of the Strategy, the continuous activities for protection of the information systems and the investments in new technology solutions (hardware and software), are the main prerequisites for SAO data security and protection from cyber-attacks.

Considering that this Strategy covers the past period, SAO has taken activities for drafting and adopting new IT Strategy for 2023-2027.

Communication Strategy 2020 – 2023

The key objective of the Communication Strategy is to increase the level of awareness of the public about SAO role and operation and to strengthen SAO role as an institution in the service of the public. The Strategy defines goals aimed at achieving specific results, which are directly related to SAO strategic activities including:

- to promote SAO role as an advocate of the principles of transparency and accountability of public funds;
- to develop and strengthen cooperation and coordination with all stakeholders;
- to provide public support for SAO work and to ensure public participation;
- to encourage institutions to act on SAO audit reports through greater engagement of the public.

For increasing transparency and accountability, as well as availability of information on SAO operation and on the shortcomings contained in the final audit reports, SAO has put together a register of 1110 stakeholders. SAO has also continued with the practice of preparing audit abstract and press release for the public, where key shortcomings / information contained in the final audit report are presented in a simple and comprehensible way. When publishing final audit reports on SAO website (www.dzr.mk), the information is also sent to all stakeholders and posted to SAO Facebook page¹.

1 <https://www.facebook.com/DrzavenZavodzaRevizija>.

Risk Management Strategy 2020-2023

The adopted Risk Management Strategy 2020-2023 regulates the procedures and activities for managing identified risks that may affect the achievement of objectives and SAO operation.

The Strategy defines objectives and benefits as well as responsibilities for risk management and provides an overview of the framework to be established for successful risk management.

The success of the risk management process is followed by:

- updating the Risk Register annually;
- implementing activities in line with deadlines and continuous monitoring of the degree of realization of foreseen control activities;
- planning risk management training;
- continuous monitoring of the degree of implementation of control activities for risk management.

The annual review of the risk management process, the analysis and update of controls at all levels, give the expected results for reducing risks through the established internal controls, thus keeping the risk exposure at an acceptable level, which is recorded in the updated Risk Register.

Human Resources Management Strategy 2020 - 2023

SAO HR Management Strategy 2020-2023 served as basis for introduction and promotion of the HR management function in SAO, by building an efficient and functional system and providing conditions for employment of qualified professionals with high degree of integrity and prepared for effective performance of the assigned functions and responsibilities.

SAO promotes development of professional qualities of employees through an established system of performance evaluation, fair and transparent procedures for professional and career development of employees, as well as by introduction of additional financial and other incentives for employees.

Increasing the knowledge and skills of SAO employees is one of the main commitments of the institution, and these commitments have been translated into the Annual Plan for Continuous Professional Development for 2022.

According to the Report on the degree of realization of SAO HR Management Strategy for 2022, based on the set indicators, it was concluded that since the adoption of the Strategy until December 2022, SAO has implemented the larger part of planned activities.

Strategic Audit Plan 2021 – 2023

SAO Strategic Audit Plan 2021-2023 was based on SAO Guidelines for strategic and annual audit planning and in accordance with the Decision on identifying strategic audit objectives for the period 2021-2023 and priority audit areas by audit departments. In this Plan, SAO defines the strategic audit objectives, and priority audit areas and sub-areas by audit departments.

Aside from SAO strategic documents, there are other strategic documents adopted by competent authorities which define strategic goals or areas that affect SAO operation, and activities were taken for establishing several sector working groups. Namely, for improving public finance management, as one of the key priorities, after the completion of the Public Finance Management Reform Program 2018-2021, in June 2022 the competent authorities adopted the new Public Finance Management Reform Program "SMART PUBLIC FINANCE" 2022 - 2025.



STRATEGIC OBJECTIVES

- Supervision over public funds spending;
- Fight against corruption;
- Quality financial reporting;
- Contributing to the improvement of public services;
- Continuous increase of responsibility, accountability and transparency;
- Increasing responsibility and transparency in the use of public funds;
- Improving operation of public funds users;
- Improving quality of operations of departments through continuous professional training of auditors;
- Improving quality of operations of departments by strengthening communication and cooperation between institutions;
- Creating appropriate working environment;
- Improvement of corporate culture and ethics in auditing.



PRIORITY AREAS

- Budget of The Republic of North Macedonia;
- State Security and Defense;
- Crisis And State of Emergency;
- Effects of the Pandemic;
- Political Parties and Election Process;
- Local Self-government and Balanced Regional Development;
- Labor and Social Policy;
- Education;
- Culture and Sports;
- Healthcare System;
- Environment;
- Agriculture, Forestry and Water Economy;
- Judiciary and Rule Of Law;
- Economy;
- Traffic, Transport and Communications;
- UN Sustainable Development Goals;
- IT Systems, Security and Data Protection;
- Funds from EU and other International Institutions.

Public Finance Management Reform Program “SMART PUBLIC FINANCES” 2022 – 2025

The new Program seeks to strengthen the public finance system, to promote transparency, accountability, fiscal discipline and efficiency in the management and use of public resources, through established pillars, priorities and measures.

Pillar 7 - External control and parliamentary oversight is under SAO competence.

The Action Plan for implementation of the Public Finance Management Reform Program for 2022 is a detailed plan of activities for implementing measures and measuring achievement of target indicators, including priorities for external audit and parliamentary oversight that are under SAO competence.

Sector Working Group for Public Finance Management

SAO actively participated in the Sector Working Group for Public Finance Management chaired by the Minister of Finance, whose purpose is to set up and maintain a functional sectoral approach in the area of public finance management. In addition, Auditor General participated as a member in the work of the Public Finance Management Council, which is a coordinating body for monitoring implementation of public finance management reforms.

To facilitate realization of SAO strategic objectives identified in the separate strategic documents, realization of competences defined in other strategic documents, as well as participation in the sector working groups, requires adoption of annual acts. Therefore, several annual acts have been



ANNUAL WORK PROGRAM 2021

Entities that submitted audit request

	LSGUs	Audit requests	2	Accepted audit requests	1
	Institutions	Audit requests	6	Accepted audit requests	2
	NGOs and associations	Audit requests	5	Accepted audit requests	3
	Citizens	Audit requests	5	Accepted audit requests	0
		Total audit requests	18	Total accepted audit requests	6

adopted and a system for continuous monitoring of implementation of strategic and annual documents has been established, for which reports are prepared on biannual and annual level.

2022

Annual Work Program

SAO Annual Work Program for 2022 has been drawn up based on SAO Strategic Audit Plan for 2021 - 2023 and in line with the adopted Guidelines for strategic and annual audit planning and the Decision on identifying strategic audit objectives for the period 2021-2023 and priority audit areas by audit departments. The Annual Work Program was submitted to the Assembly of the Republic of North Macedonia within the legal deadline.

The Annual Work Program for 2022 was implemented completely and included: 188 audits, of which 170 regularity audits (financial audit and compliance audit), 12 performance audits and 6 compliance audits. SAO carried out 47 audits on entities and topics in accordance with the State Audit Law and 141 audits on entities that participated in 2021 Local Elections. Out of 12 planned performance audits, 8 were carried out in cooperation with the twinning partners - SAIs of Croatia, Bulgaria and Estonia, one cooperative performance audit with EUROSAI TFMA on the topic "Municipalities' own revenues during pandemic for ensuring quality services to citizens" (seven SAIs participated in this audit: Albania, Montenegro, Poland, Romania, Slovakia, Turkey and SAO as coordinator) and one cooperative audit with SAI of Serbia on the topic



ANNUAL WORK PROGRAM 2022

Entities that submitted audit request

	LSGUs	Audit requests	8	Accepted audit requests	5
	Institutions	Audit requests	7	Accepted audit requests	2
	NGOs and associations	Audit requests	5	Accepted audit requests	2
	Citizens	Audit requests	18	Accepted audit requests	6
		Total audit requests	38	Total accepted audit requests	15

"Balanced regional development with special emphasis on demography", in line with the signed bilateral Memorandum of Cooperation.

Applying the principles of transparency and openness in the preparation of the Annual Work Program for 2022, SAO placed "audit request form" on the website. Within the deadline, SAO received 38 audit requests. The majority were requests by citizens (47%) and requests by local self-government units (LSGUs) 21%. In the Annual Work Program for 2022 were included 15 audit requests, i.e. 39%. This practice continued in the preparation of the Annual Work Program for 2023.

2022

Annual Plan for Prevention of Corruption

Acting in accordance with the requirements for adoption of Annual Plan for assessment of risks of corruption for 2022, in December 2021 SAO adopted and published the aforesaid Plan on the website². SAO implemented the Plan, which contains measures and activities for prevention of corruption institutional level. In December 2022, new Annual Plan for prevention of corruption for 2023 was adopted, which is also on the website³.

2022

Annual Plan for Continuous Professional Development

Increasing the knowledge and skills of SAO employees is one of the strategic objectives and continuous activity and commitment of SAO management, which is covered with the Annual Plan for Continuous Professional Development for 2022⁴.

This Plan reflects the requirements and needs of employees and covers activities and areas aimed at increasing knowledge and skills, thus ensuring multiple effect expressed through an increase in the quality of performed work tasks and progress in public funds management, explained in detail in point 3.2. of this Report. In December 2022, Annual Plan for Continuous Professional Development for 2023 was adopted and published on SAO website.

2021

SAO Annual Report

The Annual Report on performed audits and SAO operation for 2021 was prepared and submitted to the Assembly of the Republic of North Macedonia within the legal deadline until the end of June 2022 and it is also available on SAO website in three languages - Macedonian, Albanian and English.

At the 79th session, the Assembly reviewed and adopted conclusions on the Annual Report. These conclusions and the Report of the Committee on Finance and Budget were sent to the Government of the Republic of North Macedonia as well as to SAO.

2 https://dzt.mk/sites/default/files/2021-12/Godisen_plan_sprecuvanje_korupcija_DZR_2022_godina.pdf

3 https://dzt.mk/sites/default/files/2022-12/Godisen_plan_sprecuvanje_korupcija_2023_DZR.pdf

4 https://dzt.mk/sites/default/files/2022-01/Godisen_plan_kontinuirano_profesionalno_usovrsuvanje_2022_godina.pdf

SAO has established a practice to make available the information and data contained in the Annual Report to other SAIs, the European Court of Audit, INTOSAI and EUROSAI, Delegation of the European Union in the Republic of North Macedonia, missions of international organizations as well as certain diplomatic missions in the Republic of North Macedonia.



1.3 | METHODOLOGY AND APPLICATION OF GOOD PRACTICE

In 2022, within the regular activities for continuous alignment of state audit methodology with the requirements of INTOSAI IFPP, SAO adopted new and

updated methodology acts to ensure high quality of audit.

Compliance Audit Manual⁵



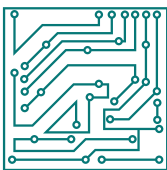
Prepared for implementation of ISSAI 4000 Compliance Audit Standard. It ensures facilitated implementation of compliance audit as well as practical guidance for unified approach to this type of audit.

Performance Audit Manual⁶



In June 2022, new Manual was adopted to harmonize with the requirements of ISSAI 3000 Performance Audit Standard.

IT Audit Manual⁷



It offers comprehensive explanation of key areas auditors should consider when performing IT audit.

This Manual was prepared in line with ISSAIs, IT Audit Manual of INTOSAI IT Working Group and INTOSAI IDI, internationally recognized IT standards as well as current trends and good practices in this area.

5 no.01-1068/1 dated 06.06.2022

6 no.01-1069/1 dated 06.06.2022

7 Still applicable: Regularity Audit Manual; Manual for Regularity Audit of Local Self-Government Units; IT Audit Manual; Manual for monitoring audit recommendations

Code of Ethics



To define ethical values, principles and rules on professional conduct of SAO management and employees, thus to help build and maintain the trust of stakeholders in the activities of the institution. This Codex is prepared in compliance with the requirements of ISSAI 130 Code of Ethics.

Guidelines for audit of EU funds and pre-accession assistance⁸



Adopted in June 2022, to provide practical guidance on audit of EU funds and pre-accession assistance.

Guidelines related to detecting irregularities, fraud and corruption⁹



To help auditors understand the difference between fraud, corruption and irregularities. In addition, this document aims to help auditors to detect certain areas that are more exposed to irregularities, fraud and corruption (risk analysis) and to obtain necessary evidence to be able to report on such cases.

Gender Equality Audit Guidelines



Prepared in cooperation with the United Nations Body for Gender Equality and Empowerment of Women - UN Women, who provided expert and logistical support.

8 no. 01-1070/1 dated 06.06.2022

9 no. 01-1071/1 dated 06.06.2022

Quality Control Guidelines and Quality Assurance Guidelines



To ensure high quality of audit as well as quality assurance, SAO set down detailed procedures to be followed in all audit phases.

Procedure for preparing, submitting and publishing Summary Reports



Adopted in September 2022, to regulate the method of preparing, submitting and publishing summary reports for a group of similar auditees.

With the purpose of improving presentation of audit results and communication with the public, internal SAO communication, as well as to ensure timely and quality reporting on audit results, SAO adopted:

- Policies for internal and external communication and reporting on audit results;
- Procedure for organizing and moving documents in electronic form, the activity of the central archive and the use and storage SAO seals and stamps;
- Procedure for publishing audit reports, documents and other information on SAO website;
- Procedure for communication with stakeholders; and
- Guidelines on graphic presentations in audit reports.

In addition, new contents and structure of the audit report in line with international auditing standards was prepared within the twinning project activities, as well as new audit abstract to improve the presentation of audit results, all aimed at increasing transparency, accountability and openness in promoting state audit results.

To strengthen integrity as a significant aspect in the process of preventing corruption, in 2022 SAO adopted:

- Integrity policy;
- Annual plan for the prevention of corruption for 2022;
- new Code of Ethics for SAO employees, in line with INTOSAI Code of Ethics, and signed statements by the employees for familiarization with the Code of Ethics;

- Decision to form Commission for professional ethics;
- Rules for the work of the Commission for professional ethics;
- Appointed responsible persons for: integrity, protection of whistleblowers and public information, personal data and receipt of reports, petitions, information and requests for action.

ISO Certification

In May 2022, certification body performed successful recertification check and the validity of the certificate for application of Quality Management System in accordance with MKS EN ISO 9001:2015 was extended until 30 May 2024.

SAO started activities for implementation of ISO 37001 Anti-bribery management systems and ISO/IEC 27001 Information security management systems. The certification for these standards will be carried out when appropriate conditions are created in the country, i.e. when there is an accredited body to perform the certification.



**COMMUNICATION
AND COOPERATION
WITH STAKEHOLDERS**

2.1 | COMMUNICATION AND TRANSPARENCY IN OPERATION

Communication with stakeholders is a significant tool for any successful organization. Guided by the strategic determination set forth in SAO Communication Strategy 2020-2023, i.e. to encourage communication where the media, citizens and civil society organizations will be allies in achieving the objective to increase awareness of the public about SAO role and task and to strengthen SAO role as an institution in the service of the public.

Transparency in SAO operation is of essential importance for building trust, responsibility and efficiency in the performance of audit work. As an independent institution, SAO established efficient two-way communication channels with stakeholders, which contribute to achievement of organizational and strategic objectives, but also involve effectiveness, transparency and accountability in the public finance management system.

The efficiency of SAO transparent operation is also made possible through SAO website where all stakeholders can view and analyze audit reports, published methodology acts and procedures used in audit execution, as well as information on current activities. This contributes to building trust and credibility of SAO work and enables public discussion and dialogue between SAO and stakeholders. Open dialogue with stakeholders includes citizens, the media, NGOs and other institutions and organizations. SAO achieved all this through regular communication at public events, information sessions, but also publication of audit reports and other information through the communication channels.

Concurrently, through continuous and timely information to over 1.110 stakeholders, the public receives information about published final audit reports, as well as press releases and audit report abstracts that contain key identified shortcomings, aimed at simplified understanding of audit reports.

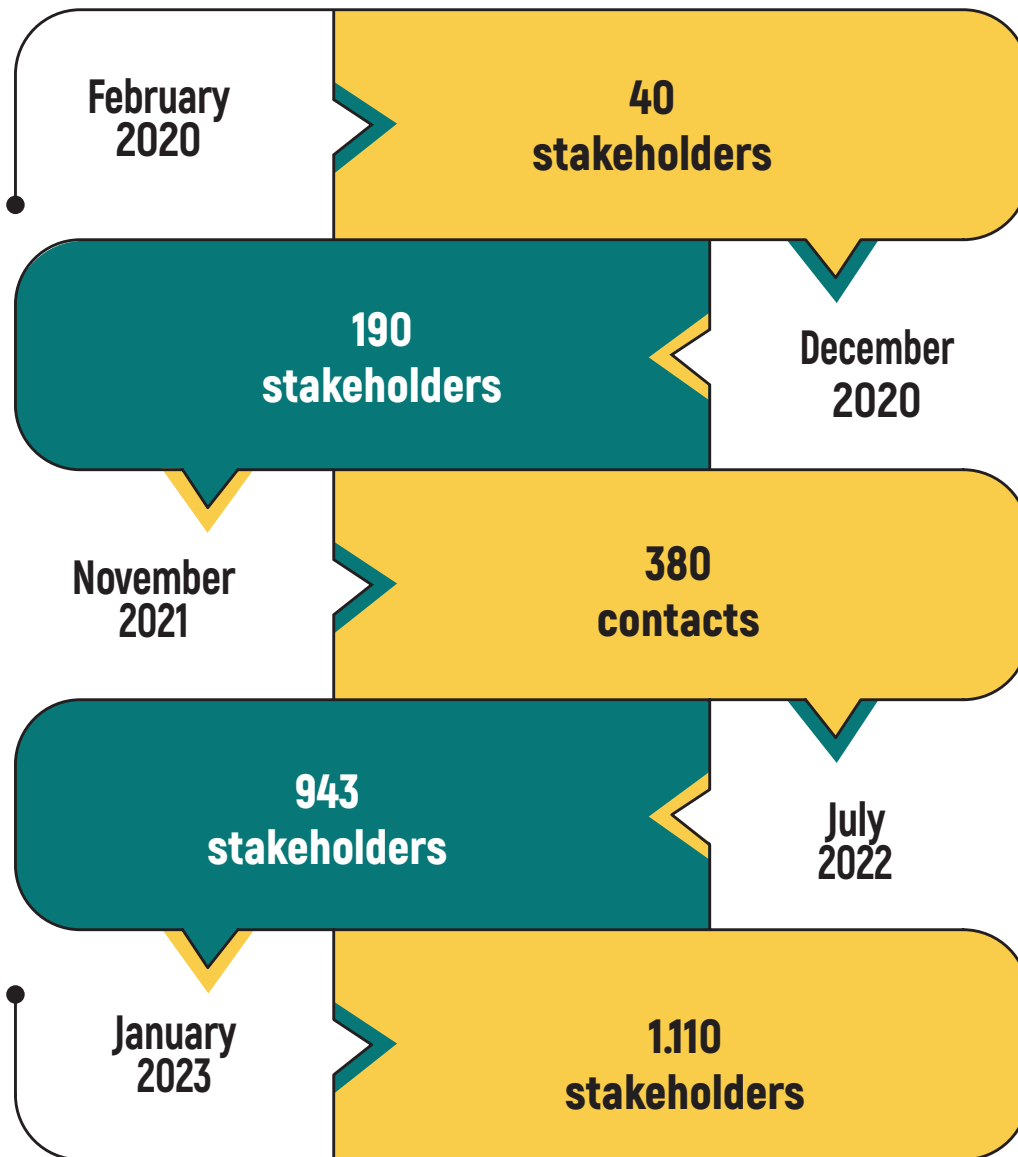
SAO regularly publishes the annual reports, which contain information on audit results, institution's activities, financial statements and other aspects of its operation. The Annual Reports are also published on the website and available to the public, which enables transparency and accountability in SAO operation.

Accountability, transparency and responsibility are omnipresent in SAO operation and achieved by commitment of SAO employees and management through continuous update of stakeholders' mailing list, appearances on national media and in articles on identified shortcomings in final audit reports, media announcements about SAO operation and published audit reports, as well as ongoing activities for regular update of SAO website Facebook page.

The results and activities are presented in the following graphs:



SAO MAILING LIST AND
COMMUNICATION WITH
STAKEHOLDERS





SAO MAILING LIST AND COMMUNICATION WITH 1.110 STAKEHOLDERS










January 2023

	News agencies	11
	Journalist	92
	Newspapers	7
	Weekly magazines	3
	Broadcasters	38
	TV Stations	51
	Cable operators	25
	Internet portals	96
	Civil organizations	157
	Institutions	9
	Municipalities	81
	Chambers and associations	11
	Public enterprises at local level	122
	Public enterprises at central level	34
	Public healthcare institutions	117
	Auditees	256



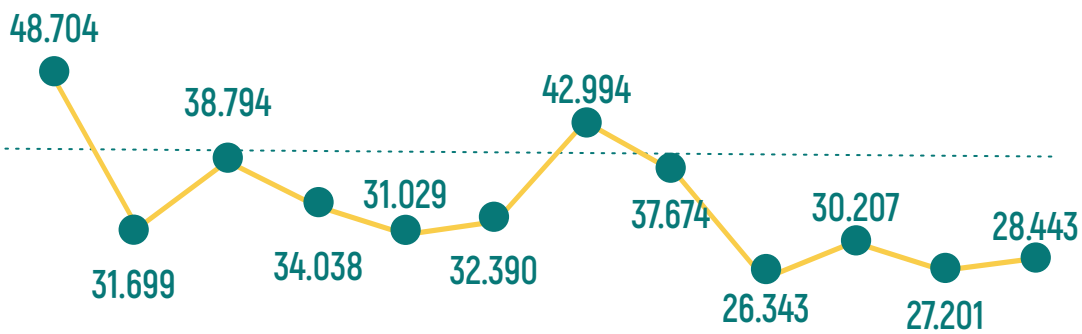
2021
380 STAKEHOLDERS

2020
190 STAKEHOLDERS

		2021	2020
	News agencies	11	11
	Journalist	91	62
	Newspapers	7	7
	Weekly magazines	3	3
	Broadcasters	38	38
	TV Stations	51	20
	Internet portals	95	30
	Civil organizations	50	50
	Institutions	9	5



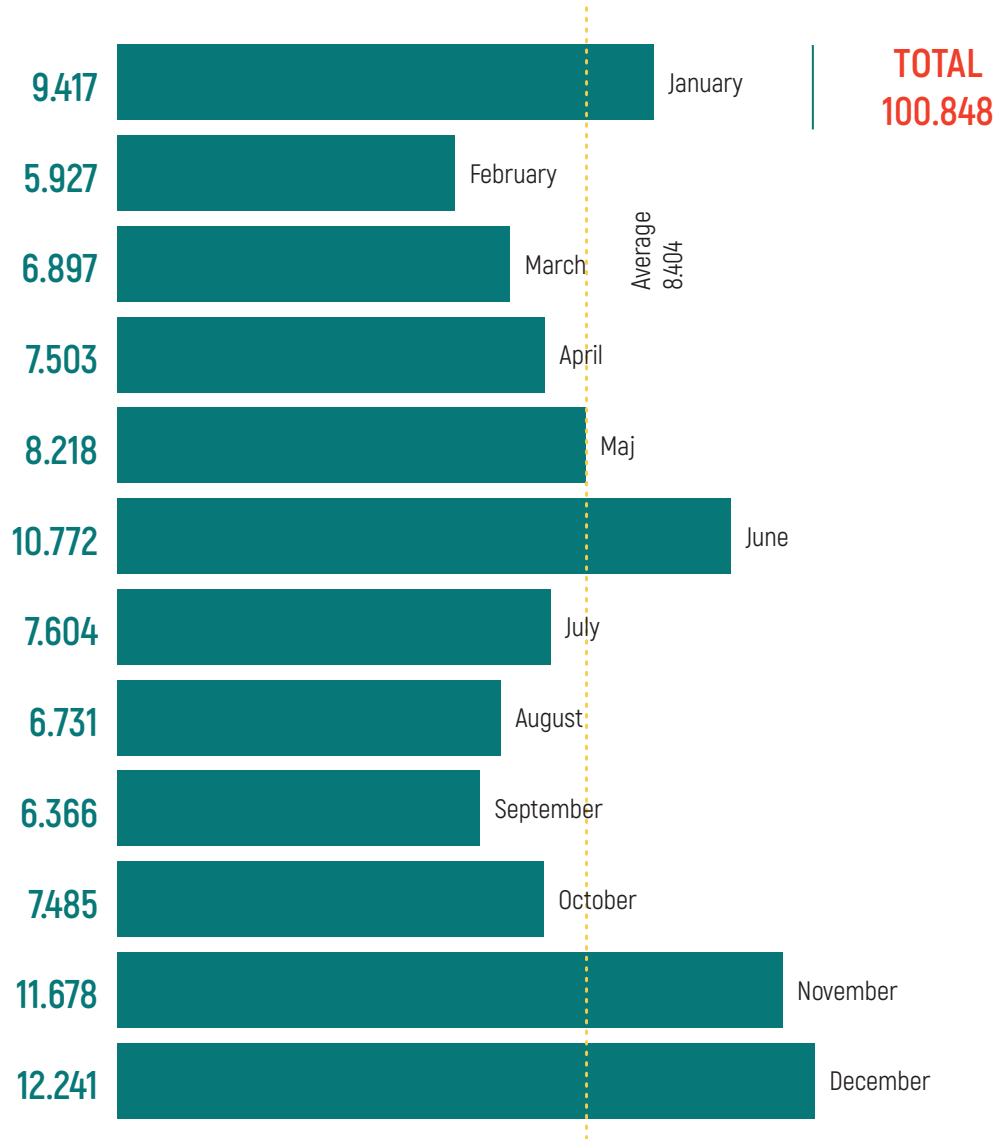
VISITED CONTENTS
WWW.DZR.MK
2022



January February March April Maj June July August September October November December

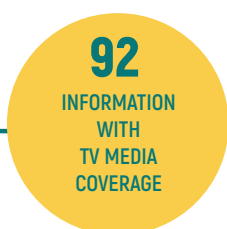


VISITS TO WWW.DZR.MK 2022



STATE AUDIT OFFICE relations with MEDIA

01.01.2022 | 31.12.2022



Social media

For increasing transparency and accountability and by following the global trends of intensified use of social media, SAO continued using its social media presence as a tool for promotion of activities and achieved state audit results. Through the social media, citizens and all stakeholders have an opportunity to be informed about the activities and the results achieved with the state audit. These new SAO communication tools represent a space for creative and constructive discussion and exchange of opinions.

In 2022, SAO made 170 announcements/posts on its Facebook page, and an average of 2.232 visits were recorded per day, which compared to 2021 is an increase of 427%.

SAO actively uses both YouTube and LinkedIn pages as channels for communication with stakeholders.



31.12.2021

31.12.2022



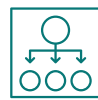
8.000 | 62.869

Total reach for 3 most viewed posts



22.808 | 705.301

Total visitors



8.982 | 104.908

Number of people who saw any content from our page



8.363 | 25.021

Total reach for last 10 posts



762 | 6.967

Page followers



518 | 2.232

Average day visitors



17.11.2021






Page starting date

PUBLIC SURVEY - DEGREE OF SATISFACTION

SAO continuously conducts public survey as a tool for researching stakeholders' opinion on SAO work.

To improve quality and strengthen transparency, accountability and visibility, SAO sent a questionnaire/survey on the degree of satisfaction on the cooperation with our institution and the work done by our institution to all 1.110 stakeholders, including: 620 institutions, 323 media and 157 civil society organizations and shared the survey on the Facebook page and the website. According to the structure of answers received in relation to the satisfaction with the cooperation with SAO, 85% of respondents expressed satisfaction, noting that a great step has been taken in terms of openness and cooperation, especially through timely information about published audit reports and SAO activities and increased openness to the media and civil society organizations. Great confidence was also expressed concerning SAO work, evaluating it as impartial, independent, legal, objective, transparent and professional institution. Satisfaction was also expressed concerning quality of issued final audit reports, which were assessed as topical, understandable, accurate and objective.

STRUCTURE OF ANSWERS

	Public sector institutions	54%
	Private sector	3%
	Civil society organizations	14%
	Media	13%
	Natural persons	17%

SAO final audit reports are:

Topical	75%
Understandable	77%
Correct	77%
Objective	75%






Knowledge sharing

To share knowledge and lessons learned from audits, SAO representatives actively participated in numerous conferences, panel discussions, debates and round tables organized by relevant institutions / stakeholders in the area under discussion.

SAO has established a practice to deliver published final audit reports to a group of entities that are stakeholders in the audited area (LSGUs, PHIs, PEs at central and local level, JSCs in state ownership, etc.) to share identified shortcomings, knowledge and information contained in the final audit reports, and to avoid repeating identified irregularities/ shortcomings in the future.

To share knowledge and strengthen cooperation with professional associations, institutions and civil society organizations on audit topics, part of the organized trainings/workshops were also attended by employees from LSGUs, the Public Prosecutor's Office, administration of the Assembly of the Republic North Macedonia, internal auditors from JSCs and PEs, employees of regional SAIs, and representatives from the media and civil society organizations. During these trainings, the participants had the opportunity to familiarize themselves with audit methodology, implementation of International Accounting Standards, implementation of INTOSAI auditing standards, understanding audit reports, the most common errors in the execution of audits, and also to exchange experience and good practice aimed at improving the work and the mutual cooperation.

SATISFACTION FROM COOPERATION WITH SAO

	Public sector institutions	88%
	Private sector	67%
	Civil society organizations	83%
	Media	92%
	Natural persons	100%

SAO operation provides:

Impartiality	79%
Independence	77%
Legality	83%
Objectivity	76%
Transparency	80%
Expertise	80%

2.2

COOPERATION WITH THE ASSEMBLY, STATE AUTHORITIES, PROFESSIONAL ASSOCIATIONS AND INSTITUTIONS, CIVIL ORGANIZATIONS AND THE PUBLIC

SAO cooperation with numerous national professional associations and institutions that contributes significantly to the achievement of SAO strategic objectives has continued in 2022. SAO is recognized by these organizations as a socially responsible and influential institution that provides timely and current data, information and clarifications about the state of affairs as well as recommendations through the audit process.

The cooperation with professional associations, higher education institutions, scientific research centers and other organizations from the civil sector, makes SAO work accessible to citizens, enables them to analyze factors and evaluate the performance of public administration and increase the citizens' awareness of micro and macro circumstances in public finance management and oversight of public spending.

Therefore, in 2022, SAO maintained the existing forms of cooperation and intensified the process through new forms of cooperation with state institutions, professional and other organizations from the civil sector by signing memoranda of cooperation.



Assembly of the Republic of North Macedonia

The purpose of this MoC is to promote cooperation in the execution of competences of both the Assembly and SAO by setting up professionally sustainable and efficient relations for strengthening efficiency and transparency in public finance oversight. The signed MoC regulates the method of communication and exchange of information and data in relation to audit reports, technical assistance and cooperation with Assembly's professional committees in the field of audit, by organizing joint meetings, trainings, briefings and other events for better informing of MPs and clarification of audit reports.

This MoC regulates the manner of reviewing final audit reports or summary reports for a group of entities at a session of the relevant working body of the Assembly, but also the manner of consulting and deciding on final audit reports or summary reports to be reviewed at Assembly sessions.



Representatives from the Assembly actively participated in the workshops and study visits organized within Component 3: Improved function of the legislative control of the Assembly based on review and discussion of SAO audit reports.

In March 2022, at the invitation of the President of the National Assembly of the Republic of Bulgaria, Auditor General had a meeting in the National Assembly together with the President of the Bulgarian National Audit Office and the president of the Subcommittee for Control of Public Assets in the National Assembly. The main topic of the meeting was cooperation between parliaments and SAIs, exchange of experience on the manner of reviewing and discussing final audit reports by the relevant parliamentary committees for more

effective implementation and acting upon audit recommendations.

In April 2022, Auditor General together with the President and Deputy President of the Bulgarian National Audit Office met with the President of the Assembly of the Republic of North Macedonia. They discussed the cooperation of the Assembly and SAO, once again supporting the important role of SAO as an institution that audits all key institutions. The main reason for this meeting was the successful cooperation of the SAIs of Republic of North Macedonia, Republic of Bulgaria and Republic of Croatia as partners in the EU financed twinning project "Improving External Audit and Parliamentary Oversight", which resulted in new Draft State audit Law.

In June 2022, in Ohrid, Auditors General of the Republic of North Macedonia and the Republic of Croatia held a meeting with the President of the Assembly of the Republic of North Macedonia. The meeting was organized in support of the activities for strengthening cooperation between SAO and the Assembly. At the meeting, the President of the Assembly and the Heads of both SAIs discussed how to improve mutual cooperation following positive practice of EU member states.

Within the twinning project activities, in September 2022 SAO submitted the first "Summary report on conducted performance audits on the measures of the Government of the Republic of North Macedonia for dealing with the crisis caused by Covid-19". The report summarizes the key findings of the three performance audits that were conducted in line with SAO Annual Work Program for 2021.

New Manual was prepared within the same project component titled "The role of the State Audit Office and the Assembly in strengthening efficiency of public finance management". Other acts were also prepared to facilitate understanding of the audit reports.

Through active support for taking measures upon audit recommendations and encouraging a change in the use of public funds (money and property) by public sector institutions will contribute to increasing common good.



Public Prosecutor's Office of the Republic of North Macedonia

SAO and the Public Prosecutor's Office signed MoC in 2022 to strengthen communication and deepen cooperation between the institutions. This MoC regulates the method of communication, consultation and delivery of final audit reports to the Public Prosecutor's Office for further action, and exchange of data and information for more efficient action on ascertained irregularities through implementation of trainings and workshops where state auditors and public prosecutors would jointly exchange practical experience and strengthen knowledge and skills about the significance of irregularities in audits and their treatment in criminal prosecution proceedings.

In 2022, representatives of SAO and PPO participated in a workshop titled "Strengthening cooperation and communication between the State Audit Office and the Public Prosecutor's Office of the Republic of North Macedonia" where they discussed and exchanged opinions on the topic. Both institutions also nominated contact persons for continuous communication.

In addition, in cooperation with USAID was organized one-day event for representatives of SAO, PPO and the State Commission for the Prevention of Corruption, to discuss the method of exchange of information and acting upon final audit reports.

**State Audit Office, Public Procurement Bureau,
State Commission for Public Procurement Appeals,
State Commission for Prevention of Corruption
and Commission for Protection of Competition**

Informal advisory and coordination body was established with this MoC, intended for exchange of experience in the scope of competences of all signatories related to the national public procurement system, promotion of cooperation, sustainability and improvement of the public procurement system as well as consistent and harmonized application of the Public Procurement Law and the by-laws in this area. SAO representatives actively participated in the development of the Strategy for the Advancement of the Public Procurement System for the period 2022-2026¹⁰, as well as in drafting of the Manual on the most common mistakes in the implementation of public procurement¹¹.

Educational institutions

SAO has signed MoC with the Faculty of Economics at Ss. Cyril and Methodius University in Skopje and the University of Southeast Europe to express consent to cooperate by encouraging and affirming areas of common interest, as well as ensuring availability of professional exchange of experience. Based on the signed MoC in 2022, representatives of these higher education institutions took an active part in events organized by SAO. The active cooperation was also carried out by answering questionnaires, which were used as basis for preparation of publications, scientific papers or analyses in the field of auditing and the system of internal controls of these higher education institutions.

10 <https://www.bjn.gov.mk/wp-content/uploads/2022/03/Strategi-a.pdf>

11 <https://www.bjn.gov.mk/priracnici-za-avni-nabavki/priracnik-za-na-chestite-greshki-pri-sproveduva-e-na-postapkite-za-avni-nabavki/>

Civil organizations

Institute for Democracy "Societas Civilis" - Skopje

To encourage and affirm areas of common interest that are also subject to state audit, in particular strategic planning, communication activities, research, organizing debates, training and education SAO signed MoC with "Societas Civilis".

Within this cooperation it will be possible for SAO to distribute data and information of public nature structured for the needs of "Societas Civilis", to have active communication and participate at events where SAO findings and recommendations will be presented within the analysis of audited topics. SAO employees have participated in numerous workshops intended for encouraging public debate on prevention and fight against corruption in support of the reform process in the Republic of North Macedonia.



STATE AUDIT OFFICE Memorandum of understanding



Center for Civic Communications

SAO continuously monitors the public procurement procedures in auditees and points out ascertained shortcomings and weaknesses in the phases of planning, implementation and execution of public procurement procedures. In 2022, SAO continued its cooperation with the Center for Civil Communications in the area of public procurement within the workshops on "Green Public Procurement", aimed at identifying and encouraging application thereof and reducing risks of corruption, as well as in the final regional conference on the state of play of public procurement in the Western Balkan countries, where state auditors shared their experience from public procurement audits.

Transparency International

SAO also participated in the research on the "National Integrity System" implemented within the action "EU4 Rule of Law: Citizen Engagement for Public Integrity (CEPI) in the Western Balkans and Turkey" supported by the European Union. With the analysis and evaluation of 15 pillars of integrity in line with the methodology prepared by the Secretariat of Transparency International, an answer will be given on the effectiveness of national efforts for dealing with corruption.

One of the pillars that are part of this analysis is SAO. This pillar is evaluated through indicators that refer to the independence, transparency, integrity and responsibility of this institution in the

implementation of its powers. In December 2022, Auditor General gave an interview and data from that interview as well as data from requests for access to public information will be included in the report that is due in the fall of 2023.

The public

SAO is an independent institution that enables citizens to monitor the spending of public funds by providing information on the work of public institutions and the measures that should be taken to ensure responsible and transparent public funds management. During 2022, in accordance with the Law on Free Access to Public Information, SAO has received five requests for public information and provided answer within the legal deadline. In addition, in line with the National Action Plan for Open Government Partnership and the commitment "Proactive disclosure of information of public nature on the websites of the institutions", SAO has published on its website all documents that are of interest to the public.

2.3

COOPERATION WITH COMPETENT AUTHORITIES ON AUDITS AND EFFECTS THEREOF

For achieving the main audit objective - watching over public funds and improve public funds management, as well as timely detection of deviations from accepted standards and violations of the principles of legality, efficiency, effectiveness and economy in public funds management, SAO provides clear and effective recommendations for prevention or impediment of future deviations and damages. The corrective measures in line with the audit recommendations enable auditee's management to improve the effectiveness, efficiency and economy of operation.

In 2022, through clear, real, objective and timely information on ascertained irregularities, non-compliance with legal regulations, illegal managing of public funds and possible cases of corruption and abuse of power, SAO contributed to fulfillment of part of the competences of the Assembly of the Republic of North Macedonia.

SAO pays due attention to processing and analyzing information contained in final audit reports of authorized state auditors. Data is processed regularly with an integrated, autonomous and functional software application, which provides reliable, updated, timely and relevant information for the needs of SAO, competent authorities and other stakeholders.

With regular submission of final audit reports to the Assembly and other competent authorities, SAO draws attention to the ascertained weaknesses in the operation of audited entities.

We continuously record, monitor and analyze the feedback received from the Public Prosecutor's Office, State Commission for Prevention of Corruption, Ministry of Finance - Financial Police, Ministry of Internal Affairs and Deputy Prime Minister in charge of Good Governance Policies, for acting upon final audit reports that were submitted to these institutions.

The effect of the ascertained shortcomings that point to irregularities and illegalities in the operation of auditees for improving public funds management can be expected only if the competent institutions take necessary measures for overcoming these shortcomings.

Monitoring and informing about the activities taken by the competent institutions for overcoming detected irregularities and illegalities in auditees' operation is one of SAO strategic objectives.

SAO activities related to prevention of corruption are carried out in accordance with the powers and obligations set forth in the State Audit Law, the Law on Public Prosecution, the Law on Prevention of Corruption and Conflict of Interest, signed MoCs, as well as other relevant legislation.

With the implementation of the Annual Work Program for 2022, SAO has submitted audit reports to the following competent institutions:

- 22 audit reports for 19 audited entities to the Public Prosecutor's Office;
- 5 audit reports for 4 audited entities to the State Commission for Prevention of Corruption;

- 139 audit reports for election campaign participants to the State Commission for Prevention of Corruption, ex officio in accordance with the amendments to Article 85-b of the Electoral Code ("Official Gazette of the Republic of North Macedonia", no. 42/20);
- 1 audit report to the Ministry of Internal Affairs and the Ministry of Finance - Financial Police;
- 1 audit report to the Judicial Council of the Republic of North Macedonia;
- 26 audit reports for 21 audited entities (audits) to the Deputy Prime Minister in charge of Good Governance Policies.

As requested by the European Commission in relation to the screening process, in January 2023 SAO submitted request to the competent authorities for feedback on activities taken upon submitted final audit reports in the last 5 years.

In April 2023, SAO submitted request to the competent authorities for providing feedback on the activities taken upon submitted final audit reports.

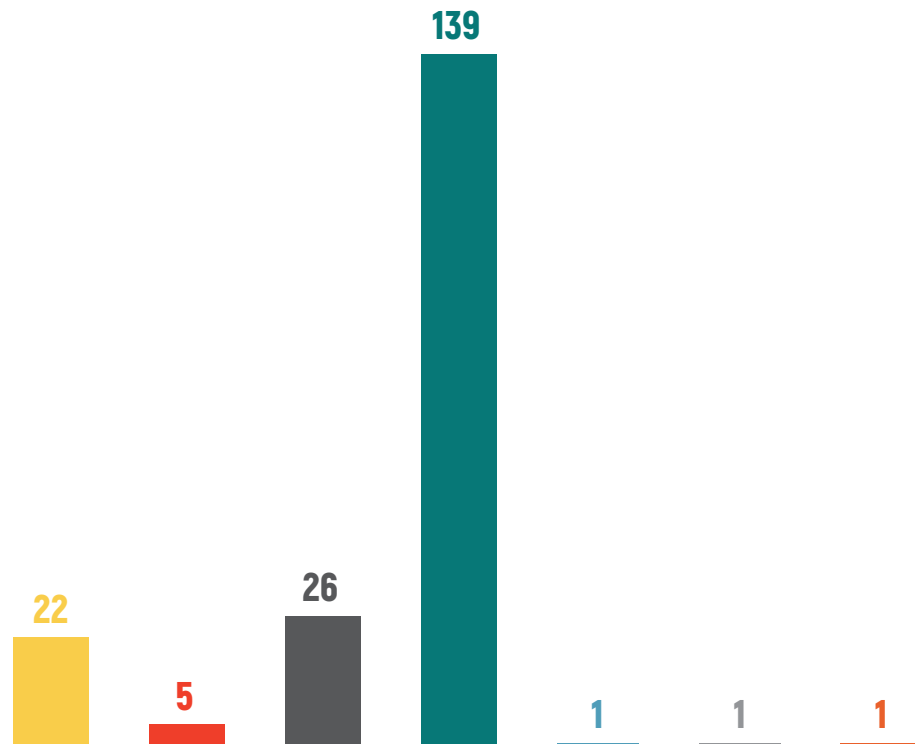
Until the drafting of this Report, SAO has received feedback from the Public Prosecutor's Office and the Ministry of Finance - Financial Police.

SAO actively cooperates with all state authorities for prevention and fight against corruption within the Protocol on Cooperation for Prevention and Repression of Corruption and Conflict of Interest.

SUBMITTED FINAL AUDIT REPORTS TO THE COMPETENT INSTITUTIONS



2022 SAO Annual Work Program



- Public Prosecutor's Office
- State Commission for Prevention of Corruption
- Deputy Prime Minister in charge of good governance policies
- State Commission for Prevention of Corruption, Electoral Code Article 85-b
- Judicial concil
- Ministry of Internal Affairs
- Financial police



**ADMINISTRATIVE
CAPACITIES**

3.1 ORGANIZATIONAL STRUCTURE AND HUMAN RESOURCES

SAO pays due attention to building modern, efficient and functional human resources management system using SAIs best practice and internationally accepted methodology.

SAO devotes attention to providing and creating a cultural and professional work environment and an atmosphere suitable for learning, progress and development of competencies aimed at successful operation and execution of the legal mandate.

The State Audit Office and the state auditors are recognized by the high values and principles they nurture and develop:

	professional skills
	responsible performance
	quality, professional ethics and integrity
	collegiality and teamwork
	transparency
	gender equality and equal opportunities
	innovation and



independence of authorized state auditors and state auditors in relation to auditees, state institutions and other users of public funds.

SAO enables employees to maintain and increase their interest to work in the institution through:

- continuous improvement of working conditions
- equal conditions for employment and promotion
- continuous upgrade of professional skills of employees and
- adequate remuneration consistent with the results achieved.

These principles and values are the foundations of the good management in SAO and have an overall effect on the conduct of employees, but also help the employees transform the way they work and give clear guidance on further development of the human resources.

Following development trends of SAs, requirements of international standards, as well as obligations from signed MoCs, in December 2022, SAO prepared new Functional Analysis, which was the first step in making changes in the internal organization and execution of work processes for ensuring greater efficiency and effectiveness of operation. The analysis provided comprehensive, detailed and essen-

tial overview of SAO competences and the needs for realization of SAO strategic objectives and making state audit more efficient and effective.

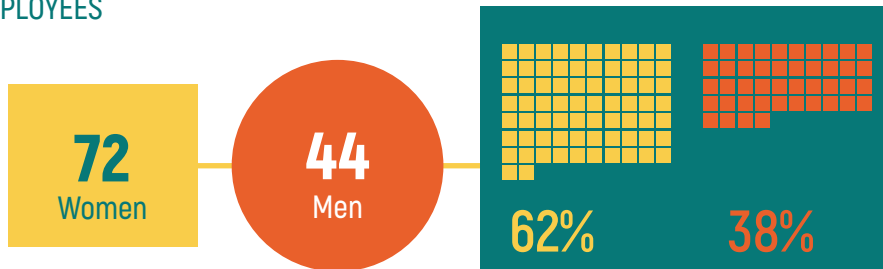
Based on the functional analysis, SAO adopted new acts for internal organization and systematization. New department for audit of corruption and Innovative laboratory as a unit within the IT Audit Department were formed.



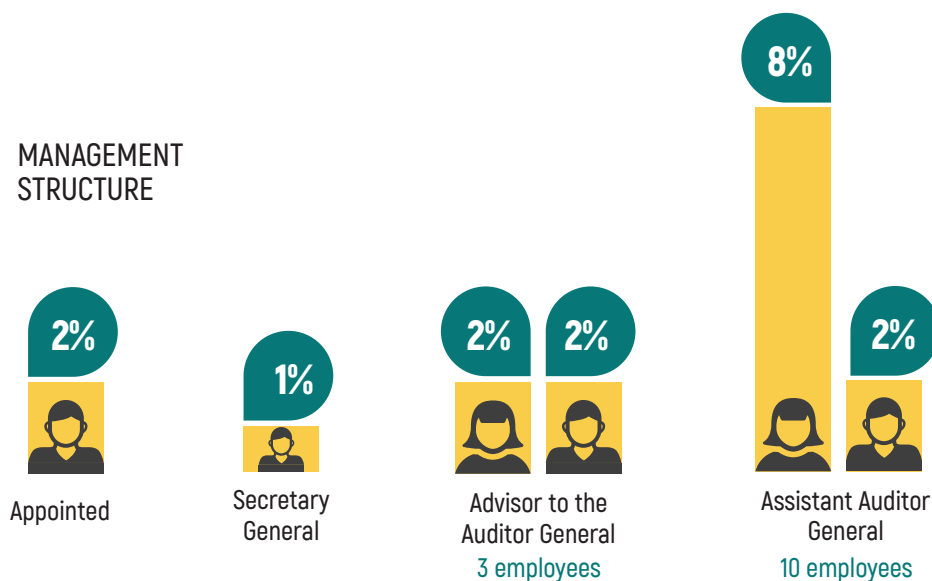
HUMAN RESOURCES

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EMPLOYEES

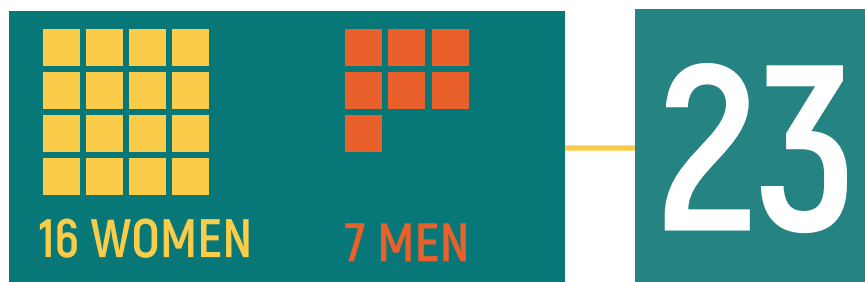


MANAGEMENT STRUCTURE





GENDER STRUCTURE OF HEADS OF AUDIT TEAMS



GENDER STRUCTURE OF STATE AUDITORS, ADMINISTRATIVE SERVANTS, SUPPORT AND TECHNICAL PERSONNEL



3.2 | PROFESSIONAL DEVELOPMENT OF AUDITORS

SAO continuously takes on activities for strengthening knowledge and skills of human resources to achieve high professional level of work and an atmosphere suitable for learning, progress and development of all employees.

SAO conducted survey/questionnaire (answered by 71% of employees) in accordance with INTOSAI and ISSAI requirements aimed at obtaining more detailed information about the needs for continuous professional development. The survey was used for defining priority areas for employees' training, which are contained in the Annual Plan for Continuous Professional Development for 2022.

The Annual Plan for professional development was implemented with internal resources and by using national and international experts in the relevant field. The organization of trainings was carried out by SAO with the help of international organizations, professional associations, international initiatives, as well as private legal entities from the country and abroad that offer education in several areas related to state audit on 40 different topics.

For receiving feedback on the quality of trainings, SAO regularly conducts evaluations, which showed that more than 80% of employees have positive opinion on the trainings i.e. that the trainings would contribute to improving their work.

During 2022, specially designed trainings were conducted for newly employed state auditors with the aim to facilitate their professional adjustment in the new work environment, while enabling them to gain practical experience for their job position by performing various audit tasks, as well as by participating in various trainings.

Strengthening knowledge and skills of SAO employees is also achieved through implementation of parallel, international joint and cooperative audits within INTOSAI community, as well as through activities within twinning projects, and bilateral cooperation between SAIs.

Study visits of SAO employees to other SAIs were also carried out. Through participation in seminars, workshops and conferences organized by INTOSAI and its regional organizations, European Court of Auditors, SIGMA, as well as in cooperation with the international organizations UN Women, UNDP, National Democratic Institute, Westminster Foundation for Democracy (WFD) and others, it was possible to increase the knowledge and skills of SAO employees.

The Annual plan was implemented completely through the following trainings:

	Audit, methodology trainings – basic and advanced level
	Accounting and financial reporting
	Practical application of INTOSAI auditing standards (ISSAIs)
	Prevention of fraud and corruption, and integrity
	Information technology
	Data analysis
	Soft skills development and personal development
	Legislation
	Protection and provision of access to public information
	Public procurement
	Taxes and contributions
	Audit of local self-government units
	Strategic and annual planning
	Gender responsive budgeting and
	Other types of training

3.3 IT RESOURCES

In 2022, SAO continued with the necessary and planned procurements for ICT and data security aimed at modernizing SAO information system and providing support in the audit process.



VPN and FTTP

The procurement and installation of a modern solution was successfully carried out, which offers protection of network traffic, data and services, and also provides higher protection in the VPN connection.

The use of remote access by auditees for providing electronic data at the request of the audit was successfully implemented in 2022 as well.



Audit management system

Procurement of application solution for collecting data for the annual report, which implied development of software solution for SAO specific needs. Procurement was also carried out to upgrade the audit management system – the key electronic system for the work activities, based on various audit processes. The AMS was upgraded with several new modules, which will significantly facilitate the work of audit teams.



Equipment and applications

As a novelty, application solution was introduced for maximum efficient use of resources for printing audit reports and other documents. The results of its use are more than satisfactory.

Concerning the needs of employees, SAO procured laptops with the latest version of the operating system, as well as external hard drives for auditors doing field work. The practice of unifying the equipment and tools that auditors use in the audit process continues, as well as protection of data received from auditees and data encryption at the user level.



IT Training

For new employees, training was provided for familiarization with the information system, appropriate use of IT resources, software tools, applications and the audit management system, which are actively used in the audit process, as well as familiarization with IT policies and procedures as basis for successful, correct and safe use of assets and data.



Video conferences

The practice of using the platform to hold online video conferences and meetings with internal and external parties and trainings continued this year. In this way, numerous activities were easily carried out, when due to the bans related to the pandemic it was impossible to have physical presence of all parties.



CAATs

The development of information technology and its use by auditees has provided for the use of CAATs in the audit process. Computer assisted audit techniques help the auditors to perform series of automated tests for evaluation of entity's information system or electronic data. CAATs provide higher level of certainty as well as sufficient and appropriate audit evidence. SAO uses IDEA software to analyze data used for generating financial statements and for audit sampling.



IT policies and procedures

Unimpeded functioning of the IT system infrastructure and applications was ensured, taking into consideration the principles and rules for availability of data of authorized user, confidentiality, integrity, secure data storage in a central location, compliance with laws, regular backup and protection from physical and logical access to data.



Information system security policy and ISO 27001:2013

In addition, SAO Information System Security Policy was consistently applied, with particular attention to the application of IT security procedures and IT procedures for AMS implementation. In 2022, information security policies and procedures were updated in line with ISO 27001:2013, which provides clear direction and support for information security, i.e. safeguarding confidentiality, integrity and availability of information and information systems.

3.4 FINANCIAL RESOURCES FOR SAO OPERATION

In line with the provisions of the State Audit Law, the financial resources for SAO operation are provided by the Budget of the Republic of North Macedonia. SAO budget is prepared within the frames of the requirements and needs of the institution. The Assembly of the Republic of North Macedonia votes separately on SAO budget as a separate item in the Budget of the Republic of North Macedonia.

SAO continuously and devotedly invests in the execution of its powers delegated by law and in achieving the performance indicators for its operation. SAO, as an organization with high standards for operation and financial management, has set up performance indicators for measuring results of its operation i.e. the added value of SAO work.

By providing sufficient financial resources for unimpeded execution of competences, SAO would be able provide direct return of funds to the Budget of the Republic of North Macedonia through detected tax evasion.

Namely, with the performed audits of the Annual Work Program for 2022, SAO provided return to the Budget of the Republic of North Macedonia in a ratio of 1:11, that is one SAO budget provided a return to the Budget of the Republic of North Macedonia of at least 11 SAO budgets. The unpaid, less calculated and less paid funds in the Budget of the Republic of North Macedonia amount to 1464 million denars or about 23 million euros.

The approved SAO budget for 2022 for the core budget accounts (637, 631) amounted to 142.845.000 denars. The realization of revenue amounts to 136.158.000 denars or 95.31%, while the realization of expenditure is 135.788.000 denars or 95.05%.

Of these, 139.875.000 denars or 97.92% are funds provided from the core budget account 637 and 2.970.000 denars or 2.08% are funds from the core budget account 631.

Budget Account 637

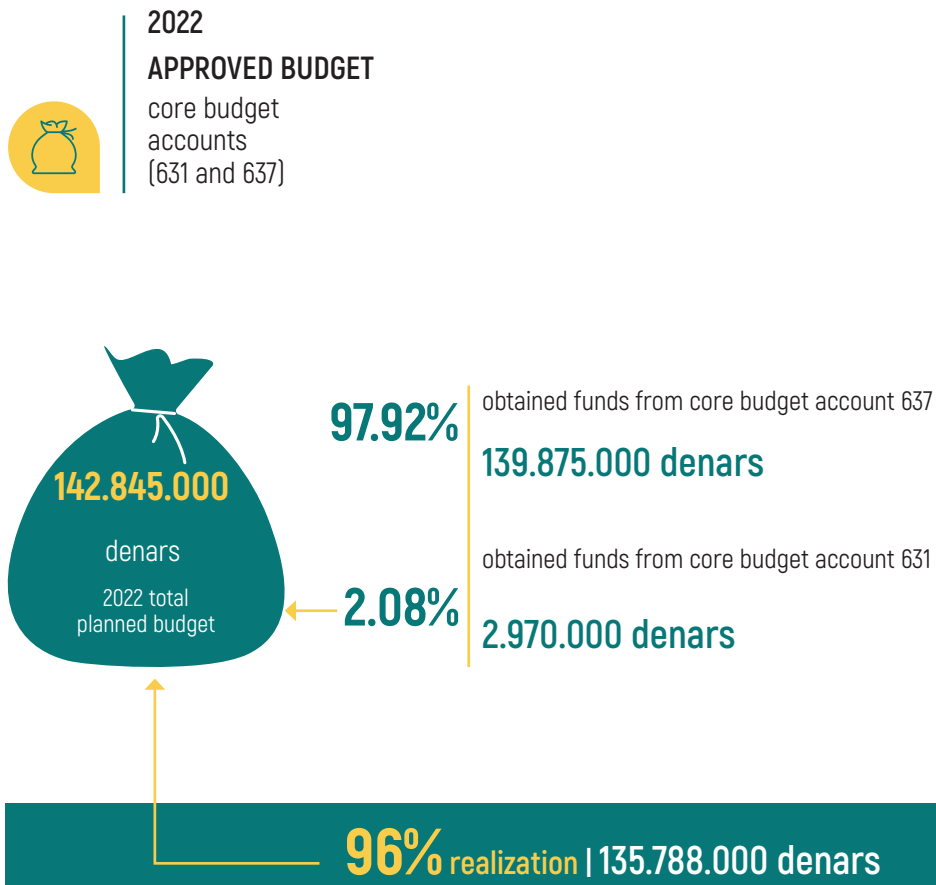
The approved budget for 2022 on the core budget account 637 amounting to 139.875.000 denars has 96% realization i.e. 133.664.000 denars.

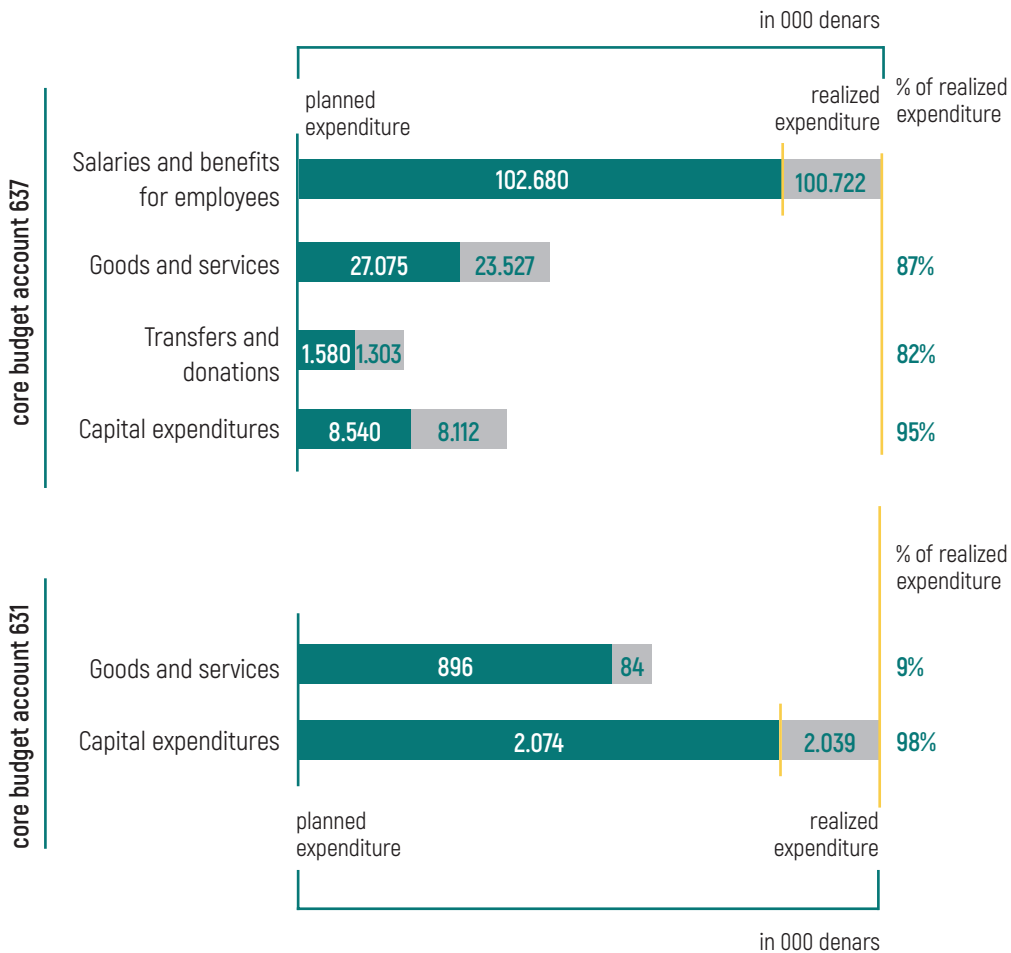
Planned expenditure in the amount of 102.680.000 denars or 73.4% refers to salaries, contributions and compensations of employees, 27.075.000 denars or 19.4% for goods and services, 1.580.000 denars or 1.1% for transfers and donations and 8.540.000 denars or 6.1% for capital expenditures.

As for the structure of realized expenditure, 100.722.000 denars or 75.4% refers to salaries and compensations of employees, 23.527.000 denars or 17.60% for goods and services, 8.112.000 denars or 6% for capital expenditures and 1.303.000 denars or 1% for various transfers.

In the structure of realized expenditure for goods and services in 2022, the largest share are utilities, heating, communications and transport in the amount of 10.231.000 denars; travel and per diems amount to 3.935.000 denars; office supplies and small inventory 1.283.000 denars; 2.442.000 denars for repairs and ongoing maintenance; 3.638.000 denars for contract services, 1.998.000 denars for other current expenses and 1.303.000 denars for various transfers.

8.112.000 denars were spent on capital expenditures with 95% realization of the planned budget. These capital expenditures were spent based on detailed plans and analysis of the needs for procurement of new fixed assets, as well as replacement of existing ones as part of the standard cycle of asset replacement for improving SAO operations.





Budget Account 631

The total planned budget on the core budget account 631 for 2022 amounting to 2.970.000 denars has 71.5% realization i.e. 2.124.000 denars as of 31 December 2022.

The revenue on this account in 2022 amounts to 2.494.000 denars, and refers to collected revenue from conducted audits before the entry into force of the State Audit Law in 2010 and the transferred

revenue surplus from the previous year. In 2022, realized expenditure on this budget account amounts to 2.124.000 denars. As for the structure of realized expenditure, capital expenditures account for 96% or 2.040.000 denars and refer to procurement of vehicles. Realized expenditure for goods and services amount to 84.000 denars (4%) and refer to expenses for communication services. Unspent funds at the end of the year amounting to 370.000 denars were transferred as surplus revenue for the following year.

Donor Account 785

In 2022, INTOSAI and SAI of Saudi Arabia announced a call for grant applications intended for improving resilience and continuity in operations through ICT support. SAO applied and received donation / grant in the amount of 30.000 USD intended for procurement of IT equipment i.e. 18 laptops and 2 drones.

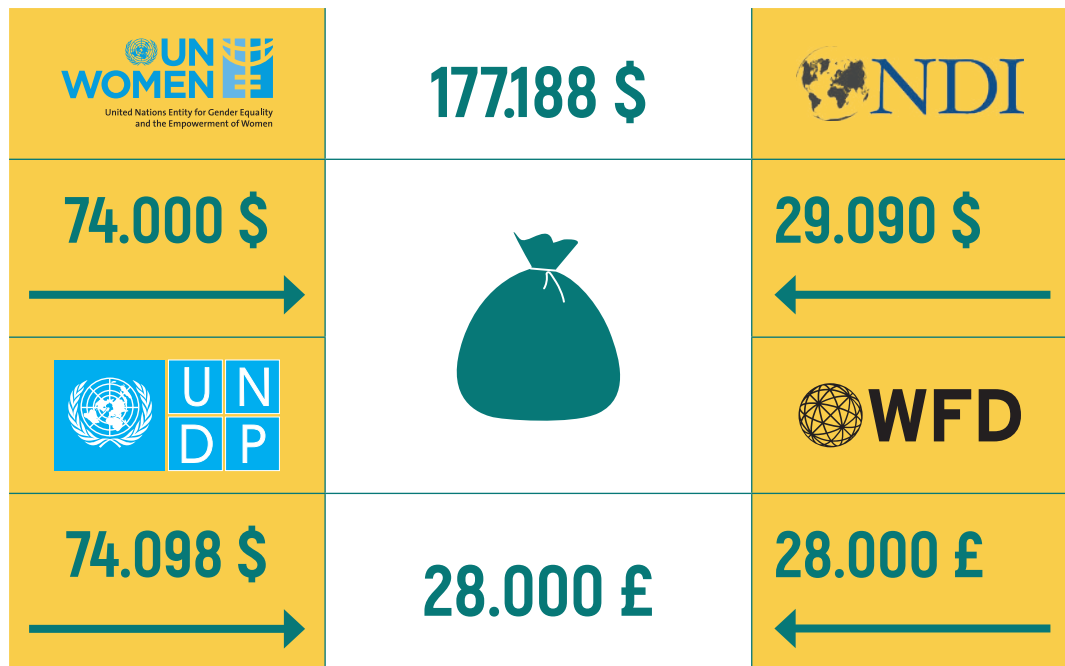
In December 2022, SAO opened donation budget account no. 020021504078550 to receive the grant funds from the General Court of Audit - Saudi FISP.

No transactions were recorded on this account in 2022 because the funds were transferred in January 2023.



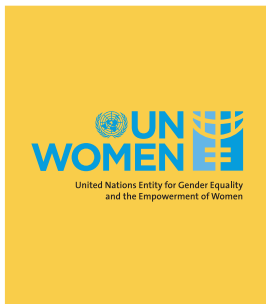
RECEIVED DONATIONS IN 2022

Donor-funded activities



External audit company elected by the Assembly of the Republic of North Macedonia audits SAO financial statements.

The independent auditor report on SAO operation is integral part of the Annual Report on performed audits and operation of the State Audit Office.



To strengthen SAO capacities for including gender perspective in performance audit and execution of gender audits, UN Women provided support of 74.000 USD for preparation of methodology guidelines on gender audit, as well as expert assistance in the execution of gender audits, visualization of audit results, and participation of state auditors in workshops in the country and abroad (regional meetings and study visits) for exchange of experience and good practices with other SAIs.



The cooperation with UNDP aimed at continuous improvement and education of SAO employees was realized through a series of workshops on audit of local self-government, financial statements on accrual basis, analysis of risks and typology of persons. The financial support for these activities amounted to 74.000 USD.



The National Democratic Institute (NDI), in collaboration with the National Endowment for Democracy (NED) provided financial support for SAO in the amount of 29.000 USD for exchange of experience and practices in relation to oversight of public funds by the legislative authority and cooperation with the state audit at central and local level in the United States of America.



In favor of the implementation of SAO Communication Strategy, the Westminster Foundation for Democracy in the country provided financial support in the amount of 28.000 GBP intended for improvement of SAO communication and cooperation with the competent institutions, the Public Prosecutor's Office, the Assembly, NGOs, journalists and the media. WFD also provided expert support for execution of three performance audits.

Support of SAO work by international organizations - donor-funded activities

SAO is making continuous efforts to achieve cooperation with a large number of international organizations in order to provide support for its activities aimed at reaching the strategic objectives.

3.5 | SUSTAINABLE DEVELOPMENT AND ENVIRONMENTAL PROTECTION

Environmental protection is one of the key issues and activities of interest to the citizens of our country as well as globally. For those reasons, SAO continuously invests in activities aimed

at improving sustainability and environmental protection, through the performed audits and given recommendations, but also through its own efforts:

Carrying out environmental audits



Membership in INTOSAI AND EUROSAI working groups

SAO continuously carries out audits in the field of environment and climate change. With the Annual Work Program for 2022 SAO planned and executed the audits on environmental protection.

SAO is active member EUROSAI and INTOSAI Working Group on Environmental Auditing (WGEA).



Waste selection

Waste selection cans have been placed in SAO premises and contracts have been signed with economic operators for collection of selected waste.



Reduced use of paper

The Rulebook on the manner of performing state audit provided conditions for submitting audit reports in electronic form. In addition, application solution has been introduced for maximum efficient use of resources for printing audit reports and other documents.



Energy efficiency

SAO headquarters building is energy efficient with a modern heating, cooling and lighting system. SAO has started activities for installing photovoltaics. In energy crisis conditions, SAO in the last quarter of 2022 achieved 35% of electricity savings, compared to the same period of the previous year.



**INTERNATIONAL
COOPERATION**

SAO, like other SAIs, has active international cooperation. It provides increased knowledge and skills for the employees, exchange of experience and improvement of effectiveness of audit processes.

The use of video conferencing, webinars and other forms of virtual events continued in 2022 due to the circumstances imposed by COVID-19 pandemic. This approach, though, provided for participation of a larger number of SAO employees. During 2022, SAO took part in numerous international events (meetings, workshops, conferences) and over 90% of the events were organized via video link. All participants had the opportunity to be informed about best practices and to participate in networking as an opportunity to expand knowledge and skills in several areas:

- environmental audit;
- IT support and IT audit;
- development of SAI operations;
- public debt;
- gender audit and gender budgeting;
- audit of municipalities;
- ethics and integrity;
- COVID-19 pandemic as a challenge and opportunity for increasing SAI influence, etc.

SAO is an active member of several international working groups and task forces.

EUROSAI AND INTOSAI WORKING GROUPS



SAO contribution to the implementation of EUROSAI WG activities and programs during 2022 was continuous, according to the conditions imposed by Covid 19.

Participation in cooperative audits with other EU SAIs and beyond remains one of SAO priorities given the fact that this type of cooperation significantly contributes to continuous strengthening of auditors' skills and improving the quality of performance audits.

The benefits of working with other SAIs are manifold. We emphasize the opportunity for auditors' professional development in the form of peer-to-peer activities, flexible approach and use of other participants' experiences, as well as building self-confidence in SAO capacities for performance audit as well as in promoting results achieved by SAO.

EUROPEAN ORGANIZATION OF SUPREME AUDIT INSTITUTIONS (EUROSAI)

CONTACT COMMITTEE



SAO delegation headed by Auditor General attended the regular annual meeting of the Contact Committee of the Heads of EU SAIs, European Court of Auditors, representatives of SIGMA and INTOSAI IDI.

The meeting focused on the strategic tasks and challenges of EU SAIs in assessing the (added) value of the Recovery and Resilience Facility at national and EU level. The purpose of the meeting was issues of common interest with focus on EU policies and financial management, as well as identifying of joint activities for achieving greater impact.

Auditor General also held several bilateral meetings with his colleagues and SAI representatives from member states, candidates for EU membership and the European Court of Auditors, and discussed the independence of SAIs and their influence for better public funds management, the importance of application of auditing standards, human resources as a prerequisite for a professional institution, as well as SAIs performance measurement.



EUROSAI POST-CONGRESS MEETING



At the invitation of the President of SAI of Czech Republic, that is also presiding over EUROSAI, representatives of SAI managements that are EUROSAI members participated in two-day post-congress meeting in Prague.

The focus of this visit was to exchange knowledge and experiences on topics of interest to the external audit to ensure adequate response to the current challenges as well as added value for citizens through the implementation of EUROSAI Strategic Plan 2024-2030. EUROSAI members expressed their willingness to cooperate more closely in finding new tools, audit methodologies and procedures, and to exchange knowledge and experience on topics of particular interest for external audit.

INTERNATIONAL ORGANIZATION OF SUPREME AUDIT INSTITUTIONS (INTOSAI)



In line with INTOSAI motto *Experientia Mutua Omnibus Prodest* (Mutual Experience Benefits All), SAO provides vital contribution to promoting good governance, strengthening transparency,

accountability and fighting corruption, thus contributing to maintaining credibility and strengthening public confidence in public funds management.



XXIV INCOSAI - INTERNATIONAL CONGRESS OF SUPREME AUDITING INSTITUTIONS



XXIV International Congress of INTOSAI (INCOSAI) was hosted by the Federal Court of Accounts of Brazil from 7-11 November 2022. The participation of Auditor General, Deputy Auditor General and Secretary General was planned for this event, but due to justified reasons only Deputy Auditor General took part.

The Congress brought together participants from more than 120 countries to discuss key issues of the external audit community and potential solutions. XXIV INCOSAI focused on two main themes - "The work of Supreme Audit Institutions in the face of public calamities" and "Global voice, global outcome, and far-reaching impact".

The Congress adopted several important documents - the Rio Declaration, Rules of Procedures of the organization, work reports of INTOSAI working bodies as well as INTOSAI Strategic Plan 2023-2028. At one of the Congress sessions, seven new members of INTOSAI management board and two INTOSAI external auditors were appointed for the period 2023-2025.

During the Congress, Deputy Auditor General met with INCOSAI host, the President of SAI Brazil, the Auditor General of SAI Norway, the Comptroller General of US GAO, the President of the General Court of Audit in the Kingdom of Saudi Arabia, the Auditor General of SAI Albania, as well as with representatives from other SAIs and exchanged opinions and experiences on issues related to state audit aimed at application of auditing standards and increasing cooperation between SAIs.

PARTICIPATION IN INTOSAI AND EUROSAI WORKING GROUPS

INTOSAI WORKING GROUP ON ENVIRONMENTAL AUDIT



The 21st meeting of INTOSAI WGEA was held in July 2022 where SAO representatives attended interesting discussions by experts on topics related to "Increasing resilience" in context of climate change adaptation.

Other topics discussed were sustainable transport, climate financing, plastic waste management, and other aspects related to the objectives.

EUROSAI IT WORKING GROUP



SAO representatives in EUROSAI and INTOSAI Working Group on IT Audit took active part in all online workshops, thus increasing their skills and knowledge in IT audit. SAO representatives participated in the Annual Meeting of EUROSAI Working Group on IT Audit held in Bucharest, Romania.

INTOSAI WORKING GROUP ON IT AUDIT



The theme of the 2022 Annual Meeting was IT standards and guidelines - the future of IT auditing. The annual meeting of INTOSAI Working Group on IT Audit was held online in May 2022 to discuss the problem of IT-usage for SAIs' activities optimization and areas of synergies with WGITA.

INTOSAI WORKING GROUP ON PUBLIC DEBT



SAO representatives participated in the virtual Annual Meeting of INTOSAI Working Group on Public Debt. The topic of the annual meeting for 2022 was "Understanding the Post-Pandemic Public Debt Environment (Lessons on PDMA)" and SAO representatives gave a presentation.

SAO is a team leader in the implementation of two activities of the Strategic Plan of this working group for drafting:

- A set of practical procedures for Understanding Public Debt Authorization, Contracting, and Legal Framework of Different Countries
- Research Paper on Mapping SAIs' mandates on the audit of public debt, institutional capacities and the Regional Organization's support and resources

These practical procedures are expected to be adopted during 2023.

EUROSAI WORKING GROUP ON ENVIRONMENTAL AUDIT



SAO representatives took part in the spring meeting on the topic "Water supply and its quality in the aspect of the climate change", where experiences were shared on conducted audits on water management, water management policies at central and local level and their implementation, environmental protection activities, SAI role on the environment and climate change.

In addition, SAO representatives participated in the 20th WGEA Annual Meeting in November 2022 titled "Environmental protection in turbulent times" in the context of climate change adaptation.

EUROSAI TASK FORCE ON MUNICIPALITY AUDIT



SAO made a significant contribution to the work of EUROSAI TFMA, particularly in relation to the implementation of the action plan for 2021/22.

TFMA held a seminar on "Digitalization of Public Service Delivery and Administration in Municipalities" on 19-20 October 2022, in Vilnius, Lithuania with representatives from SAls of North Macedonia, Israel, Lithuania, Austria, Albania, Azerbaijan, Bosnia and Herzegovina, Georgia, Estonia, Malta, Moldova, Latvia, Romania, Poland, Montenegro, Turkey and Spain.

SAO representatives presented the results of conducted IT audit on the topic "The quality of services provided by LSGUs through their web portals" and were moderators of the working group on the topic "Building capacities of local government aimed at digitization of services".

SAO was coordinator of the cooperative performance audit on the topic "Municipalities' own revenues in conditions of pandemic", conducted with the SAls of Albania, Romania, Poland, Slovakia, Montenegro and Turkey. At the fifth annual meeting, SAO presented the results achieved and the activities that follow before the completion of the audit. The summary report of this cooperative audit is expected to be published in mid-2023.

SAO analysis on "Collection of data for monitoring implementation of recommendations in audit reports for LSGUs"¹², was published in January 2022. The analysis is a practical insight into the manner and procedures for monitoring implementation of audit recommendations for different types of municipality audits for TFMA member SAls. The analysis was based on a questionnaire and its answers from 23 out of 27 TFMA members.

Monitoring implementation of recommendations is of particular importance for good governance as an important segment for ensuring transparency and accountability. The analysis presents SAI various practices for ensuring more efficient functioning of the systems.

¹² https://www.tfma.eu/page.aspx?id=110;https://www.tfma.eu/files/files/tfma%2012-16/2_5_Questionnaire%20analysis_eng_Jan%202022_by%20MKSAAO.pdf?fbclid=IwAR0ZxcvjD8Jttr1kjWYIJJ_dWEAjWdBvHnT517FMUF_Gd2v65ALE9CN242s

NETWORK OF SAIs OF CANDIDATE AND POTENTIAL CANDIDATE COUNTRIES AND THE EUROPEAN COURT OF AUDITORS

At the regular annual meeting of liaison officers held virtually in May 2022, the focus was on the activities for implementation of Network's Outline Work Plan for 2022 and beyond. Five virtual workshops were held within the parallel performance audit project.

Professional and financial assistance for the project was provided by SAI of Sweden, in coordination with the Joint Working Group on Audit Activities (JWGAA) and with participation of ECA representatives.

YOUNG EUROSAl (YES) CONFERENCE



The Fifth Young EUROSAl Conference (YES) on the topic "Experimental Culture" was held in September 2022 in Stockholm, Sweden with 90 participants.

The purpose of this conference is to build professional community among young people within EUROSAl, to promote cooperation between members and enrich the professional and social experience, professional values and standards of young SAI representatives that would benefit all SAIs.

SAO representatives took an active part in the conference and held a joint workshop with colleagues from the European Court of Auditors on the topic "The Power of Visualization" with special reference to the Annual Report on performed audits and operation of the State Audit Office for 2021.

According to evaluation data for the event and the quality of presentations, as well as the opinion of the Auditor General of Sweden, SAO representatives had the best presentation.

BILATERAL AND REGIONAL COOPERATION

STATE AUDIT INSTITUTION OF SERBIA

As a result of the long successful bilateral cooperation, in 2022 Auditors General of North Macedonia and Serbia signed Cooperation Agreement. The agreement defines cooperation activities and areas, including implementation of parallel performance audits and exchange of experience for improving the audit processes in line with international standards and EU best practice.

In 2022, audit teams of both institutions carried out cooperative performance audit on a particularly significant and current topic for the entire region "Balanced regional development with special emphasis on demography". The audit teams held three joint meetings, discussed normative arrangement, scope, methodology approach, audit objectives and expectations, and exchanged experiences and results for all audit phases.

At the last meeting in December 2022 the teams defined the timeframe for preparing the joint report. In addition, new topic for cooperative performance audit was defined titled "Preparedness for implementation of Sustainable Development Goals until 2030", which is expected to contribute to the economic, social and environmental sustainability of the society. This cooperative audit is included in SAO Annual Work Program for 2023.

STATE AUDIT INSTITUTION OF MONTENEGRO

At the invitation of the State Audit Institution of Montenegro, SAO representatives took active part at the regional conference on the topic "Following up on the recommendations of performed audits" held in March 2022. The conference focused on improving systematic and quality follow up on the implementation of audit recommendations, which have a key role in measuring audit impact. The participants shared experience and good practice examples for application of procedures for monitoring implementation of recommendations for regularity, compliance and performance audit.

In May 2022, SAO hosted a delegation of the State Audit Institution of Montenegro. During the bilateral visit, the colleagues from both institutions covered various topics and areas through presentations and discussions including: SAO communication, transparency and accountability, presentation of identified shortcomings, drafting summaries of audit reports and communication tools, presence and promotion on social media and cooperation with the Assembly.

STATE SUPREME AUDIT OF ALBANIA

SAO hosted trilateral meeting with delegations from the SAIs of Norway and Albania.

Auditor General signed Memorandum of Understanding with the President of SAI Albania, which envisages joint future activities for deepening existing cooperation and strengthening partnership and capacities of both institutions.

High-level delegations from all three SAIs held a meeting with the Vice President of the Assembly of the Republic of North Macedonia to discuss systemic and organizational setup of the audit institutions, the cooperation with parliaments, as well as the practice of reviewing audit reports by parliamentary committees and at plenary sessions of the parliament.

NATIONAL AUDIT OFFICE OF KOSOVO

At the invitation of Auditor General of Kosovo, SAO delegation headed by Auditor General and Deputy Auditor General paid official visit to the National Audit Office of Kosovo.

At the meeting, both SAIs presented the achieved results for creating efficient control environment, safeguarding public assets and cooperation with the Parliament. The cooperation will deepen further through sharing experience and knowledge between both institutions aimed at raising the quality of external audit in public funds management in both countries.

BULGARIAN NATIONAL AUDIT OFFICE

SAIs of North Macedonia and Bulgaria fulfilled their mission to be successful example for other institutions to follow on how to achieve productive cooperation through exchange of professional experience and knowledge.

Both Auditors General expressed satisfaction with the results achieved within the twinning project "Improving External Audit and Parliamentary Oversight", noting that the success resulted from complete openness, fairness and honesty of colleagues from both SAIs in sharing knowledge and challenges in everyday work.

The Heads of both SAIs signed cooperation agreement as a continuation of what was achieved and a reflection of the long-term cooperation. The main forms of cooperation will be sharing experience, organization of activities on issues of mutual interest, including consultations, seminars, round tables, conferences on the main problems and challenges in performing state audit. Implementation of parallel, coordinated and joint audits is also envisaged.

STATE AUDIT OFFICE OF CROATIA

The excellent cooperation and communication between both SAIs, as well as the successful implementation of activities within the twinning project, where SAI Croatia was senior partner, continued with organization of bilateral workshops.

The exchange of experience, knowledge and active discussions contributed to strengthening mutual cooperation and providing added value in the performance of state audit. Several audit topics and areas were covered with the bilateral workshops:

- Strategic documents and strategic audit planning;
- Transparency, accountability and communication with stakeholders;
- Key shortcomings and recommendations from conducted performance audits;
- Follow up audits on the measures taken upon audit recommendations;
- Audit of public procurement and most common findings;
- Challenges and risks in the audit of state budget users and financial audit of local self-government units and political parties;

- The role of auditors in cases of fraud or potential or suspected fraud in the course of the audit with special emphasis on the limitation of auditor's liability;
- Ethics and artificial intelligence, issues and initiatives; and
- News in the operation of both institutions and information about conducting state audit.

Each participant had the opportunity to gain knowledge about certain audit areas. Numerous conclusions emerged from the workshops, as well as satisfaction from the excellent cooperation and communication fostered by the two supreme audit institutions.

INTOSAI DEVELOPMENT INITIATIVE



SAO delegation held a meeting with INTOSAI IDI Director General within the frames of the visit to the Office of the Auditor General of Norway to consider possibilities for further cooperation and support to SAO professional development.

In 2023, SAO joined Leveraging on Technological Advancement Pioneers (LOTA) program, which aims to bring technology closer to the audit by analyzing audit processes and developing strategy for using technology in audit as well as audit of governments' use of technology.

FEDERAL COURT OF AUDIT OF GERMANY



In June 2022, SAO delegation headed by Auditor General and Deputy Auditor General held bilateral meetings with delegation of the German SAI headed by its President.

At the meetings, representatives of both SAIs discussed and exchanged practices on several topics and areas concerning SAI mandate, role and scope of activities, digitization of audit processes with the use of new technologies, as well as the future cooperation of both SAIs.

Communication between SAIs and parliaments and reviewing final audit reports were defined as a key short-term activity between both SAIs.

INTERNATIONAL BOARD OF AUDITORS FOR NATO (IBAN)



With the acquisition of the status of the Republic of North Macedonia as NATO member country, SAO as the Competent National Audit Body of the Republic of North Macedonia participates in the meetings of the International Board of Auditors for NATO.

For the third time, in June 2022 SAO with its national representatives and other 29 national representatives of the Competent National Audit Bodies of NATO members, participated in the meeting for reviewing IBAN Annual Activity Report for 2021, and for discussing audit issues of common interest to the participants.

Other international activities

The comparative analysis "Transparency Initiative for the Western Balkans - Focus on COVID-19 and the costs of recovery" prepared by the Western Balkans Democracy Initiative included the Republic of North Macedonia, Serbia and Bosnia and Herzegovina within the initiative for good governance and trust fund for investment climate reform. The aim of this initiative is to support governments in the Western Balkans in identifying opportunities to strengthen fiscal transparency practices during crisis.

In the analysis SAO was pointed out as exemplary regional institution that managed to respond to the crisis' challenges through urgent changes in the planned audits. As a rapid response to the global pandemic, SAO proactively amended its Annual Work Program, even before state of emergency was proclaimed in the Republic of North Macedonia, and included two compliance audits focused on Government's response to COVID-19. This practice continued with the new Annual Work Program, which included four audits related to measures for dealing with COVID-19 crisis.

4.1 PROJECT ACTIVITIES

TWINNING PROJECT "IMPROVEMENT OF EXTERNAL AUDIT AND PARLIAMENTARY OVERSIGHT"

SAO, in cooperation with the SAI Croatia as senior partner and SAI Bulgaria as junior partner fully implemented the twinning project titled "Improving External Audit and Parliamentary Oversight" by 31 October 2022.

The project commenced on 1 February 2021 with financial support of EU IPA 2018 in the amount of 1.5 million euros.

The aim of the twinning project was to improve the efficiency and impact of external audit through

further harmonization of the legal framework and development of methodology tools, as well as strengthening SAO capacities for efficient execution of external audit. In addition, the project aimed to improve parliamentary oversight over public funds and improve cooperation between the State Audit Office and the Assembly of the Republic of North Macedonia.

Twinning project activities were organized and structured in four components.



TWINNING PROJECT MK 18 IPA FI 03 20

"Improvement of External Audit and
Parliamentary Oversight"

Budget 1.5 million euros

21 months | 02.2021-10.2022

Improved external audit legal framework and improved SAO
strategic and annual planning

1

Improved administrative capacities and external audit processes

2

Improved legislative control function of the Assembly
based on review and discussion of SAO audit reports

3

Improved external and internal communication and IT and IT audit capacities

4

All SAO employees were involved in the implementation of the project activities within the components and in the implementation of pilot audits, and gained knowledge about EU audit practice.

The accomplished results and activities within the project were presented at a conference held on 17 October 2022 in Skopje. Improvements to SAO legislative, strategic and methodology acts as well as the lessons learned from the pilot audits and communication tools were presented at the conference.

At the Closing Conference of the twinning project on 21 October 2022, the President of the Assembly of the Republic of North Macedonia and the Auditor General signed Memorandum of Cooperation between the Assembly and SAO. The purpose of this MoC is to establish professionally sustainable relations between SAO and the Assembly for improving oversight of public spending and greater accountability of institutions financed by the State Budget.

The Conference was also attended by different SAO stakeholders - representatives from the EU Delegation in the country, auditees, civil society organizations and the media. The activities and results of the twinning project are contained in the Final Report which was submitted and approved by the Delegation of the European Union in the Republic of North Macedonia.

**UNITED NATIONS ENTITY FOR GENDER EQUALITY
AND THE EMPOWERMENT OF WOMEN
(UN WOMEN)**



In 2022, SAO and UN Women continued to implement the Memorandum of Understanding and Cooperation with the aim to advance the implementation of gender equality obligations in line with national laws and policies as well as international commitments as well as to promote gender-responsive public funds management and accountability through systematic implementation of gender responsive budgeting as a policy-making tool.

To meet the objectives set, UN Women provided support to state auditors for participation in workshops in the country and abroad, as well as support in the implementation of the performance audit "Effectiveness of Government measures on Gender Equality and Gender-responsive Budget Initiatives" and development of Gender Audit Guidelines.

For sharing experience and good practice on inclusion of gender perspective in performance audits, state auditors participated in a study visit to the National Audit Office of Sweden and the relevant line ministries in the country. Two state auditors participated in the training on "Gender Equality and Economy" organized by UN Women Training Center.

At the regional conference held in Istanbul, Turkey on "Transformative Financing as an Accelerator for Gender Equality: Drawing from gender responsive budgeting experiences and lessons learned", Auditor General shared SAO experience and good practice in conducting gender performance audit.

At several workshops organized in Kosovo and Albania, SAO auditors shared their experience and good practice from the implementation of the first gender performance audit in our country.

SAO delegation headed by Auditor General participated in a regional meeting in Banja Luka, Bosnia and Herzegovina between SAIs of North Macedonia, Albania, Serbia and Bosnia and Herzegovina to discuss the possibility for conducting parallel audit on gender equality in the region.

SAO is an institution with high degree of gender balance, both in the management of the institution and among authorized state auditors.

UNITED NATIONS DEVELOPMENT PROGRAM (UNDP)



In March 2022, SAO signed Memorandum of Understanding with UNDP, which defines series of activities to be implemented in the next two years. Several trainings were organized with UNDP support on the following topics:

- audit of financial statements on accrual basis,
- personality types, communication and team cohesion, with focus on MBTI personality typology,
- preparing and audit on financial statements of local self-government units, and
- internal control systems and their functioning.

At the invitation of UNDP Independent Evaluation Office, in October 2022, Auditor General participated in the National Evaluation Capacities Conference on "Resilient Evaluation Systems for Sustainable Development" in Turin, Italy. Auditor General took part in the 11th workshop which focused on the evaluation methodology of UNDP Independent Evaluation Office, as the largest evaluation office in the United Nations system.

At UNDP Annual Conference on Decentralization and Local Governance – a time for opportunity and revisioning" organized in partnership with the Ministry of Local Self-Government, Auditor General participated as a panelist. He emphasized that SAO, as a supreme audit institution, continuously points to systemic weaknesses in LSGUs functioning and operation, and hopes that adopted legal provisions on financing local government and transferred competences will be observed taking into consideration real data, and that there will be serious investment in human resources in LSGUs.

**WESTMINSTER FOUNDATION
FOR DEMOCRACY (WFD)**



In 2022, SAO continued the implementation of the Memorandum of Understanding signed with the Westminster Foundation for Democracy (WFD) and UK Foreign, Commonwealth & Development Office (FCDO). The aforementioned Memorandum envisages support in the implementation of SAO Communication Strategy 2020 - 2023, and implementation of the project titled "Increasing accountability and transparency in Macedonia through improved implementation of SAO recommendations", supported by the British Government. The support relates to the implementation of the remaining activities of the Communication Strategy focused on SAO communication and cooperation with the competent institutions and non-governmental organizations.

In 2022, with the aim of improving SAO communication and cooperation with the competent institutions such as the Public Prosecutor's Office, several workshops were organized for presenting results of SAO work and audits performed as well as for sharing good practice and experience.

At this event, Auditor General presented the identified key shortcomings contained in SAO Annual Report for 2021 before media representatives from national TV stations and internet portals. The media representatives were also introduced to the different types of audit, the structure of audit reports, and SAO communication processes for increasing transparency and accountability in its operation.

Recognizing the importance and impact of performance audit, WFD also provided expert support in conducting performance audits in the field of energy, balanced regional development and local self-government units, which are presented in this report.

SAO, in cooperation with WFD, held a panel discussion on "Municipalities' own revenues for providing quality services to citizens during the pandemic". The panel focused on presentation of results of the public survey on the quality of municipal services in conditions of pandemic, prepared for SAO needs. At the panel discussion, participants exchanged opinion and information related to the efficient operation of municipalities in conditions of pandemic and delivery of quality services to the citizens.

For improved visualization and development of audit activities, four video clips were made for SAO YouTube channel, where SAO operation and audit reports are presented.

For strengthening skills for public speaking and media appearance, SAO employees participated in a workshop on public speaking and public relations, where they learned about the most essential challenges in communication with the media and investigative journalists. During the workshop sessions, participants discussed and exchanged opinion on specific examples of communication with the media, fake news and crisis PR as a tool to protect the institution. Practical advices were also shared on quality public speaking and media appearance. SAO management and auditors took part in a statement recording exercise for strengthening and developing their public speaking and media appearance skills, for better presentation of audit activities and results that add value in the society.

**COOPERATION WITH THE OFFICE OF THE
AUDITOR GENERAL OF NORWAY (OAGN)**



For establishing institutional cooperation of mutual interest for both SAIs, Auditors General of Norway and North Macedonia signed Memorandum of Understanding. The MoU provides for a five-year institutional capacity development assistance for the State Audit Office, based on INTOSAI and EUROSAI principles and standards for professionalization.

The objective of this cooperation is to strengthen SAO capacities to fulfill its mandate and to perform high-quality audits, and thus to promote transparency, accountability and good governance in public funds management in the Republic of North Macedonia.

The cooperation involves different audit departments and types of audits where OAGN has relevant capacities and can add value to SAO work, particularly in performance auditing, setting up innovation laboratory for finding methods and software tools for collection, analysis and presentation of audit data, modernization of work processes through improvement of the audit management system and development of IT audit, and self-assessment of SAO integrity system by applying IntoSAINT methodology.

NATIONAL DEMOCRATIC INSTITUTE (NDI)



In 2022, in cooperation with the National Democratic Institute (NDI) within the project "Strengthening oversight of public funds through leadership transitions" financed by the National Endowment for Democracy (NED), state auditors had the opportunity to exchange experience and good practice in the oversight of public funds by the legislative authority and cooperation with the government audit at central and local levels in the United States of America.

**CHARTERED INSTITUTE OF PUBLIC
FINANCE AND ACCOUNTANCY (CIPFA)**



**AND CENTER OF EXCELLENCE
IN FINANCE (CEF)**



At the invitation of the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Center of Excellence in Finance (CEF), SAO representatives participated in the second international conference on public finance held in Tirana, Albania. The regional conference was an excellent opportunity for exchange of knowledge, experience, best practices and recommendations to accountants and auditors from the public sector. The Conference was focused on change management, transformation and decision-making for management systems with special focus on ensuring quality and sustainability of public services.

In June 2022, during the second international conference on public finances, SAO represented by Auditor General, CIPFA represented by President Mike Driver and CEF represented by Director Jana Repansek signed Memoranda of Understanding for setting up formal basis for cooperation on activities aimed at promoting joint commitments for good management of public funds and good governance, as well as sharing best practices for improving skills and capacities of public institutions and officials, particularly in the area of prevention by creating efficient corruption risk management framework.

For achieving the joint mission in 2022, Auditor General met with CIPFA and CEF representatives.

Workshop titled "Common challenges in the implementation of INTOSAI standards" was organized for increasing knowledge, skills and capacities of state auditors, and two employees actively participate in CIPFA working group for preparing new certification program for conducting performance audit.

This cooperation will deepen in the upcoming period through sharing experience and knowledge, inter alia, by training and certification of state auditors for prevention of risk of corruption.

4.2 | EU INTEGRATION

In July 2022, EU started the opening phase of the accession negotiations with North Macedonia. This followed the decision by the European Council from 2020 to open accession negotiations, as well as the approval by the European Council of the Negotiating Framework for negotiations with North Macedonia, in accordance with the revised enlargement methodology.

In 2022, SAO nominated representatives as members of the working groups for individual areas and chapters in line with the Decision on establishing accession negotiations structure of the Republic of North Macedonia to the European Union and the Decision on institutions whose representatives are part of the working groups for preparation of the negotiating positions for negotiations on the accession of the Republic of North Macedonia to the European Union.

Bilateral screening is the first step in the accession negotiations with the EU, which allows the candidate countries to familiarize with EU laws and standards and the obligations arising thereof, as well as with the country's level of readiness and future plans for further alignment.

Screening is formal operation for assessment of the degree of compliance of national legislation with EU law, the institutional setting for implementation of laws and plans for further harmonization, building institutional capacities, necessary human, financial and IT resources for implementation of European standards, as well as for identifying areas/issues which require transition period.

For adequate response to this challenge, SAO employees participated in series of trainings, explanatory and preparatory meetings, aimed at supporting and preparing for the bilateral screening.

The Cluster - Fundamental Values, as the first and most significant one, covers five chapters related to the rule of law:

- Chapter 23 - Judiciary and fundamental rights;
- Chapter 24 - Justice, Freedom and Security;
- Chapter 5 - Public Procurement;
- Chapter 18 - Statistics;
- Chapter 32 - Financial control, as well as
- Areas of functioning of democratic institutions, public administration reform and public funds management.

SAO was actively involved in the bilateral screening and has contributed to several areas and chapters.

Chapter 32

Financial Control

SAO representatives headed by Auditor General presented its work results, the compliance of SAO operation with ISSAIs, best practices as well as short-term and long-term plans, such as the definition of SAO as constitutional category and the adoption of the new State Audit Law.

Judiciary, Fundamental Rights and Rule of Law

SAO presented its institutional capacities, the activities taken concerning fight against corruption and the inter-institutional cooperation in the fight against corruption. SAO is one of the key institutions in the public sector in the fight against corruption. The results of performed audits, as well as activities taken in the area of gender-responsive budgeting were also presented.

Functioning of democratic institutions

As independent, objective and impartial external auditor, SAO presented the experience from the audit on regular operation accounts of political parties and election campaign financing, in accordance with ISSAIs.

In accordance with the competences prescribed by the State Audit Law and in line with the Annual Work Program for 2022, in the Area- Public Administration Reform as part of the negotiation process within the Cluster - Fundamental Values, SAO carried out performance audit on the activities taken by the competent institutions for efficient implementation of the Strategy for Public Administration Reform 2018-2022, and gave recommendations for promotion and unimpeded implementation of the planned activities in the new Strategy for the Reform of the Public Administration. SAO also conducted performance audit on the topic "Effectiveness of the implementation of the Strategy for Reforms in the Judicial Sector 2017 -

2022 and implementation of the Action Plan of the Strategy", in line with SAO Annual Work Program for 2022. SAO audit recommendations should contribute to improvement of the implementation of the Action Plan for the Strategy 2017-2022, as well as for development of new Strategy and Action Plan 2023-2027 for successful realization of the strategic objectives for reforms in the judicial sector in the Republic of North Macedonia.

SAO actively cooperates with all state bodies for prevention and fight against corruption within the Protocol on Cooperation for Prevention and Repression of Corruption and Conflict of Interest, as well as in the work of other authorities and bodies for the prevention of corruption. SAO also participates in the implementation of the National Program for Adoption of the Acquis (NPAA) for the activities provided in Chapter 3.23. Judiciary and Fundamental Rights, Area - Anti-Corruption Policy, and Chapter 3.32 Financial Control, Area - External Audit, as well as in the work of other bodies and bodies for prevention of corruption.

SAO is part of the family of state bodies that comprise the "Inter-ministerial Body for Coordination of Anti-Corruption Activities". This body has the obligation to coordinate activities of all competent authorities for fight against corruption, to strengthen mutual cooperation and mutual reporting, to exchange information and data and to implement the recommendations contained in GRECO reports of the Council of Europe and from other international organizations.

**AUDITS
PERFORMED**

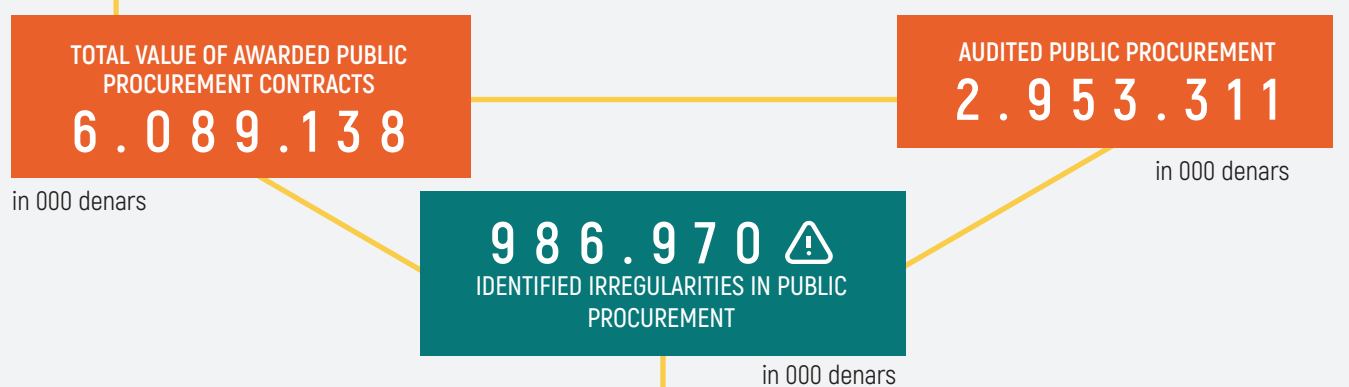
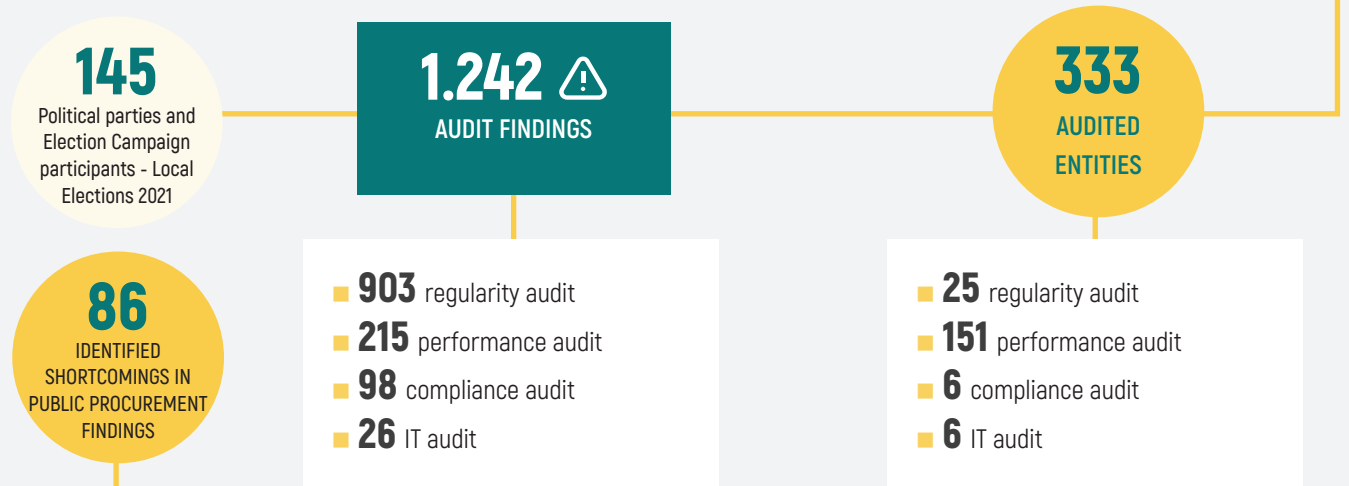
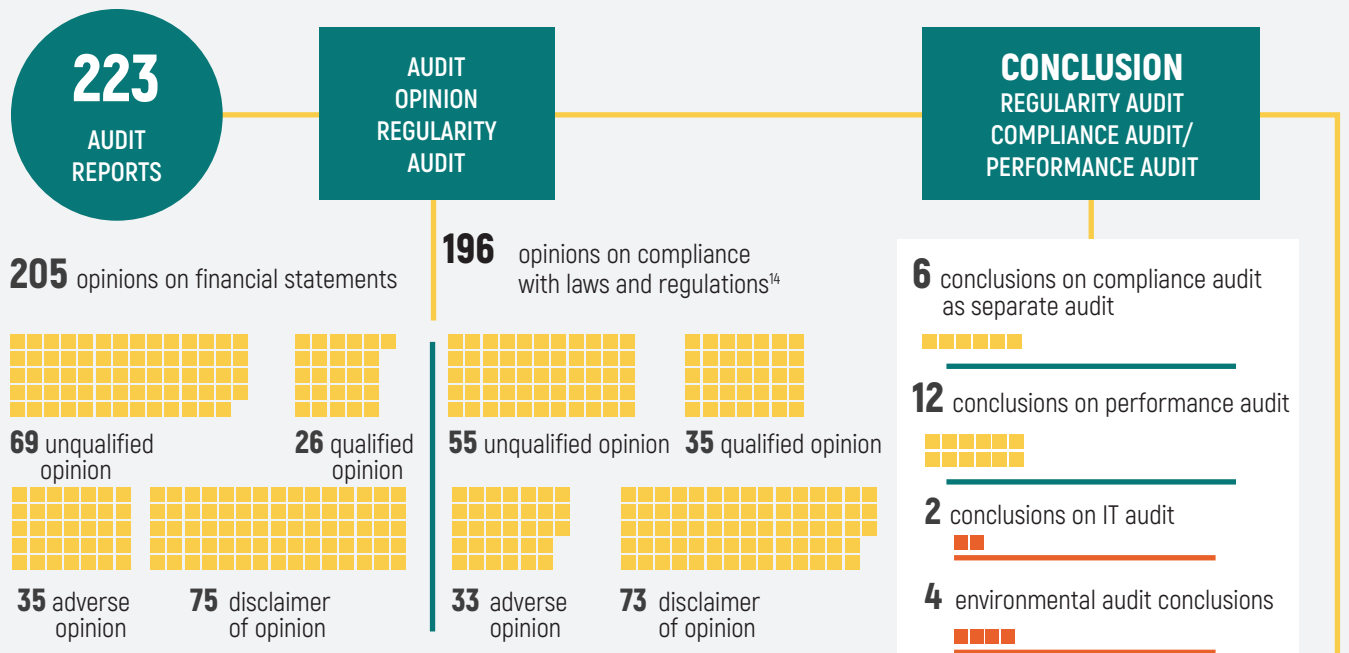
AUDIT ACTIVITY THROUGH FIGURES SAO 2022 ANNUAL WORK PROGRAM

205	12	6
Regularity Audit Reports	Performance Audit Reports	Compliance Audit Reports
4	2	223
Environmental Audit Reports	IT Audit Reports	Audit reports submitted to the Assembly of the Republic of North Macedonia
22	26	139
Audit reports submitted to the Public Prosecutor's Office	Audit reports submitted to the Government - Deputy Prime Minister in charge of Good Governance Policies	Audit reports submitted to the State Commission for Prevention of Corruption ex officio, in accordance with the amendments to the Electoral Code, Article 85-b
1	1	1
Audit reports submitted to Judicial Council	Audit reports submitted to the Ministry of Interior	Audit reports submitted to the Ministry of Finance - Financial Police Office
5	333	1.242¹³
Audit reports submitted to the State Commission for Prevention of Corruption	Audited entities	Audit findings
775	441.508	284.839
Audit recommendations	Audited public revenues (in millions)	Audited public expenditures (in millions)

¹³ The number of audit findings contains 17 other matter issues that are recurrent in final audit reports for all 141 election campaign participants for 2021 local elections; 1 other matter issue is contained in the final audit reports for 19 election campaign participants - election coalitions; and 1 other matter issue is contained in the final audit report for one election campaign participant-group of voters.

32	48	106.201
Follow Up Reviews on the status of implementation of audit recommendations	Follow Up Review Reports on the status of implementation of audit recommendations	Audited assets / liabilities from the Balance Sheet (in millions)
1.464	441	2.341
Unpaid / less paid / public duties / fees in the Budget of the Republic of North Macedonia (in millions)	Unpaid / less paid fees in the budgets of audited municipalities (in millions)	Illegal use of funds (in millions)
6.089	2.953	987
Total amount of public procurements (in millions)	Scope of audited public procurements (in millions)	Total amount of identified irregularities in public procurements (in millions)
139	602	9.716
Completed procurements without public procurement procedure (in millions)	Corrective entries in Balance Sheets (in millions)	Identified shortcomings that affect auditee's activity and capital investments (in millions)
246	6.304	33
Canceled / lost grants (in millions)	Delayed investments / termination of investment grants (approved but undrawn loans/credits/grants) (in millions)	Commitment fee on undrawn credit lines/loans (in millions)

Audit activity through figures



- not implemented public procurement contracts
- weaknesses in public procurement planning phase
- irregularities in preparation of tender documents/technical specification
- weaknesses in deciding on public procurements
- restrictive elements in tender documents in relation to competition

¹⁴ The number of opinions on compliance with laws and regulations is lower than the number of opinions on financial statements because in the final audit reports on financial statements and compliance audit of subsidy budget account (930) for 8 LSGUs and the City of Skopje, the opinion on compliance with laws and regulations is expressed in the audit report of the individual user of earmarked grants.

REVENUE AND EXPENDITURE

The total audited public revenue and public expenditure covered with SAO 2022 Annual Work Program (see graph below) also include public revenue amounting to 9.793 million denars and public expenditure amounting to 9.667 million denars, which refer to legal entities where the state is dominant shareholder (JSC MEPSO), public enterprises and other institutions.

TOTAL 411.508 MILLION DENARS audited public revenue and **284.839 MILLION DENARS** audited public expenditure in line with SAO Annual Work Program for 2022

Compared to the Annual Work Program for 2021, the amount of audited public revenue with performance and compliance audits has decreased. However, there is a noticeable increase in audited public revenue of:





































- Central Budget of the Republic of North Macedonia, around **9.700 million denars**,
- budgets of local self-government units, over **9.000 million denars**,
- beneficiaries of Health Insurance Fund budget, **263 million denars**, which is one third more than last year; and
- regular operation of political parties and election campaign participants - Local Elections 2021, **370 million denars**, which is double than last year.

In regards to the audited public expenditure, we note a significant increase of 49.000 million denars, which is 20% more than the Annual Work Program for 2021. Compared to last years' Annual Work Program, there is significant increase in audited public expenditure of certain type of entities that have an effect on the total increase of audited public expenditure as follows:

- Central Budget of the Republic of North Macedonia, **67.000 million denars**, which is **6 times more** than last year;
- budgets of local self-government units, **8.700 million denars**, which is **4 times more** than last year;
- beneficiaries of Health Insurance Fund budget, **241 million denars**, which is one third more than last year; and
- regular operation of political parties and election campaign participants - Local Elections **2021, 440 million denars**, almost **2.5 times more** than last year.

AUDITED PUBLIC REVENUE AND PUBLIC EXPENDITURE

TOTAL **411.508 MILLION DENARS** audited public revenue and **284.839 MILLION DENARS** audited public expenditure in line with SAO Annual Work Program for 2022

	Audited public revenue	Audited public expenditure
Central Budget of the Republic of North Macedonia	227.343  217.686 	79.847  12.693 
Budgets of Funds	123.039  121.805 	115.742  115.718 
Budgets of local self-government units	12.515  3.393 	11.536  2.829 
Health Insurance Fund budget users	1.045  782 	1.014  773 
Political parties	766  397 	734  294 
Public enterprises	1.659  1.744 	1.709  1.953 
Other institutions /Legal entities in which the state is dominant shareholder	8.134  13.939 	7.958  15.220 
Audited public revenue with performance audit	35.322  94.878 	63.063  79.558 
Audited public revenue with compliance audit	1.685  57.299 	3.236  7.022 

 2022 Annual work program  2021 Annual work program

in 000.000 denars

The scope of audited expenditure of the Budget of the Republic of North Macedonia for 2021 is 82%, which is 2% more than last year. The structure of audited expenditure includes expenditure covered with regularity audit in the amount of 197.337 million denars, i.e. 77%, expenditure covered with performance audit in line with Annual Work Programs for

2021 and 2022 in the amount of 11.620 million denars, i.e. 4%, and expenditure covered with compliance audit in the amount of 2.423 million denars, i.e. 1%.

Compared to the Annual Work Program for 2021, there is an increase in the scope of audited expenditure of the budgets of local self-government units of 31%, compared to last year's 9%.

SCOPE OF AUDITED BUDGET EXPENDITURE

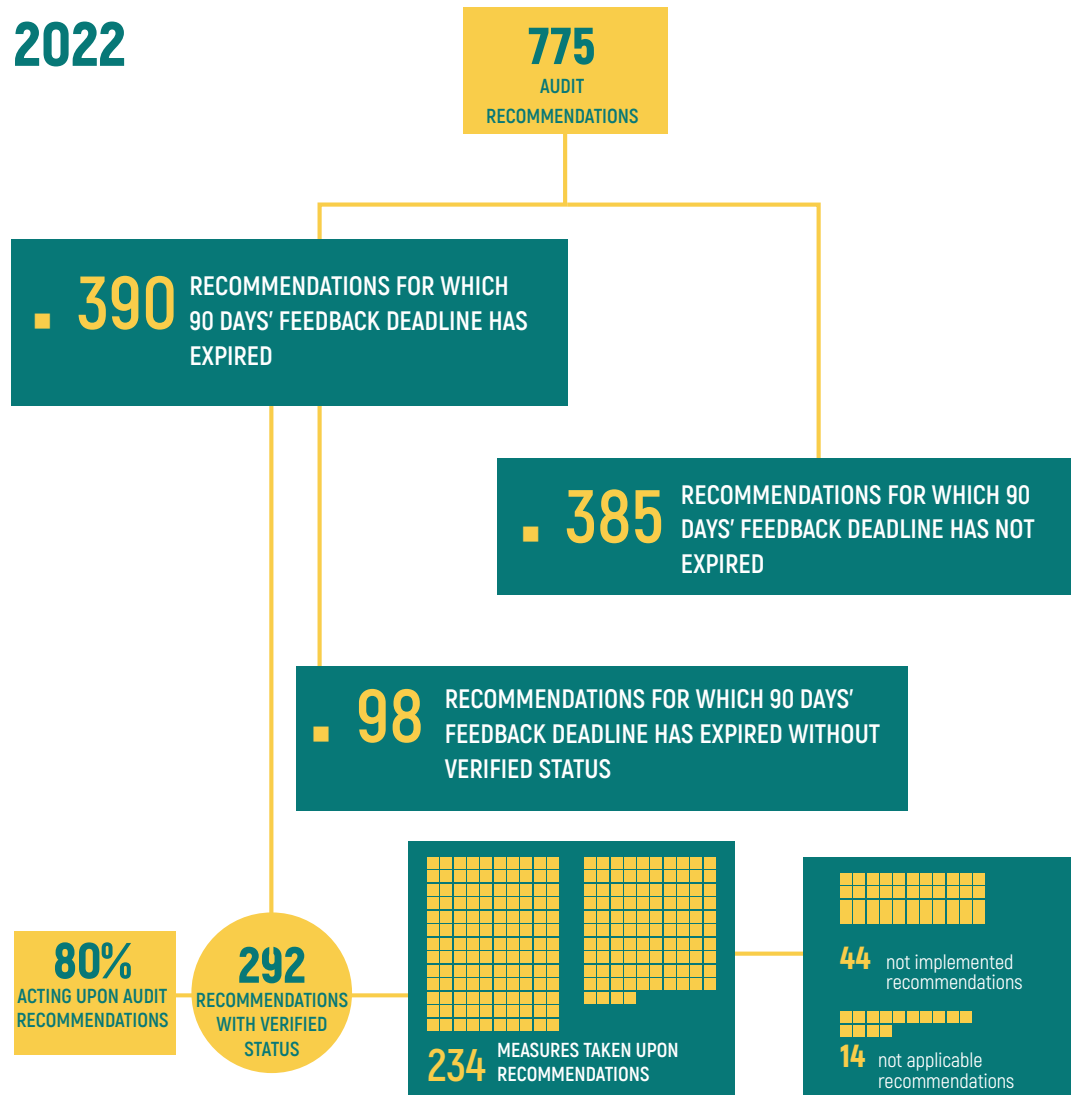
Audited expenditure per budget type (in million denars)	Executed budget for 2021	Audited	Share in %
1	2	3	4
Expenditure of the Budget of the Republic of North Macedonia for 2021 (Final account of the Budget of the Republic of North Macedonia for 2021, Official Gazette of the Republic of North Macedonia 250/2022)	256.906	211.405	82
Budgets of Local Self-Government Units	36.936	11.536	31

AUDIT RECOMMENDATIONS AND IMPLEMENTATION

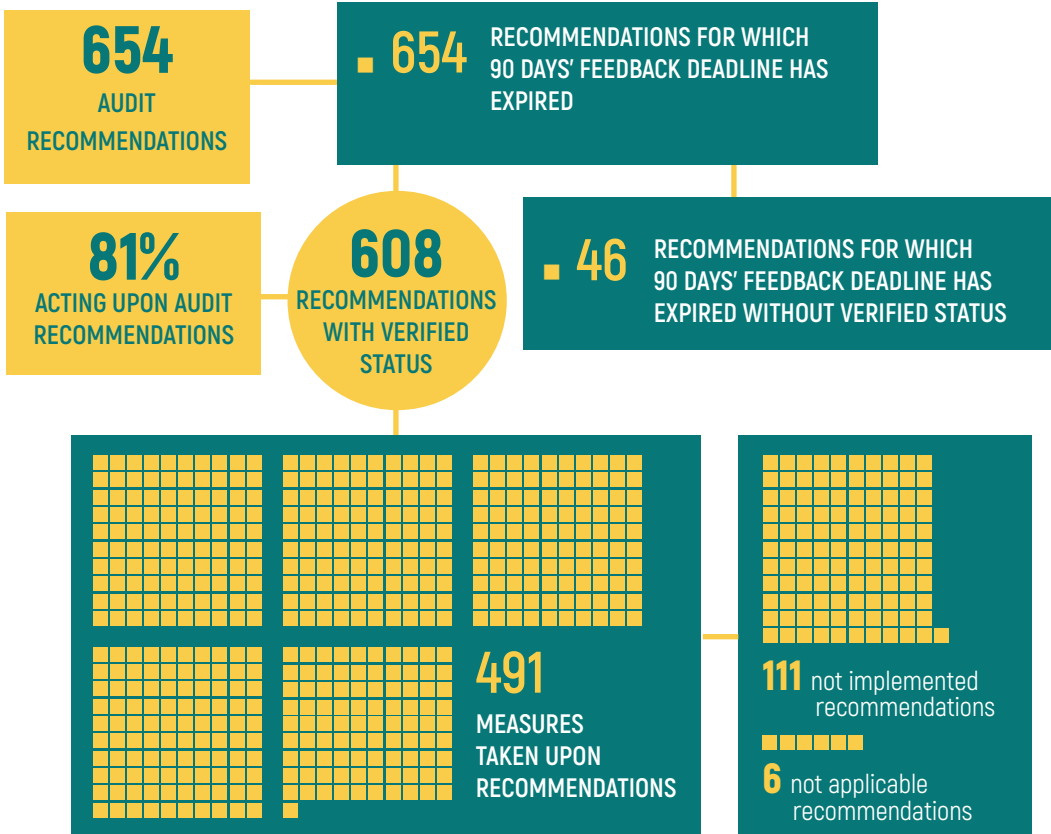
In line with the State Audit Law, the legal representative of the auditee is obliged to inform SAO and the authority responsible for supervision and control of auditee's operation on the measures taken upon findings and recommendations in audit reports within 90 days of the date of receipt

of the final audit report. SAO follows up on the implementation of audit recommendations within regular audits, follow up reviews and follow up audits, as well as through the information provided by the auditees.

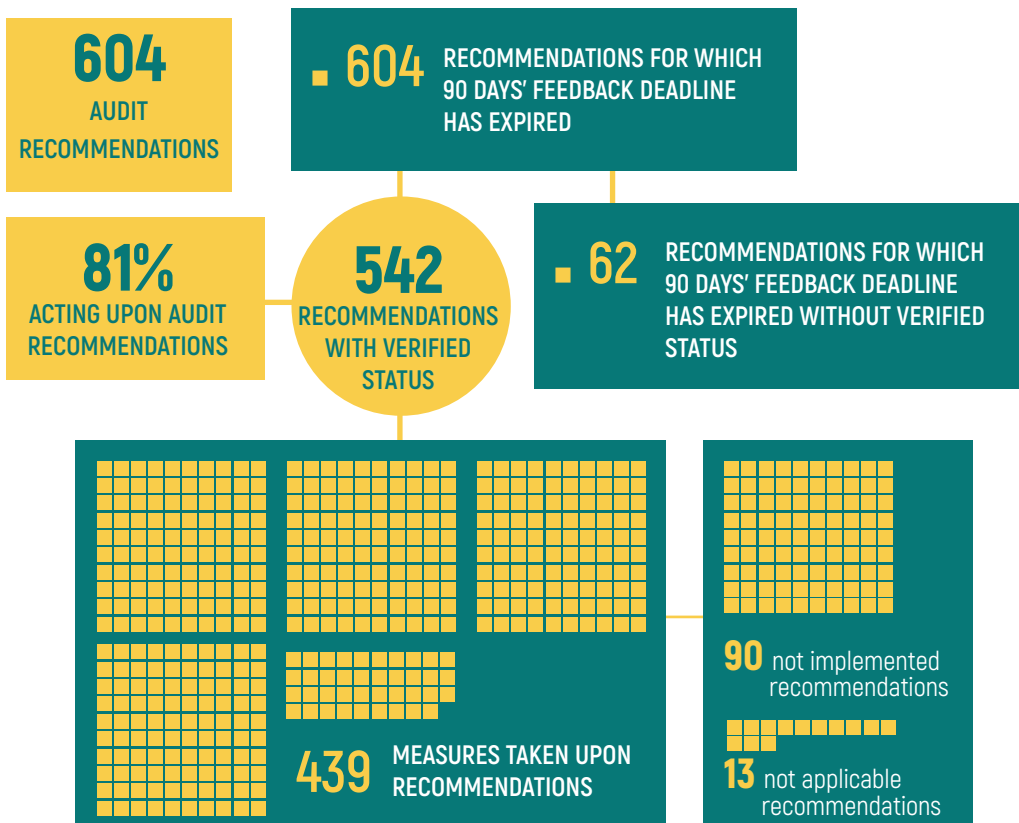
2022



2021



2020



5.1 | AUDIT ADDED VALUE

SAO Annual Work Program for 2022 defines priority activities aimed at achieving objectives and work tasks i.e. SAO strategic objectives.

The activities taken for achieving strategic objectives provide adequate coverage of audited public funds, professional development of employees, conducting performance audits on various programs and projects for achieving accountability and good governance, review of results in terms of economy, efficiency and effectiveness of public sector activities, and informing stakeholders and the public on identified shortcomings in final audit reports.

Key results of SAO operation in 2022 are visible through the following:

- support to the Assembly of the Republic of North Macedonia in fulfilling its competencies by identifying and presenting irregularities, cases of illegal operation and possible cases of corruption and abuse of office;
- providing clear and effective recommendations to state and other public sector institutions on improving public funds management;
- contributing to increasing transparency and accountability in the use of public funds / taxpayers' funds, and thus improving the quality of life of the citizens of the Republic of North Macedonia by delivering services in compliance with the principles of security in providing services, continuity and quality of service, transparency, availability and universal service, protection of users and citizens;
- identifying irregularities concerning tax evasion, non-payment of public duties and fees in the Budget of the Republic of North Macedonia, and thus providing return of invested funds from the Budget of Republic of North Macedonia in SAO;
- audit on awarding public procurement contracts, with special emphasis on awarding public procurement contracts in conditions of pandemic;
- providing guidance on capital investments planning, obtaining necessary funds and monitoring implementation thereof (with particular focus on funds provided by international creditors), and verifying effects of these investments;
- following the level of borrowing and contributing to public finance management.

KEY RESULTS OF STATE AUDIT OFFICE OPERATION

106.200.612
Total assets/liabilities

1.464.468
Unpaid / less paid /
public duties / fees
in the Budget of the
Republic of North
Macedonia

441.862
Unpaid / less
paid fees in
the budgets
of audited
municipalities

2.341.039
Illegal use of
funds

6.089.138
Total amount
of public
procurements

2.953.311
Scope of
audited public
procurements

986.970
Total amount
of identified
irregularities
in public
procurements

**AUDIT
ADDED
VALUE**

139.337
Completed
procurements without
public procurement
procedure

602.006
Corrective
entries in
Balance
Sheets

9.716.228
Identified
shortcomings that
affect auditee's
activity and capital
investments

246.000
Canceled /
lost grants

6.303.750
Delayed investments
/ termination of
investment grants
(approved but
undrawn loans/
credits/grants)

32.700
Commitment fee
on undrawn credit
lines/loans

in 000 denars

5.2 | 2021 BUDGET OF THE REPUBLIC OF NORTH MACEDONIA

5.2.1. 2021 CORE BUDGET OF THE REPUBLIC OF NORTH MACEDONIA

Public funds management serves as basis for implementation of the national policy aimed at ensuring higher economic growth and improving quality of the life of citizens.

Ministry of Finance, as one of the key holders of the process of preparation, adoption, management and execution of the State Budget through medium-term planning, focusses its activities on ensuring financial and macroeconomic stability and fiscal sustainability.

The fiscal strategy is an important strategic document that defines the most important objectives and policies for action, as well as medium-term macroeconomic and fiscal projections for creating the link between defined strategic priorities and available sources of financing, i.e. the Budget. Concurrently, the guidelines and policies contained in the fiscal strategy represent basis for medium-term projections of public revenue and expenditure aimed at strengthened fiscal discipline and appropriate distribution of available funds in accordance with strategic priorities.

During preparation and adoption of the Budget of the Republic of North Macedonia for 2021, the prescribed deadlines for key activities and for adoption of main planning documents were observed. The Decision on identifying strategic priorities of the Government of the Republic of North Macedonia in 2021 was prepared with a delay of four months.

We ascertained the need of strengthening activities for completing budget requests from budget users with strategic plans for effecting an integrated process of planning and budgeting, harmonizing with strategic Government objectives, improving the quality of the Budget planning process and achieving higher degree of realization of strategic priorities.

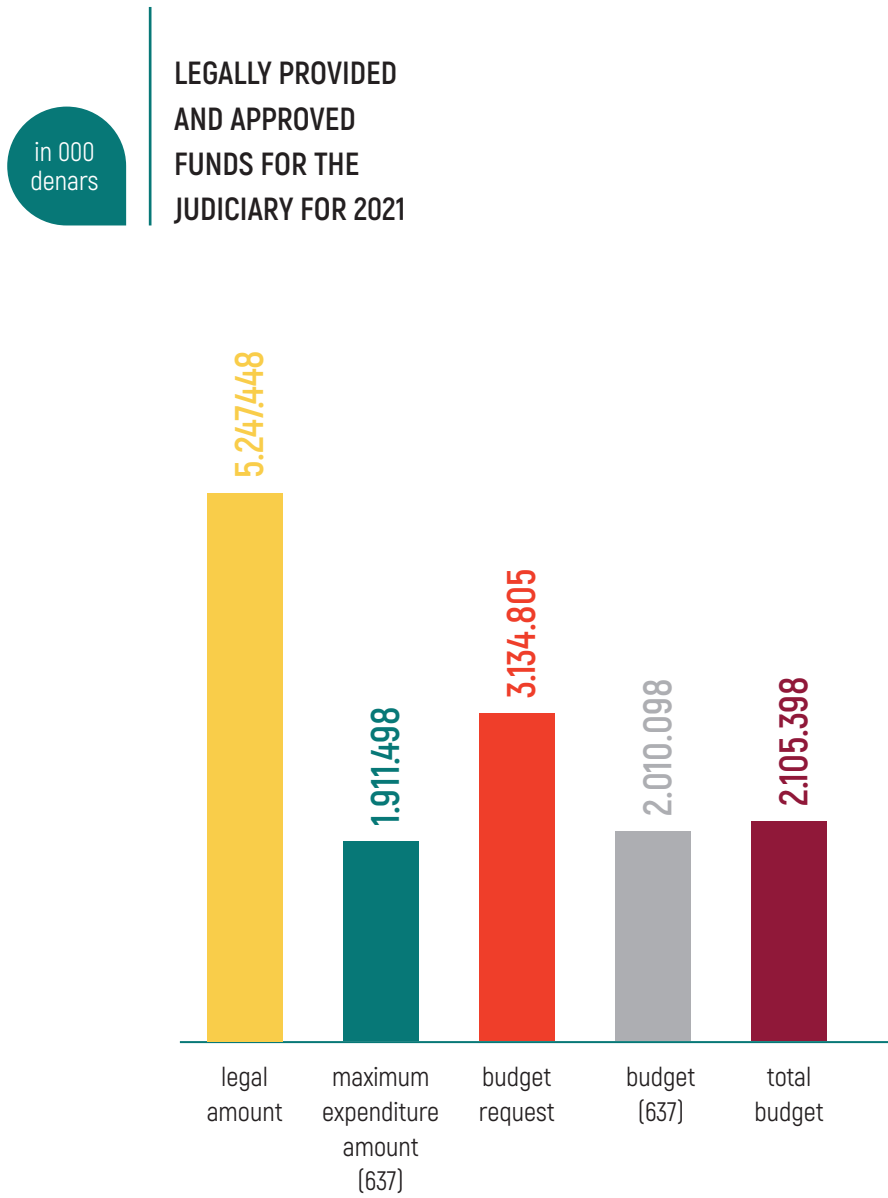
It is important to intensify the process of harmonizing proposals of budget requests of the Ministry of Finance with the Heads of budget beneficiaries to minimize the risk of planned funds not reflecting the real needs of budget beneficiaries. At the same time the Government of the Republic of North Macedonia will be informed about the reasons for non-compliance of requested and approved funds for the budget beneficiaries.

The Core Budget of the Republic of North Macedonia for 2021 (account 637) was adopted in the amount of 196.528.061.000 denars, which is a decrease of 3.78% compared to 2020.

The realization of revenue for the period January-June 2021, as well as the need of providing funds for implementation of activities foreseen by the fifth and sixth set of measures for dealing with the consequences caused by Covid -19 pandemic, had an impact on the initial projections of revenue and expenditure of the Budget of the Republic of North Macedonia for 2021, i.e. its increase to 215 billion denars, which is around 9% more than the originally planned budget.

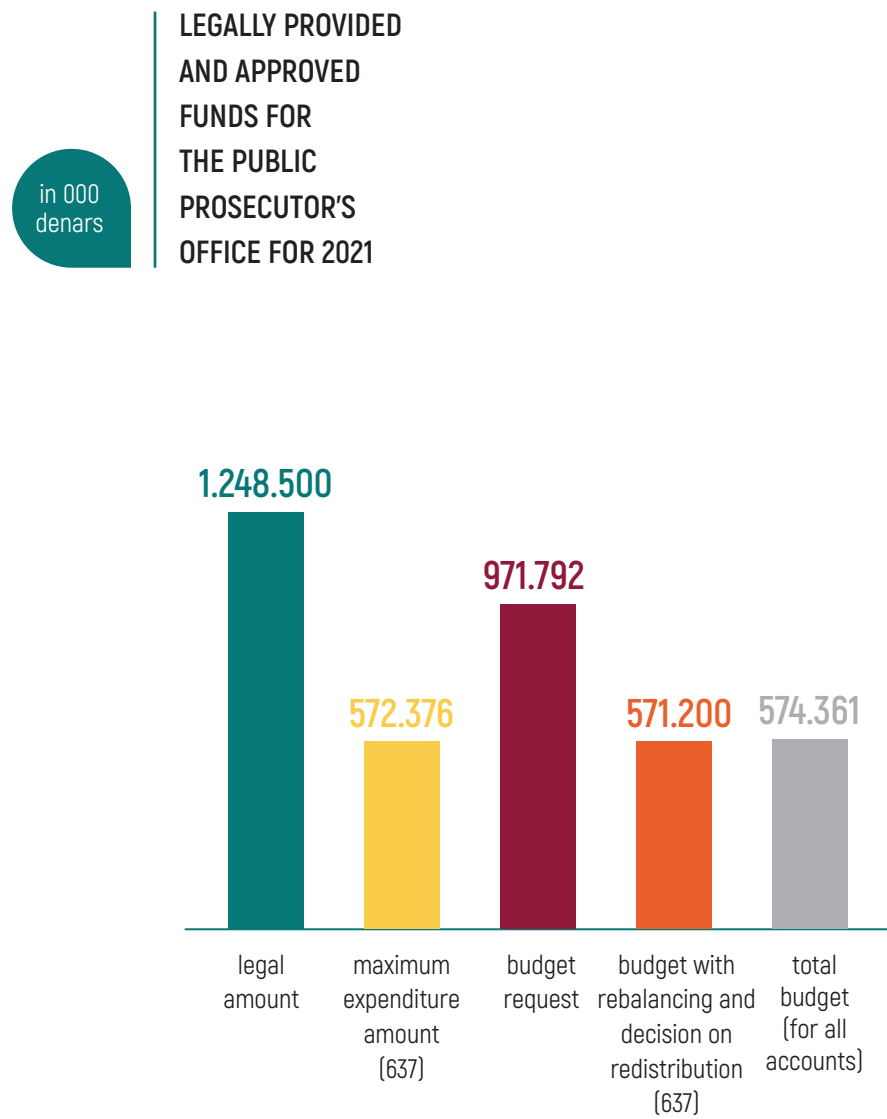
Similar to previous years, the funds allocated from the Budget for 2021 for financing the Judiciary did not reach the legally prescribed percentage, i.e.

2.105.398.000 denars were approved, which is 0.3% of GDP and is 60% lower than the legally prescribed limit.



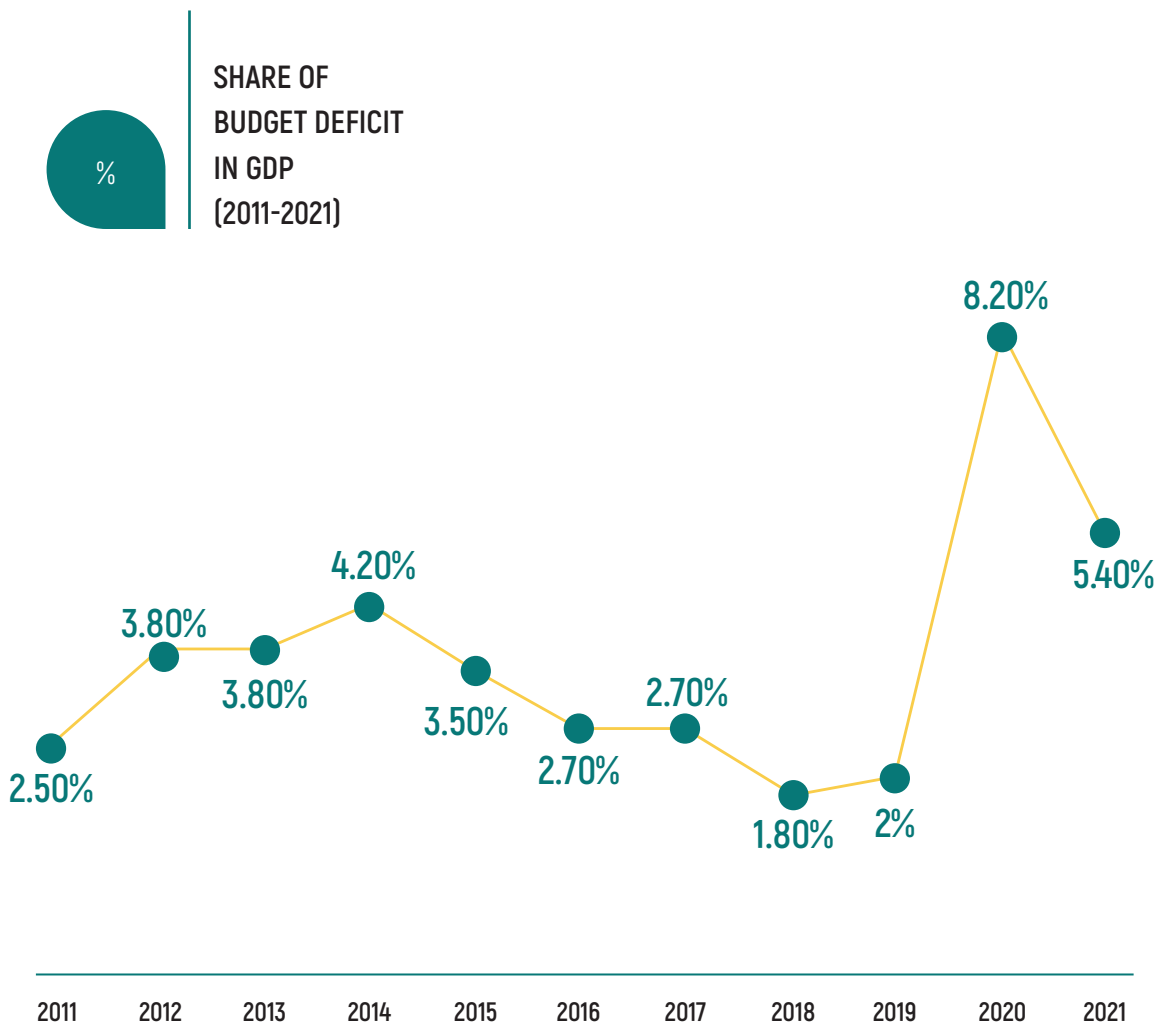
The approved funds for the Public Prosecutor's Office in the amount of 574.361.000 denars represent 0.18% of the Budget of the Republic of North Macedonia for 2021, although in line with the Law on the Public Prosecutor's Office the amount of funds for the operation of the Public Prosecutor's Office should amount at least 0.4% of the State Budget, if

this does not violate the fair distribution of budget funds, which is under 50% of the legally prescribed limit. We ascertained that for the adopted Budget for 2021 there is no document for the agreement reached on the approved funds or a report on the reasons behind the discrepancy between requested and approved funds.



Budget deficit in 2021 is 5.4% of GDP and it is more than the projected 3.2% in the Fiscal Strategy for 2021-2023, i.e. 0.5% above the projected percentage of 4.9% in the revised Fiscal Strategy for 2021-2025, as a result of the unpredictability and risks related to the duration of the pandemic on a global level, the implications on the economy in unpredictable conditions, as well as the implemented packages of economic measures.

Macroeconomic indicators point out that despite the reduction of the Budget deficit by 2.8% in 2021 compared to 2020, the impact of the health-economic crisis still keeps the deficit at higher level compared to previous years, as shown in the following graph:



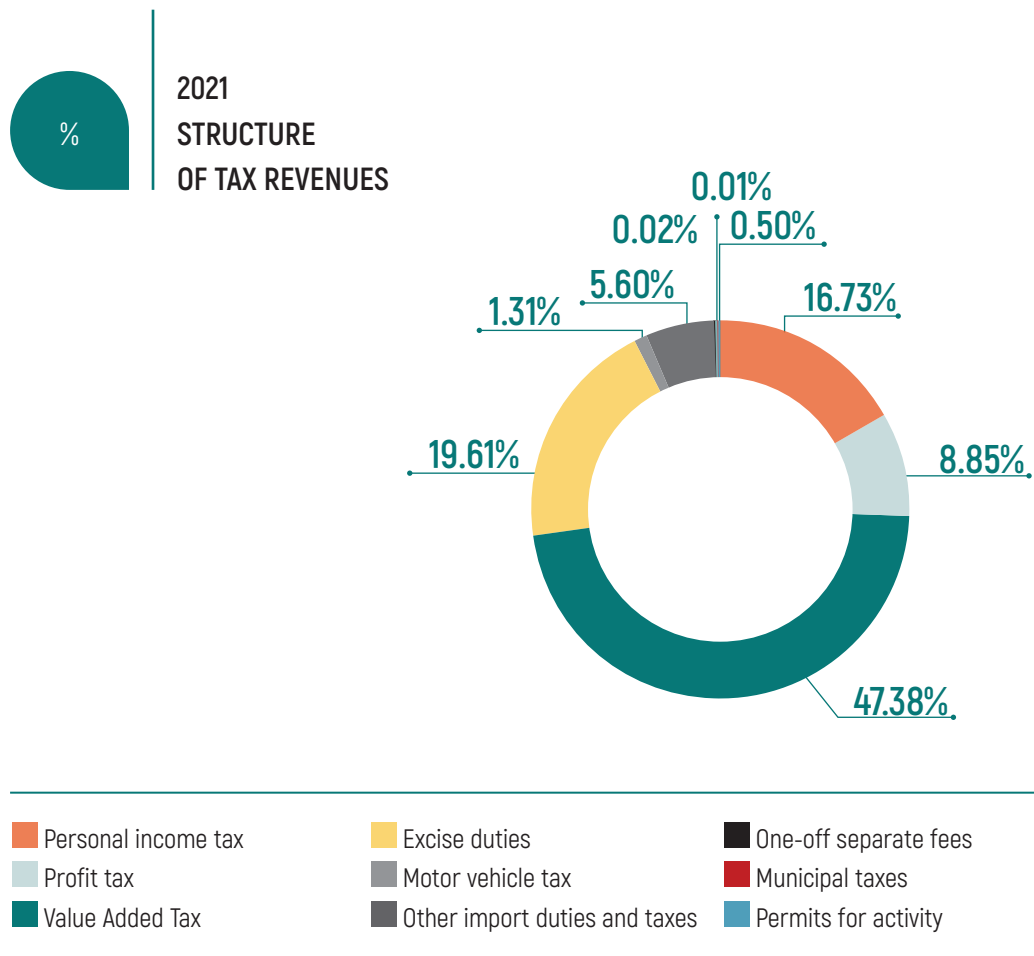
The principle of budget balance was observed in planning revenue and expenditure, which requires total revenue and inflows to cover the approved Budget funds. Borrowing inflows were used to cover the Budget deficit to maintain liquidity of the Budget. In 2021, financing deficit and debt repayments was ensured through foreign and domestic borrowing.

Total revenue and inflows in 2021 were realized in the amount of 226.628.817.000 denars, i.e. 5% more compared to 2020. The increase is mostly due to the increase in transfers and donations by 67%, non-tax revenue by 47%, tax revenue by 18% and capital revenue by 5%. Compared to 2020, the revenue from

loan repayments has decreased by 43%, domestic borrowing by 36% and foreign borrowing by 2%.

In 2021, **tax revenues** under jurisdiction of the Customs Administration and the Public Revenue Office account for 54% in the Core Budget of the Republic of North Macedonia, thus representing the most significant revenues for financing planned expenditure for Budget users for the current year. Compared to 2020, the realization is 18% higher as a result of the increase in all types of tax revenues.

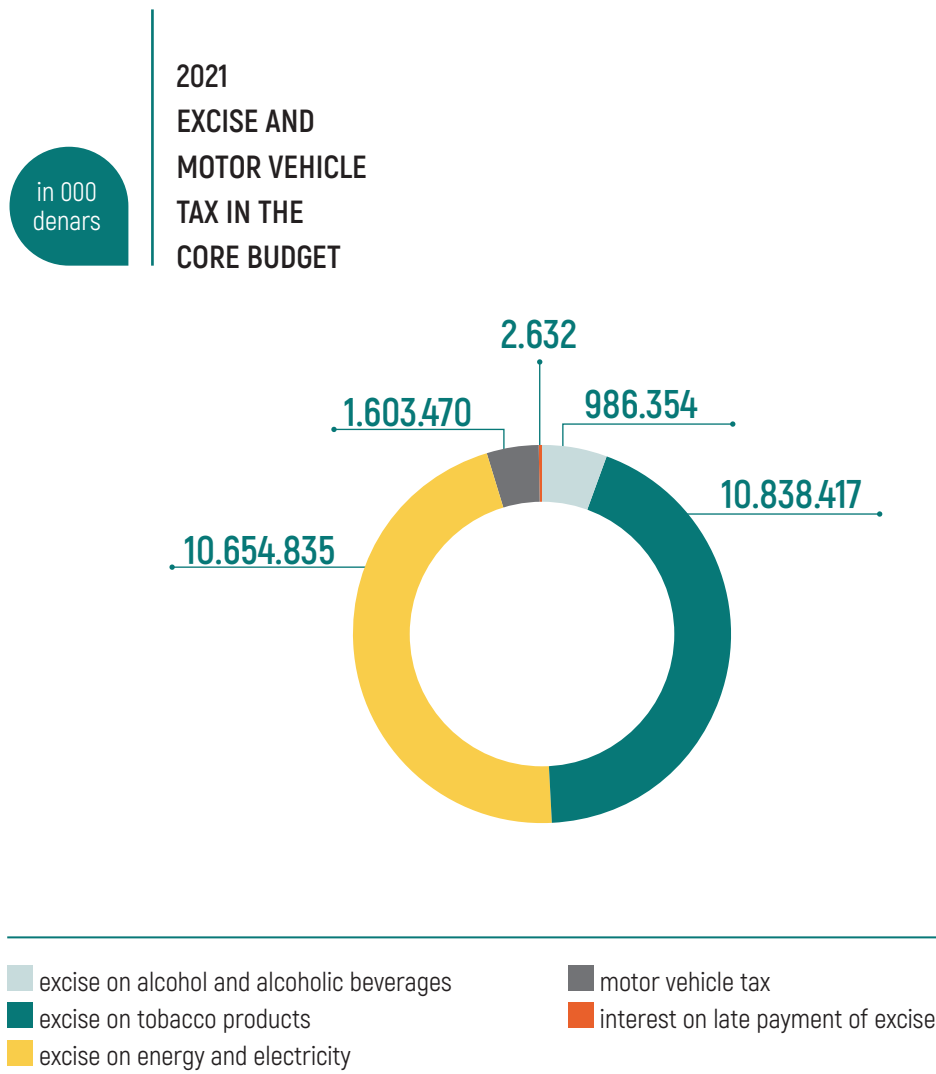
The share of individual taxes and duties in tax revenues in the Basic Budget in 2021 is shown in the following graph:



Value added tax (VAT) is the most significant item in the total tax revenues of the Core Budget for 2021 with a share of 47%, realized in net amount of 58.193.877.000 denars, which is an increase of 24% compared to 2020. In 2021, VAT was paid in gross amount of 89.465.591.000 denars, of which the Public Revenue Office refunded taxpayers in the amount of 31.271.714.000 denars. Biggest revenue is from VAT collected on import of goods (72%), while the share of VAT collected from national turnover is 28%.

With regard to tax revenues, under the competence of the Customs Administration, we found that in 2021 **excise duties and motor vehicle tax** were collected in the amount of 24.085.708.000 denars in the Core Budget of the Republic of North Macedonia, which is 9% more compared to 2020.

The share of excise duties on excise goods and tax on motor vehicles is shown in the following graph:



One of the main competences of the Customs Administration is implementation of customs and excise control in line with the Annual Plan for Control of Trade Companies. The controls performed in 2021 covered 2.5% of all trade companies that are subject to control. Insufficient HR resources significantly affect the functioning of the unit for trade company control and the number of performed controls.

Regarding the information systems of the Customs Administration, we found that the integrated software for controls and investigations is not used. The software connection and insight into VAT returns of trade companies, which are part of Public Revenue Office system, have not been set up. Activities are underway for system connection of the Department of Control and Investigations with the Public Revenue Office and other competent authorities, which should contribute to strengthening supervision, better efficiency of controls, better tax discipline of taxpayers, and thus to increased revenue in the State Budget.

For increasing collection of public duties, auditors continuously give recommendations for analyzing the need of adequate strengthening and deployment of human resources of the Public Revenue Office and the Customs Administration, particularly for increasing the number of inspectors and controllers. It would help implement larger number of controls, and thus it would increase of the revenue of the Budget of the Republic of North Macedonia.

Inflows from borrowing in 2021 comprise 36% of the total revenue of the Core Budget for 2021.

The total inflows from **external borrowing** in 2021 amount to approximately 57.561.838.000 denars and it is slightly lower than in 2020. Of these, 42.509.336.000 denars or 74% are inflows from issued state securities on the international capital market - Eurobond of the Republic of North Macedonia.

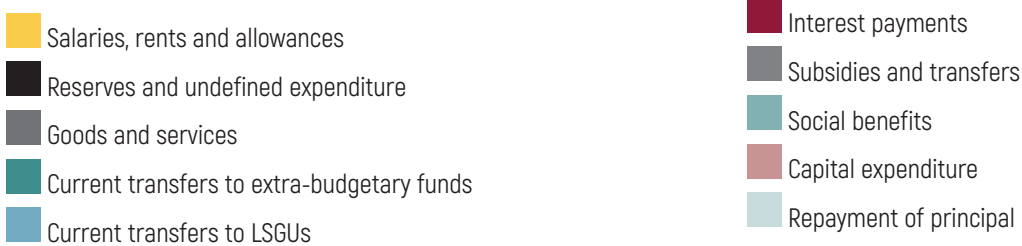
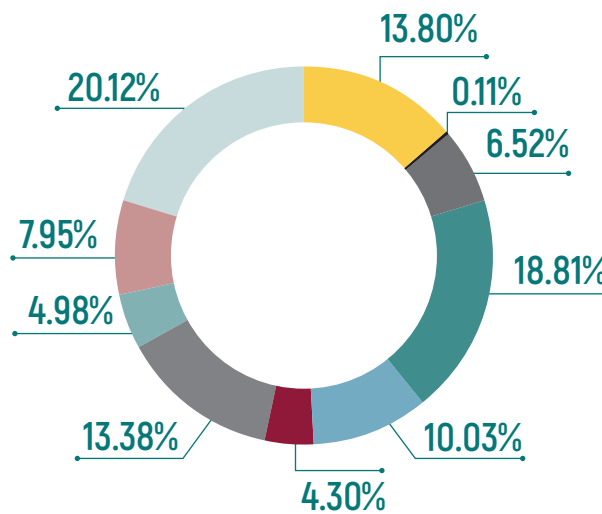
Concerning the domestic securities market, in 2021, **domestic borrowing** inflows amount to 23.136.066.000 denars, which is 46% less than in 2020, due to the fact that in 2021 there was no borrowing with short-term loans from domestic banks. Less inflow was realized from issued government bonds.

Total expenditure and outflows of the Core Budget of the Republic of North Macedonia in 2021 amount to approximately 211.444.856.000 denars, i.e., 5% more than in 2020. In the structure of expenditure and outflows of the Core Budget of the Republic of North Macedonia in 2021, the largest share of 20% is the principal repayment, current transfers to extra-budgetary funds 19%, expenditure for salaries, rents and benefits 14% and subsidies and transfers 13%.

The share of individual types of expenditure and other outflows in relation to the total expenditure and outflows in the Core Budget of the Republic of North Macedonia for 2021 is shown in the following graph:



2021
**STRUCTURE OF
 EXPENDITURE AND
 OUTFLOWS OF
 THE CORE BUDGET**



Concerning different categories of expenditure and outflows, we found that the most significant increase is in capital expenditure by 50.55%, of which the largest share is payment of guarantees for external debt, in reserves and undefined expenditure by 38.68%, which in 2021 were also

used for providing additional electricity to deal with the crisis in the supply of electricity, as well as in expenditure on goods and services by 31.65% more than in 2020. Decrease of only 7.46% was observed in expenditure for subsidies and transfers.

During 2021, 32.050.386.000 denars were transferred to the Pension and Disability Insurance Fund, of which 30.581 million denars were used for payment of pensions.

With the audit, we found that the share of funds from the Core Budget of the Republic of North Macedonia for covering the current deficit of PDI Fund in 2021 is 29% and compared to 2020 it has increased by 3%, which points to the need for continuous financial support of the PDI Fund for payment of pensions with funds from the Budget.

Subsidies amounting to 21.217.649.000 denars were realized as current transfers to LSGUs through the competent ministries, which represent 10% of the total expenditure of the Core Budget in 2021.

Block subsidies have the largest share in the transfers i.e. 88% of the total paid funds to LSGUs, VAT subsidies participate with 11%, and the share of earmarked subsidies is 2%.

Expenditures for subsidies and transfers amount to 28.292.568.000 denars, with the largest share being the expenditures for various transfers (89%), of which 35% refer to expenditures from P1 program - Measures for dealing with Covid -19 crisis.

Capital expenditures in 2021 amount to 16.802.886.000 denars and they have increased by 51% compared to 2020. At the same time, 40% are

expenditures for payment of guarantees, of which 86% refer to the payment of external debt for PE for National Roads for construction of the highway section "Miladinovci-Stip" and the section "Kicevo-Ohrid", 12% for JSC Railways of the Republic of North Macedonia Transport - Skopje for the Project for the procurement of new traction vehicles and 3% for the Project for railway reforms.

Funds that were not used for capital expenditures by Budget users amounting to over 1.270.614.000 denars were redistributed primarily for P1 program - Measures for dealing with Covid -19 crisis and for overcoming the crisis with electricity in the Republic of North Macedonia.

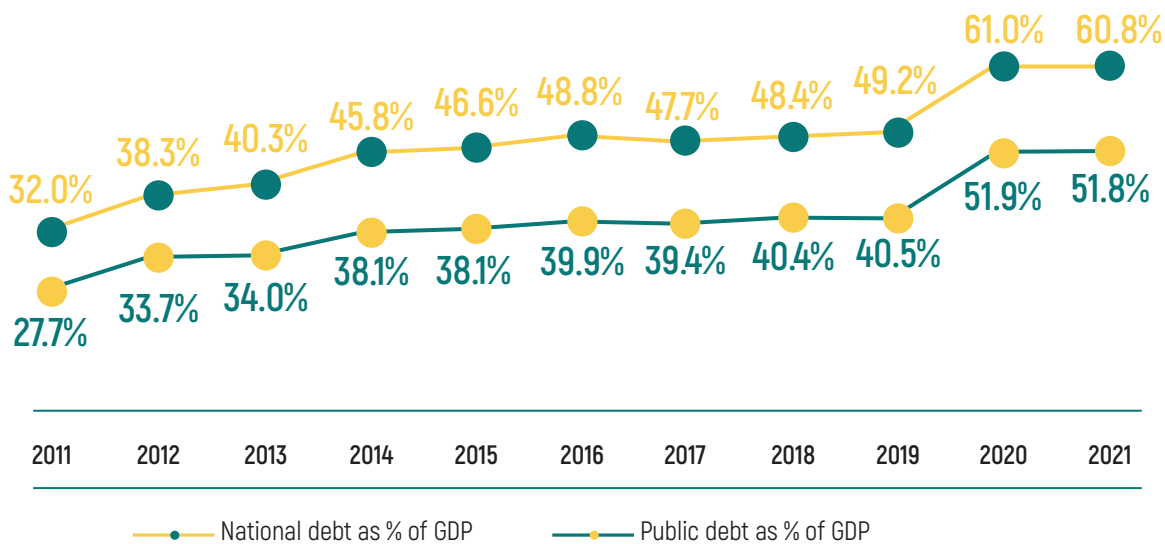
On 31 December 2021, the **public debt** amounted to 7135,3 million euros, i.e. it has increased in absolute amount by 652 million euros, i.e. by 10% compared to 2020. Despite the increase of the public debt as an absolute amount, the state of public debt in relation to GDP on 31 December 2021 is 60.8% and is 0.16% lower than in 2020, due to a 5% drop in GDP.

The **national debt** on 31 December 2021 is 51.8% of GDP and there are no significant differences compared to 2020 when it was 51.9% of GDP.

According to data from the Ministry of Finance, the share of national and public debt in GDP for the period 2011-2021 is shown in the following graph:



**NATIONAL AND PUBLIC
DEBT AS % OF GDP IN
THE PERIOD 2011-2021**



To ensure and maintain transparency and accountability and strengthen responsibility in public funds management, state government bodies, LSGUs, institutions that perform activities of public interest, public enterprises, trade companies, institutes, agencies, funds and other legal entities whose founder is the Republic of North Macedonia or the LSGU, have an obligation to report on the obligations taken for recording thereof in the Electronic system for reporting and recording obligations, which is managed and maintained by the Ministry of Finance.

Out of 1.382 entities, as of December 2021, 1063 entities have submitted data for due and unpaid obligations in the amount of 24.159.958.000 denars, i.e. 391.571.000 euros, which is 36% more than in 2020. The largest share are obligations of public healthcare institutions (46%) and municipalities (18%).

Regarding financial instability of municipalities in 2021, there are no significant changes compared to the previous period. We found that in December 2021, out of 81 municipalities, 12 municipalities in

the Republic of North Macedonia operate with a blocked account. We also found that despite the legal obligation, no decision for declaring financial instability has been submitted to the Ministry of Finance by the mayors, and thus the Ministry has not established coordination body for overcoming financial instability of these municipalities. This state of play allows municipalities to generate new obligations on various grounds and start new capital projects, which may deteriorate their liquidity and the overall financial situation in the future as well as it may create additional need for allocation of funds from the Budget of the Republic of North Macedonia as financial support that would additionally burden the Budget.



5.2.2. PROCESS OF OBTAINING AND USING FUNDS FROM WESTERN BALKANS INVESTMENT FRAMEWORK (WBIF)

We carried out performance audit on the topic "Process of obtaining and using funds from the Western Balkans Investment Framework (WBIF)" and covered the period of applications for technical assistance and investment grants through WBIF in IPA II period (2014-2020). The preparedness of the system for efficient use of funds in IPA III period (2021-2027) was also analyzed, due to the importance of WBIF as a mechanism for implementing EU Economic and Investment Plan for the Western Balkans (2021-2027).

The main audit question was: "Has an efficient and effective system for obtaining funds from the Western Balkans Investment Framework been designed?"

To answer the main question, we identified additional specific questions:

- Was efficient system for obtaining funds through WBIF created in the period 2014-2020 (IPA II)?
- Was effective process established for selection of projects for application to the calls for funding through WBIF?
- Were opportunities for obtaining grants through WBIF effectively used? and
- Is the system ready to absorb funds for co-financing of projects foreseen in the Economic and Investment Plan for the Western Balkans in the IPA III program period (2021-2027)?

The audit covered activities, measures and results achieved in the process of identifying, programming, prioritizing and applying with strategic projects for technical assistance and investment grant through WBIF, which is coordinated through the Secretariat for European Affairs in the role of National IPA Coordinator (NIPAK) and the Technical Secretariat of NIPAK, the activities of the National Investment Committee, which has an advisory role, and the activities of the Government of the Republic of North Macedonia, which adopts the Single List of Projects and approves applications for technical assistance and investment grants.

With the performed audit, we determined that the Republic of North Macedonia has founded a National Investment Committee and a Single List of Projects, as requirements for obtaining funds through the WBIF. Since 2009, when WBIF was introduced, the Republic of North Macedonia has applied to twenty-eight calls for technical assistance, and when the process of awarding investment grants began in 2015, to seven calls for investment grants.

According to data published on WBIF website¹⁵, the Republic of North Macedonia has been allocated funds for regional strategic projects in the field of transport, energy, environment and social affairs in the amount of 2.6 billion euros. These projects are financed with loans from official creditors amounting to 892 million euros and grants through WBIF amounting to 421.8 million euros, of which 391.9 million euros are investment grants and 29.9 million euros are technical assistance.

We found that the system for obtaining and using funds through WBIF is not adequately designed due to absence of complete legal and institutional framework for setting up a single list of projects with clear competences of the authorities and bodies for defining individual lists by sectors, in line with WBIF methodology.

There is no prescribed procedure for the application process. However, the competent institutions carry out activities to fulfill the requirements for application. Namely, for all projects, positive opinion should be received from the line ministries and the Ministry of Finance that the project is part of the sector strategies and the Single List of Projects. The Ministry of Finance also submits a letter for borrowing negotiations with international financial institutions. In addition, for each project, application approval should be obtained from the Government of the Republic of North Macedonia. Although these activities are carried out, the audit ascertained that efficient system for selection, prioritization, evaluation and ranking of project applications is not completely designed, and there is a risk of selecting projects that are not "mature" and are not strategically most important.

We ascertained change in the policy for financing strategic projects with other sources, not with loans from official international financial institutions, the effect of which is canceling technical assistance grants in the amount of 4 million euros. This also has an effect on the efficiency and effectiveness of the use of WBIF funds due to missed opportunity for co-financing projects with loans and investment grants.

Twelve strategic projects in the field of transport, energy and environment are currently being implemented, for which investment grants of 385 million euros have been approved. For most of the projects, the investment has not started, the grant agreements have not been signed and there is a standstill in relation to the planned dynamics, ascertained in IFICO¹⁶ monthly monitoring reports for our country.






APPROVED INVESTMENT GRANTS



Total amount
of WBIF approved
**investment grants
(392 million EUR)**
and
**technical assistance
(29 million EUR)**
amounts to
421 million EUR

Ongoing **12 investment
grants** in the amount of
385 million EUR

-  3 have serious **delay**
102.5 million EUR
-  4 are on a critical
overrun path
44.5 million EUR
-  5 have **regular**
implementation
dynamics
238 million EUR





**IDENTIFIED RISKS
OF LOSING APPROVED
WBIF GRANTS**

PROJECT	USER	STATUS	APPROVED GRANT IN EUR
Energy interconnection Albania-North Macedonia II	JSC MEPSO	X	12.000.000
Railway interconnection, section Beljakovce-Kriva Palanka, Phase II	PE RNM Railways	X	71.558.824
Road interconnection, sub-section Bukojcani-Kicevo	PE National Roads	X	20.248.000
Road interconnection, section Kriva Palanka - Deve Bair	PE National Roads	—	2.520.400
Gas interconnection North Macedonia - Greece	JSC MER	—	12.724.000
Railway interconnection - border crossing Tabanovce	MoTC	—	2.765.227
Highway interconnection Blace-Skopje (Stenkovec interchange)	PE National Roads	—	26.578.396
Rehabilitation of physical education structures in primary and high schools	MoES	✓	3.069.000
Wastewater treatment plant Skopje	PE Water supply and sewage	✓	72.740.391
Solar photovoltaic power plant Oslomej I	JSC ESM	✓	1.595.109
Solar photovoltaic power plant Oslomej II and Bitola	JSC ESM	✓	5.161.408
Railway interconnection, section Kriva Palanka - Bulgarian border	PE RNM Railways	✓	155.562.188

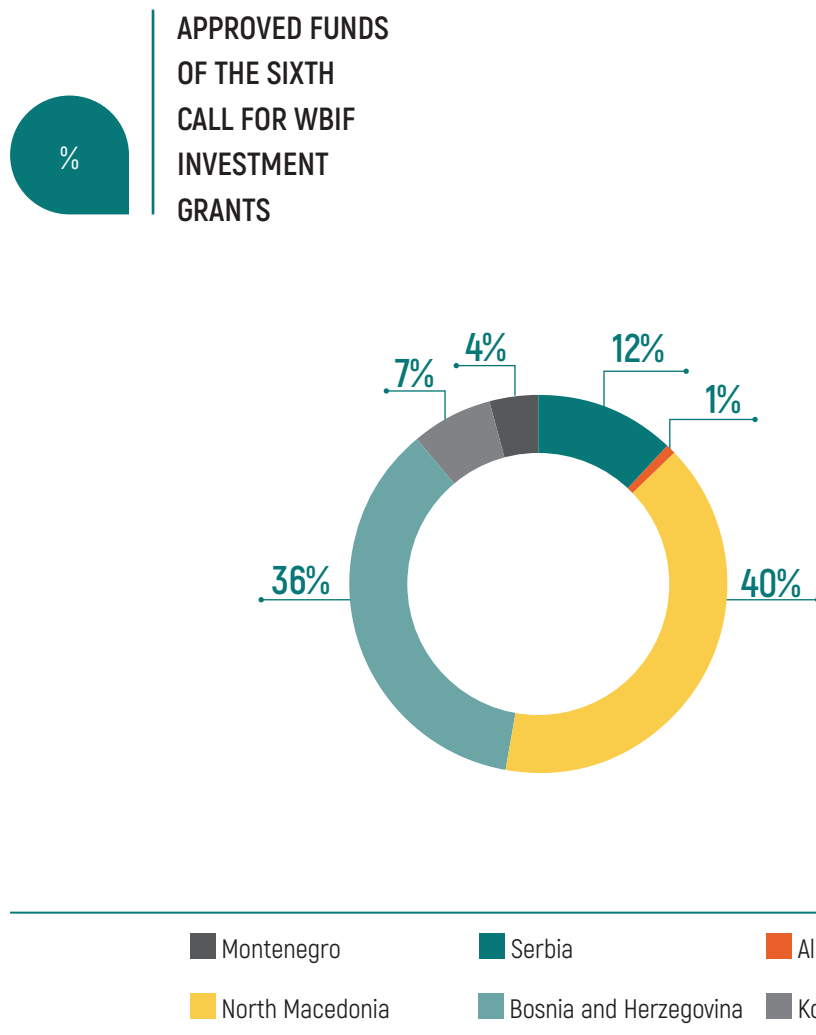
standstill slow dynamics ongoing

As presented in the infographic, out of 12 investment grants in the amount of 385 million euros, until the day of reporting on the audit, three are at a standstill amounting to 102.5 million euros.

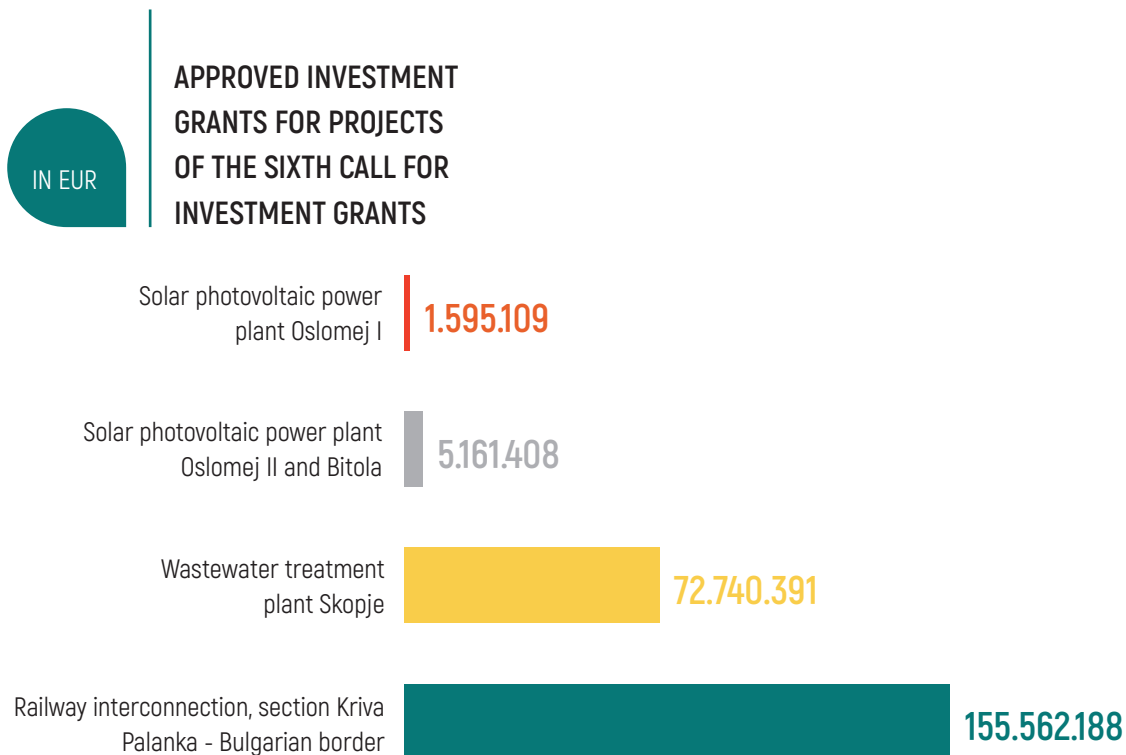
At the end of July 2022, within the sixth investment call, EU has approved the first projects for implementation of the EU Economic and Investment

Plan for the Western Balkans. The Republic of North Macedonia applied and received support for all four investment projects.

After this call, 40% of funds approved for the Western Balkans are for projects in the Republic of North Macedonia - shown in the graph below.



With this call, four investment grants were approved, as shown in the graph below.



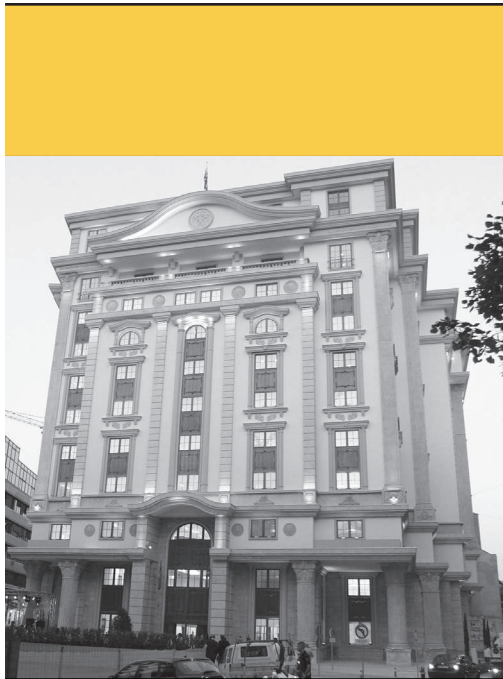
Although significant funds have been approved so far, the system is not fully prepared to absorb funds for co-financing strategic projects.

The audit concluded that due to the new requirements of IPA III program, for more efficient absorption of funds in the new program period, an obligation is imposed to design an efficient system for project programming, i.e. strategic and "mature" projects aligned with the EU Economic and Investment Plan for Western Balkans, to have efficient selection of projects for application and consistency of policies for financing projects of regional significance.

The above conclusions indicate that competent institutions have taken measures and activities to obtain funds for co-financing of regional strategic projects that meet the requirements for WBIF financing. The system is not yet fully prepared for bigger absorption of funds, i.e., efficient and effective use thereof.

In the coming period, the system for obtaining funds through WBIF should be defined with an appropriate legal and institutional framework and a well-organized system of competent institutions and bodies, as well as it is necessary to have project revision in the Single List of Projects according to strategic importance and "maturity".

5.2.3. MINISTRY OF FINANCE



SAO audited the financial statements of the Ministry of Finance together with compliance audit for 2021 as well as audit of the financial statement together with compliance audit of the Ministry of Finance – State Functions for 2021.

With the audit of the Ministry of Finance, we found that for efficient management of the property at its disposal, the Ministry should provide complete and accurate data on ownership, right of use and value of the property. The Ministry should also provide title deeds for some of the real estate at its disposal, as well as to determine the value and to record the same in the accounting records.

In relation to the implementation of Ministry's competences related to the annual inventory of assets and liabilities, it was ascertained that the inventory is not complete and has not been carried out in full in line with the relevant acts.

SAO gave recommendations regarding the implementation of public procurement procedures intended for full compliance with the provisions of the Law on Public Procurement, and the implementation of these audit recommendations will ensure increased transparency and competition between economic operators.

In the paragraph Emphasis of Matter, we pointed to several issues, including ongoing court proceedings that may have an impact on the Ministry's future financial flows.

We also audited the financial statement of the Ministry of Finance - State Functions together with compliance audit. It was ascertained that the Ministry of Finance has paid the Agency for Audio and Audio-Visual Media Services to monitor 2021 Elections, although the Law on implementation of the Budget for 2021 does not foresee that the specified activities will be paid through the Ministry of Finance - State Functions.

In the paragraph Emphasis of Matter, we pointed out the state of affairs in relation to the Report of the European Anti-Fraud Office (OLAF) from 2019 on the control/investigation of activities carried out with IPA funds, where funds in the amount of 108.229.000 denars, i.e. 1.754.000 euros were returned to the European Commission from the State Functions section. The Ministry of Finance has taken action to notify the Basic Public Prosecutor's Office Prosecuting Organized Crime and Corruption and the State Attorney of the Republic of North Macedonia to start procedures for return of the funds in the State Budget. This procedure is ongoing.

5.2.4. CUSTOMS ADMINISTRATION OF THE REPUBLIC OF NORTH MACEDONIA

Customs Administration carries out customs supervision and customs control, customs clearance of goods, undertakes investigative and intelligence measures to prevent, detect and investigate customs offenses and crimes, detect and investigate crimes and other matters in the field of customs operations. One of the main responsibilities of the Customs Administration is to calculate and collect export and import duties, taxes and other public duties and fees from import, export or transit of goods. Duties administered by the Customs Administration are customs, import VAT, excises and fees.

We audited the financial statements together with compliance audit of the Customs Administration

of the Republic of North Macedonia for 2021 for the core budget accounts and the self-financing activities account.

For implementation of competences related to the annual inventory of assets and liabilities, we gave recommendations for obtaining data on the land market value for the purpose of adjusting and recording in the ledger, as well as for setting up complete records for part of the supplies.

We analyzed unpaid claims of decisions issued for additional collection of customs and customs duties, adopted in an administrative procedure, where we found that the claims originate from 1999. As of 31 December 2022, the claims amount to 3.518.482.000 denars, of which 99% are claims from legal entities.



Republic of North Macedonia
Ministry of Finance
CUSTOMS ADMINISTRATION

Customs Administration is a state administration body within the Ministry of Finance with capacity of a legal entity, established and organized in line with the provisions of the Law on Customs Administration.

in 000 denars

Outstanding decisions for legal entities from 01 January 1999 to 31 December 2022

No.	Number of bonds	Status	Amount of outstanding decisions	Number of outstanding decisions
1	67	active	575.950	2.547
2	17	liquidation	159.245	75
3	83	bankruptcy	232.683	641
4	561	deleted	2.458.559	3.498
5	6	inactive	24.818	65
6	12	non-migrated	12.829	35
7	2	before bankruptcy	48.559	265
Total	748		3.512.643	7.126

Considering that most of the legal entities have been deleted from the Central Register, are bankrupt or liquidated, and collection is not possible, we ascertained that for providing objective and quality information on the amount of funds as expected revenue in the Budget of the Republic of North Macedonia, the competent authorities need to act to provide reliable and objective data in the financial statements.

Activities for the above claims are regulated by law. Therefore, we emphasize the need of intensifying cooperation and coordination of Customs Administration and Ministry of Finance for adoption of by-law, for regulating the manner of dealing with outdated claims.

5.2.5. GOVERNMENT OF THE REPUBLIC OF NORTH MACEDONIA

The Government of the Republic of North Macedonia, as the holder of the executive power, carries out tasks under its competence independently, within the frames of the Constitution, laws and ratified international agreements, and based on the principles of transparency, efficiency and protection of human rights and freedom.

The General Secretariat is set up as the professional service of the Government that provides coordination and professional support for the needs of the Government, the President of the Government, his deputies, as well as the members of the Government in the exercise of their competences.

With the audit of the financial statements together with compliance audit of the Government of the Republic of North Macedonia of the core budget account for 2021, we found that separate acts for internal organization and systematization of job positions were adopted for the Office of the

President of the Government and the General Secretariat of the Government, although the General Secretariat, as an expert service of the Government and the Government represent one state body.

Concerning the amount of 71.129.000 denars paid for contributions for mandatory social insurance for a joint-stock company, we found that documentation was not submitted to verify that the company's share capital was increased, there is no document for registration of the state as the owner of the shares and the shares are not recorded in the Government ledger.

For the building where the Government carries out current activities, there is no document for the right-of-use.

In relation to the implementation of the competences related to the annual inventory of assets and liabilities, we found that the report on the inventory of assets, claims and liabilities for 2021 was not adopted by the Secretary General and inventory reconciliation was not carried out.



There are records for procured software and licenses in the amount of 576.514.000 denars. Some software and licenses are used in several public administration institutions, for some the auditors did not obtain documentation that they are used by the Government or given to another institutions for use, and for some was initiated investigative procedure.

Within the Government budget / financial plan for 2021, funds are provided for implementation of several sub-programs within government programs.

Regarding the implementation of activities of Subprogram D-8 - Promotion of local and regional competitiveness in the field of tourism, as part of the Project for Local and Regional Competitiveness, the payment to suppliers is made from the Government budget in the amount of 58.555.000 denars. We found that the Government does not have complete information about the use of the funds as planned in the program, and no data whether structures and equipment are recorded as state property by the end users.

Only 30% of the planned 80.000.000 denars for implementation of Sub-program C4 - Air Pollution Reduction Program have been used, due to insufficient number of applications by the municipalities. Distribution is carried out by a committee with representatives from several

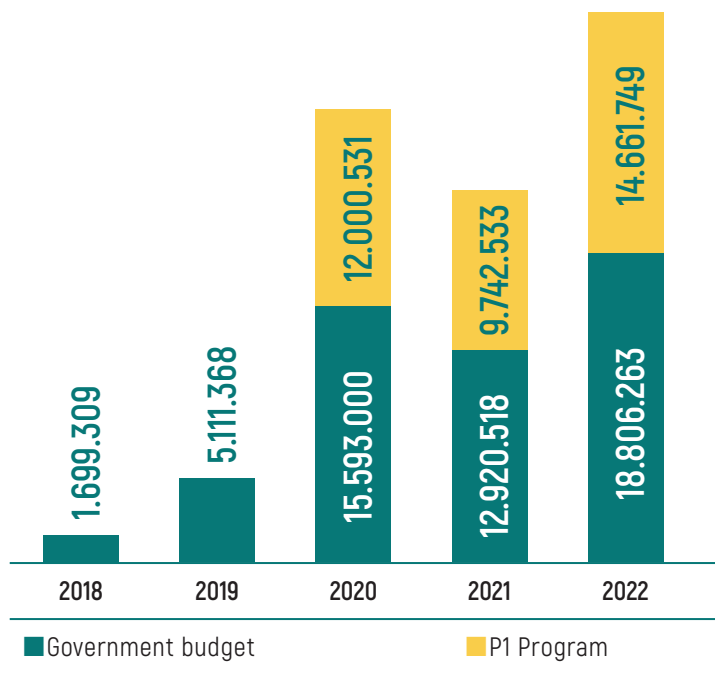
institutions, and the criteria and points for selection of projects are determined by the General Secretariat in public calls.

Through the Government Sub-program P1 - Measures for dealing with Covid-19 crisis, 6.097.000.000 denars were paid without criteria set for selection of institutions and amount of approved non-refundable funds. 33% of funds' recipients have not submitted report to the Government on the implemented activities in the amount of 2.000.000.000 denars, i.e., 32.5 million euros.

The budget of the Government of the Republic of North Macedonia for the period 2018-2022 and the share of P1 program Measures for dealing with Covid-19 crisis is presented in the following graph.

in 000
denars

MEASURES FOR DEALING WITH COVID-19 CRISIS



With the performed analysis, we found that the budget in 2021 compared to 2018 has increased by five times as a result of the introduction of the P1 Program. The participation of this Program in the total implementation of Government's budget is over 75%.

We point out that in accordance with the Annual Work Program for 2021, SAO has carried out three performance audits on the efficiency of Government economic measures for dealing with

Covid-19 crisis, which covered the funds paid for financial support from the Budget of the Republic of North Macedonia through the Government's P1 Program.

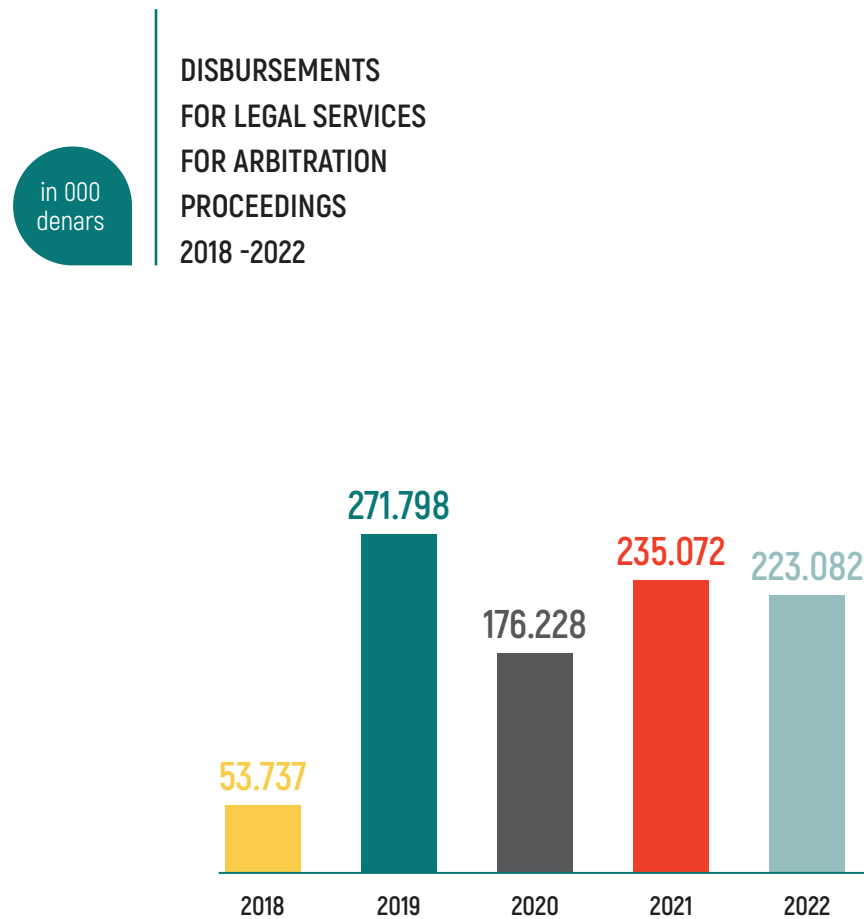
Acting on the audit recommendations, entities that did not fulfill their contractual obligations made return of funds from P1 Program to the Budget of the Republic of North Macedonia amounting to 293.802.000 denars, i.e. 4.8 million euros, as of 26 January 2023.

Regarding the implementation of public procurement procedures, we found inconsistencies in some of them in the way of planning, implementation and implementation. For some of the procedures for public procurement, procedures have been initiated before competent authorities.

In the paragraph Emphasis of matter, we disclose shortcomings that refer to funds paid for hiring law firms for representation in arbitration proceedings arising from concluded or ratified international agreements of the Republic of North Macedonia.

In 2017, the Government established a Coordinating Body for Monitoring Arbitration Procedures, whose task is to provide coordinated approach for activities related to resolution of disputes that are or will be conducted before agreed international arbitrations.

In the period from 2018 to 2022, five arbitration proceedings were ongoing against the Republic of North Macedonia, and for the legal services were paid 959.917.000 denars, i.e. 15.6 million euros, as shown in the following graph:



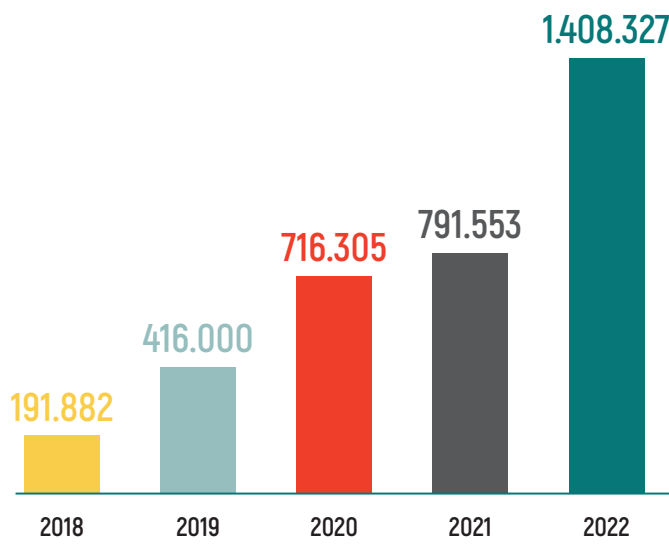
The Coordinating Body made analysis and ascertained that if the country loses the disputes, the total amount that would potentially have to be paid is 82.267.500.000 denars, i.e. 945 million euros and 420 million dollars that will have implications on the Budget of the Republic North Macedonia in the coming years.

Therefore, we pointed out the need to determine the reasons why arbitration proceedings were initiated, and the competent authorities to take appropriate action.

Within Government Program D9 – Financial support of investments, in the period from 2018 to 2022, 3.524.067.000 denars or about 57.3 million euros were paid as financial support for investments of business entities that invest in the Republic of North Macedonia, aimed at increasing competitiveness of Macedonian economy and employment.

**FINANCIAL
SUPPORT OF
INVESTMENTS
2018-2022**

in 000
denars



We point out that it is foreseen the Minister of Economy to adopt an act on the type, method and scope of activities for monitoring and control of

realization of signed contracts. The act has not been adopted until the day of reporting on the audit.

5.3 | CENSUS

5.3.1. 2021 CENSUS OF POPULATION, HOUSEHOLDS AND DWELLINGS IN THE REPUBLIC OF NORTH MACEDONIA



The census, as an activity of high national interest, is the most extensive statistical operation in terms of the units that are enumerated and the most massive in terms of the number of participants in its implementation as well as the size of the budget for financing census activities.

The State Statistical Office, as the national coordinator of the statistical system in the country, from 05 September 2021 until 30 September 2021 conducted the ninth consecutive census of population, households and dwellings in the Republic of North Macedonia, as of 04 September 2021, at midnight.

The State Audit Office conducted compliance audit on the topic "Census of population, households and dwellings in the Republic of North Macedonia, 2021", to conclude whether the procedure of preparation, organization, implementation and publication of census data was carried out in accordance with the laws and by laws.

2021 Census was conducted during the health and economic crisis caused by Covid-19 pandemic, using a combined census method - administrative, using data from pre-census database (a collection of data from six state institutions) and field census, in application software for input of census data on portable computers (laptops).

With the audit, we ascertained the following shortcomings in different areas:

Legal framework

The implementation of each census is regulated by a separate Census Law. The Census Law was adopted in January 2021, and provides for carrying out the Census in April. With the amendments to the Law, the Census was postponed until September 2021. We ascertained that it is a short period for fulfillment of preparatory activities, which had an impact on the implementation of the competences of the State Statistical Office.

For unimpeded performance of Census activities, as well as for facilitating the process of supervision and control over the work of the Census participants, we recommended adoption of a procedure for clear and precise subsequent definition of the entire procedure and necessary documentation

for the Census. Large number of internal acts were adopted with prior approval by the director and deputy director, but some acts were adopted with prior approval only by the director.

***Preparation and implementation
of 2021 Census***

- For enumeration of persons who, at the time of the Census, serve in the Army of the Republic of North Macedonia, the persons serving measure of detention or imprisonment, the persons in correctional homes, as well as homeless persons, no individual reports have been prepared. These data are contained in the printed and published Publication, that was available after the completion of the Census.
- The pre-Census was carried out from 01 March 2021 until 15 March 2021. No evidence was submitted to the auditors that after the legal change of this period the pre-Census was performed again in order to confirm the accuracy and completeness of data for this category of persons. The Census data are part of the Publication and were available after the completion of the Census.
- The field enumeration was carried out in application software with entry of census data on portable computers (laptops) by 505 instructors and 4,482 enumerators, whose number was less than planned. In the last three days of the Census, it was possible for the persons who were not enumerated for various reasons to be enumerated in the premises of the Census commissions. This method of enumeration is not provided for in the Census Law.
- Many problems arose during the Census: low response of candidates for enumerators and instructors, problems with the application software, problems with the Internet connection, and hacker attacks that stopped the census for a certain period.
- Self-enumeration of citizens who are temporary working or staying abroad was conducted from 1 March 2021 until 30 September 2021. Although the software application for the Census was procured in 2019, no software application was procured for self-enumeration. We found that the procurement activities for the application started on 25 February 2021 and the procurement contract was signed on 28 February 2021. The software application was free of charge, and the State Statistical Office undertook to display the provider's name in the application for promotion, indicating that it is a sponsorship, without asking the Ministry of Justice for a Decision for confirming the public interest of this sponsorship. We also found that the legal entity that created the application is managed by a person who was a member of the Statistical Council from 25 May 2019 to 23 September 2020. This application is not registered in the ledger of the State Statistical Office.

***Professional bodies, working groups
and other participants in the Census
implementation***

- Concerning the Census activities, expert bodies and working groups were formed for Census preparation, organization and implementation. The Census Bureau,

as a professional body, is regulated in the Census Law, while the Census Headquarters, as a professional body, was set up with a Decision of the director. We have ascertained that some competences of both bodies are identical and some members of the Headquarters are also members of the working groups. Ten working groups were formed to carry out the professional tasks for the Census. We found that there are employees who are members of several working groups, and state instructors who are also members of the working bodies.

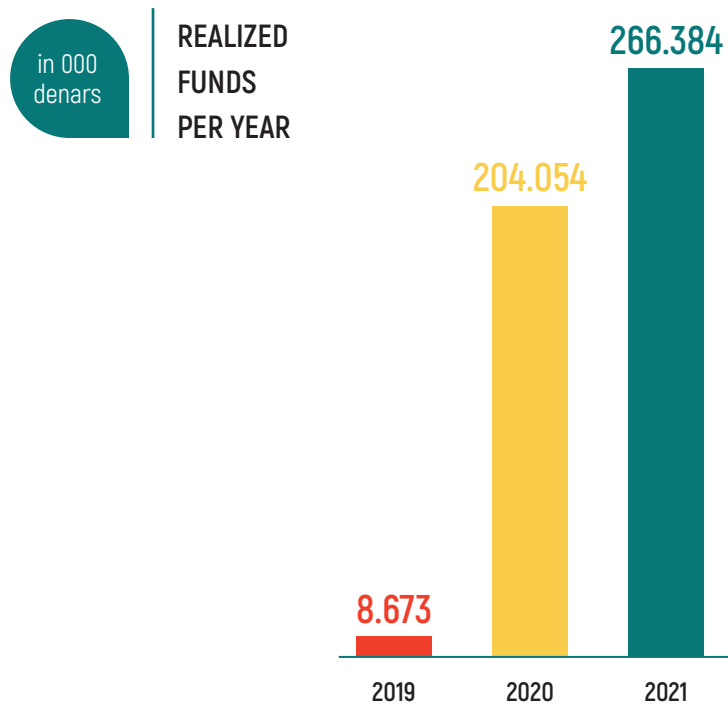
→ Compensation in the amount of 191405.000 denars, i.e. about 3.1 million euros, was paid to the participants in the Census, without

precisely determining the number of members of the working groups, as well as the criteria and points for calculation of compensations. Therefore, the reality and objectivity of the compensations paid cannot be confirmed.

Census funding

The financial plan for the Census was adopted in March 2021 in the amount of 522.751.000 denars, i.e. about 8.5 million euros.

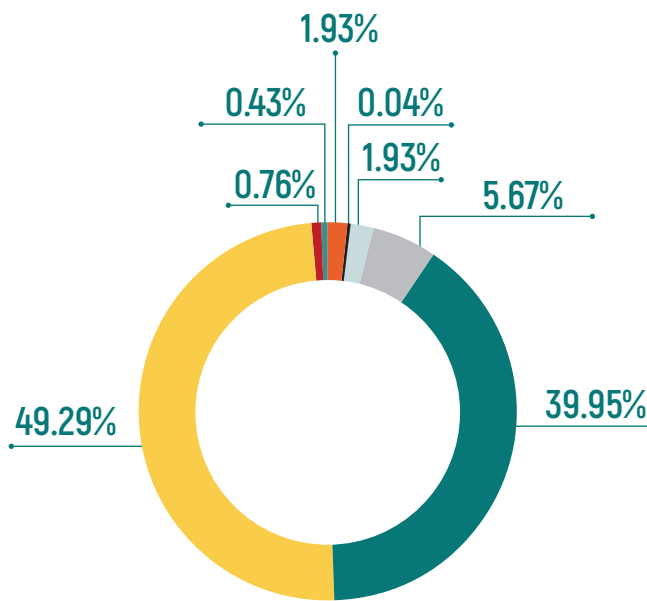
The payment started in 2019 and over 40% of the funds were paid during 2019 and 2020.



479.111.000 denars, i.e. about 7.9 million euros, were spent for implementation of the Census. The largest share of over 49% are expenditures for

procurement of laptops and 40% for compensation of participants for implementation of Census activities.

**SHARE OF
INDIVIDUAL
TYPES OF
EXPENDITURE**



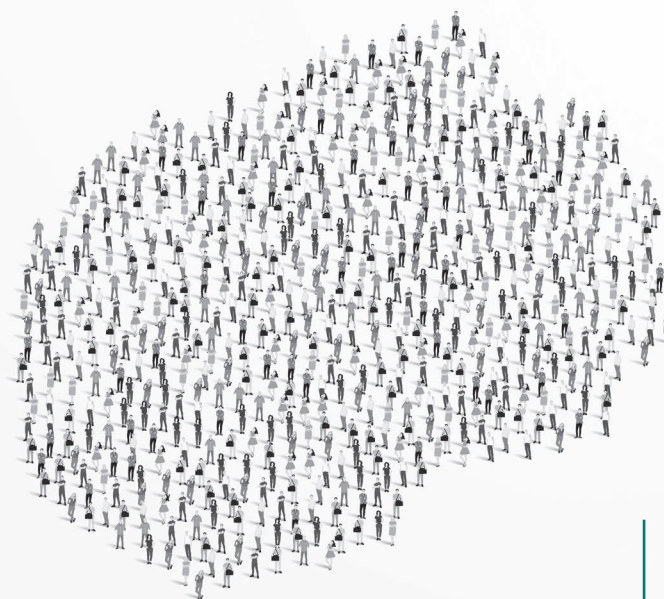
- Promotion campaign for the Census
- Fees for Census activities
- Preparation of Census instruments
- Equipment
- Census Application
- Material costs
- Costs for training of state instructors and regional commissions
- Unforeseen expenses

Public procurement procedures for the needs of 2021 Census

- For the needs of the Census, public procurement contracts were signed and implemented in the amount of 237.905.000 denars, i.e. 3.9 million euros, which is 43% of the Financial Plan.
- 5.650 identical laptops were procured with a public procurement procedure for 199.498.000 denars (around 3.2 million euros). We identified certain inconsistencies in terms of the delivery deadline, method and deadline of payment for the laptops, quantitative and qualitative receipt of laptops and in signing contracts for procurement of additional services. After the completion of the Census activities, most of the laptops were given to state institutions that need IT equipment.

- The media campaign for the Census, which informed the population about the goals and significance of the Census, was carried out with 40% more funds than planned.
- We gave recommendations on the ascertained state of play in relation to public procurements and indicated the need for full transparency of procedures and enabling competition between economic operators.

The Census results were published on 30 March 2022, six months after the completion of field activities. According to the Census data, the Republic of North Macedonia has 1.836.713 resident population, 598.632 households and 839.174 dwellings.



**CENSUS
2021**

5.4 PUBLIC ADMINISTRATION



5.4.1. PUBLIC ADMINISTRATION REFORM

Public sector institutions from have responsibility to work towards achieving better value for citizens and legal entities aimed at ensuring social and economic development and prosperity of the country.

According to the Methodology for accession of the Republic of North Macedonia to the European Union, public administration reform is included in the negotiation process within Cluster - Fundamental Values.

To contribute to this process, SAO carried out performance audit on the topic "Public Administration Reform", to answer the question whether activities taken by the competent institutions ensure efficient implementation of the Public Administration Reform Strategy 2018- 2022, and covered the period February 2018 to July 2022.



Public administration reform is a continuous process of reorganization of institutions in the public sector and improvement of administrative capacity thereof.

Concerning implemented activities of competent institutions for creation of a functional public administration that would provide quality services and equal access for all citizens and legal entities, in relation to the Normative conditions for unimpeded realization of competences of the public administration, we concluded the following:

Deadlines for adoption of key laws for implementation of public administration reforms are continuously postponed. The procedure for enacting the Law on Public Sector Employees, the Law on administrative officers and the Law on Senior Management Service was launched in 2019 and is still ongoing.

- The process of reorganization and optimization of the number of state administration bodies is prolonged, for the purpose of establishing coherent institutional structure, eliminating overlapping competences of institutions and ensuring effective lines of responsibility and accountability.

- The revised action plan for implementation of the Strategy was adopted, and changes were made in 33% of planned activities; new activities were defined; changes were made in the implementation deadlines and performance indicators; and the amount of planned financial resources was reduced.

In terms of institutional capacities for fulfilling Strategy objectives, we identified the need to establish a stable mechanism for management and coordination of all stakeholders in the process.

PUBLIC ADMINISTRATION REFORM COUNCIL 2018/2022



Public Administration Reform Secretariat



Public Administration Reform Strategy



Ministry of Information Society and Administration



Contact persons



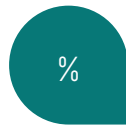
Working groups

- In terms of HR capacities for fulfilling reform objectives, we ascertained frequent changes, insufficient staffing, incomplete implementation of competencies of bodies responsible for the reform process and ineffective vertical and horizontal coordination and communication of all participants in the process.
- Public Administration Reform Council, as the highest political body for coordination of reform activities has held only seven meetings in four years, and from the last one in July 2021 until the end of 2022, no session was held. From 2018 until 2022, six changes were made to the Council composition, due to constant structural changes in the Government.
- Total planned funds for implementation of Strategy measures amount to 1.802.140.000 denars, i.e. around 30 million euros, and the largest share of over 56% is provided by EU funds and instruments;
- We ascertained lack of transparency, accountability and monitoring of spent financial resources in the State Budget, because apart from the Ministry of Information Society and Administration, other institutions have not opened separate sub-program within the Government Program K - Public Administration Reform;

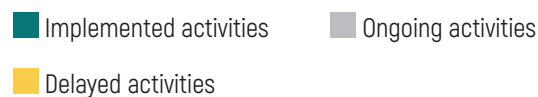
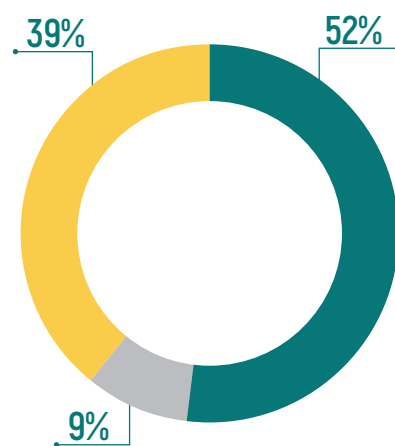
With regard to the System for monitoring, evaluating and reporting on reform activities, we found that there is no systematic collection and processing of data necessary for evaluating the degree of implementation and efficiency of measures and activities foreseen by the Strategy.

- Analysis and market research on the amount of necessary financial resources was not done for designing, implementing and maintaining IT system for monitoring, evaluating and reporting on the Strategy.
- Performance indicators for the Strategy activities are not regularly updated, i.e. out of 79 indicators, only 28 indicators were measured in 2021 (only 35%).
- Out of 205 planned activities, only 106 activities were completed, which is 52% realization.

Implementation of activities for the period February 2018 - December 2021 is shown in the following graph:



STATUS OF PAR STRATEGY ACTIVITIES



- The Ministry of Information Society and Administration has not set up systematized records for each Strategy activity, and biannual and annual reports do not contain data on planned and realized funds;
- The fourth Annual Report from 2021 does not contain complete financial overview but an analysis for spent funds in the amount of 1.111.359.000 denars, i.e. around 18 million euros, which represent 61% of the total planned funds for the period 2018-2022.

Taking into account that functional public administration is a prerequisite for transparent and effective democratic governance, SAO has made recommendations to the Government, the Ministry of Information Society and Administration and the bodies for coordination of activities for improving, strengthening and creating efficient system of planning, implementing, monitoring, evaluating and reporting on the realization of activities of the new Strategy for Public Administration Reform 2023-2030, aimed at successful public administration reform as a strategic national objective.

5.5

REGIONAL DEVELOPMENT



5.5.1. BALANCED REGIONAL DEVELOPMENT WITH SPECIAL EMPHASIS ON DEMOGRAPHY

SAO carried out performance audit on the topic "Balanced regional development with special emphasis on demography", as a parallel audit with the SAI of the Republic of Serbia, to answer the question "Does the system for managing policies for balanced regional development ensure effective reduction of disparities in and between planning regions and their respective demographic, economic, social and spatial cohesion? "

The audit scope and evidence obtained with application of audit methodology and techniques provide basis to express the following conclusion:

The strategic and normative framework in place, the institutional setup, the legal minimum of funds to be allocated from the State Budget, the classification of planning regions according to the degree of development and the allocation of funds on this basis, the transparency in planning and selection of projects, as well as the electronic system for regional development (SiReRa) ensure progress in terms of policy implementation. However, the aforementioned is insufficient for effective reduction of disparities in and between planning regions and their appropriate demographic, economic, social and spatial cohesion.

The policy for encouraging balanced regional development is implemented through planning

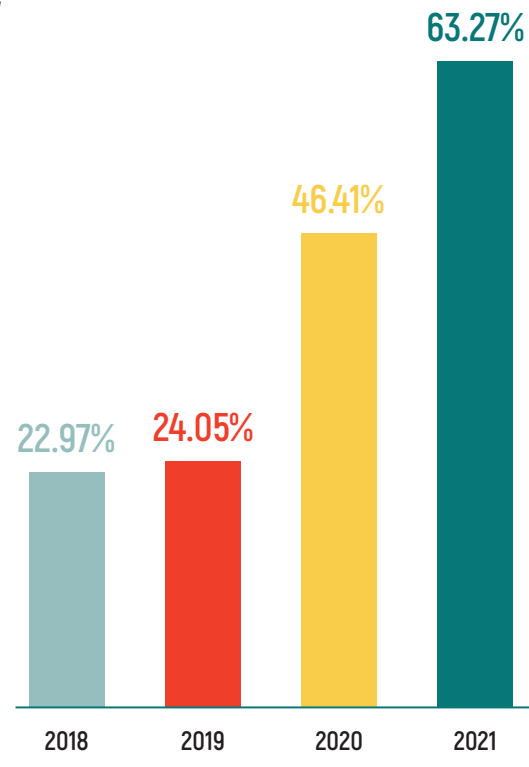
and program documents. However, to ensure solid basis for planning, implementing and monitoring of activities for balanced regional development, it is necessary to timely adopt and update these documents in line with the results of the conducted Census of population in 2021. Spatial planning is not regulated in the existing legislation, new Spatial Plan of the Republic of North Macedonia has not been adopted to serve as basis for harmonizing planning documents for regional development, and there are no criteria for preparing annual programs of line ministries of regional significance. The Program for implementation of the Strategy for balanced regional development 2021 - 2024 lacks clear differentiation between the holders of activities, the period and the financial resources required for effective implementation of the policies for balanced regional development.

The institutional setup of the system for implementing policy for encouraging balanced regional development ensures its functionality, but it is necessary to strengthen the administrative and technical capacities of institutions for more effective realization of planned activities.

To stimulate balanced regional development from the State Budget, funds in the amount of at least 1% of GDP should be set aside annually. These funds are allocated to the planning regions for financing projects in accordance with the Decision on Classification of Planning Regions consistent with the degree of development. Although in recent years there is an upward trend in allocated funds for this purpose, they are not at the legally established level, which can be seen from the following graph.



**SHARE OF ALLOCATED
FUNDS FOR BALANCED
REGIONAL DEVELOPMENT
IN FUNDS PROVIDED FOR
BY LAW**



In the period 2019 - 2021, funds in the amount of 9.329.889.000 denars were allocated from the State Budget for balanced regional development, which is 46% of the legal minimum of 20.034.090.000 denars. Consistent application of the Index on the degree of development by planning regions is not ensured in the allocation of funds by regions.

Consequently, even though Skopje Region as the most developed should participate with 7.2%, and the Northeast Region as the least developed with 17.3% in the total Budget funds for this purpose, most funds are still allocated for Skopje Region (26.2%), while 8.4% in the Northeast Region.

Budget users that implement regional development activities through their program activities do so from their own budgets based on strategic and program priorities and criteria, i.e. they do not use the Development Index. This points to absence of coordination and affects the development of the regions.

The ascertained weaknesses in the functioning of SiReRa system refer to:

- incomplete databases,
- incomplete financial matrix that should ensure linking of development programs/projects with priority strategic objectives and
- not automated linking with other IT systems,

do not provide conditions for continuous monitoring of planning and implementation of projects, the state of play in the planning regions and the degree of development.

Adequate transparency has been ensured in the process of creating planning and program documents and their adoption, but the absence of annual reports does not allow for adequate accountability for the all activities implemented in support of balanced regional development, thus reducing the possibility of coordination in action and in proposing appropriate measures by the competent authorities.

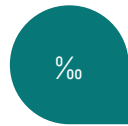
Notwithstanding the action taken at central and regional level in previous years, socioeconomic and demographic disparities between and within the planning regions have not decreased.

In the Republic of North Macedonia, the rate of natural increase is continuously decreasing - from 2.5‰ in 2010, in 2021 it is -5.4‰. The downward trend in the rate of natural increase (as shown in the graph below) is recorded in all regions.

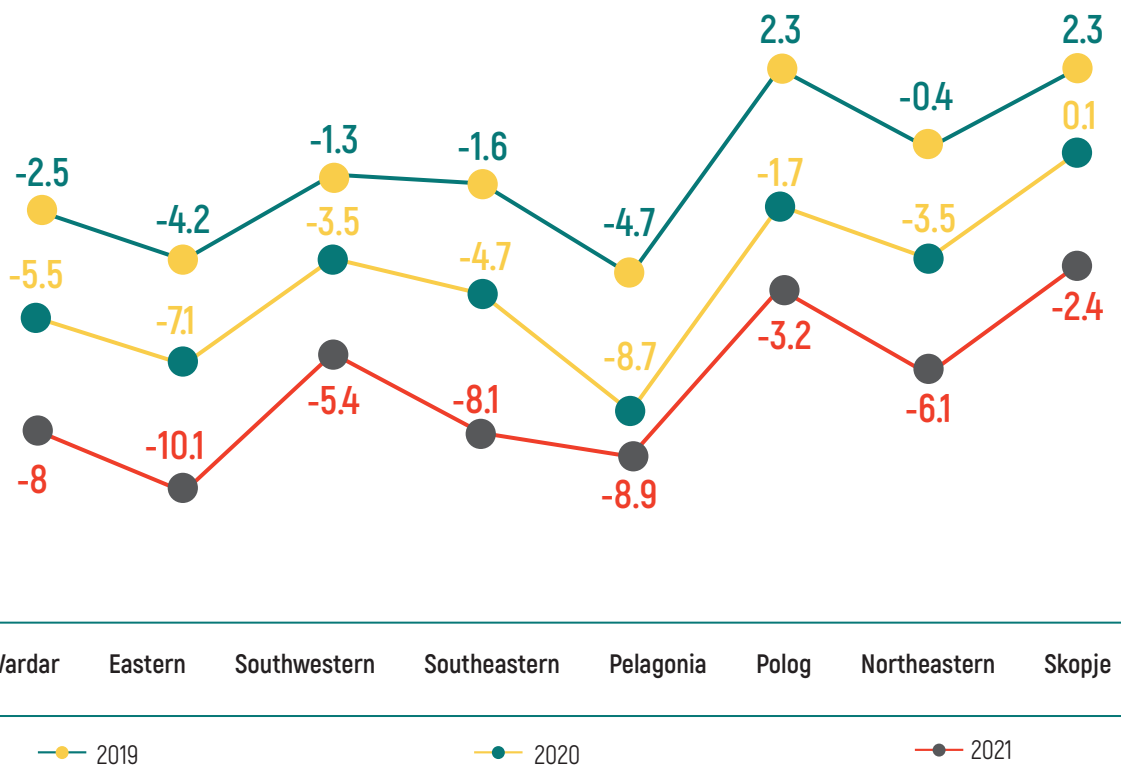
All regions have recorded negative migration balance of the rural population, particularly the Eastern, Pelagonia and Southwestern regions.

As a consequence of the negative natural increase and the negative balance of migration movements, Vardar and Southeastern regions count below 150.000 inhabitants, as a criterion for the minimum threshold for establishing/defining a region. The Eastern and Northeastern regions are also close to the minimum threshold.

According to the results of the Census of population in 2021, there are 205 vacant settlements/villages in the country and compared to 2002, their number has increased by 40%. In Skopje region, 43% of the total GDP is created, while the Northeast region stands out with the highest unemployment rate of 32.4%. The constant differences in the socio-economic development of the planning regions point to inefficient planning of activities for effective realization of the balanced regional development policy.



TREND OF NATURAL INCREASE RATE BY REGION



To increase the effectiveness of the system for creating policies and implementing measures and activities for reducing disparities between and within the planning regions, we made recommendations for adoption of by-laws for enabling comprehensive integrated programming of measures for achieving balanced regional development, increased

coordination and communication between holders of activities and strengthening capacities thereof, correct and proportionate allocation of budget funds as well as strengthened monitoring and accountability for the measures taken.

5.6

ECONOMY AND TECHNOLOGICAL DEVELOPMENT

5.6.1. DEVELOPMENT AND OPERATION OF TECHNOLOGICAL INDUSTRIAL DEVELOPMENT ZONES

We carried out compliance audit on the topic "Development and operation of technological industrial development zones (TIDZs)", which covered issues related to conditions, method and procedure for establishment, development, operation and performance of activities of TIDZs, analysis of the opportunities for investment in the Republic of North Macedonia as well as the competences and operation of the Directorate that manages the zones on behalf of the Government.

It was a pilot audit within the twinning project MK 18 IPA FI 03 20 titled "Improving external audit and parliamentary oversight".

The audit covered the period 2015 -2021, but certain areas, issues, events and analyses are from before 2015 and the period until the day of reporting on the audit.

Technological Industrial Development Zones (TIDZs) are established to create conditions for investments by domestic or foreign, natural or legal persons, which should contribute to the development of modern technologies by introducing economically profitable production and efficient use of resources, as well as application of the highest environmental standards. The mission of TIDZ Directorate is for the Republic of North Macedonia to grow into an international business center in Southeast Europe

with high-quality offer of infrastructure in TIDZs and quality service aimed at achieving balanced regional development in the country.

The Government of the Republic of North Macedonia has established 14 TIDZs. During the audit period, eight TIDZs were in operation, of which for TIDZ Tetovo was signed public private partnership contract. Five TIDZs are non-operational, one TIDZ - Rankovce has been alienated, and activities have started for setting up three new TIDZs. Based on the Law on Industrial - Green Zones, the Government of the Republic of North Macedonia has established three Industrial Zones (IZ), of which IZ Kosel is operational.

Awarding state aid is regulated by complex legislation¹⁷, The audit found that certain legal provisions are imprecise, no by-laws have been adopted and dispersed competences in several state bodies make control and coordination difficult and do not allow full insight into the total state aid granted per beneficiary.

With the audit and the analysis of the Annual Programs of the Government of the Republic of North Macedonia from 2017 to 2022, we concluded that activities for attracting foreign investments in this period are not included in the strategic priorities of the Government and that there is no adopted Strategy for attracting foreign investments.

The audit ascertained that the Directorate is hiring people on a contract-to-hire basis, and their number

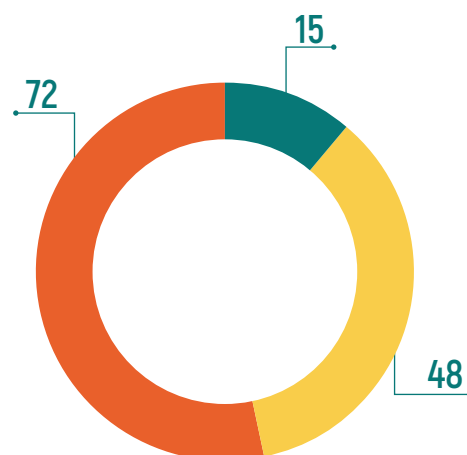
17 Law on Technological Industrial Development Zones, Law on Control of State Aid, Law on Industrial Green Zones, Law on Establishment of the Agency for Foreign Investments and Export Promotion of the Republic of Macedonia and Law on Financial Support of Investments

has changed over the years. During the audit period, 72 work contracts were active, i.e. the number of hired persons on a contract-to-hire basis is almost equal to the number of regularly employed persons (85). Half of the contracts were signed with persons who have been employed by the Directorate longer than 24 months. This situation creates a risk for the continuous and quality performance of work due to the temporary engagement.

From 2017 until 2021, the Directorate has granted state aid in the amount of 4.641.728.000 denars (75.5 million euros), of which directly paid funds from the Budget of the Republic of North Macedonia amount to 2.307.196.000 denars (37, 5 million euros), and the tax and customs exemptions amount to 2.334.532.000 denars (38 million euros). In 2021, the total amount of state aid awarded was 1.504.576.000 denars (24.5 million euros), of which directly paid funds from the Budget of the Republic of North Macedonia amount to 731.842.000 denars (11.9 million euros), and the allocated tax and customs exemptions amount to 772.734.000 denars (12.6 million euros).



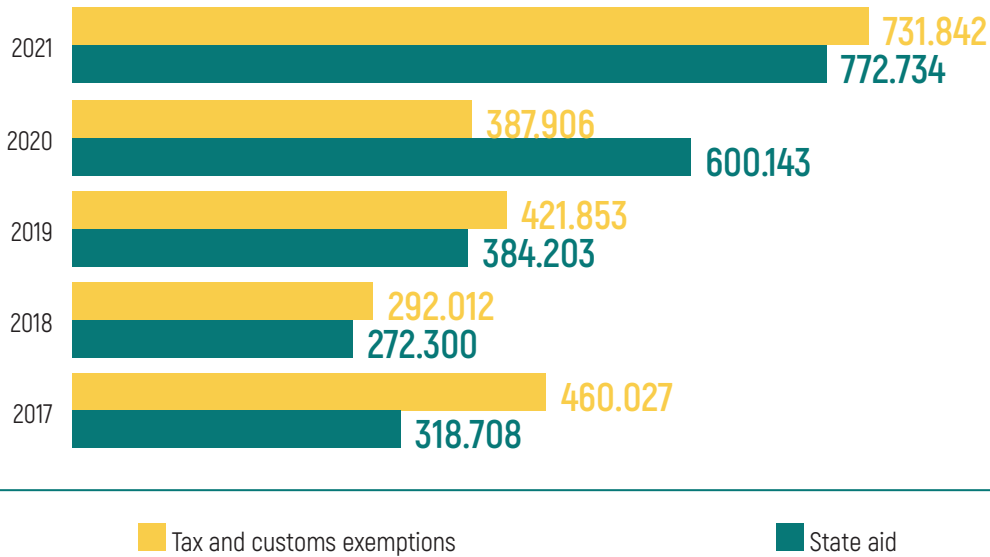
PERSONS ENGAGED ON CONTRACT TO HIRE BASIS



- full-time employees
- persons who are no longer employed on a contract-to hire basis
- persons employed on a contract-to hire basis

in 000
denars

**GRANTED
STATE AID
2017 -2021**



We ascertained that the Law on control of state aid, as well as the decrees adopted by the Government do not provide for closer and transparent criteria for determining the amount of individual aid¹⁸, and state aid is awarded without an assessment of profitability for determining its amount, without methodology for awarding, and with negotiation between the authorized persons in the Directorate and the beneficiary of the individual aid.

Infrastructural investments in the zones are under the authority of the Directorate, which in accordance with the Law on Construction, has received building approvals for the entire zone as a functional unit. TIDZ and IZ are set up on land owned by the Republic of North Macedonia on an area of 847 ha, of which 512 ha are usable (plots for lease) and 153 ha or 30% of the total usable area are under long-term lease.

The investments made by the Directorate in all zones as of 31 December 2021 are estimated at a total amount of 6.152.930.000 denars (around 100 million euros).

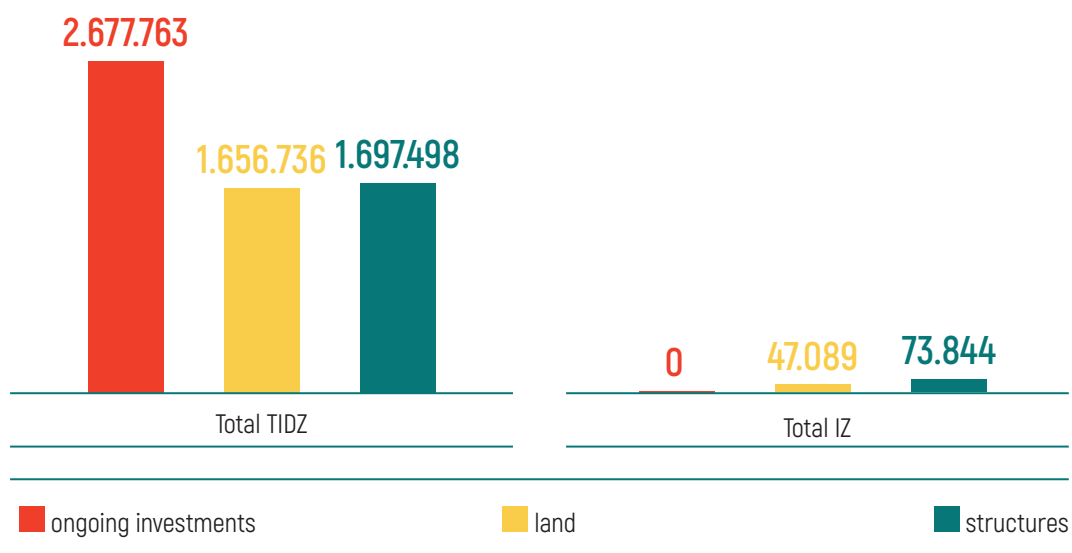
It was ascertained that the Directorate receives approval for use from the competent ministry after the entire zone is built, which is why it is not possible to make technical acceptance and obtain approval for use for the individual parts that have been built. Therefore, some of the realized investment projects in the zones from 2007 to 2021 have the status of tangible assets in preparation in the Directorate ledger, even though they are being used. Their estimated value at the end of 2021 is 2.677.763.000 denars, which represents 43.50% of Directorate's total investments in the zones.

From 2012 until 2021, the Government has established zones on an area of 153 ha (30% of the total usable area) that have not been put into operation due to lack of strategic and programming documents. The Directorate has invested funds from its budget

18 number of foreign investments, number of employees, investments made and similar criteria

in 000
denars

INVESTMENTS IN TIDZ AND IZ



for the basic internal infrastructure and land expropriation of these zones in the amount of 393.686.000 denars or 6% of the total investments. The largest investments in non-functional zones were made in Gevgelija, Delchevo and Kratovo.

Based on a Decision of the Government of the Republic of North Macedonia, TIDZ Tetovo was established with a PPP. The PPP contract with the private partner was signed for 96 years, although the legal regulation provides for the maximum period of 35 years from the date of signing of the contract. With the PPP contract, the public partner is obliged to provide an expert project management unit for the entire duration of the contract, which also has the capacity of a representative of the public partner and a contact body for the private partner. With the audit, we ascertained that 7 people have been deployed, but they do not have work obligations and do not perform activities related to the implementation of the PPP contract, nor they members of the specified expert unit.

In 2015, based on the adopted Decision on initiation of procedure for alienation of construction land by the Government of the Republic of North Macedonia, an agreement was signed for alienation of construction land of TIDZ Rankovce. The agreement provided for construction of the entire internal infrastructure of the zone¹⁹ within a period of no longer than 92 (ninety-two) months from solemnization of the agreement, and a minimum of 2000 new employments. Due to the fact that the construction did not start within the stipulated period, by Decision dated March 2019, the approval for construction in TIDZ Rankovce was declared null and void, and thus the provisions of the contract have not been implemented. With the audit, we found that a bankruptcy procedure was opened against the buyer/investor in April 2021 and this person does own assets for collection of the fines stipulated in the contract.

The director of the Directorate has not appointed authorized persons from among the employees who would supervise TIDZ and the users, as provided for

19 Roads, hydrotechnical infrastructure, gas pipeline, electrical and other infrastructure

in the TIDZ Law, which may have an effect on the timely control, detection and prevention in case of illegal operation of the users.

For the accounting and financial affairs and the preparation of annual accounts, the Directorate has established a practice to engage external legal entities with a public procurement procedure, which contributes to certain weaknesses in the preparation of the financial statements.

5.6.2. FINANCIAL SUPPORT (CO-FINANCING GRANTS) FOR MICRO, SMALL AND MEDIUM-SIZED ENTERPRISES FOR INNOVATION AND TECHNOLOGICAL DEVELOPMENT

We performed compliance audit on the Fund for Innovation and Technological Development (FITD) titled "Financial support (co-financing grants) for micro, small and medium-sized enterprises for innovation and technological development" for the period 2019-2021.

With the performed audit, we ascertained inconsistencies and undefined activities in the legal regulations and strategic documents as follows:

- not updated Statute of FITD with the amendments to the legal regulations on the competences and the period of engagement of the Management Board, obligations and responsibilities of the director, mandate of the Investment Approval Committee, deadline for deciding by the Committee, method of determining Committee's compensation and other shortcomings that indicate collision of adopted acts with the provisions of the Law on Innovation Activities;
- execution of activities by FITD, which are not defined in the Law on Innovation Activities and are not in line with the Innovation Strategy 2012-2020, These activities were assigned with the Plan for Economic Growth of the Government of the Republic of North Macedonia, which provided for awarding contracts for granting funds in the amount of about 596 million denars;
- incomplete realization of measures and activities defined in the Innovation Strategy of the Republic of North Macedonia 2012-2020 and the Action Plans for 2013-2015, 2016-2018 and 2019-2020. 16 measures were under the competence of FITD, of which seven have not been implemented;
- absence of Strategy for Smart Specialization, and thus not ensured continuity of innovation activity after 2020. It is a strategic document that has an impact on the creation and implementation of policies in the area of innovation, i.e. providing modern approach to economic development, through interconnection of the academic community, the business sector, government institutions and the civil sector for joint detection and action in areas where the country has the greatest potential and sufficient resources to invest.

There is no centralized database for granted financial support for monitoring implementation of individual instruments for financial support, movement of the beneficiary after application, administrative check, pre-selection and selection of project, signing contract, payment of funds, fulfillment of contract obligations and insight in the degree of utilization of granted financial support.

With the analysis of the acts for systematization and organization of job positions, the audit found that they do not correspond to the competences, load and scope of FITD tasks, i.e., out of 16 systematized job positions, only eight were filled out.

Due to the increased workload as a result of the legal amendments, increased budget, the expanded

strategic and program objectives of FITD, the assigned competences for the implementation of the Economic Growth Plan (PEG), pillar 3, in conditions of insufficient administrative capacity, FITD continuously engages external persons who perform tasks related to the activity, for which in the period 2019-2021, funds in the amount of about 46 million denars were paid.

Year	2019	2020	2021
Persons engaged on a contract-to-hire basis, continuous engagement	38	45	50
Paid funds for contract-to-hire basis - continuous engagement (in 000 denars)	7.544	13.384	19.377
Persons engaged on a contract-to-hire basis, outsourcing	16	15	18
Paid funds for contract-to-hire basis, outsourcing (in 000 denars)	1.746	2.277	1.472

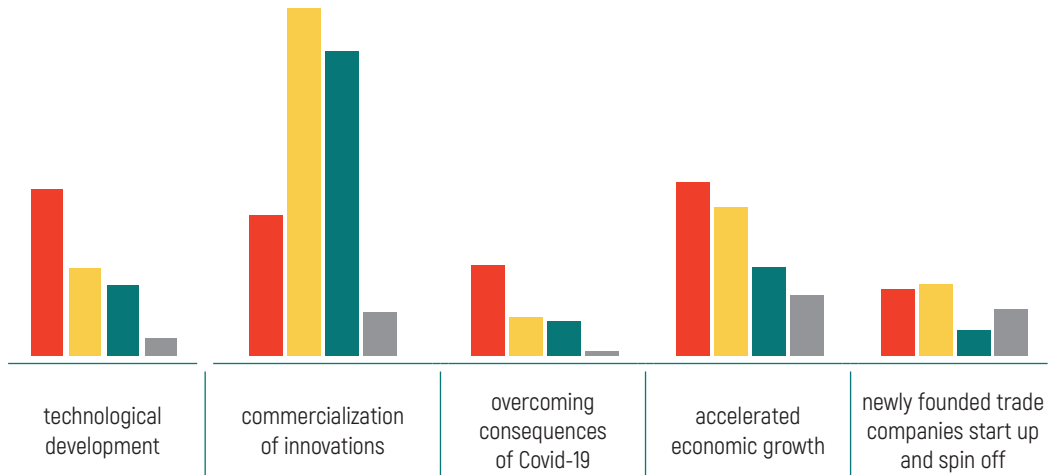
The audit deems that hiring persons on a contract-to-hire basis, despite the consent provided by the competent ministry, contributes to non-transparency and subjective conduct in signing contracts and determining monthly remuneration for engagement of persons that are continuously engaged by FITD for a long period of time.

Regarding implementation and monitoring of financial support granted with the PEG, pillar 3, from 2019-2021 FITD has signed contracts for 364 projects with public calls, of which 93 were implemented as of 20 May 2022, and 258 projects are in progress.

The implementation of aforementioned public calls is presented in the following graph.

in 000
denars

**PUBLIC CALLS FOR ALLOCATION
OF FINANCIAL SUPPORT
2019-2021 FROM PEG PILLAR 3**



	1	2	3	4	5
Amount of funds per call	369.159	308.000	203.280	369.159	123.200
Contracts signed	194.848	763.602	85.978	314.759	131.483
Disbursed funds	156.148	667.748	76.828	187.310	46.249
Remaining liabilities	38.699	95.854	9.150	127.449	85.234

In addition, with the audit we have ascertained that in the period 2019-2021, FITD has hired experts to evaluate and provide expert opinion on the projects for financial support from published public calls, and has paid about 16 million denars thereof.

Granting financial support is a complex process, and monitoring and control of realization of contracts requires expert and competent staff, which FITD did not have during the execution of the audit, and thus it cannot respond to the obligations stipulated in the signed contracts.

Due to the abovementioned, and with the aim of timely performance of obligations from signed contracts with the users whose projects have been approved for financing, FITD announces public call for "Project management services (monitoring)". In the period 2019-2021, FITD has signed four framework agreements for procurement of project management services (monitoring) amounting around 101 million denars.

5.7 | HEALTHCARE



5.7.1. HEALTH INSURANCE FUND OF THE REPUBLIC OF NORTH MACEDONIA

We performed audit of the financial statements together with compliance audit of the Health Insurance Fund (HIF) of the Republic of North Macedonia for 2021. The following was concluded:

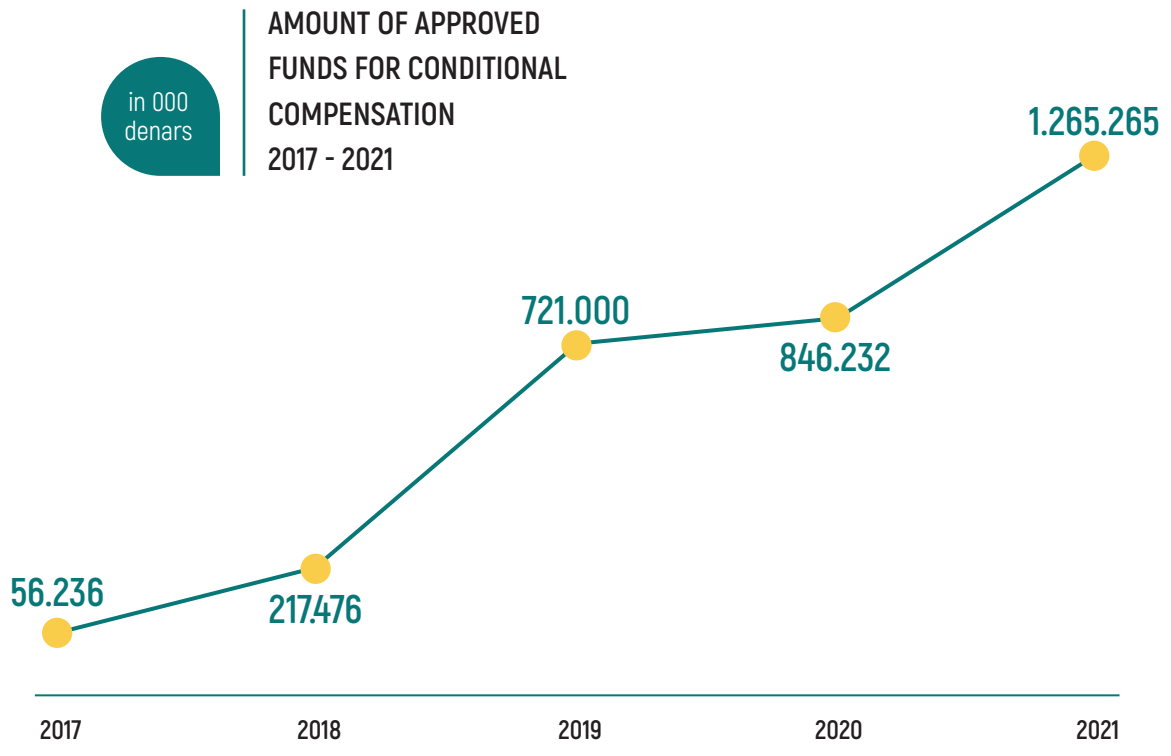
- weaknesses in the operation of HIF IT system in terms of continuous shortage of IT staff, absence of IT strategies and not updated IT policies and procedures for IT security, outdated and unsecured server structure and several not functional modules in the IT system;
- due to unfilled managerial and other systematized job positions, there is a risk of inadequate segregation of responsibilities and incomplete implementation of activities in the sectors;
- system built-in controls are not provided in the process of preparing calculations for performed healthcare services, which are the basis for preparing monthly invoices from PrHI and reports from PHI. Due to the amount of data in the calculations, it is not possible to carry out full manual control because the Fund does not have sufficient HR capacities;
- weaknesses in internal and field controls in confirming objectivity of invoiced medical interventions performed by PrHI. Due to limited HR capacities and lack of possibilities for full control, it is difficult to confirm the reliability on the invoiced type and volume

of performed healthcare services from PrHI invoices amounting to 3.296.901.000 denars in 2021. According to data presented in the Annual Report, in 2021 out of 41 planned controls, only 7 were performed in PrHI for hospital healthcare, and the rest of the controls were performed in PHI, despite the fact that the agreed remuneration of PrHI is directly dependent on the performed type and volume of healthcare services;

- in the process of prescribing and issuing medicines that are covered by HIF, full system control is not ensured in the preparation and delivery of invoices from pharmacies amounting to 2.624.853.000 denars in 2021. Based on information from the electronic database, it was ascertained that some invoices contain several prescriptions with the same number. During 2021, 21.047 prescriptions were invoiced twice in the amount of 2.224.000 denars;
- irregularities and non-compliance with deadlines for performance of controls and imposition of contractual penalties, which resulted in not sanctioning healthcare facilities that do not act in accordance with the agreements signed with the Fund;

To enable PHI to provide healthcare services that are deficient or inadequately planned due to the expensive therapy, there is a legal opportunity to include a conditional fee for procurement of new generation medicines for treatment of certain diseases within the annual contractual fee. The allocated funds for conditional compensation show continuous growth and in 2021, HIF has approved conditional compensation for 17 PHIs in the amount of 1.265.265.000 denars, of which 91% refers to procurement of medicines (see graph below). The Fund has not established controls and funds are approved and paid out without determining whether all healthcare services have been provided in terms of type and volume;

- there is lack of controls of the payment of benefits during maternity leave, and thus benefits were paid to insured persons when they were receiving salary for effective working hours;
- weaknesses in the procedure for referring insured persons for treatment abroad, i.e. inadequate legal protection and lack of control and system for monitoring and analysis of treatments' successfulness. HIF has recorded advanced payments for treatment abroad to foreign healthcare institutions in the amount of 234.178.000 denars, without accurate information about the status of the treatments due to unsecured documentation;
- the inventory of assets is incomplete, some of the buildings and land have unregulated status and are incompletely recorded in the ledgers;



- there is lack of records for the supplies, and liabilities in financial statements are presented unrealistically;
- irregularities in the implementation of public procurements as well as in the implementation of public procurement contracts, and weaknesses in the engagement of external persons on a contract-to-hire basis.

In the paragraph Emphasis of Matter, we disclose the following:

- the method of payment for services provided by healthcare institutions indicates that the actual procurement of services provided for by the Law on Health Insurance is not ensured. HIF, within its budget, instead of reimbursing PHIs for performed healthcare

services, the Fund is forced to provide funds for the operation of all PHIs. In 2021, 106 out of 116 PHIs have become unsustainable due to significantly lower volume of services provided compared to the agreed compensation;

- absence of complete information about claims based on unpaid contributions for healthcare insurance and extremely uncertain collection of claims as of 31 December 2008.

In the paragraph Other Matter, we report on the following:

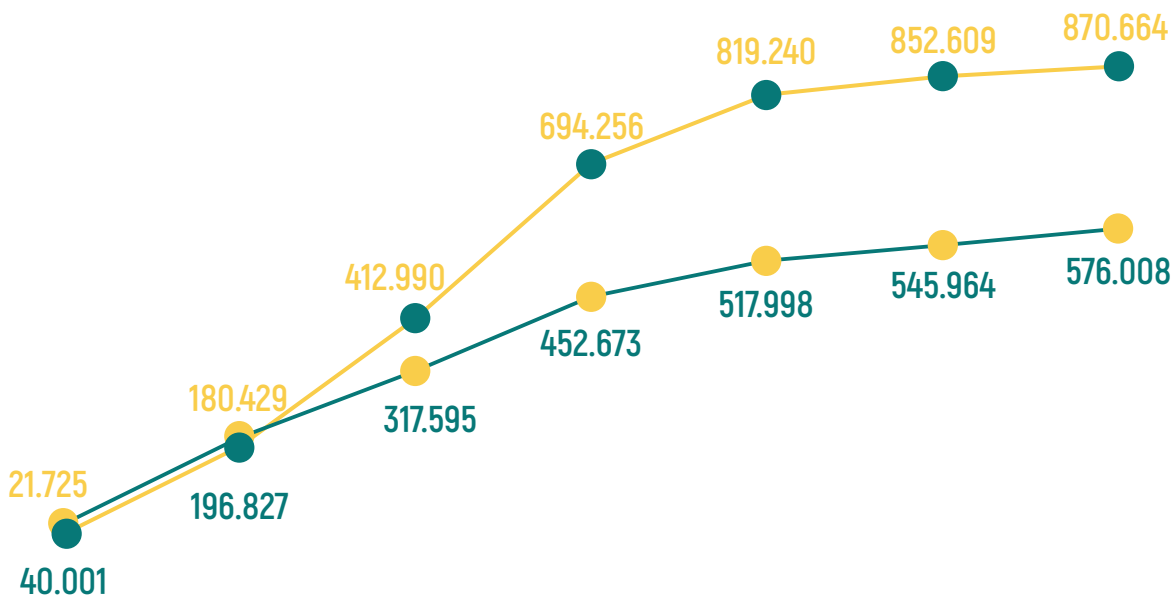
- in conditions of pandemic, due to non-provision of appointments in PHIs and not signed agreements with PHIs for Covid 19 diagnosis, insufficient healthcare services

were provided for insured persons at the expense of the Fund. According to data published by the Institute of Public Health, since the beginning of the pandemic on national level, 2,170,602 tests were done in 33 laboratories of PrHIs and PHIs. The

structure and trend of PCR tests and the number of laboratories of PrHIs and PHIs from the beginning of the pandemic in March 2020 until March 2022 are shown in the graphs below.



**NUMBER
 OF PCR
 TESTS**



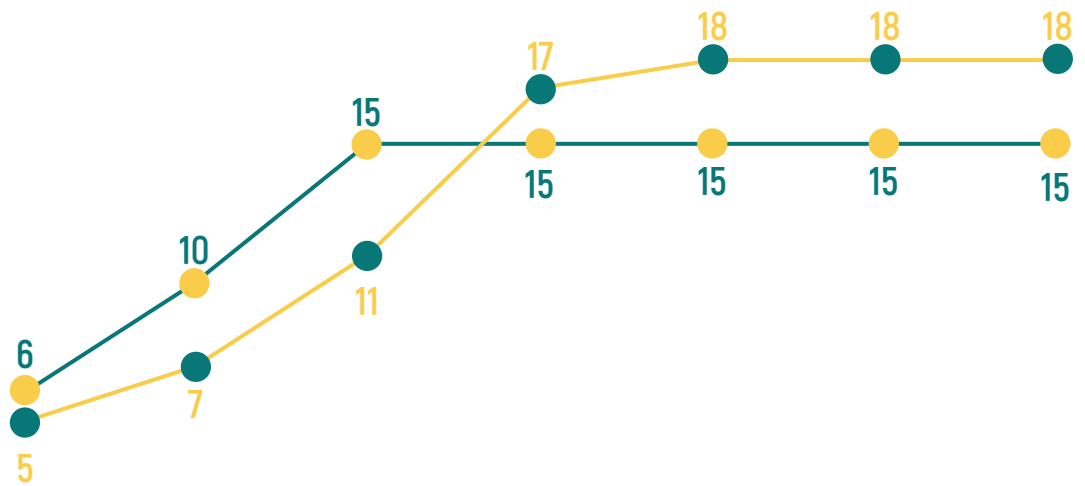
30.06. 2020	30.09. 2020	31.12. 2020	31.03. 2021	30.06. 2021	30.09. 2021	31.12. 2021	31.03. 2022	30.06. 2022	30.09. 2021
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—●— Public healthcare

—●— Private healthcare



NUMBER OF LABORATORIES



30.06. 2020	30.09. 2020	31.12. 2020	31.03. 2021	30.06. 2021	31.12. 2022	31.03. 2022	30.06. 2022	30.09. 2022
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Public healthcare

Private healthcare

The number of tests and the price of these services in private laboratories in different periods point to outflow of funds of citizens in the private health care. Calculated by the lowest price of PCR tests, for the 870.664 tests in PrHI, it is an amount of around 19.9 million euros, not considering the rapid antigen tests and higher prices of up to 5500 denars per test.

We also pointed out that the List of medicines borne by HIF is not updated since 2015 and National E-Healthcare Strategy is not adopted.

5.7.2. PUBLIC HEALTHCARE INSTITUTIONS

We conducted audit on the financial statements together with compliance audit of the Public Healthcare Institution University Clinic for Radiotherapy and Oncology Skopje for 2021.

With the performed audit, we ascertained several weaknesses including:

- weaknesses in the process of calculation and payment of salaries and salary allowances;
 - weaknesses in planning, implementation and control of conditional compensation that affect its purpose;
 - weaknesses in the inventory of assets, claims and liabilities;
 - taking on obligations in an amount higher than the approved budget and untimely payment thereof;
 - inconsistency of accounting and physical records and inventory of supplies of medicines and medical supplies, as well as incomplete invoicing of used medicines in day hospitals; and
 - improper application of the Law on Public Procurement in some public procurement procedures.
- In the paragraph Emphasis of Matter, we report on the following:
- For servicing equipment on which economic operators have monopoly/exclusive right, full service contracts are signed and it is not possible to compare/determine the reality of funds paid in relation to the volume of services performed,
 - Ministry of Health has procured linear accelerator, which was not put into use until the day of reporting on the audit because the Clinic does not have suitable premises to install the accelerator, and
 - Uncertain collection of claims from the Ministry of Health for performed healthcare services under health protection programs and from other PHI for performed inter-clinical services.
- In the paragraph Other Matter, we inform about
- problems faced by the Clinic due to non-dispersion of healthcare services in the field of oncology and radiotherapy, although conditions have been created for provision of these services in several medical centers, and
 - The National system for financial and accounting operations and the Central system for registration of working hours in the Ministry of Health are not fully implemented.

5.8 ENERGY



5.8.1. JSC FOR TRANSMISSION OF ELECTRIC ENERGY AND MANAGEMENT OF THE ELECTRICAL ENERGY SYSTEM, STATE-OWNED SKOPJE

We conducted audit on the financial statements together with compliance audit of the Electricity Transmission System Operator of the Republic of North Macedonia, Joint Stock Company for electricity transmission and power system control, in state ownership, Skopje (JSC MEPSO) for 2021.

Transmission of electricity is regulated energy activity carried out in accordance with the Law on Energy and other laws and by-laws, regulations and rules adopted or approved by the Regulatory Commission for Energy, Water Services and Municipal Waste Management Services (RCE), as well as with the requirements defined in issued licenses for performing the energy activity.

We have ascertained that recommendations given by the authorized state auditor in the final regularity audit report for 2016 concerning the IT Strategy and the IT controls of the systems in place, have not been implemented for the most part, which affects and continuously creates high risks in the IT financial processes of the company's operation.

The internal audit, which is crucial for the internal controls in place, does not perform its function as

stipulated by the legislation and its objectives are not achieved. This also affects the control system, particularly for timely identification of risks in the activity of the electricity transmission system of JSC MEPSO.

We have identified non-compliance with regulations, errors and omissions in the annual inventory, in the calculation of salary of employees, the management of supplies, the manner of recording interest and commissions on long-term loans and the payment of sponsorships and donations, which affects the reality and objectivity of financial statements.

Notwithstanding the activities taken by the competent services, the land recorded in trading books has not been fully confirmed, and there are differences between the accounting records, the physical inventory data and the title deeds.

JSC MEPSO Skopje owns the electricity transmission network, which consists of line infrastructure facilities (transmission lines), transformer stations (substations), plants, facilities and assets for transmission of electricity and managing the electricity transmission system that functions on 400kV and 110kV voltage level. We have identified discrepancy in the number of transmission lines and substations registered with the competent departments in JSC MEPSO and also in the data in the accounting records.

The substations which were supposed to be jointly owned by JSC MEPSO Skopje and EVN Macedonia JSC, according to the title deeds are registered as property of EVN Macedonia JSC only.

Although JSC MEPSO Skopje is making efforts to register these substations based on the Law on transforming electricity industry of Macedonia, the Real Estate Cadastre Agency does not issue title deeds for the substations to JSC MEPSO Skopje. This situation impacts the electricity transmission tariff, which is decided by a decision of RCE based on accounting data and financial records submitted by JSC MEPSO.

We ascertained that 30% of assets in preparation i.e. 428.352.000 denars represent invested funds in the period 2005-2019 in equipment, consulting services, paid commissions for loan approval and non-withdrawn funds for project loans. Due to lack of information these are not properly linked to investments in a particular asset. These tangible assets in preparation have not been put into use, which affects the depreciation costs, and thus the achieved financial result.

The enormous increase in the price of electricity on the European stock exchanges in 2021, the insufficient production of electricity by national producers and the unauthorized withdrawal of electricity from the electrical power transmission system by the balancing group responsible parties, the revenue of JSC MEPSO from electricity traders – balancing group responsible parties and JSC ESM Skopje based on compensation for deviations/imbalance for withdrawal of electricity from the electrical power transmission system amounts to 4.210.704.000 denars or 68.5 million euros. This represents a five-fold increase in revenue compared to 2020 when the revenue amounted to 841.792.000 denars i.e. 13.7 million euros.

Namely, due to the increase in the price of electricity, some electricity traders were continuously reducing the purchase of electricity from the open market and used the balancing energy of JSC MEPSO Skopje to supply their consumers. This has caused a drastic increase in the costs of JSC MEPSO Skopje towards the European electricity transmission system. Extremely large deviations/ imbalances were made in October 2021, when JSC MEPSO invoiced and collected 77.8 million kWh from the electricity producer JSC ESM Skopje in the amount of 25 million euros VAT exclusive. This resulted from the fact that JSC ESM Skopje failed to realize the plans for electricity production, and therefore electricity was withdrawn from the European grid, which created the obligation toward the European electricity transmission system in the amount of 25 million euros for JSC MEPSO Skopje.

Additional reason behind the above situation is the manner of informing JSC MEPSO by electricity traders that illegally took electricity from the electrical power transmission system. Specifically, data received from MEMO DOOEL through Elektro distribucija DOOEL arrive with 45 to 60 days delay, and thus JSC MEPSO is not able to do a quick intervention and take timely measures against the traders.

Considering the overall impact on the national economy caused by the lack of electricity, in November 2021 the Government passed a Decree²⁰ that released the electricity traders from the obligation to increase bank guarantees based on signed balancing responsibility agreements and JSC MEPSO Skopje signed agreements for reprogramming their due and unpaid debts.

20 Decree on the criteria and conditions for declaring crisis in cases of weather and natural disasters, breakdowns and disturbances in electricity markets, method of supplying electricity in a state of crisis, measures taken in case of crisis, as well as rights and obligations of holders of licenses for performing electricity activities [Official Gazette of the Republic of North Macedonia no. 246/21, 300/21 and 74/22]

In December 2022, claims based on signed reprogramming agreements for electricity withdrawn from the electrical power transmission system amount to 883.802.000 denars or over 14 million euros. The audit report points to the risk and uncertainty of collection thereof.

In 2021, value adjustment in the amount of 15 million euros was made for part of the receivables of reprogramming agreements of electricity traders, as well as for fines and damages due to interruption of delivery of agreed electrical power. During 2022, part of the receivables (1.2 million euros) were collected.

JSC ESM Skopje is the largest electricity producer in the country and in line with the Energy Law, it is obliged to offer for sale certain percentage of electricity to the Universal supplier - EVN Home DOO. In the past several years, acting upon Government's Extracts, almost the entire quantity of electricity produced by JSC ESM Skopje was sold to the Universal supplier at a fixed (reduced) price by the Government, which is much lower than the market price and the price on HUPX stock exchange. The balancing mechanism in JSC MEPSO is designed in such way that for withdrawal of electricity from the electrical power transmission system in larger quantity than planned, electricity traders pay to JSC MEPSO Skopje, and for unplanned excess electricity in the electrical power transmission system, JSC MEPSO Skopje is obliged to pay electricity traders in line with settlement prices determined with the Methodology for calculation of the settlement price, prescribed in the Rules for Balancing the Electricity System, which is directly influenced by the price at HUPX stock exchange.

The audit found large settlements of deviations in the planned amount of electricity in JSC MEPSO Skopje in 2021 and 2022. These deviations should occur only in exceptional situations and their occurrence creates big uncertainty in planning and realization of revenue and expenditure on this basis, in maintaining necessary liquidity of cash assets, as well as in maintaining the balancing mechanism. The expenditure for realized surplus of electricity from the Universal supplier of JSC MEPSO Skopje in 2021 amounts to 158.817.000 denars VAT exclusive, while the revenue from the Universal supplier amounts to 412404.000 denars VAT exclusive.

In the period from 2019 until 2021, JSC MEPSO Skopje has signed agreement with JSC TEC Negotino for provision of electricity in the event of threats to security of supply, breakdowns or major deviations in the consumption from the foreseen quantities of electricity in the electric power system. It was agreed TEC Negotino to retain available power of the thermal power plant only for the needs of JSC MEPSO Skopje. For that period JSC MEPSO Skopje has paid 531.998.000 denars VAT inclusive, of which 219.778.000 denars have been paid in 2021. We point out that although TEC Negotino was financially supported, it was not activated for production of electricity when the energy crisis occurred in October 2021.

Necessary condition for balancing the electric power system is to have equation of the total input and the total output of electricity in the system. The average annual consumption of electricity in the Republic of North Macedonia in the last five years is around 7430 GWh, where the largest share in the total consumption with over 65% goes to households and street lighting. According to JSC MEPSO Skopje forecasts, from 2025 to 2030, the adequacy of the system in relation to energy will be met with a significant import of about 55% of the total needs of electricity because of the expected low level of production of electricity of about 3.600 GWh due to reduced operation of TEC Bitola. By activating power plants from renewable energy sources as well as gas power plants, the import of electricity would decrease.

In the audit report we pointed out that due to the increase in electricity consumption in the Republic of North Macedonia, projects for large-scale production of electricity are needed.



5.8.2. PREPAREDNESS OF THE ENERGY SYSTEM FOR DEALING WITH ENERGY CRISIS

With the performance audit "Preparedness of the energy system for dealing with energy crisis" we covered the period 2019 - 2022 to answer whether measures and activities taken by the competent institutions in the energy sector enable reliability and sustainability for provision of electricity in the long term. In line with UN Sustainable Development Goals 2030, this audit is closely related to Goal 7 – "Ensure access to affordable, reliable, sustainable and modern energy for all".

The power system development began in 1909 and it was completed in 2006, when distribution of electricity was privatized, while the production and transmission of electricity remained property of two state-owned companies.

1909

First steam-powered power plant



after 1944

Federal Electric Power
Company established

2005

JSC "Elektrostopanstvo
na Makedonija" is divided into 3
state-owned enterprises for
production, transmission and
distribution of electricity

2006

Electricity distribution is
privatized, and production and
transmission are carried out by
two state-owned JSCs

Republic of North Macedonia has limited amounts of coal and does not have oil and natural gas, which causes dependence on procurement of reagents for electricity production. Our country has the most unfavorable position compared to the countries in the region, because 33% of electricity demand is imported. Electricity is produced from coal (39%), water (28%) and wind (2%).

Energy activities provided for in the Law on Energy are carried out by JSC ESM Skopje, as the largest producer of electricity, JSC MEPSO Skopje, in charge of transmission of electricity and management of the electrical power transmission system, EVN Home, responsible for distribution and transmission of electricity, RCE regulates and controls the performance of energy activities, and MEMO DOOEL Skopje as the operator of the organized electricity market. The Government is the

creator of the energy policy in coordination with the Ministry of Economy and the Energy Agency. The role of the municipalities in the energy system is mainly related to realization of Energy Efficiency Programs.

Key document for implementation of the energy policy in the country is the Strategy for Energy Development in the Republic of North Macedonia until 2040, adopted in 2020. Draft Program for implementation of the Strategy for the period 2021-2025 was prepared, which is not yet adopted. To harmonize our country with the international obligations prescribed by the Energy Community, the policies and objectives for development of renewable energy sources are constantly changing in the legal regulations. With the amendments to the Law on Energy in 2022, the provision that foresees adoption of strategic and action plans for

renewable energy sources was abolished, and the national objectives for renewable energy sources were to be defined in the Energy and Climate Plan, which was adopted in May 2022. These amendments to the law provide for adoption of an "Indicative plan for construction of capacities for production of electricity from renewable energy sources" with data on electricity production technologies and the total installed capacity by region to which power transmission/power distribution system can be connected. Considering that the form and method of preparation of the Indicative Plan has not been prescribed, the Plan has not been adopted. The Strategy for reconstruction of residential, public and commercial buildings, which should contribute to greater energy efficiency, is also not adopted.

The largest electricity production capacity from coal in JSC ESM Skopje is REK Bitola, with its three blocks, of 233 MW each and annual production of about 1.200 GWh per block, and REK Oslomej in Kichevo, with installed block capacity of 125 MW. For the needs of REK Bitola, coal - lignite is exploited, which has low calorific value, and thus additional purchase of calorific coal is necessary for its homogenization. In REK Oslomej, due to the exhaustion of the mines, coal is only procured. The remaining exploitation quantities of coal in the mines are 69.780.000 tons. From 2019 to 2022, the participation of TEC of JSC ESM Skopje in the total produced electricity in the country shows a downward trend with the highest production in 2019 (57%) and the lowest production recorded in 2021 (39%), when the energy crisis began. In REK Bitola, from 2019 to 2022, there is discrepancy in the quantities of excavated, imported and consumed coal with the supplies of coal in the landfill, which affects the planning of necessary quantities of coal. In the same period, for the needs of REK Bitola and REK Oslomej, contracts were signed for procurement of coal in the amount of 8.277.906.000

denars and realization for 5.087.078.000 denars VAT exclusive and 1.206.000 tons of coal were procured.

The procurement of coal, fuel oil and gas carried out by JSC ESM Skopje is exempted from the Law on public procurement and is regulated by internal guidelines, which does not precisely define the necessary documentation to be submitted by the economic operators, the method of evaluation of the bids and the deadlines for implementation, which affects the competition, the quality and the origin of energy.

In the planning of public procurement procedures for the new auxiliary machinery in REK Bitola, carried out in 2020 and 2022 in the amount of 1475.123.000 denars, no analyses were done to determine the need and economic profitability of the same, especially since the quantities of coal for exploitation are decreasing and services for using auxiliary machinery are being used with signed contracts amounting to 1.530.182.000 denars.

The continuous operation of TEC Bitola and TEC Oslomej is of exceptional importance for meeting the national demand of electricity. In 2022, Block 3 of REK Bitola had a defect for 365 days, and Blocks 1 and 2 had a defect for 29 days. Shutdown of Block 3 led to lower electricity production for about 1.621 thousand MWh, which are of great importance for reducing electricity shortage and for dealing with the energy crisis.

From 2019 to 2022, JSC ESM Skopje compensate for the lack of electricity produced by purchasing electricity from the open market with an increasing trend in the amount of 87.8 million euros. The expenses were higher than the income from sale of overnight surplus of electricity amounting to 41.8 million, which indicates lack of electricity and affects the company's liquidity.

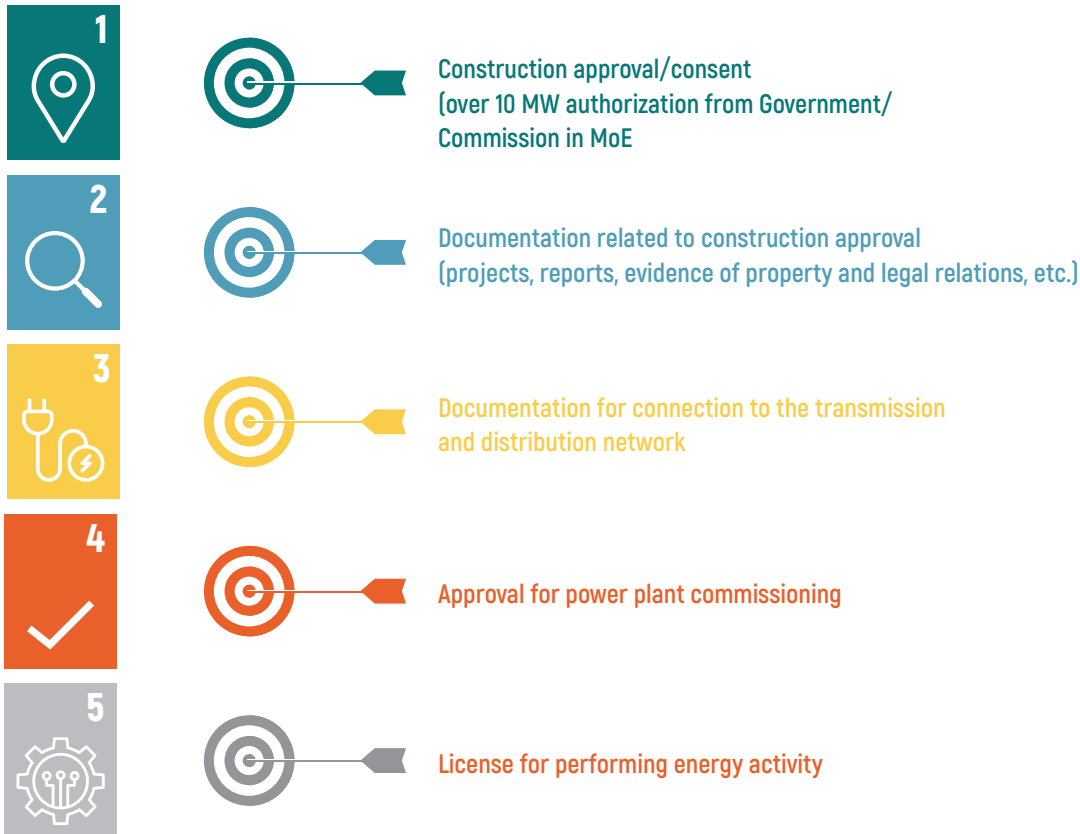
Although JSC ESM Skopje has paid a significant amount, it has not yet implemented all activities from the operational plan to secure the Permit for compliance with the operational plan. Monthly reports on performed control of emissions from polluting substances in REK Bitola in the period 2019 -2022 show exceeding of emissions of all polluting substances in the air above the maximum allowed limit. This particularly applies to SO₂ - sulfur dioxide, with the highest measured value in 2022 exceeding the permitted limit value almost twenty times.

TEC Negotino is a thermal power plant built 45 years ago and was never modernized. With the energy crisis in December 2021, it was put into operation again and by the end of 2022, in cooperation with JSC ESM Skopje, it produced 412.615 MWh and consumed 114.292 tons of fuel oil. TEC Negotino is unable to produce electricity without support of the larger energy systems in the country. However, due to its very good position on important road routes for connecting with the neighboring countries and the proximity of the Vardar River, it is necessary to modernize this thermal power plant in line with energy development strategies and green scenarios that would contribute to the electricity production in the country.

From 2019 to 2022, most "big projects" have not started or have low level of realization, except for the revitalization and modernization of TEC Bitola Phase II and the construction of photovoltaic power plant with capacity of 10 MW (in REK Oslomej - FE Oslomej 1), which has an impact on the long-term stability in providing larger quantities of electricity.

The production of electricity from renewable energy sources accounts for about 30% in the total production of electricity and is a significant factor for reducing greenhouse gas emissions. The interest in electricity production facilities from renewable energy sources increased during the energy crisis particularly for photovoltaic power plants, in contrast to the previous period when the interest was more focused on construction of hydro power plants.

There is lack of information on the procedure for the construction of power plants from renewable energy sources, on the method of connection to the distribution and transmission network as well as lack of data on the possible financial framework and period of the investments, which makes the procedure complex, slow and inefficient.

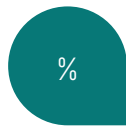


There are weaknesses in the regulation of measures in support of electricity production from renewable energy sources in relation to the technical specifications for the equipment and systems and the sale of electricity produced by preferential producers who use a premium, which violates the principle of competitiveness in awarding premiums and on the electricity market. The opportunity used to terminate contracts with the producers that used preferential tariffs, which have received state financial support of 2.751.025.000 denars, had an adverse effect during the energy crisis.

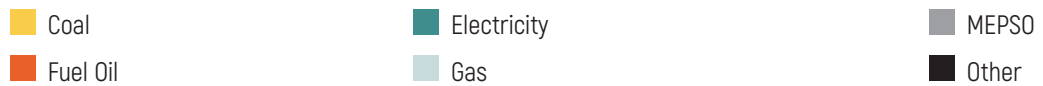
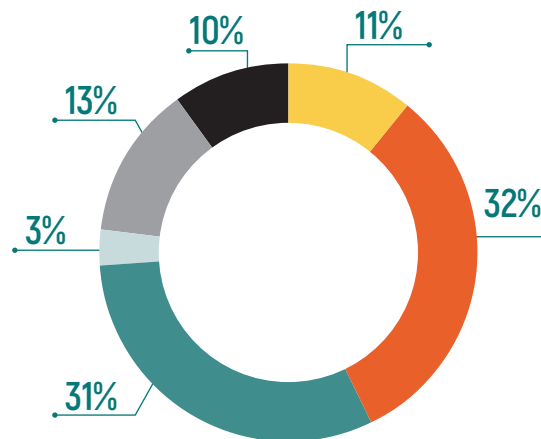
Foreseen measures for improving energy efficiency by the municipalities refer to activities planned in Energy Efficiency Programs and annual plans for their implementation. This legal obligation was met

by a small number of municipalities. Monitoring and verification platform has not been established, which makes it impossible to monitor data on the type of energy efficiency measures implemented, as well as the energy savings achieved, and the opportunity provided for in the law to set up an Energy Efficiency Fund has not been used either. In addition, the municipalities also face problems related financial resources, administrative and human resources and during construction of power facilities.

To overcome the situation with the energy crisis, the Government adopted tasks and recommendations for electricity savings of 15%. Savings were achieved at the general level, but the measures were not obeyed by some entities.



FUNDS SPENT FROM ALLOCATED STATE SUPPORT



The Government allocated 17,197,808,000 denars in 2021 and 2022 as state support to the largest electricity producer in the country. The funds were used as support for procurement of resources for electricity production, procurement of electricity in the open market and other costs for maintaining current liquidity of the company for dealing with the energy crisis.

With the emergence of the energy crisis at the end of 2021, by using the advantage provided for small consumers in the Law on Energy, large number of legal entities and municipalities (that in line with the law belong to the category of entities that should procure electricity on the open market) have established new legal entities/used existing ones and joined the distribution network and used preferential subsidized price of electricity

as households and small consumers. This has had a negative effect on the energy sector, on the liquidity of entities that perform energy activity as well as on the increase of the price of electricity.

Immediate changes are necessary in the manner of managing the national energy policy. Competent institutions should take on measures and activities for monitoring implementation of the strategic framework at national and local level. The electricity production capacities should be improved through implementation of large investment projects, bigger participation of renewable energy sources in the total electricity production and improvement of the energy efficiency, with the aim to increase the preparedness of the country for dealing with energy crisis.

5.9 IT SYSTEMS, DATA SECURITY AND PROTECTION



5.9.1 AGRICULTURAL REGISTERS IN THE MINISTRY OF AGRICULTURE AND THE FOOD AND VETERINARY AGENCY AND THE USE OF REGISTERS FOR EFFECTIVE EXERCISE OF RIGHTS AND OBLIGATIONS OF AGRICULTURAL HOLDINGS

We carried out performance IT audit (in line with 2022 Annual Work Program) on the topic "Agricultural registers in the Ministry of Agriculture, Forestry and Water Economy and the Food and Veterinary Agency and the use of registers for effective exercise of rights and obligations of agricultural holdings" to answer whether managing of and controls in the systems and registers enable effective managing and monitoring of subsidization of agricultural holdings.

The Ministry of Agriculture, Forestry and Water Economy (MAFWE), the Food and Veterinary Agency (FVA) and the Agency for Financial Support of Agriculture and Rural Development (AFSARD) have established IT systems for managing registers under their jurisdiction, but the registers and the controls in the registers do not provide effective management of the process of exercising rights and obligations of agricultural holdings.

With the performed audit, we identified certain shortcomings as follows:

- the register of state agricultural land is maintained manually in tables at local level, although there is an IT system in place, which is not updated with all data on leased state agricultural land;

- the wine register is kept at local level and no summary report is generated at national level;
- the single register of agricultural holdings (ERZS) does not incorporate sufficient appropriate cross-checks with the corresponding databases of other institutions, and thus agricultural holdings are granted privileges (bigger financial support) through other programs implemented by the Ministry of Agriculture;
- MAFWE has not established controls for avoiding double funding of agricultural holdings by state support due to absence of records of granted state aid;
- only 30% of planned IT job positions have been filled out in MAFWE, VFA and AFSARD and there are no appropriate IT policies and procedures in place;
- outdated computer equipment and operating system that is no longer supported by the manufacturer are used in MAFWE and VFA;
- data exchange between registries is done outside the interoperability platform;
- MAFWE IT system is not fully recovered from the cyber-attack and is not able to download data from VFA register; and
- lack of business continuity plan in MAFWE and VFA, which makes key systems and services vulnerable.

To overcome the above shortcomings, we made recommendations for measures and activities by competent persons and institutions aimed at establishing effective policies for administering IT systems and registers in MAFWE, VFA and AFSARD, for improving the records of granted state aid in agriculture and rural development, state agricultural land as well as sustainable management of subsidization of agricultural holdings.

5.9.2 EFFICIENCY OF PUBLIC REVENUE OFFICE IT SYSTEM FOR ADMINISTRATION OF PUBLIC FEES

We carried out performance IT audit on the topic "Effectiveness of the Public Revenue Office (PRO) IT system for administration of public fees" to answer whether the design of PRO IT system enables efficient, complete and sustainable management of public fees.

The Public Revenue Office has set up an IT system for managing public fees, but the design of the system as a whole does not ensure efficient and sustainable management of public fees administration process. Therefore, it is necessary to take additional measures and activities for modernization of the system to provide more reliable and secure environment for information and data, as well as new digitized services for institutions, taxpayers and citizens.

With the audit, we identified certain shortcomings as follows:

- data on taxpayers are divided in several databases, i.e. there is no data integration, which leads to untimely data processing and generation of information for making appropriate decisions;

- the main database is built on an older generation platform without maintenance or possibility for upgrade and connection with other databases in real time;
- data on taxpayers cannot be generated through a single system - integrated system through an aggregated application environment, and generation of updated tax information for all stakeholders is not possible without additional activities of the employees / IT employees in PRO;
- the current number of IT employees is not sufficient for normal functioning of the IT system, the adopted guidelines for IT security are outdated, and there is no monitoring of their application and implementation.

Data exchange between PRO IT sub-systems and data exchange with external IT systems (registers) ensures completeness and accuracy in efficient manner. Data exchange is done in line with agreements that have been signed a while

ago. However, there is insufficient data exchange through the interoperability platform due to lack of trained IT employees for creating procedures for application of web services. Manual entry/change of taxpayer data is possible without double control of the initial entry/change of taxpayer data.

PRO has not secured backup location with spatial and technical prerequisites for continuity of operations in post-disaster conditions, nor has provided for activities in such cases. Some computer equipment in PRO has older generation of operating system, and certain number of anti-virus licenses are missing.

To overcome the above shortcomings, we made recommendations for measures and activities by competent persons and institutions aimed at establishing effective policies for administering PRO IT system, and thus for improving records of taxpayers, tax obligations and sustainable management of public fees.

5.10 JUDICIARY AND RULE OF LAW



5.10.1 EFFECTIVENESS OF IMPLEMENTATION OF THE STRATEGY FOR REFORM OF THE JUDICIAL SECTOR 2017 - 2022 AND THE ACTION PLAN OF THE STRATEGY

We carried out performance audit on the topic **"Effectiveness of the implementation of the Strategy for Reform of the Judicial Sector 2017 - 2022 and the Action Plan of the Strategy"**, in line with the Annual Work Program for 2022.

The audit objective was to answer the question **"Do measures and activities defined in the Action Plan contribute to the achievement of objectives of the Strategy for Reform of the Judicial Sector 2017-2022?"**

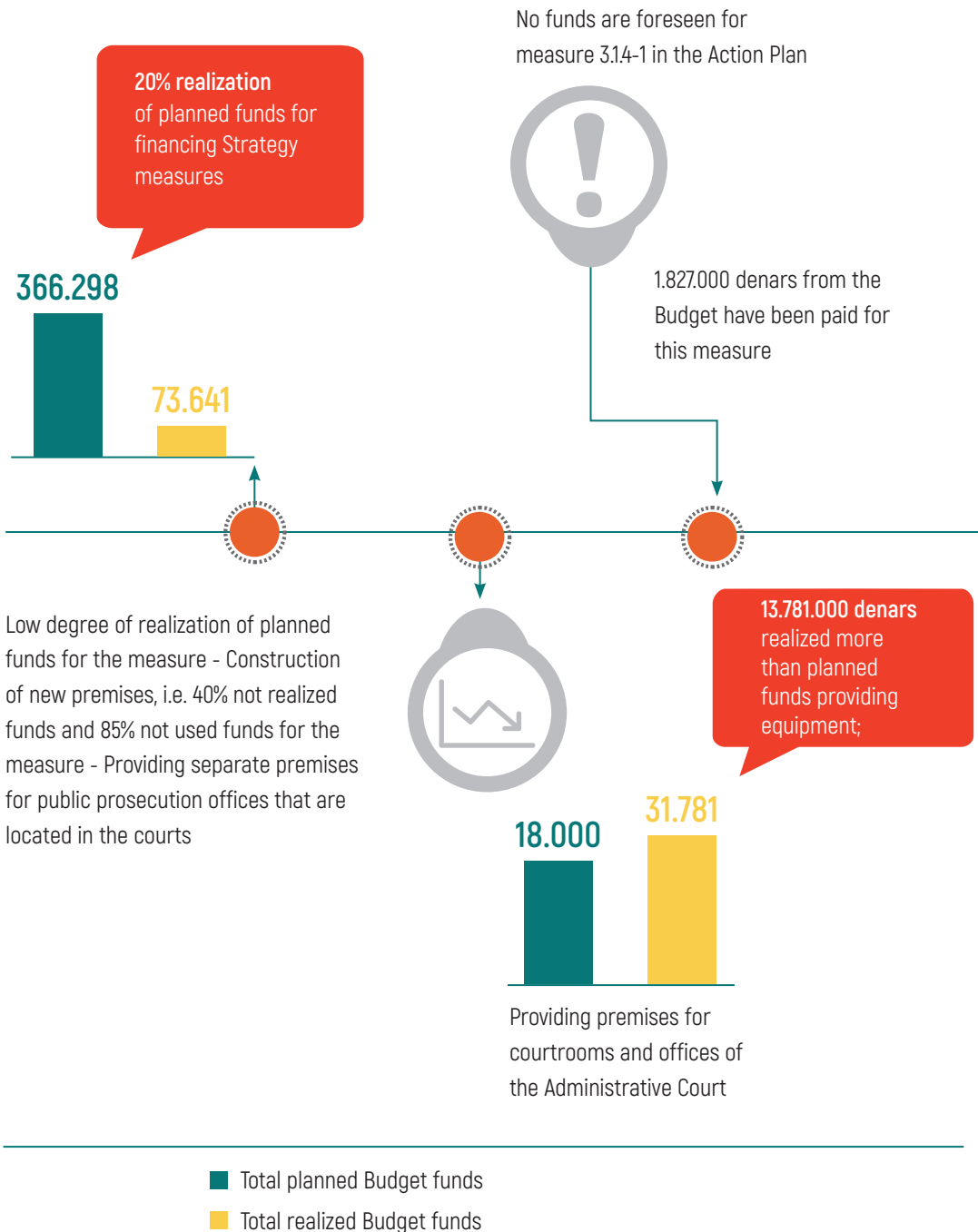
The Strategy for Reform of the Judicial Sector 2017-2022 is the basis for continuing the reforms in the judicial sector in the Republic of North Macedonia for fulfilling recommendations of the EU Progress Report on the Republic of North Macedonia, Chapter 23 - Justice and fundamental rights.

The audit concluded that out of 130 measures contained in the Strategy and the Action Plan, only 52% are fully implemented, 34% are partially implemented and 14% are not implemented.

This is due to the inadequate definition of measures for achieving objectives, absence of clear and measurable indicators, unrealistic deadlines, planned financial resources, insufficient coordination of institutions/competent bodies responsible for the measures and activities.

Fiscal implications for the Budget of the Republic of North Macedonia for 2018-2021 were foreseen for the preparation and adoption of the Strategy with Action Plan 2017-2022 in addition to planned IPA funds and other foreign aid.

With the audit and data analysis in the Ministry of Justice, the Ministry of Finance-CFCD and the Judicial Budget Council, from the planned Budget funds amounting to 366 million denars for financing 15 measures, only 74 million denars (20%) have been used as of 31 December 2021.

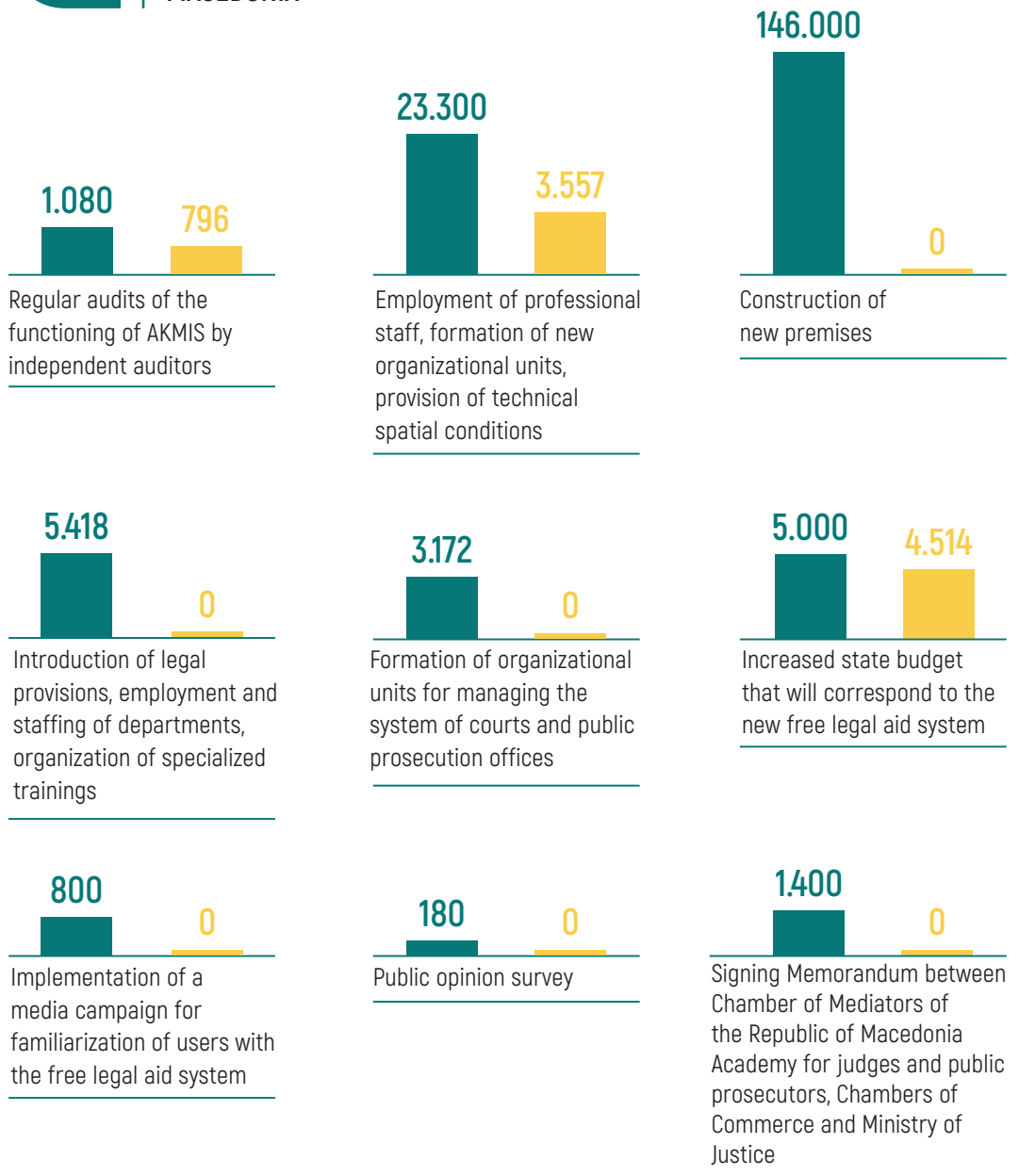


The low degree of realization of planned funds is due to not realized planned funds for measure 2.28-2 - Construction of new premises, which represent 40% of the planned funds, as well as not used funds provided for by measure 4.1.3.5-1 - Public

Prosecutor's Office of the Republic of Macedonia, for premises and separation of public prosecution offices from the courts, where 15% more funds were planned than needed.

in 000 denars

ACTION PLAN MEASURES FOR 2017-2022 FINANCED BY THE BUDGET OF THE REPUBLIC OF NORTH MACEDONIA

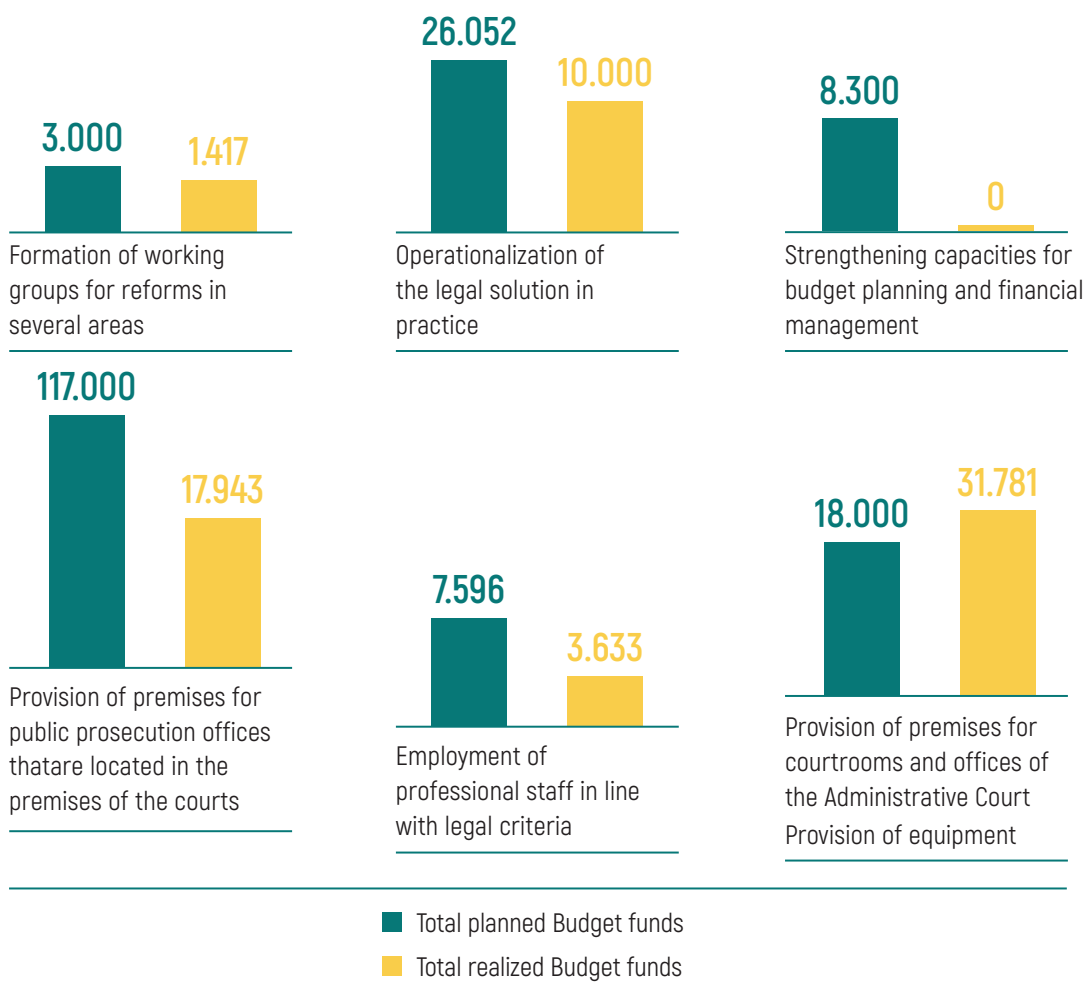


■ Total planned Budget funds
 ■ Total realized Budget funds



in 000
denars

**ACTION PLAN MEASURES FOR
2017-2022 FINANCED BY THE
BUDGET OF THE REPUBLIC OF
NORTH MACEDONIA**



In terms of monitoring and reporting on the implementation of activities for fulfilling Strategy objectives, the auditors ascertained shortcomings in the functioning of the competent body Council for Monitoring Implementation of the Strategy, as well as in its operation without Methodology for monitoring and evaluating results of implemented measures and activities in place.

With the audit we gained reasonable assurance that measures and activities defined in the Action Plan partially contribute to the achievement of the objectives of the Strategy for Reform of the Judicial Sector 2017-2022.

5.11 | YOUTH AND SPORTS

5.11.1 YOUTH AND SPORTS AGENCY

We carried out audit on the financial statements together with compliance audit of the Youth and Sport Agency for 2021.

With the performed audit, we identified shortcomings that point to inconsistencies in the operation of the Agency, as well as shortcomings that affect the objectivity and reliability of the financial statements, as follows:

- lack of adequate internal controls in place for the use of funds transferred to the National Sports Federations (NSF) and for the financial statements on the realization of NSF activities; Incomplete internal audit with adequate staff and lack of activity of the inspection service enables irregularities and weaknesses in the operation and makes it impossible to detect and correct these irregularities and weaknesses in a timely manner;
 - responsible persons in the Agency as well as the Sports Council have not set up appropriate methodology for creation of NSF ranking lists, i.e. they have not set criteria for allocation of funds, for the method of decision-making and for control of accuracy of data in requests submitted by NSF;
 - five-year program for development of sports in line with Article 23 of the Law on Sports has not been adopted by the Government of the Republic of North Macedonia to determine the objectives and priorities for development of sports,
- the need for specialized staff, the scope of international cooperation, as well as necessary funds and criteria for allocation of funds. Consequently, the amounts for financing NSF operation by the Agency is done based on judgment by the persons involved in this process;
- not established proper criteria for allocation of funds from the programs in accordance with Article 24 of the Law on Sports and lack of a system of objective, proportional and fair financial support for NSF in accordance with short-term and long-term priority activities. Signed agreements do not contain provisions for specifying the purpose of approved funds. At the same time, the budget funds were allocated incorrectly by individual NSF;
 - lack of prescribed form and contents of the financial statement prepared by NSF for earmarked spending of funds together with financial documentation as confirmation for incurred expenditure and efficient financial control, thus creating an opportunity for use of the funds for other purposes than those approved in the signed agreements;
 - weaknesses in the distribution of vouchers and control of expenditure on this basis. In accordance with Article 30a of the Law on Profit Tax, taxpayers are provided with tax reliefs, i.e. reduction of the calculated profit tax in the amount of donated funds to sports entities, up to max 50% of the calculated tax based on a voucher issued by the Agency. In 2021, for purposes provided for in Article

14-d to 14-e of the Law on Sports based on a voucher issued by the Agency, the state has waived collection of 616.920.000 denars of profit tax, which are distributed with issued vouchers to 46 NSFs, 664 sports clubs and 174 individuals and the earmarked spending of these funds cannot be confirmed due to the lack of effective control of funds paid and necessary documentation. Given that voucher holders have the obligation to find a taxpayer interested in donating funds to exercise the right to tax exemption, there is a risk that some donated funds will be returned to the taxpayer in a mutual agreement;

- some financial statements for funds transferred to NSF do not contain complete documentation for all funds received by the Agency, documents based on foreign currency bank withdrawals and documents on trips abroad by sportspersons are disorganized or completely missing and cannot be linked to expenses incurred, some NSF pay excessive amount of funds for managers of federations, and transfer of funds from earmarked NSF accounts to sports clubs is carried out without adequate documentation on the realized expenditure;
- weaknesses and shortcomings in the inventory of assets and liabilities; significant amount recorded as investment, for which we did not receive adequate explanations on the objectivity thereof;
- part of the expenditure for procurements in the amount of 4.348.000 denars without public procurement procedures in line with the Law on Public Procurements, creates the opportunity for NSF to recognize expenditures in the financial statements

at prices higher than the market prices, and thus do not provide for economy in spending budget funds;

- for realization of capital investments of the Agency in six buildings, there is a significant delay in the realization of construction works, and the completion of these buildings is also uncertain.

In the paragraph Emphasis of Matter, we disclose the following:

- Eight court proceedings have been initiated in which the Agency for Youth and Sports is the sued party based on claims for damages, debt from invoices as well as for determining the right to ownership in total amount of 275.149.000 denars. There is uncertainty about the financial implications of the proceedings on the operation of the Agency.
- There is an inappropriate solution in the Law on Sports for inclusion of the University Games, which provides for sportsman who have not achieved high results to exercise the right to monetary compensation from world category, even though competitions at these games are not at the level of world and European championships.

5.12 ENVIRONMENT



5.12.1 ENVIRONMENTAL TAXES IN FUNCTION OF EFFECTIVE IMPLEMENTATION OF ENVIRONMENTAL PROTECTION POLICIES

We conducted performance audit on the topic **“Environmental taxes for effective implementation of environmental protection policies”** to answer whether environmental taxes contribute to the improvement of the quality of the environment and rational use of natural resources.

According to official statistics, environmental taxes are classified into four categories: pollution taxes, resource utilization taxes, energy taxes and transport taxes.

From all environmental taxes, the audit covered pollution taxes and resource utilization taxes as well as part of the environmental taxes on transportation, which in the period 2019-2021 amount to 838.142.000 denars.

The audit scope and evidence obtained with application of audit methodology and techniques provide basis to express the following conclusion:

The strategic and normative framework, the compliance of the national with EU environmental legislation, the introduction of “polluter pays” principle, the introduction of environmental fees and the investments in different areas ensure some

progress in the implementation of policies, but it is not sufficient for improvement of environment quality and rational use of natural resources.

There is no integrated approach in solving environmental problems at national and local level and administration of environmental fees done by several institutions does not provide for insight by the Ministry of Environment and Physical Planning (MoEPP) as the responsible body for implementation of the environmental policy.

The “polluter pays” principle is not followed in determining the amount of fees. Competent entities do not calculate the variable part of the fee for water discharge; fixed amounts of waste management fees are set; the fees for integrated environmental permit are not within the legal limits by emission points; and municipalities do not have equal approach in determining the basis for calculation of the service fee for collection, transport and disposal of municipal waste.

There is no single information system with information and data from all institutions involved in the process of calculation and collection of fees and no regular institutional communication and coordination for data exchange. The State Environmental Inspectorate does not have the legal authority to sanction debtors that have not paid the fee, which impedes administration of revenue from environmental fees.

For the period from 2020 until the date of reporting on the audit, no revenue was generated in the Budget of the Republic of North Macedonia based on fees for water use and water discharge of water in the amount of 101.616.000 denars, for which

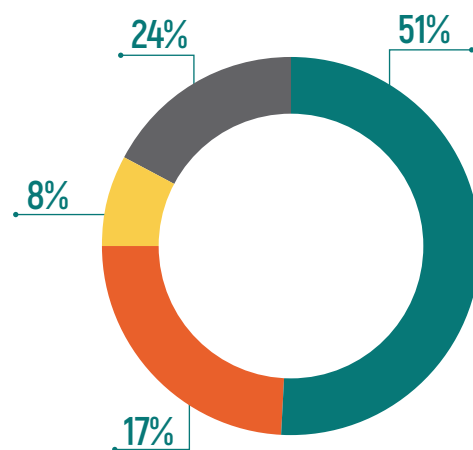
agreements were signed. The share of non-revenue water at national level of 60.46% is significantly higher than EU countries (30%).

Due to not issued/immediately issued decisions for payment of fee for possession of A-integrated license, untimely and incomplete claims, less revenue has been realized in the budget of MoEPP as of 31 December 2021 (unpaid receivables amounting to 9.453.000 denars and written off 30.273.000 denars).

Only 37% of the municipalities earn revenue based on fees for municipal waste management, and these funds should be used for implementation of regional plans and objectives for managing this area.

The central laboratory for environment is not fully accredited and due to not established cooperation with MoEPP, the State Environmental Inspectorate uses services of private accredited laboratories, which also perform measurements and prepare reports on pollutants.

AGING
STRUCTURE OF
RECEIVABLES



before 2019

2019

2020

2021

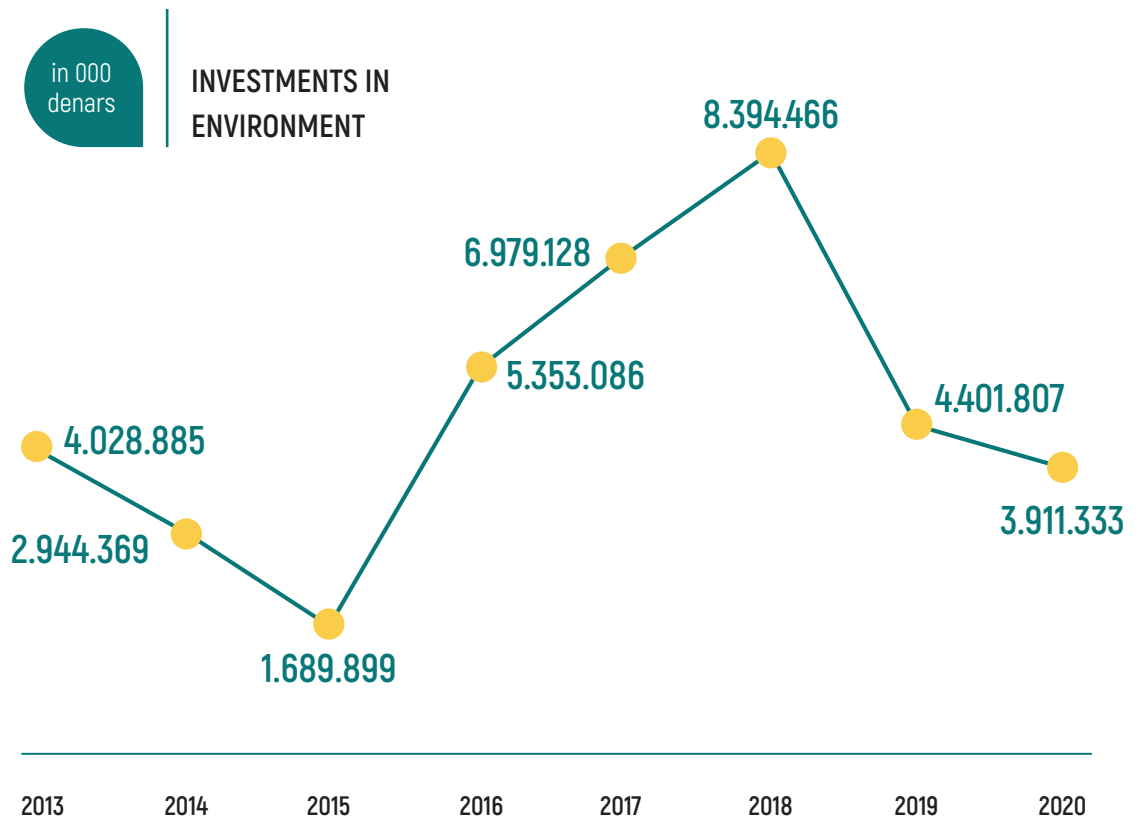
It is not possible to provide an indicator on the degree of utilization of funds from environmental fees for financing environmental activities.

In the period 2019-2021, programs for investing in the environment have realization of 62.7%. Due to lack of measures taken by contracting parties, contracts for realization of Water Management Program projects amounting to 6.520.000 denars were terminated.

Funds from MoEPP budget are not sufficient for financing activities in the area of air and nature protection. At local level, planned funds for environmental protection do not ensure implementation of the planning documents and implementation of activities in priority zones and agglomerations.

Due to absence of an integrated approach in the allocation and use of environmental fees, according to data from the State Statistical Office, investments and costs for environmental protection have insignificant share in GDP of 0.6% in 2020.

To increase the effectiveness of environmental taxes as an instrument that will contribute to the improvement of the quality of environment and rational use of natural resources, we made recommendations for additional activities in the integrated strategic planning at national level, setting up appropriate and consistent policy for administration of fees in line with the "polluter pays" principle and correct and proportionate allocation of funds exclusively for financing environmental activities.



Source: State Statistical Office

5.13 AGRICULTURE, FORESTRY AND WATER ECONOMY

5.13.1. MINISTRY OF AGRICULTURE, FORESTRY AND WATER ECONOMY

We conducted audit on the financial statements together with compliance audit of the Ministry of Agriculture, Forestry and Water Economy for 2021. We ascertained several shortcomings including the following:

- the Department for financial affairs has inadequate segregation of responsibilities and incomplete implementation of activities and recording of financial documents in multiple records that are not harmonized;
- the need for employment stated in the Annual Employment Plan is inconsistent with the number of persons hired with a fixed-term employment through private employment agency on a contract-to-hire basis;
- there are weaknesses in the functioning of the IT system of the Ministry due to lack of IT staff, absence of IT strategy and policies, absence of complete records of the software and hardware available to the Ministry, non-functionality of some equipment and not signed contracts for maintenance of the IT system and some of the applications;
- part of the registers under jurisdiction of the Ministry are not mutually compatible and are not linked; there is no integrated IT system in place;
- land policy, managing and leasing agricultural land are not conducted in efficient manner because internal procedures have not been adopted, functional land register has not been established and there is no complete data in the records of the regional units for land leased and lease payments;
- forestry and hunting department is faced with lack of professional staff in the field of law and forestry, there are no plans for implementation of strategic documents, the main planning documents are not adopted and forest cadaster is not established;
- the implementation of capital projects for construction of water infrastructure, financed with Budget funds, is not consistent with the agreed dynamics and value, and thus annexes are signed;
- due to untimely implementation of a project for construction of irrigation system with loan funds, the budget participation and costs for consulting services have increased, and commissions have also been paid for non-withdrawn funds from loans for several projects in the amount of 323.000 euros;
- the inventory of assets, claims and liabilities is incomplete and inventory reconciliation was not done. Tangible and intangible assets and tangible assets in preparation are incomplete. For the majority of claims there are no analytical records by client, no data on the basis and the aging structure of receivables and no data whether action has been taken for collection thereof;

- obligations to suppliers are not recorded in the accounting records to allow timely and accurate presentation in financial statements, and long-term obligations for loans paid by the Ministry are not recorded in the ledgers;
- inconsistencies were detected in the application of provisions of the Law on Public Procurement in relation to inappropriate criteria for evaluating quality of the most economically advantageous offer, which affects the competition in the procedures;
- 72415.000 denars have been paid for executive decisions, of which 51% are paid interests and costs in proceedings, and salary supplements have been paid to forest policemen for more working hours than approved.
- only 12.6% of the Program for Phytosanitary Policy for 2021 are implemented, mostly for payment of compensation to expert commissions for registration of phytopharmaceutical products;
- procurement and issuance of consignment notes for cut wood and control stamps for putting flour into circulation are carried out without accounting records and control;
- payments were made to the account of the Ministry for compensation on extended reproduction of forests in the amount of 4.508.000 denars, which were not transferred to the Budget.

In the paragraph Emphasis of Matter, we report on the following:

- during 2022, cyber-attack was carried out on the Ministry's IT system, which lost/locked all documents and records, as well as e-mails of employees;
- during 2021, 9.573.000 denars were paid for 177 executive decisions following lawsuits by employees for unpaid benefits provided for by law and the collective agreement;
- capital projects for adaptation and construction of filter stations for drinking water and access road to the station are implemented with the budget of the Ministry, while it should be done through the municipalities;
- The Ministry appears as a defendant in 124 court proceedings that request recovery of 434.245.000 denars, of which 77% are proceedings initiated by legal and natural persons for compensation of material damages based on termination of lease agreements;
- in 2021 and 2022, several criminal charges were submitted to the competent institutions due to suspicions of illegal conduct of some employees in the performance of work-related activities.



5.13.2. CRISIS MANAGEMENT AND FIRE PROTECTION SYSTEM

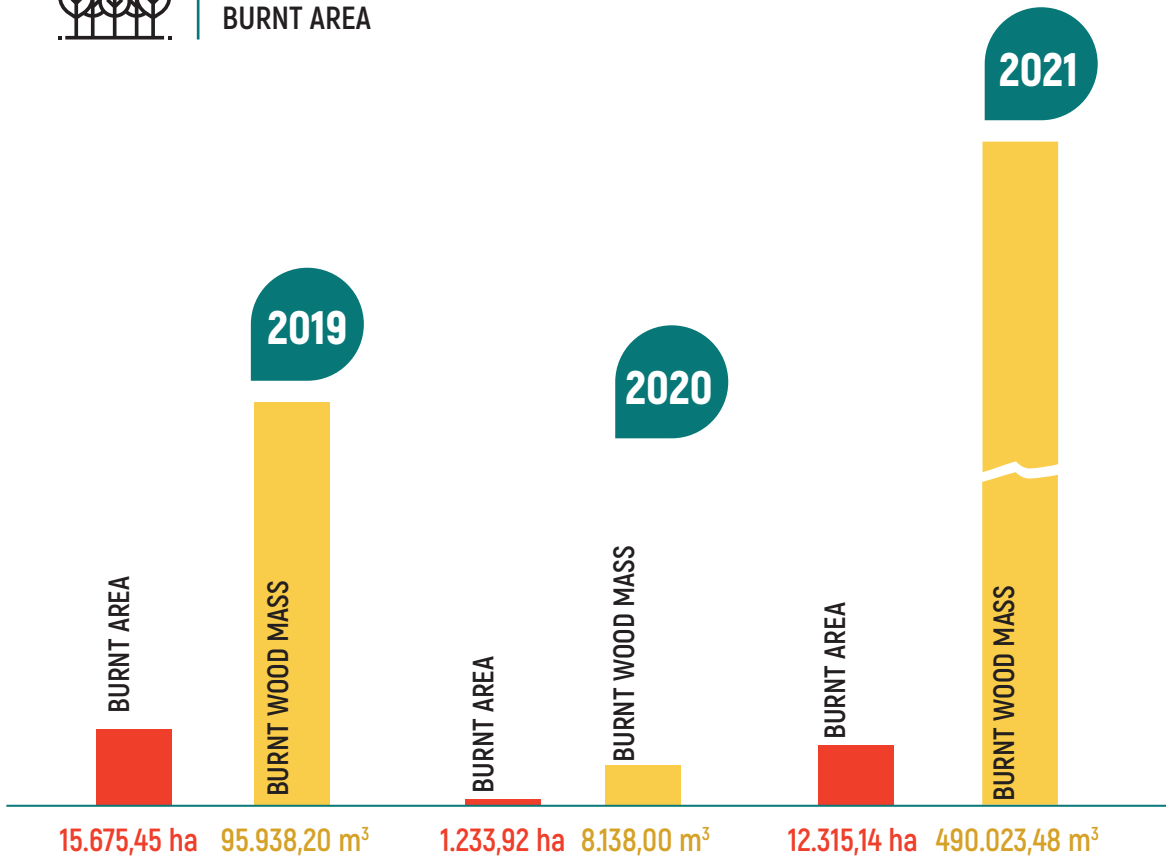
We conducted performance audit on the topic “Crisis management and fire protection system” to answer whether the fire prevention and protection

system enables effective preservation of the environment, the health and people's lives.

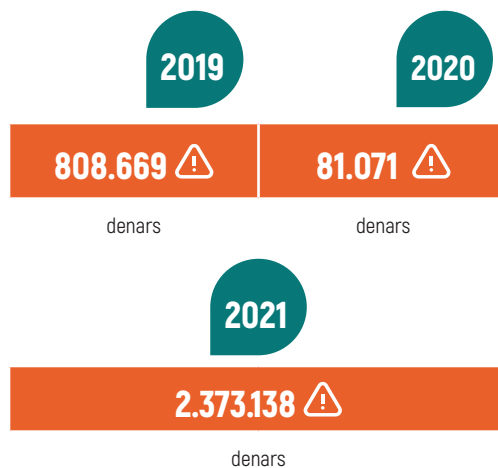
The fires that occurred on the territory of the Republic of North Macedonia in the period 2019-2021, caused enormous damage to the environment. During that period, an area of 29.224,51 ha or 3% of the total forest area in the country was burnt and wood mass of 594.009,68 m³ was destroyed.



BURNT WOOD MASS AND BURNT AREA



According to the Annual Reports of PE "National Forests", the material damage caused by fires is large and amounts to:



Data indicate that it takes 50 years to renew burnt area.

The audit on the legal framework that regulates the system and national policies for fire prevention and protection revealed slow pace of adoption of strategic and program measures for fire protection and rescue. There are no development projects and no preventive and operational activities and procedures for the participants in the Protection and Rescue System. In addition, there is an uncoordinated approach at local, national, regional and international level in dealing with the dangers of natural disasters and other accidents.

We also found that since 2018, the five-year National Strategy for Protection and Rescue and the annual programs for protection and rescue are not adopted. In 2019, the Government adopted National Platform for Disaster Risk Reduction, but without an Action Plan for the audited period (2019-2021).

The Law on Forests provides for an obligation for the Government, upon proposal of the Minister of Forestry, to adopt a National Plan for

management of wildfires. Even after 9 years since the enforcement of this obligation, the Plan has not been adopted yet. For the implementation of the National Plan, the Government should have formed a National Committee in 2013. The Committee was never established, and in the draft version of the new Law on Forests, which is being prepared, this body is not foreseen.

Pursuant to the Law on Protection and Rescue, there is an obligation to adopt an Assessment of threats from natural disasters and other accidents at central and local level as prepared by the Protection and Rescue Directorate. The auditors point out that the valid Methodology on the contents and method of hazard assessment and protection and rescue planning was adopted in 2006. The Methodology does not consider development of the method and procedure for the process of mapping, analyzing and assessing risks, and it does not contain timeframe for an update of the assessment.

With the performed audit, we found that conditions for prevention and early warning of wildfires, timely operative action for putting out wildfires, as well as measures for reducing and remediating consequences of fires and restoration of the environment are not completely fulfilled.

In 2018, the government passed a Decree on early warning, method and procedures for early warning and actions of the population, but it is not applicable because the early warning system, which dates back to 1980, is not functional.

The Decision on the type, number, personnel and material composition of rapid response teams adopted by the Government and the Decision on regional deployment of rapid response teams adopted by the director of the Protection and Rescue Directorate in 2006, provided for establishment of eight teams for protection and

fire rescue. The Protection and Rescue Directorate formed the fire protection teams, but the regions in which they were formed do not correspond to the regions specified in the Decision. Instead of planned fire protection teams in Tetovo, Veles, Shtip and Strumica, teams were formed in Berovo, Valandovo, Gostivar and Vinica.

The audit found differences in the amount of compensation provided for by the Decree on the amount and method of compensation of citizens in the execution of rights and duties for protection and rescue. The percentages for calculation of compensation of the persons engaged in the rapid response teams were determined in accordance with their titles, but the basis for calculation of the percentages was not determined.

The method of financing the activity performed by the territorial firefighting units (TFFUs) affects their functioning, and the current HR and technical capacities are insufficient.

The audit determined that the act on systematization of PE "National Forests" provides for 250 job positions for forest guards. However, due to absence of criteria for assignment, some subsidiaries have insufficient number of forest guards, while one subsidiary will be left without forest guards in the next year due to retirement of current ones.

The total number of firefighters planned in all TFFUs is 1423 and currently there are 994 firefighters²¹. The audit found that the legal regulation does not provide for the number of professional firefighters in line with the size of the area covered by the TFFU, the degree of danger from fires, the type of buildings to be protected, the number and size of

firefighting units in legal entities and the number and size of volunteer firefighting units.

Inadequate training of the protection and rescue forces reduces the efficiency of the institutions in dealing with wildfires.

The persons who manage actions for extinguishing fires are obliged to pass professional exam for manager of action for extinguishing fires and saving people and property, in accordance with the corresponding Training Program, within three months from the day of acquiring that capacity. The exam is taken before a Commission formed by the director of Protection and Rescue Directorate. During the audited period the Commission has not been formed.

With the entry into force of the Law on Firefighting in 2017, TFFUs have been decentralized and transferred from the Ministry of Interior under jurisdiction of the municipalities. Therefore, part of the financial resources for salaries and allowances continued to be provided from the budget of the Ministry of Interior. From 2019, by Decision of the Government, these funds are transferred through the account of the Ministry of Defense. The amount of the subsidies is based on the number of firefighters at the time the municipalities assumed this authority in 2005. According to current legal obligations, the municipality is obliged to provide funds for salaries of firefighters when hiring additional firefighters from its own budget. For the municipalities that have low revenue this legal provision is a limiting factor for hiring firefighters and it can have unfavorable effect in need of quick response and timely prevention of wildfires.

21 Source: Information on the needs and Action Plan for increasing efficiency of the protection and rescue system in dealing with fires in the upcoming season

Due to ascertained inconsistencies in the compliance with the legal obligation for increasing salary of professional firefighters due to the type and nature of the work they perform, some firefighters have started legal proceedings before the competent courts, which ended with verdicts in their favor. In the period 2017 - 2022, almost 148 million denars were paid by the audited municipalities based on principal debt, court and attorney fees.

Auditors ascertained similar situation in the Crisis Management Center, where due to incomplete compliance with legal provisions for compensation of employees who performed tasks in shifts and on call duty, legal disputes were initiated before competent authorities, which ended in favor of the employees. In 2020-2021, on that basis the Crisis Management Center has paid 9 million denars for principal debt, interest and executors.

Systemic weaknesses were also identified in relation to the imprecise regulation of competences for confirming realized revenue from insurance companies, as well as lack of provision for supervision over payment of funds for extended reproduction by entities that manage forests in state and private ownership and legal entities for wood trade. The audit ascertained unpaid 379 million denars into the Budget of the Republic of North Macedonia on that basis.



5.13.3. IRRIGATION WATER USE

We conducted performance audit on the topic "Irrigation water use" to answer the question whether irrigation systems are well managed and to provide recommendations for improving the conditions for irrigation water use and management of irrigation systems. The audit covered the period 2019 - 2021.

We ascertained that adopted policies and measures and activities taken by the competent authorities and holders of water management activities do not ensure rational and efficient use of irrigation water and good management of irrigation systems.

The current model for managing the systems, the imprecise and incomplete implementation of legal provisions, the scattered competences and insufficient capacities of institutions, the lack

of main planning documents and not identified strategic objectives and priorities for water management resulted in failure to achieve the objectives for economic management, use, operation and maintenance of irrigation systems.

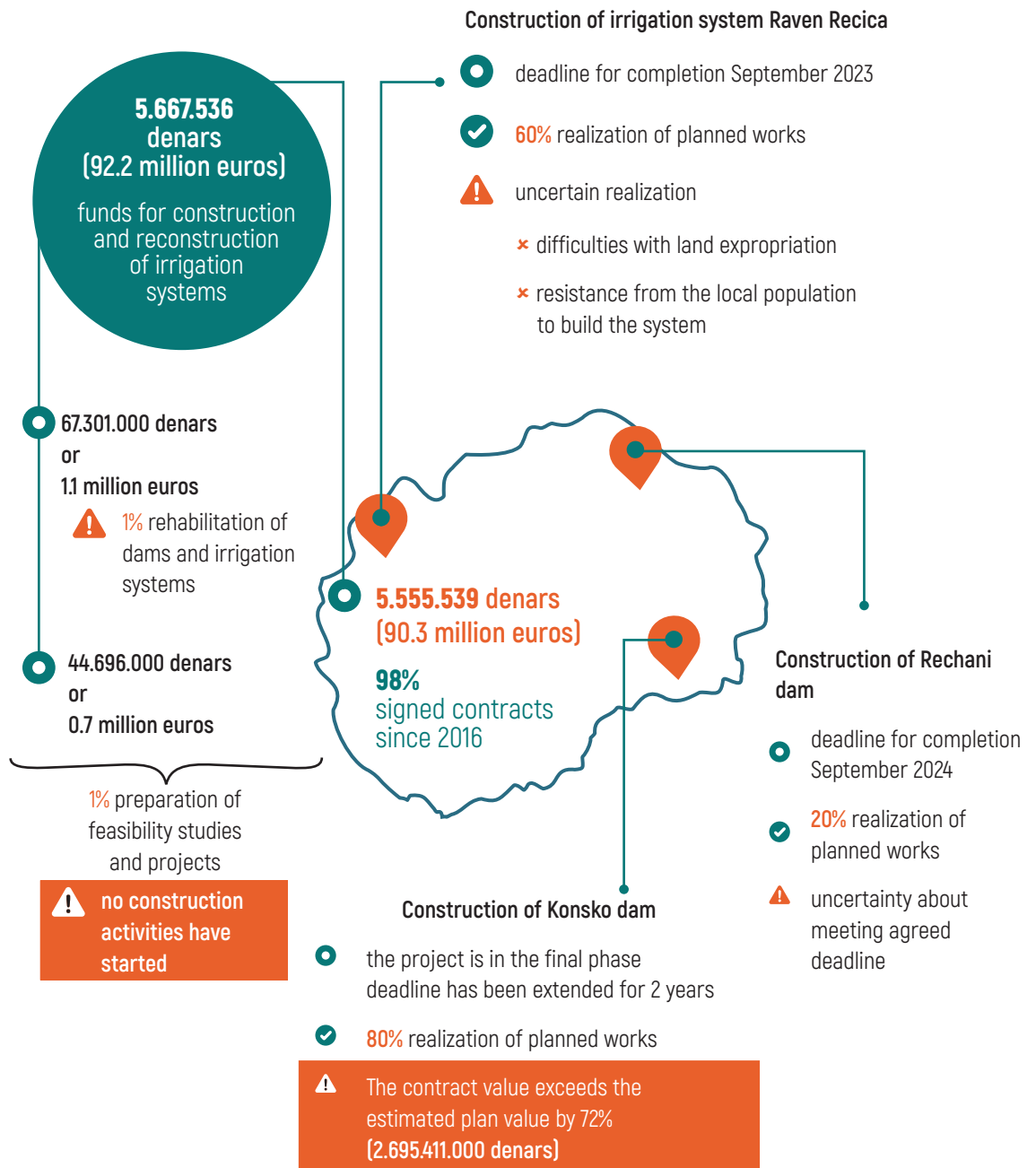
Almost all available funds of 92.2 million euros from the Budget of the Republic of North Macedonia and 193 million euros from loans are earmarked for construction of multi-purpose hydro systems and reconstruction of irrigation systems. Commitment fee was paid for unused credit lines due to untimely start of activities and slow dynamics.

Due to absence of objective criteria for selection of projects financed with Budget funds, priority was given to implementation of construction projects from three regions, and no funds were provided for the other regions. Only 1% of provided funds were allocated for rehabilitation of dams and irrigation systems as shown in the chart below:



in 000 denars

PROJECTS FINANCED FROM BUDGET FUNDS FOR CAPITAL INVESTMENTS IN WATER INFRASTRUCTURE 2015-2025 PLAN

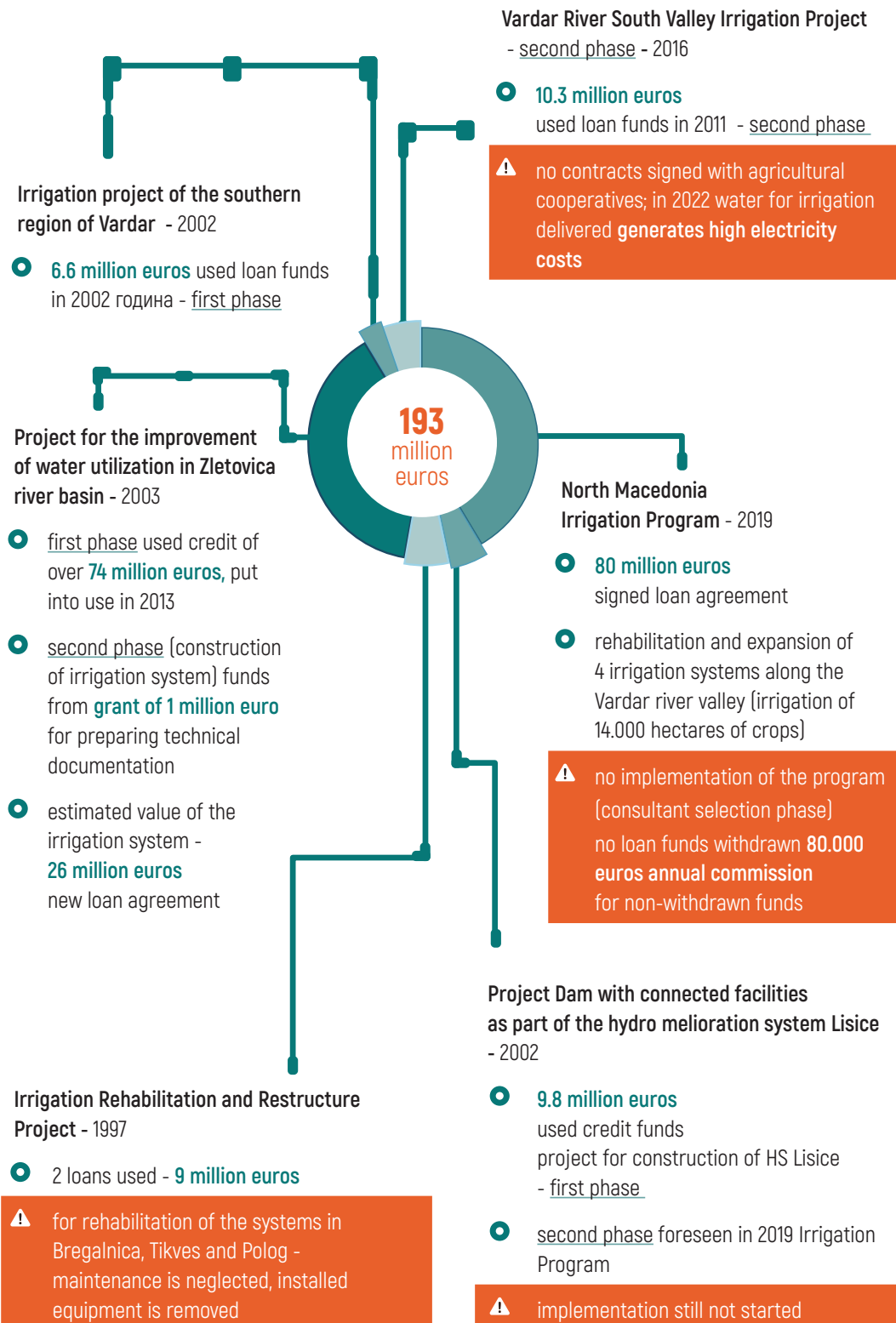


We identified slow realization and incomplete fulfillment of objectives for construction and reconstruction of water supply infrastructure in

the country funded by loans from foreign banks or international financial institutions as, shown in the following chart.

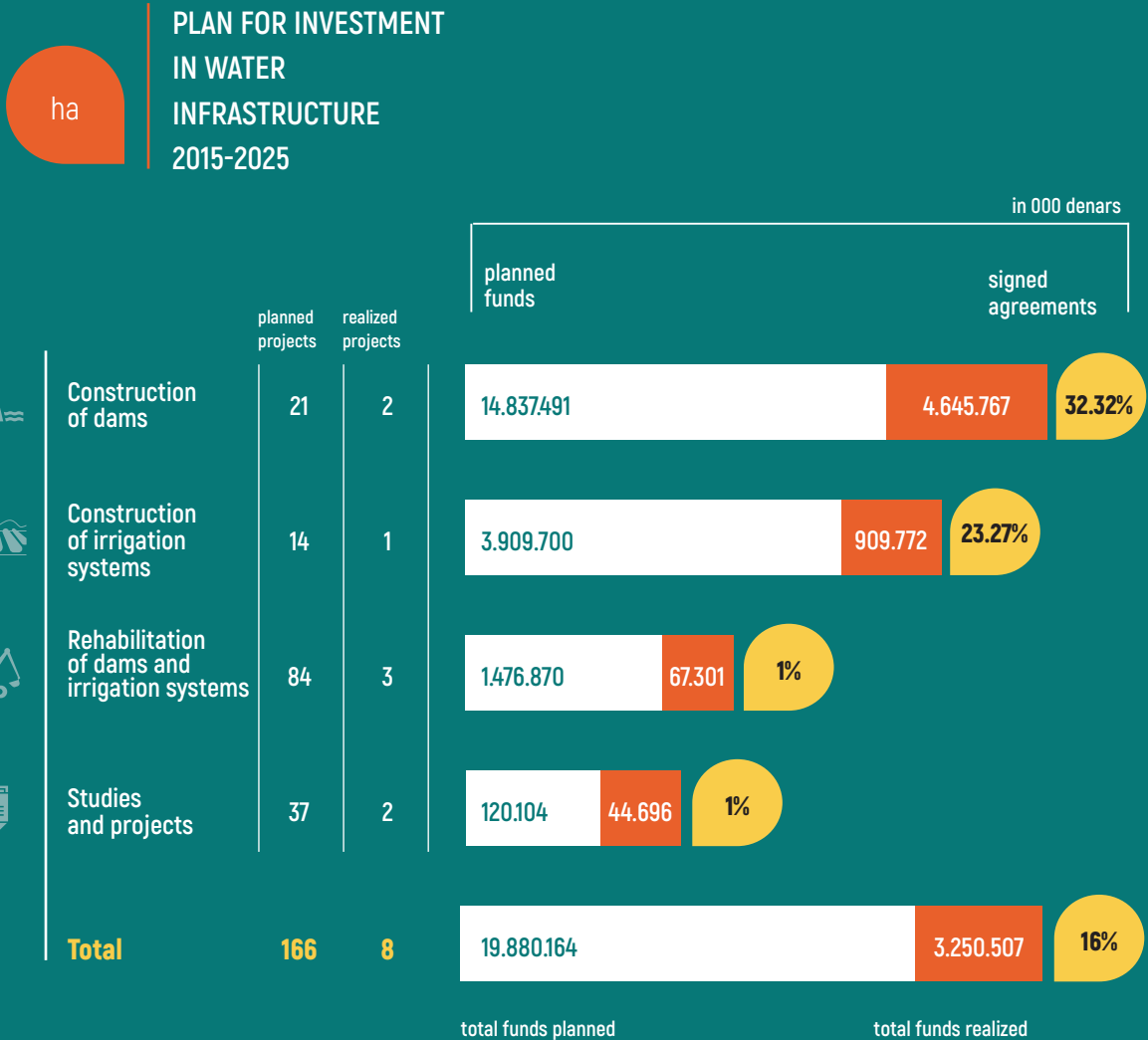
in 000 denars

SIGNED LOAN AGREEMENTS



We ascertained uneven distribution of funds and low degree of realization of projects from the Plan for investment in water management infrastructure 2015-2025. Of the total agreed investments of

5.667.556.000 denars, 3.250.507.000 denars have been paid by June 2022, which is 16% of the planned amount (see graph below).

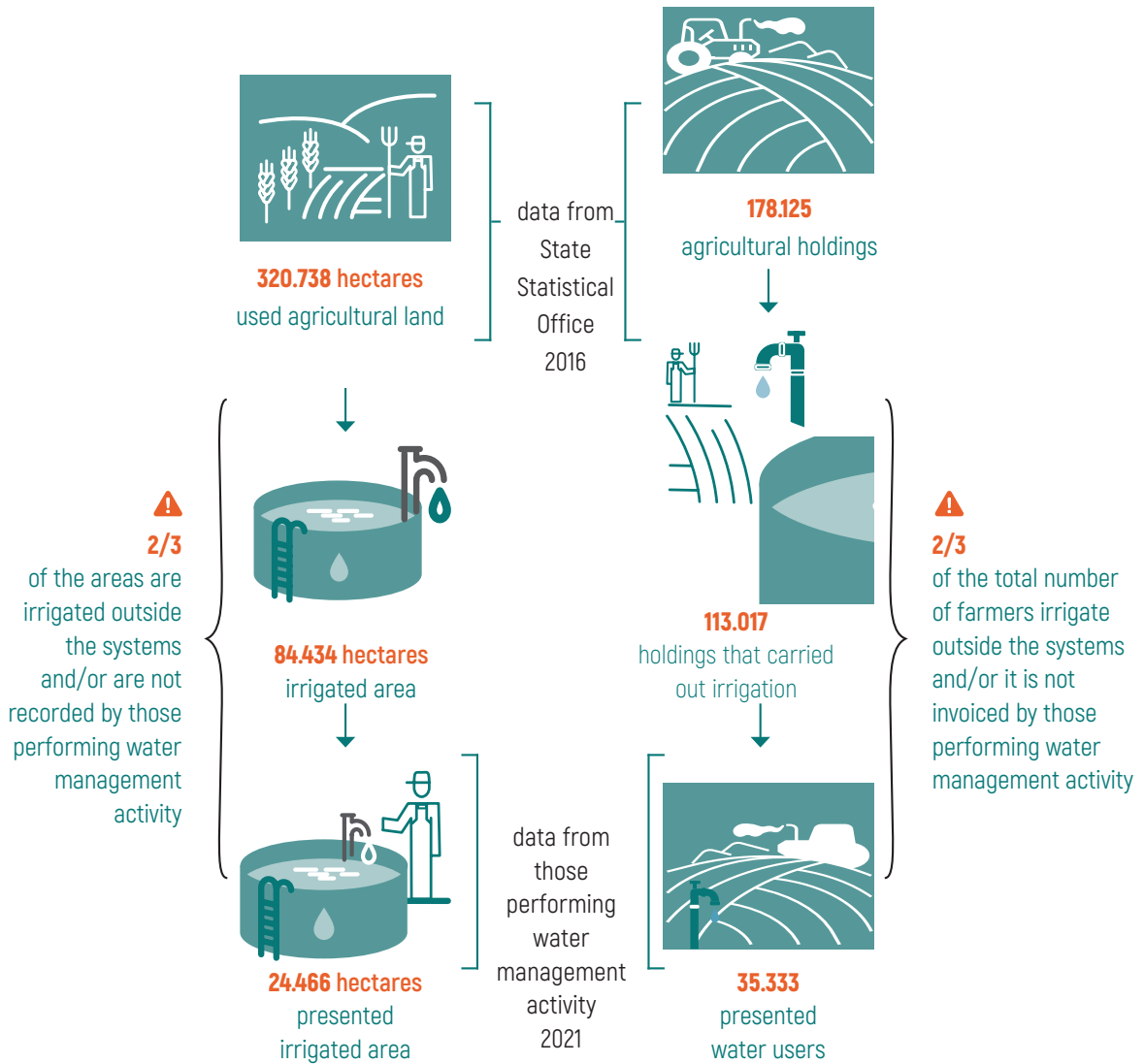


In addition, we point out that the ongoing maintenance of current outdated and partially non-functional systems is neglected for the most part, and thus irrigated areas with the irrigation systems

are continuously decreasing. 2/3 of the agricultural areas are either irrigated outside the systems or not invoiced (see chart below).

ha

IRRIGATED AREAS AND WATER USERS



17% of total area (144.894 hectares) kequipped with irrigation systems, **is irrigated through water management operators**

About **80.000 farmers** annually irrigate about **60.000 hectares** of agricultural land **outside the irrigation systems** with their own systems or they **are not presented** oby operators of water management activities

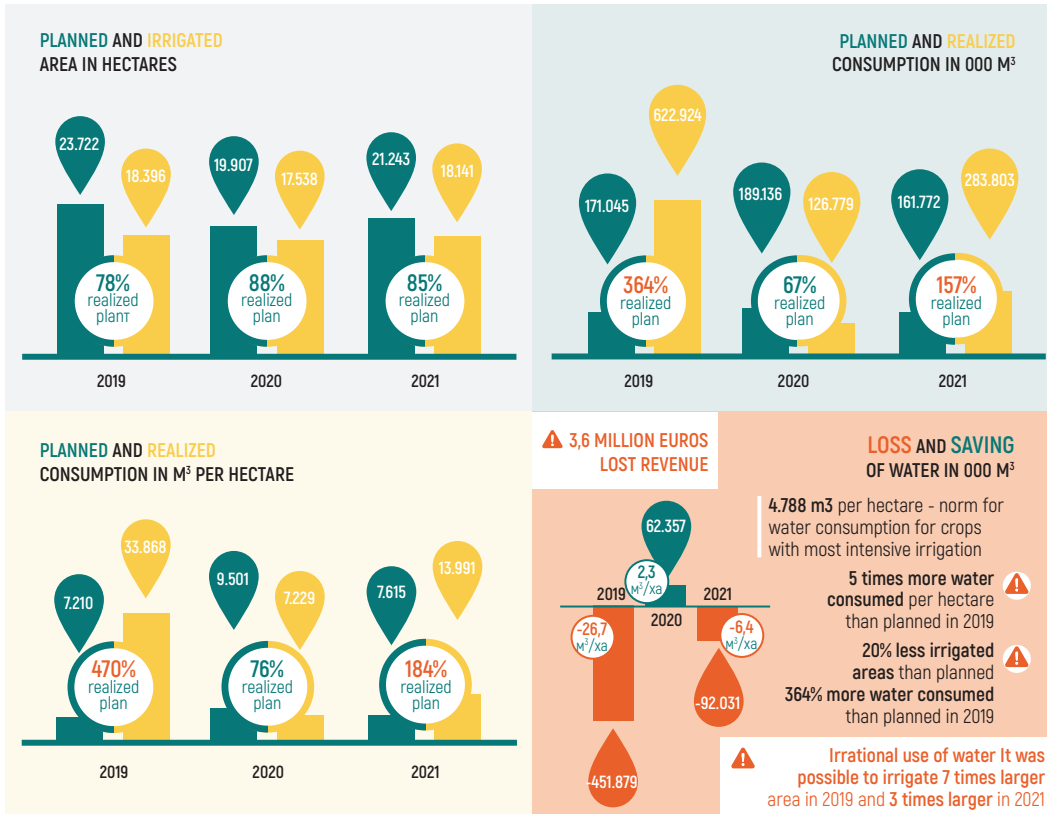
The poor condition of the systems forced **63.691 farmers** to invest in their own well systems or **1/2 of those who actually irrigated** (according to the last census of agriculture in 2007)

Despite the activities taken by employees of JSC Vodostopanstvo branch offices, due to lack of financial resources, personnel, machinery and equipment and spare parts, they were not able to carry out planned maintenance activities and ensure full functionality of the systems. Although budget programs allocate funds for other investments in the water management infrastructure, the degree of realization of planned activities is low due to inefficient implementation of public procurement procedures by JSC Vodostopanstvo.

In addition, the prices for irrigation service do not ensure sustainability, i.e. covering costs of ongoing system maintenance and proportional invoicing of users, and the established method of invoicing does not ensure complete regulation and collection of fees.

JSC Vodostopanstvo continuously plans over 7000 m³ of water per hectare, although the norm for irrigation of crops that require most intensive irrigation is 4788 m³ of water per hectare, and most crops require much less water. On the other hand, about 20% less areas than the planned ones are continuously irrigated, while several times larger quantities of water consumed are presented for the same areas. This, for the most part, is due to not established controls on water consumption, poor conditions of the systems and inadequate planning. Namely, not only have disproportionately high quantity of water per unit area been planned, but in reality, even larger quantities have been consumed, significantly above the quantity that is actually needed for irrigation of the same areas, as shown in the following graph:





Considering that the irrigation fee is collected with a fixed amount in accordance with the reported area and crops, i.e. the actual quantity of water consumed is not considered. This means that the water consumed over the fixed amount is lost and no revenue is collected for the same. The situation was alarming in 2019 and 2021, when more than 451 million m³ (2019) and 92 million m³ (2021) of water was consumed more than planned. If we calculate that amount of water with the above norm, intensive irrigation of additional 113.000 hectares could have been ensured in those two years, and according to the lowest price of 2000 denars per hectare, it amounts to at least 226 million denars or about 3.6 million euros of lost revenue for JSC Vodostopanstvo.

In addition, competent institutions face continuous shortage of quality and professional staff. JSC Vodostopanstvo has unpaid claims from users of significant amount and unpaid obligations to suppliers, the state and the employees. Some public water companies, whose hydro systems are incomplete and do not function at full capacity, face continuous lack of financial resources for regular operation and servicing of credit obligations, and therefore they use funds from the Budget of the Republic of North Macedonia. Concurrently, they realize consistent operation losses, which amount to over 1.3 billion denars or over 20 million euros in the last three years.

As of 2021, JSC Vodostopanstvo has not paid 56.571.000 denars to the Budget of the Republic of North Macedonia based on VAT and water use fee on several grounds in the amount of 30.150.000 denars.

The poor condition and poor management of the systems results in additional financial burden on the providers of irrigation services due to payment for damages and lawsuits from users based on drying or flooding of plantations and crops. In 2022, PE Strezevo has paid about 61 million denars or almost 1 million euros based on damages, and JSC Vodostopanstvo has court proceedings based on damages in the amount of 142.070.000 denars or approximately 2.3 million euros.

The total current value of the water management facilities, plants and equipment of water management operators amounts to over 210 million euros. However, due to incompletely taken over irrigation systems and incomplete records, this sum does not reflect the total amount and value of the irrigation systems on national level. The value of reconstructed irrigation systems of the South Vardar Valley project in the amount of 1.109.701.000 denars, as well as the reconstructed dams for which there is no value data, are not put in the records of JSC Vodostopanstvo. In addition, unregulated property and legal relations and unsecured title deeds make it impossible to exercise the right to ownership and possession.

We point out that, according to the Commission on Dams, there is an urgent need for rehabilitation of several dams managed by JSC Vodostopanstvo, which have not been maintained and repaired for a long time and their stability and reliability are not monitored. Some of these dams have been neglected to a level that makes them vulnerable with unacceptable risk to the environment.

Existing registers and databases on possible and irrigated agricultural area and users of irrigation water are not compatible and up-to-date. Thus, there is no synchronized information on the degree of utilization as well as on the actual need of irrigation systems.

There is no complete and up-to-date record of issued permits for water right, large part of irrigation water is used without secured permits, and there is no system for monitoring consumption and water balance on national level, particularly for underground water reserves. JSC Vodostopanstvo has obtained 13 water right permits only for part of the larger reservoirs and irrigation systems, while it has obtained 64 permits for extracting sand, gravel and stone from rivers, which points to inappropriately established priorities.

Lack of control system in water management, not measuring consumed quantity and quality of irrigation water, inadequate planning and poor condition of systems that were built 50 years ago, lead to irrational and inappropriate water use, as well as deterioration of the water quality.

5.14 WATER SUPPLY AND UTILITIES

5.14.1. PUE KOMUNALEC SVETI NIKOLE

We conducted audit of the financial statements together with compliance audit on the Public Utility Company "Komunalec" Sveti Nikole for 2021.

The most significant shortcomings ascertained with the audit are listed below:

- lack of written procedures with clearly defined and segregated competences and responsibilities for the important activities related to economic operations: flow of documentation for each level of responsibility, division of duties and responsibilities of the persons involved in the processes, and system for monitoring and control of receipt and issuance of accounting documents and approval and payment thereof.
- obligation for signing contracts with users of drinking water services and with the service provider for delivered water is not fully followed.
- lack of system for waste selection as one of the prerequisites for reducing waste quantity and protection of the environment; removed waste is not measured and there are no proper records thereof;
- activities within PUC annual program are not implemented, and during the field inspection of the landfill we observed an active fire that affects the environment and people's health.
- the loss of water in the water supply system of 38% is due to failures in the water supply network where large amounts of water are discharged from the system, washing filters and sediments in the filter station, watering public green areas, discharge of water in the city fountains for cleaning and refilling, city taps, illegal connections, theft of water, etc.



Landfill "Mavrovica"

- untimely settlement of obligations for water use and water discharge fee by PUE Komunalec Sveti Nikole in the amount of 2.066.000 denars resulted in less revenue in the Budget of the Republic of North Macedonia.
 - less revenue was realized in the Budget of the Municipality of Sveti Nikole as a result of untimely settlement of obligations for the fee on maintaining public cleanliness in the amount of 24.834.000 denars and 104.000 denars for the waste fee.
 - inventory reconciliation was not done due to lack of inventory of land, tangible assets in preparation, and there is no verification of the reality of presented amounts of claims and liabilities based on external and internal documentation).
 - the principal is not entered in the trade register and the market value of the property is not determined; buildings and land are recorded in the trading books, but ownership documents are not provided; the assessment of the balance sheet items is not in accordance with IAS.
 - PUC has not taken measures for collection of claims in past years, and has not assessed the degree of collectability thereof for further action.
 - two trucks and a tractor intended for waste collection do not have valid traffic license and were used during 2021; the fuel costs for these vehicles amounts to 514.000 denars and the costs for repairs amount to 322.000 denars.
- inconsistencies in the process of awarding and realization of public procurement contracts, and costs incurred for setting up a parking management system without secured approvals and project documentation.

In the paragraph Emphasis on matter, we pointed out that due to impossible regular payment of obligations to PE HS Zletovica by PUC Komunalec Sveti Nikole in the amount of 10.242.000 denars (as of 31 December 2022) and the penal interest in the amount of 4.128.000 denars, it is possible that PE HS Zletovica will take additional measures for collection of claims, which would have unfavorable effect on the financial situation of PUC in the following period. We also point out that in 2020, part of the treatment plant was reconstructed, within Interreg IPA SVS project (cooperation program between the Republic of Greece and the Republic of North Macedonia) through the BIOREAL component in the amount of 9.239.000 denars, which was not functional until 2010. Despite the reconstruction, the treatment plant was partially operating in 2020, and since 2021 it is out of operation again.

The outcome of twelve ongoing court proceedings amounting to 3.347.000 denars is uncertain.

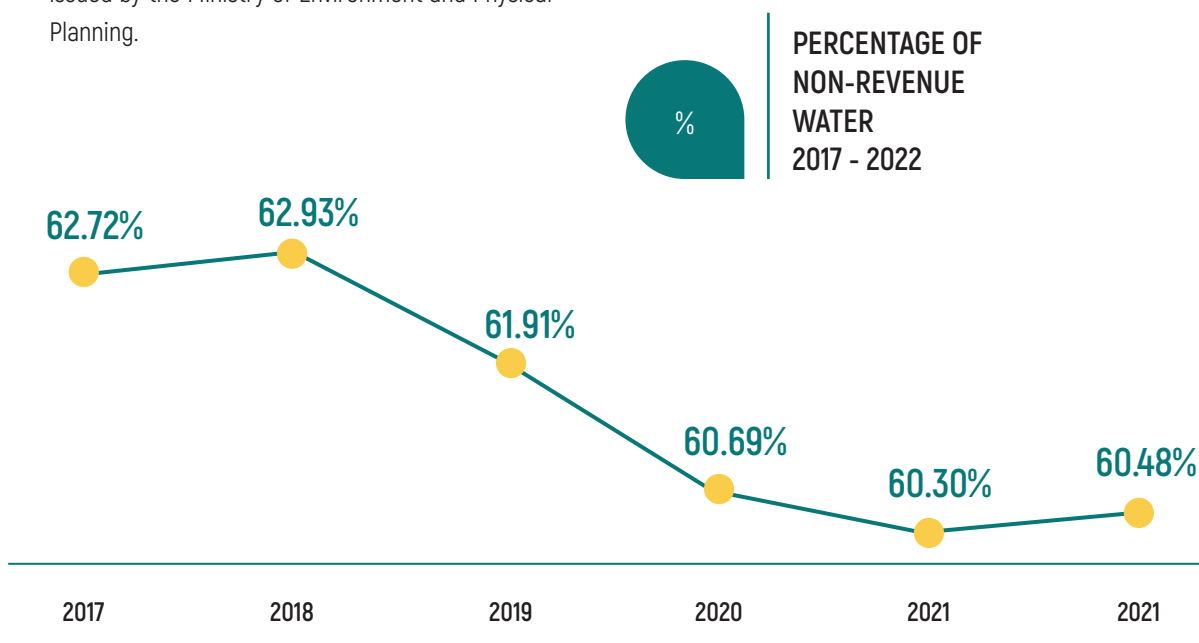
5.14.2 PE WATER SUPPLY AND SEWERAGE – SKOPJE

PE Water Supply and Sewerage - Skopje was founded to perform utility as an activity of public interest in the City of Skopje. Founder is the City of Skopje, which has all rights and obligations arising from the Law on Public Enterprises and other legal regulations. The company was founded in 1946 as the City Economic Enterprise "Water Supply" with a Decision of the then City People's Assembly, and was transformed into a public enterprise with a Decision on division of PE "Komunalec" - Skopje in 1992.

PE Water Supply and Sewerage supplies drinking water to a population of over 600.000 inhabitants of the City of Skopje using water from two spring areas Rasce 1 and Rasce 2 and from seven wells in Lepenec and Nerezi well areas. The use of spring and well water is based on a Permit²² and Decision²³ issued by the Ministry of Environment and Physical Planning.

We conducted audit on the financial statements together with compliance audit on PE Water Supply and Sewerage Skopje for 2021, and we concluded the following:

- from 2017 to 2022, the amount of produced water deviates significantly from the amount of invoiced water, i.e. the percentage of non-revenue water is around 60%, which is twice as high as its optimal level provided by the Strategy for reducing water losses in the water supply system of the City of Skopje.



22 Water use permit no. no. 11-4914/7 from 02.01.2014

23 Decision on extension of duration of permit UP1-11/5-929/2019

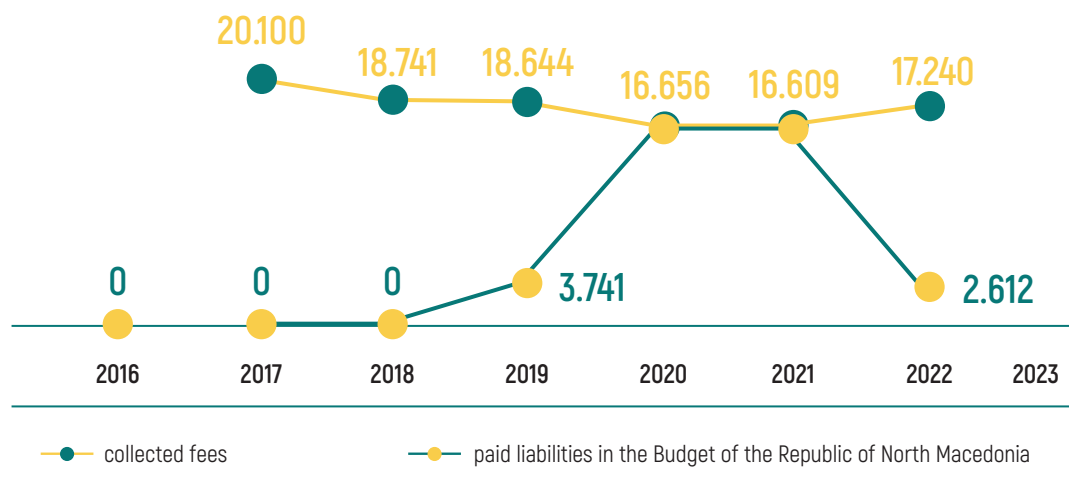
→ with the performed inspection of signed contracts, we determined that out of 295.750 users, PE Water Supply and Sewerage-Skopje has not signed contracts for regulating mutual rights and obligations with 30% of service users (89.634 users) until the day of reporting on the audit. This may cause more difficult collection of the service fee and may impede the realization

of rights and obligations of service providers and users. The largest part of users without contract (97%) are households, while 3% are from the economy category.

→ Presented but not paid obligations towards the Budget of the Republic of North Macedonia based on water use and water discharge fees from several years ago (before 2017) amount to 185.543.000 denars.

in 000
denars

**FEEs COLLECTED FOR WATER USE
AND WATER DISCHARGE BY PE
WATER SUPPLY AND SEWERAGE
SKOPJE AND PAID CURRENT
LIABILITIES IN THE BUDGET OF THE
REPUBLIC OF NORTH MACEDONIA
IN THE PERIOD 2017 - 2022**



- the annual inventory of assets and liabilities was not carried out in full and is not in line with the Rulebook for conducting an inventory, which affects the reality and objectivity of data presentation in the Balance Sheet on 31 December, as well as the quality of information it provides.
- land and structures represent 83% of the total value of company's tangible assets, where we ascertained the following:
 - unregulated rights of ownership of the land in the Real Estate Cadastre Agency; part of the structures is recorded in the ledgers with a value of 100.729.000 denars,
 - 14 facilities²⁴ used by the PE, due to lack of supporting documentation for determining the value of assets and handover thereof are not recorded in the accounting and physical records and depreciation is not calculated for the same;
 - not reconciled physical records for the line facilities with data from title deeds; land and facilities are put in the accounting records without proper and reliable documents, and thus their accuracy cannot be confirmed.

The above shortcomings affect the parameters for the price of tariffs for water services, which is formed in line with the Methodology for determining tariffs for water services and is approved by Energy Regulatory Commission based on official data from accounting records and financial statements submitted by JP Water Supply and Sewerage-Skopje.

- Improper and untimely accounting records of intangible and tangible assets amounting to 269.447.000 denars;
- Weaknesses in the application of the Law on Public Procurement, inter alia, in ensuring competition, equal treatment of all economic operators participating in the procedures, as well as rational and efficient use of funds in the procedures for awarding public procurement contracts.

We have also identified the following shortcomings:

- biannual reports on the company's operation have not been submitted, which reduces transparency of information on the type and scope of the activity, as well as on the company's financial operations;
- when hiring new employees, notifications about secured funds are not provided by the competent authorities;
- in-kind (capital) contribution of the enterprise is not recorded in the competent register;

24 PSOV Volkovo, Shuto Orizari pumping station (new building), Drachevo wells, Avtokomanda Water supply point and Avtokomanda Office, Barracks on St. Petar Chajkovski, and Reservoirs: Radishani low zone new, Sopsishte old, Aqueduct, Morane weekend settlement, Studenichani, Porupi, Kucevishka bara and Usje.

- expendable inventory has been removed from the accounting records, but no further measures have been taken for alienation or destruction thereof;
- value adjustment of supplies of raw materials, materials and spare parts purchased before 2017 has not been carried out;
- inconsistencies in the method of salary calculation for administrative officers.

In the paragraph Emphasis of Matter, we pointed out the following issues:

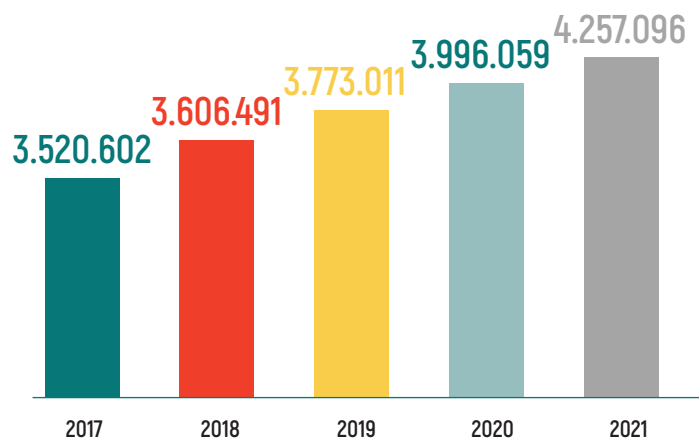
- It is necessary to review the decision on the amount of the tariff paid by JSC in private ownership for the water supply service and to determine its real value. Namely, in the

period from 2016 until the day of reporting on the audit, the price for drinking water supply service for a privately owned JSC is significantly lower than the price of the service for the economy category. As a result, PE Water Supply and Sewerage Skopje realized 1.020.059.000 denars less revenue based on water use service, and 100.883.000 denars less VAT and thus 22.705.000 denars less water use fee, which is revenue of the Budget of the Republic of North Macedonia.

- It is necessary to make a detailed analysis of receivables from buyers and liabilities to suppliers, which show an increasing trend since 2018 and may adversely affect the liquidity of the PE in the future period.

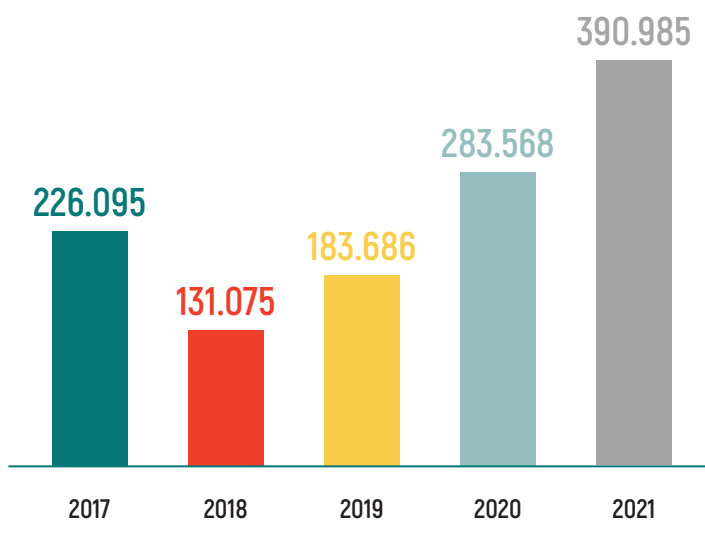
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RECEIVABLES FROM BUYERS



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OBLIGATIONS TO SUPPLIERS

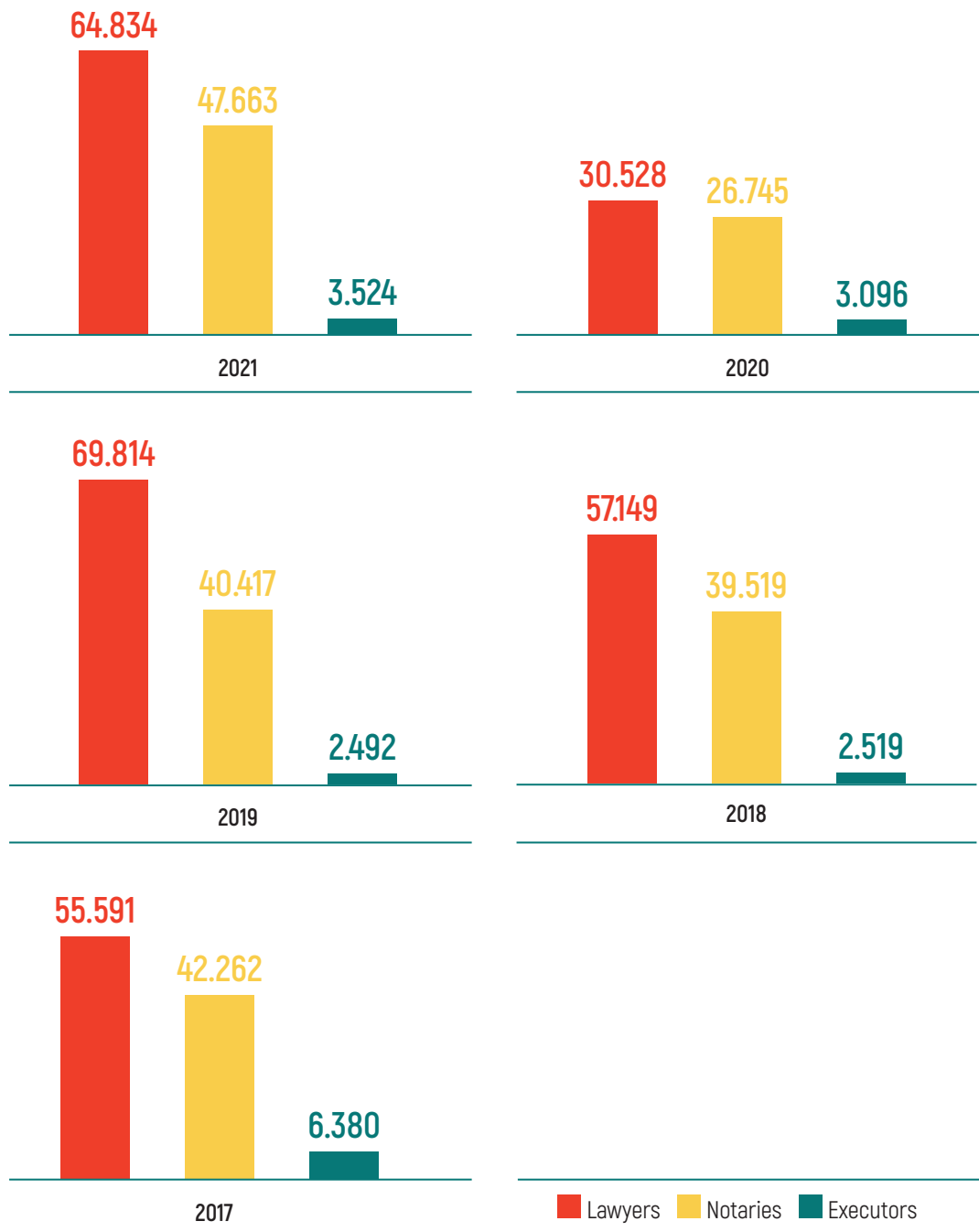


→ Based on the analysis of costs for lawyers, notaries, executors (legal services) and court expenditure, we ascertained that from 2017 to 2021 the outstanding debt to PE Water Supply and Sewerage-Skopje from households and the economy amount to 492.533.000 denars or approximately 8 million euros, and court proceedings costs amount to 23.496.000 denars.

In 2021, these expenditures total 116.021.000 denars or 1.9 million euros for 72.331 proceedings. The reason behind the particularly high costs for hiring notaries and lawyers arise from Article 68 of the Law on Notary, which, inter alia, stipulates that for a monetary claim for water and waste in amount higher than 6.000 denars, the proposal for issuing notarial decision for payment order must be drawn up by a lawyer and must contain lawyer stamp and signature.

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EXPENDITURES FOR
LAWYERS, NOTARIES AND
EXECUTORS IN THE PERIOD
2017 - 2021



5.15 | LABOR AND SOCIAL POLICY

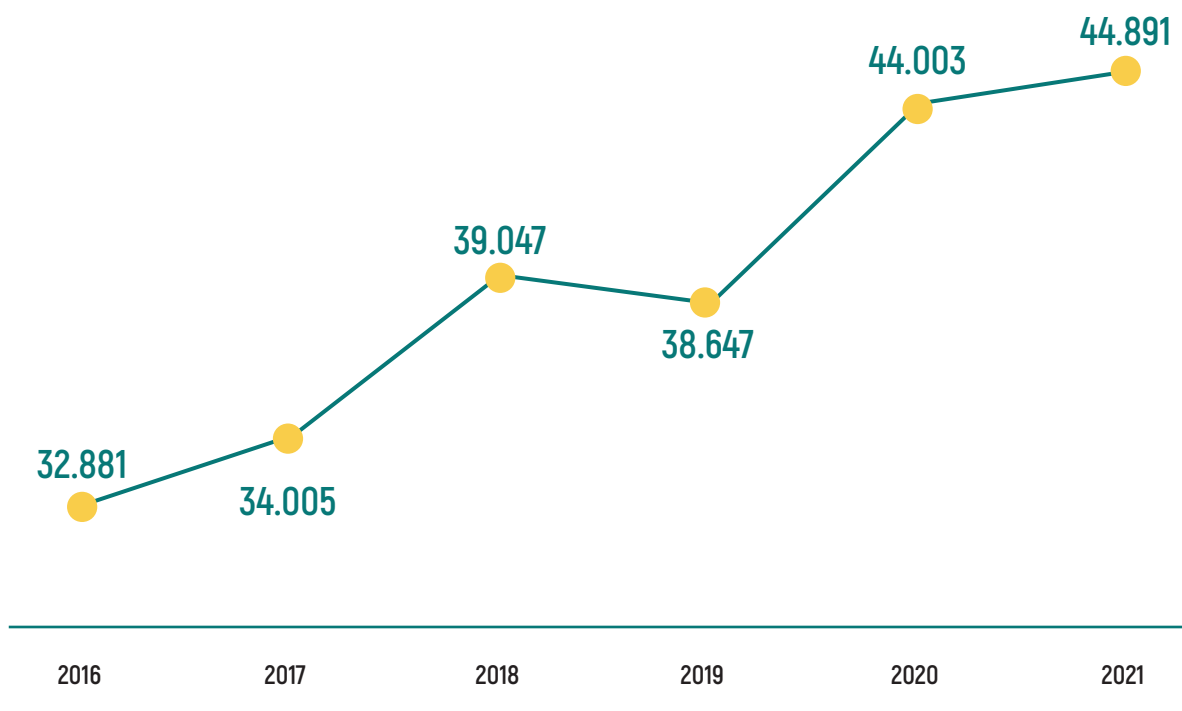
5.15.1. MINISTRY OF LABOR AND SOCIAL POLICY

We conducted audit of the financial statements and compliance audit on the Ministry of Labor and Social Policy for 2021 and we identified the following shortcomings:

- inaccuracies in the by-law in the method of selection, selection criteria, necessary qualifications, the right and the amount of compensation of the commission for drawing up a finding, assessment and opinion for determining disability;
- no criteria for selection of members and inadequate composition of the individual commissions for review of findings, assessment and opinion for determining disability;
- inconsistencies in hiring employees on a fixed-term;
- method and procedure for distribution of funds provided for by the Law on Games of Chance is not clearly regulated, and irregularities were found in the method of public call announcement, selection and evaluation of submitted applications, signed contracts and distribution of funds;
- allocation of block subsidies to municipalities is not carried out with full and consistent application of criteria and formulas provided by Decrees on the methodology for determining criteria for allocation of block subsidies;
- inappropriate use of the application from the Project for Promotion of Social Services, which was designed to improve the effectiveness and efficiency of the pension system and the social protection system (SPIL project); the discrepancy between the amount of paid rights expressed in the accounting records in the SPIL project also does not allow full insight into the basis for acquisition of rights, as well as confirmation of the total expenses recorded on the social benefits account;
- untimely and not chronological recording of received invoices;
- irregularities in exercising the right to monetary compensation for help and care from another person in the completeness of the form for presenting finding, assessment and opinion by the expert commissions and control by the Centers for Social Work. Payments of benefits for help and care by another person in the last six years by number of beneficiaries are presented in a graphic below.

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denars

**BENEFITS PAID FOR
HELP AND CARE BY
ANOTHER PERSON IN
THE LAST SIX YEARS BY
NUMBER OF USERS**



- incomplete inventory of assets, claims and liabilities and unrecorded equipment;
- data on fixed assets are entered in the ledgers, but the initial state has not been confirmed thereof and there are no complete and accurate records;
- weaknesses in the system of internal controls in the written procedures for confirming truthfulness and objectivity of financial documentation and in the controls for document flow between departments and recording of transactions in accounting records.

In the paragraph Emphasis of Matter, we report on the following:

- for a period of 10 years, the Ministry of Labor and Social Policy has paid 43.620.000 denars based on a lease agreement for office premises for its own needs. Therefore, in coordination with the competent state institutions, it is necessary to find a permanent solution for adequate premises for unimpeded operation of the Ministry.
- certain inconsistencies have been determined during construction activities, as follows:

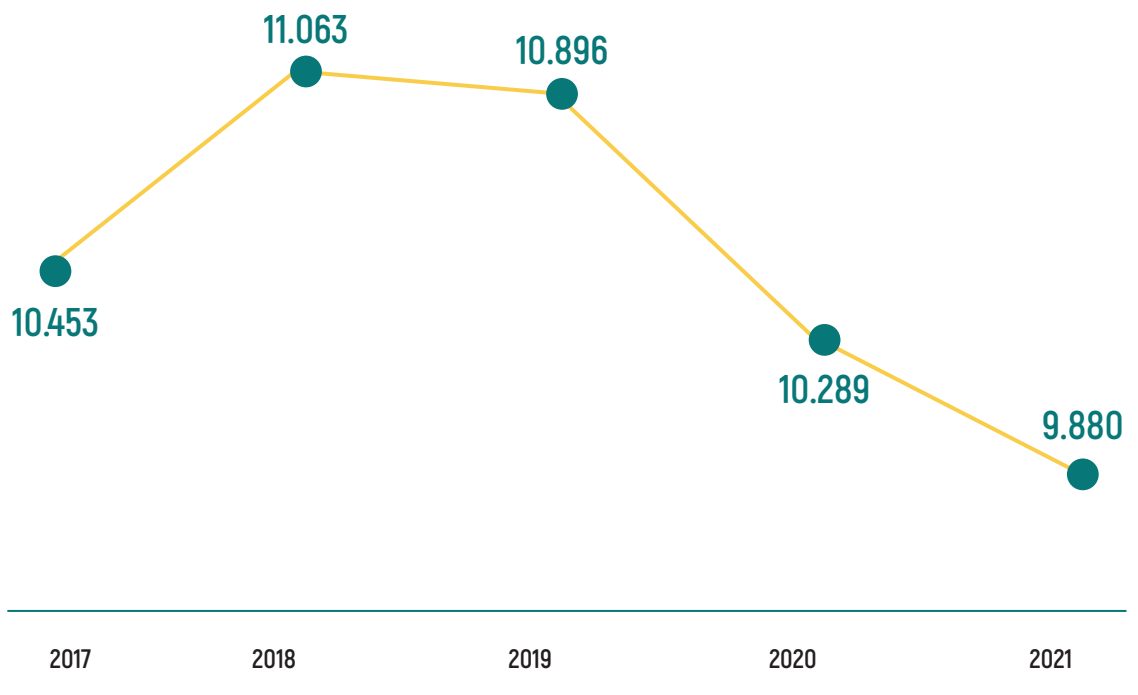
- for the construction of the facility on the south wing of Nada Mihajlova Health Center in the Home for the Elderly in the Municipality of Probishtip, were paid 54.983.000 denars with a deadline of 16 months expiring on 07 December 2021; the construction is not finished and thus there will be financial implications on the budget of the Ministry in the following period.
- for the construction of kindergarten in the Municipality of Chair25 were paid 120.084.000 denars with a deadline of 25 months. Due to court proceedings and temporary ban on the payment of funds from the contractor's account, an agreement was signed in July 2022 for amending the agreement²⁶, which changes the roles of the participants. Therefore, it is uncertain that obligations taken for completing the construction works will be fulfilled.
- For the disability allowance, the legal changes and limitation of the age for exercising the right to disability up to 65 years limit the citizens to exercise this right when they will need it the most. This situation decreases the number of beneficiaries of the disability allowance, as shown in detail in the following graph.

25 Agreement no. 02-2911/8 of 14 July 2020

26 Agreement for amending and supplementing agreement no. 02-2256/3 of 25 July 2022



**DISABILITY ALLOWANCE
PAYMENTS IN THE LAST
FIVE YEARS BY NUMBER
OF BENEFICIARIES**



→ In 13 court proceedings where MLSP is a defendant, collection of 23.285.000 denars is requested based on principal debt from creditors, which may further burden the

estimated amount with interest and court costs and may affect the future operation of the Ministry.

5.15.2. PENSION AND DISABILITY INSURANCE FUND OF THE REPUBLIC OF NORTH MACEDONIA

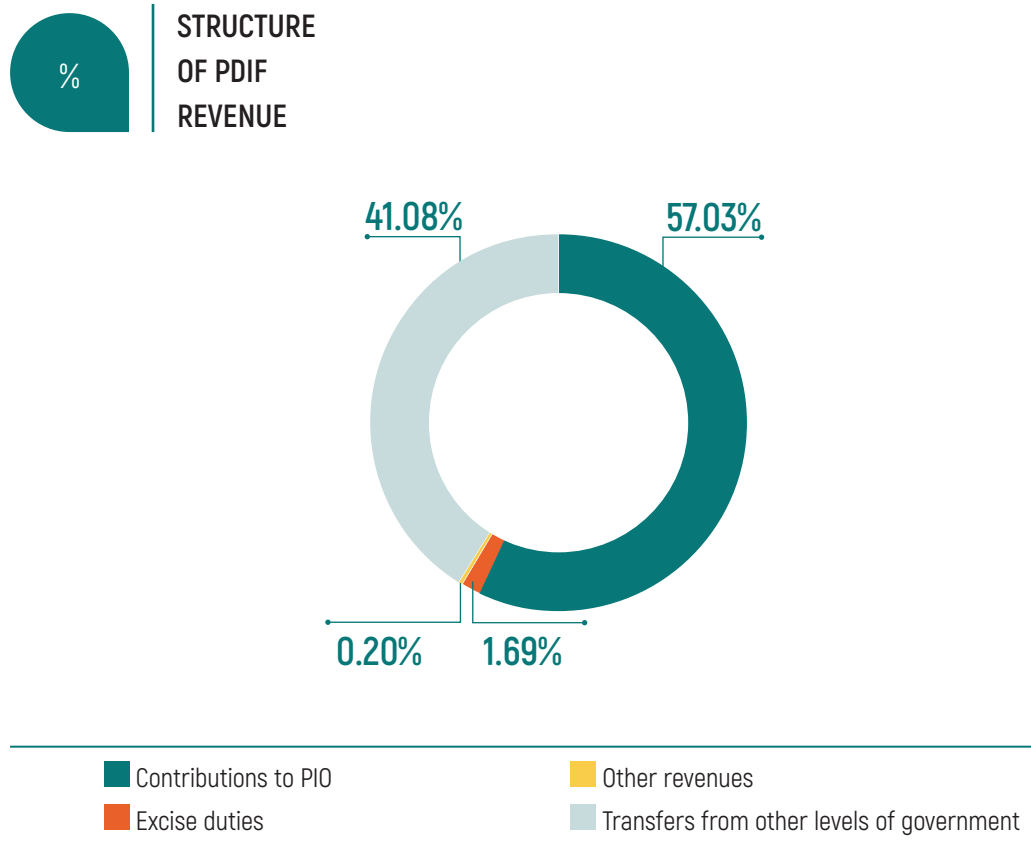
We carried out audit of the financial statements together with compliance audit on the Pension and Disability Insurance Fund of the Republic of North Macedonia for 2021. We ascertained the following shortcomings:

- there are procedures that have not yet been adapted to the amendments of the Law on PDI and the internal controls in place do not always ensure confirmation of entered data and accuracy and timeliness in the procedure;
- the shortcomings ascertained from previous years have not been overcome and refer to lack of professional and trained actuarial staff and permanent outflow of employees from the IT sector and internal audit. This affects the development of actuarial and pension forecasting capacities, the functioning of the IT system and up-to-datedness of all systems and the effectiveness of the internal control system;
- weaknesses in storing and archiving data in the registry office make it impossible to confirm the registered data, necessary for exercising the rights to PDI;
- due to not receiving appropriate data for employment and registration of insured, as well as errors in the entry by other institutions, the account intended for collected contribution for PDI has unallocated funds of 156.102.000 denars (of which 90.971.000 denars from previous years) which the Fund cannot use, and the insured cannot exercise their rights from PDI;
- untimely submitted information from competent institutions about a change in the status of the insured, which results in unjustified payment of pensions (based on damages for pensions paid to deceased beneficiaries, temporary pensions, family pensions or other types of unjustified pension payments) in the amount of 223.753.000 denars. Claims from citizens and prepayment of pensions amounting to 6.907.000 denars are recorded arising from 2012 for remitted pensions to the banks;
- inconsistencies in a limited number of implemented procedures for awarding public procurement contracts.

In the paragraph Emphasis of Matter, we report on the following:

- unjustified withdrawal of funds from PDIF account by executors based on enforcement orders, in which pension beneficiaries appear as debtors, and continuous PDIF activities related to implementation of enforcement orders;
- the system for determining, controlling and collecting contributions is not based on fully up-to-date and accurate integration and timely exchange of data from institutions, which affects the completeness of revenue, as well as the liquidity of PDIF and the sustainability of the pension system;
- the structure of realized revenue in the reporting period, the deficit in the payment of pensions, as well as the uncertainties in the operation of the Fund related to inflationary movements and unfavorable demographic movements is as follows:

→ in 2021, revenue in the amount of 81.508.271.000²⁷ denars was generated with the structure shown in the following graph:



²⁷ The total revenue presented in PDIF financial statements for 2021 amounts to 86.432.482.000 denars and contains the transferred surplus of revenue from the previous year of 4.924.211.000 denars

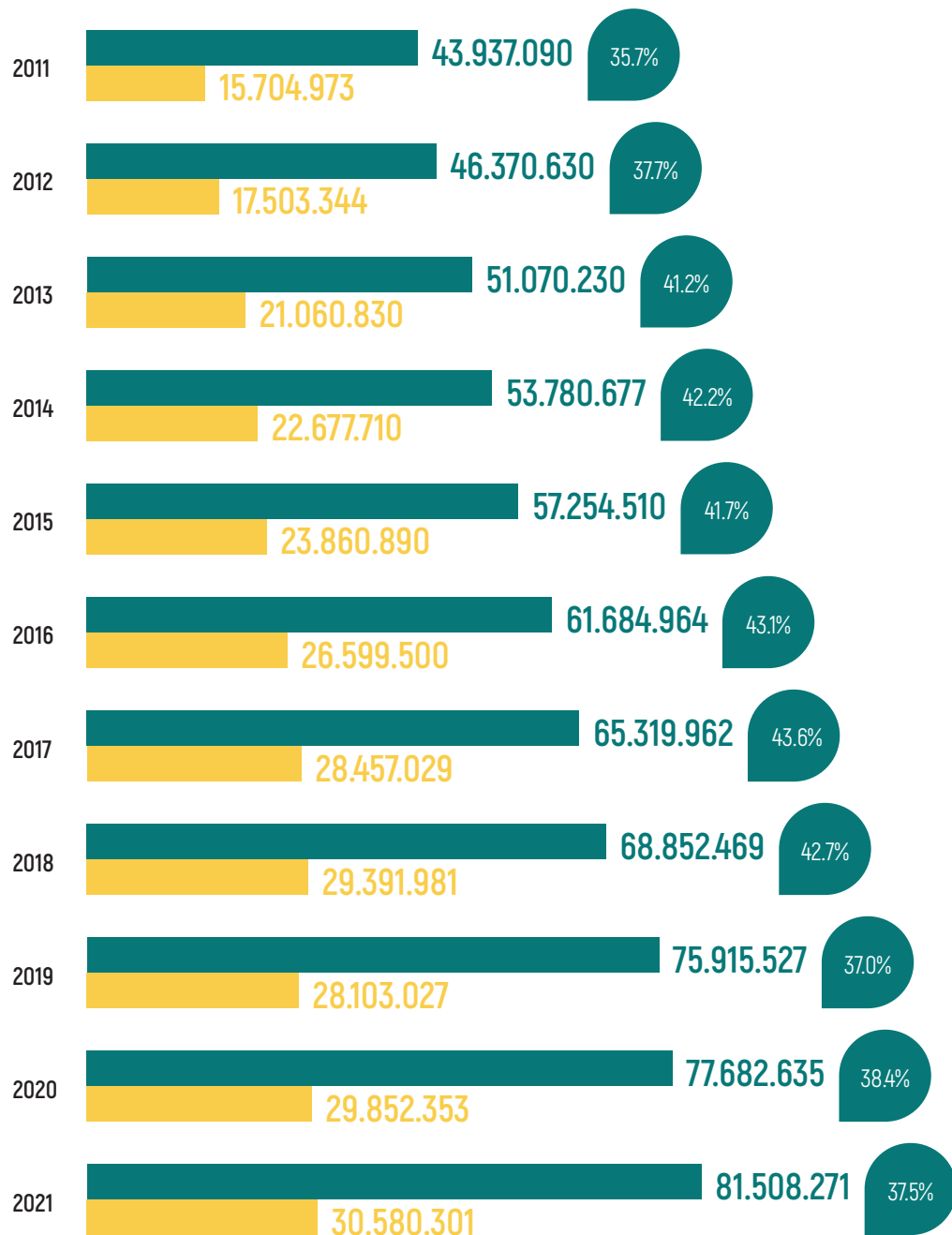
→ source revenues from collected PDI contributions in 2021 have increased by 6.38% compared to 2020 and amount to 49.289.354.000 denars, which is 60.47% of the total revenue. The increase in revenue in 2021 is still not sufficient to cover the expenditure for social benefits which also grow every year. Namely, expenditure for social benefits (payment of pensions together with contribution for health insurance of pensioners, transfers to the second pension pillar and disability allowance) in 2021 amount to 79.677.493.000 denars for 328.570 beneficiaries of pension, i.e. as of December 2021 the disbursed funds are 3.8% higher compared to 2020.

→ Despite the increase in revenue based on PDI contributions, PDIF lacks funds for payment of social benefits. For this purpose, 30.581.000.000 denars were transferred from the Budget of the Republic of North Macedonia in 2021. The share of these funds in the total revenue of the Fund has decreased compared to 2020, i.e. it is 37.5%, of which 29% are used for covering the current deficit for payment of pensions, as shown in the following graph.



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denars

**SHARE OF FUNDS TRANSFERRED
FROM THE BUDGET OF THE
REPUBLIC OF NORTH
MACEDONIA
IN PDIF TOTAL REVENUE**



Total revenue

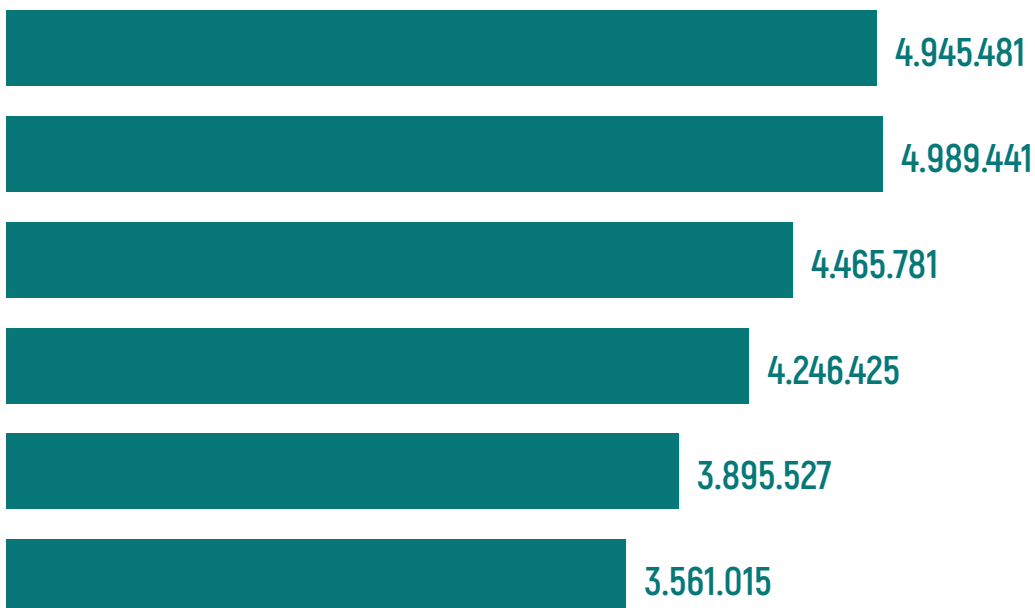
Budget transfers

→ It is expected that the unfavorable demographic structure of the population in the Republic of North Macedonia, the current inflationary movement on PDIF operation and the legal obligation to harmonize the pension amount with the index of the cost of living and the increase in salaries, will continue to affect the financial operation of the Fund in the future by covering the high deficit with transfers from the Budget of the Republic of North Macedonia.

→ We ascertained continuous increase of uncollected receivables for pension insurance contributions, which amounted to 4.945.481.000 denars on 31 December 2021. Uncollected receivables from 2016 to 2021 have increasing trend. In 2021 they have increased by 38.9%, i.e. by 1.384.466.000 denars in absolute amount. It is necessary to intensify activities for collection by the Public Revenue Office, which has the authority to perform the collection for the stated period. The movement of receivables based on unpaid contributions for the period 2009 - 2021 is shown in the graph below.

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denars

**MOVEMENT OF RECEIVABLES
BASED ON UNCOLLECTED
CONTRIBUTIONS FOR
THE PERIOD 2009 - 2021**



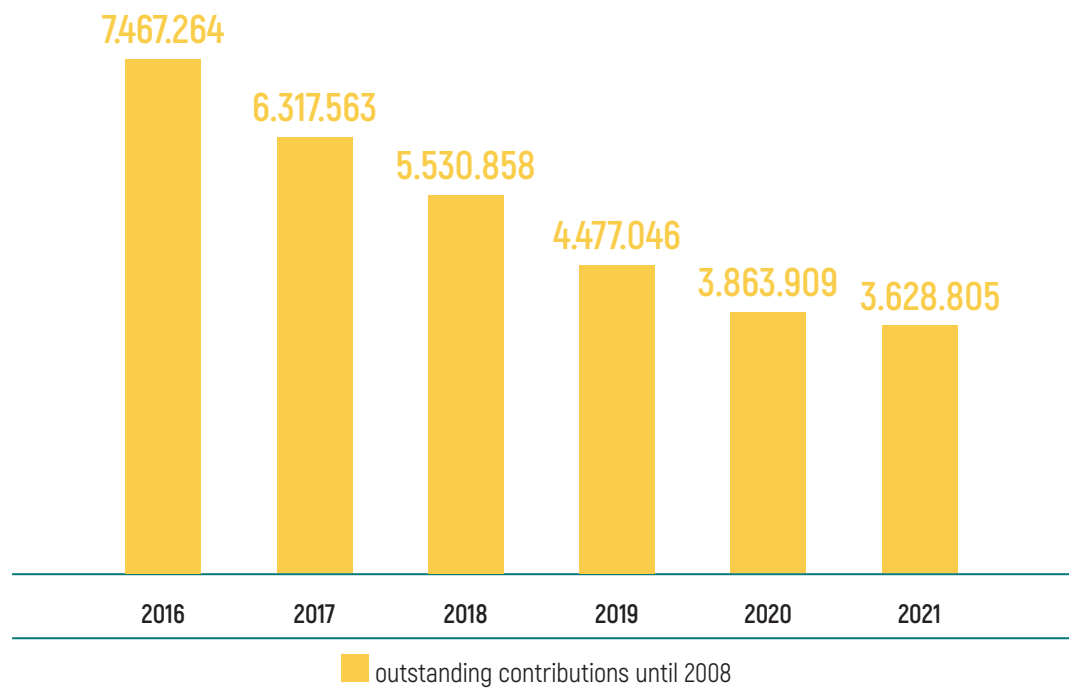
■ outstanding contributions 2009-2021

→ receivables based on unpaid contribution before 2008 are already obsolete. The fund has launched an initiative for amending the aforementioned law in order to change the treatment of contributions as funds for personal consumption whose collection should not expire, but no action has been

taken. The analysis of the movement of receivables based on unpaid contributions incurred before 2008, for the period 2016 - 2021 shows continuous writing off due to impossible collection thereof (see graph below).

in 000
denars

**MOVEMENT OF RECEIVABLES
BASED ON UNPAID CONTRIBUTIONS
INCURRED UNTIL THE END OF 2008,
FOR THE PERIOD 2016-2021**



5.15.3. EMPLOYMENT AGENCY OF THE REPUBLIC OF NORTH MACEDONIA

We carried out compliance audit on the topic “Exercising rights on monetary compensation” in the Employment Agency of the Republic of North Macedonia on the payments made in 2021.

The right to monetary compensation is regulated by the Law on employment and insurance in case of unemployment and the Law on financial security of unemployed persons due to privatization of enterprises with dominant ownership of the state. Insurance rights in case of unemployment are exercised in the Employment Agency of the Republic of North Macedonia, i.e. in the appropriate Employment Center where the person is registered as unemployed. The Agency is a public institution that performs professional, organizational, administrative and other tasks related to employment and insurance in case of unemployment and provides support, assistance and services for participants in the labor market through 30 Employment Centers (ECs) in the Republic of North Macedonia.

With the performed audit, we ascertained shortcomings as follows.

Legal framework

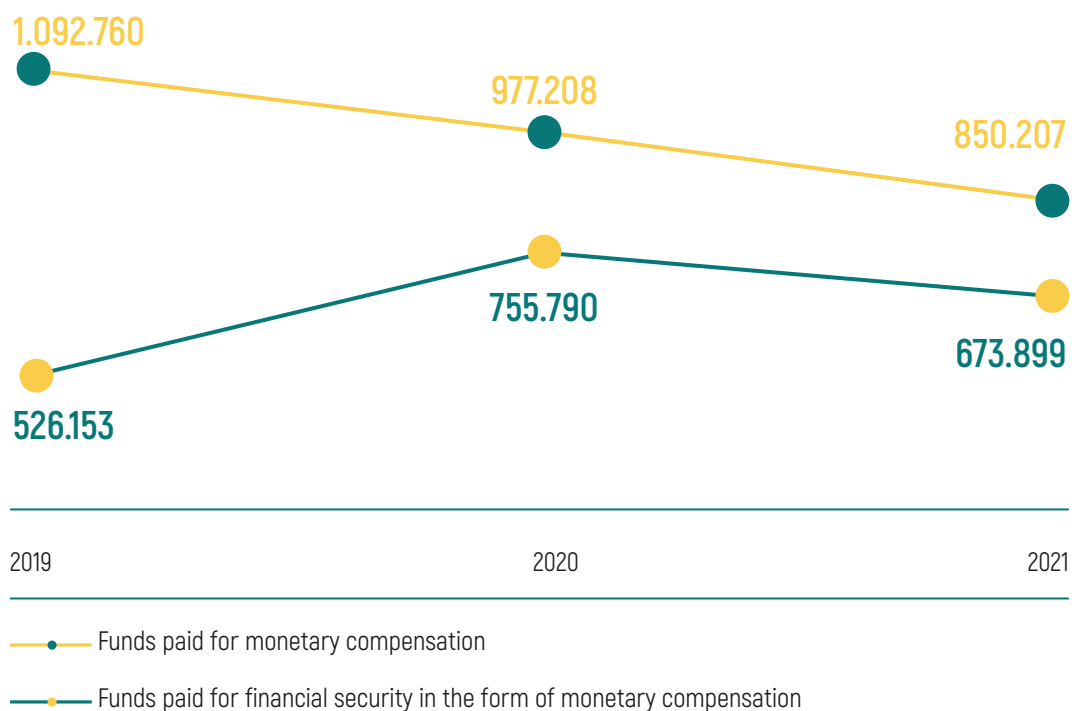
- The Law on Employment and Insurance in Case of Unemployment regulates the procedure and conditions for obtaining monetary compensation (MC) and the conditions for termination of the right. However, certain provisions are imprecise in relation to the method of calculating the amount of MC when working part-time calculated as full-time, the requirements for obtaining MC for unemployed persons, and the requirements for termination of the right to MC of unemployed persons;
- There is no continuity in the adoption of the laws on financial security; different criteria for termination of employment relations and length of service, which affects the number of beneficiaries, and thus the right of persons that is exercised in different periods according to the conditions;
- Inadequate staffing of the internal audit department contributes to the fact that the process of exercising rights on MC has not been audited.

Exercise of rights to monetary compensation

1.524.106.000 denars have been paid for MC and financial security (FS) in the form of MC in 2021, which equals to 45.34% of the Agency's total expenditure, for 26.158 beneficiaries in accordance with the Law on employment and the laws on MS for the period 2019-2021 (see graph below)

in 000
denars

FUNDS PAID FOR MONETARY COMPENSATION IN LINE WITH LAW ON EMPLOYMENT AND INSURANCE IN CASE OF UNEMPLOYMENT AND THE LAWS ON FINANCIAL SECURITY FOR THE PERIOD 2019-2021



With the audit on the procedure for exercising rights to MC and FS and payment thereof, we ascertained the following:

- in the internal acts and guidelines for exercise of rights to MC and FS and their payment, there are no controls and division of responsibilities for receipt and processing requests for MC, completion of documentation, calculation of the amount and adoption of decisions in the procedure. The absence of complete division of responsibilities of employees involved in the process of exercising rights to MC due to a lack of staff, especially in the larger Employment Centers, creates a risk of inaccurate and untimely process;
- we ascertained shortcomings in ensuring the completeness of documentation for deciding on procedures for exercising the right to MC and unequal approach by Employment Centers that affects the decisions on the right and amount of MC for the unemployed person;
- lack of electronic exchange of data and linking of records between the Agency and the PDI Fund affects the timely provision of data and the decisions for exercising the right;
- lack of regular cooperation and dynamics for exchange of data between the Agency and the inspection body for labor relations contributes to the absence of regular information and data about unemployed persons, users of MC who are employed or perform activities contrary to the law;

- with regard to exercising the right to MC, we ascertained that the amount paid on various grounds has changed over the years, and in particular it has increased in 2020 as support for persons who lost their jobs as a result of dismissal by employers during Covid-19;
- with regard to exercising the right to MS in the form of MC, we ascertained that 62% of users use MC up to 6 months due to loss of a fixed-time job and seasonal work, while 77% of users use MS for a period of 25- 60 months. Data indicate that despite the commitment of the Agency and its participation in mediation, the number of people who were employed in the period 2017-2021 is small, particularly the beneficiaries of FS who have difficulty to adapt to the changes on the labor market and to find employment, and thus they mostly use FS in the form of MC until their retirement.

Data on the effects of mediation in employment of MC users who participated in the mediation and were employed are presented in the graph below.



EFFECTS FROM EMPLOYMENT MEDIATION FOR MC USERS THAT PARTICIPATED IN MEDIATION AND EMPLOYMENT ACHIEVED



Return of unfounded payment by users of MC and FS

- The Agency has not adopted guidelines/procedure for the method of refunding funds used by MC user in the event of termination of the right to MC. Therefore, there is a non-uniformed approach by the Employment Centers in the procedure for the return of funds, preparation of termination decisions and recording claims based on refund;
- The Agency has not set up a system connection with records of other competent institutions for downloading necessary information and documents (decisions for exercising pension rights, information on deceased users, data on social benefits, etc.) as a mechanism for detecting users of MC/FS that receive monetary income on other grounds.

Appeals for non-exercise of rights and decisions thereof

- with the audit we covered submitted appeals against decisions on unfulfilled rights in the Employment Centers and decisions thereof. Out of 215 appeals submitted to the MLSP as a secondary authority, 58 appeals were sustained and returned for re-decision, and 157 were rejected. We found that in certain cases the second-level appeals authority does not consider all relevant facts and evidence submitted by the Agency and the parties and the appeals are rejected as unfounded, but when the procedure is repeated, it approves of the decision. This

creates possibility for financial burden to unemployed persons for unrealized right to MC and FS.

To overcome ascertained shortcomings, we made recommendations for measures and activities by the competent persons and bodies of the Agency.

5.15.4. PUBLIC MUNICIPAL INSTITUTION - HOME FOR THE ELDERLY KIRO KRSTESKI PLATNIK PRILEP

We conducted audit on the financial statements together with compliance audit of the public municipal institution - home for the elderly Kiro Krsteski Platnik Prilep for 2021.

With the performed audit, we ascertained the following shortcomings:

- lack of written procedures for regulating the work processes that would provide for a system of internal controls and division of duties and responsibilities in material and financial operations;
- no standards and cost calculations of necessary food products, some of the lists of dishes are not approved and full compliance with prescribed standards on nutritional value of the diet for the elderly is not ensured; and
- The Home operates with insufficient number of professional employees for unimpeded, high-quality and timely performance of necessary services and care of the elderly - housewives, hygienists and auxiliary staff in the kitchen.

In the paragraph Emphasis of Matter, we point to the following:

- in 2022, after 17 years, the Home has increased its accommodation prices for the first time and adjusted the prices to the increase of operating costs, which have increased significantly in the meantime;
- the food preparation service for the "People's Kitchen" project is provided by the Home at the same price determined at the beginning of the project, i.e. in 2007, although the costs of food products have significantly increased. It is also done by the same personnel in the kitchen, which is not sufficient for continuous preparation of food for the regular users of the Home;
- in the first three quarters of 2021, the Home has procured several times the amount of medicines and diapers compared to the same period in 2022;
- the elderly people are housed in premises in a bad condition; no funds for construction, equipping and maintenance of facilities for social protection and homes for the elderly are planned in the annual programs;
- the amount of block subsidies in 2021 has decreased compared to 2020 despite the fact that the number of beneficiaries has increased, including those with social risk that are accommodated in the Home with a decision from the Inter-Municipal Center for Social Work Prilep; and

- in the previous period, employment was carried out only with consent of the Municipality of Prilep, and part of the salaries for the employees were paid from the budget account for self-financing activities, while no funds were received from the Municipality of Prilep as the founder of the Home, despite the transferred responsibility and obligation for financing.

5.16 EDUCATION

5.16.1. PRIMARY SCHOOL "LJUBEN LAPE" - MUNICIPALITY AERODROM

The municipal primary school "Ljuben Lape" in Aerodrom Municipality - Skopje has status of a legal entity. The school is registered in the central register of municipal primary schools in the Ministry of Education and Science and the register of municipal primary schools of the above municipality. The school has 42 classes, i.e. 44 classes in 2021/2022 school year with 1.236 children enrolled.

With the audit on the financial statements together with compliance audit of the primary school "Ljuben Lape" on the expenditure accounts of the subsidy budget, core budget and budget from self-financing activities for 2021, we ascertained the following shortcomings:

- lack of system of internal controls, i.e. no ex-ante and ex-post control and no written procedures for material and financial operations;

- non-observance of procedures for office and archive operations in relation to recording of incoming and outgoing invoices in the ledger;
- unrealistic and non-objective assessment of fixed assets, liabilities and claims and incomplete and improper inventory.

In the paragraph Emphasis of Matter, the audit points to the financing of primary education, where salaries account for 96% and other expenses for 4% of the total expenditure of the school with over 1200 pupils. Therefore, we point out that it is necessary to analyze the entire system of planning and financing of the activity of primary education to ensure sufficient funds for the functioning of primary schools and quality educational process.



5.17 CULTURE AND CULTURAL HERITAGE

5.17.1. FILM AGENCY OF THE REPUBLIC OF NORTH MACEDONIA

We conducted audit on the financial statements together with compliance audit on the Film Agency of the Republic of North Macedonia for 2021.

With the audit, we ascertained certain shortcomings and the most significant ones are the following:

- lack of system of internal controls for adoption of written procedures for the payment process and the project financing process with defined duties and responsibilities of the persons involved in the process and the method of awarding and monitoring realization of projects;
- The Agency has not submitted proposal to the Government for adoption of a Strategy for development of the film industry with an action plan, which has an impact on setting goals and priorities for selection of film projects in line with annual competitions, identifying necessary financial resources for realization thereof, and organizational and administrative measures for supporting, fostering and developing the film industry;
- the Annual Report on Agency's operation was untimely adopted and submitted to the Government and incompletely published, which does not ensure transparent operation and timely informing of the founder of the Agency on the outstanding obligations based on allocated funds per project;
- absence of internal audit unit as required by the legal regulation; as a result, the management does not receive independent, reasonable, objective assurance and advice for improving operation and increasing effectiveness of the internal control system for using transferred funds to production companies and enables occurrence of irregularities in the use of funds during the realization of projects;
- lack of rules of procedure for regulating the work of film advisors, reviewers and financial advisor, as well as weaknesses in making proposals for selection decisions by the Film Council, which may result in subjective actions in the selection of film projects;
- when announcing contests for film projects, the Agency does not comply with mandatory conditions and criteria of the Law on Film Activity, and has not adopted internal act-procedure with defined activities and steps for implementation of the procedure after the contest, which may result in subjective decision-making on choosing projects,
- lack of controls in meeting requirements by the production companies before signing contracts as well as in all phases of the implementation of the contracts paid from the budget of the Agency. In addition, complete documentation and monitoring of bank guarantees was not provided in line with the published announcement. Non-adherence to the planned dynamics for realization of the film in relation to project

financing, signing annexes to contracts, evidence of secured funds when changing co-production houses and differences between the financial plan and the attached documentation;

- not updated records of awarded projects in all phases of implementation and no measures taken for terminating awarded contracts for projects where non-compliance with the provisions of the contract was determined;
- incomplete and inadequate inventory of assets and liabilities in accordance with legal regulations and weaknesses in treasury operations;
- recording obligations after signing pre-contract for financing film projects, impact of incorrect assessment of balance sheet items and presenting short-term obligations in amount over 405.780.000 denars;
- not established control mechanisms and reconciliation for confirming completeness of issued decisions and monitoring collection thereof; lack of activities for providing information from producers on the total realized revenue from distribution, exploitation and sale of the film in the Republic of North Macedonia and abroad;
- inconsistencies in the funds allocated to a legal entity based on memorandum of cooperation, in the financing agreement and the reports and financial documentation that are not provided for in the Law on Film Activity;

- unconfirmed earmarked use of funds paid in line with agreements for financing projects in the film industry in the amount of 24.015.000 denars due to shortcomings in the enclosed documentation by the production companies and allocation of costs to inappropriate items in the financial plan.

In the paragraph Emphasis of Matter, we report on:

- initiated legal proceedings before a competent court where the Agency appears as a party in legal disputes; the outcome depends on future events, cannot be predicted and may have an effect on the financial statements;
- lack of action for managing cinema equipment given for temporary use to national and local establishments;
- inconsistencies in hiring employees on a contract-to-hire basis and the Agency has only 31.43% of filled up systematized job positions.



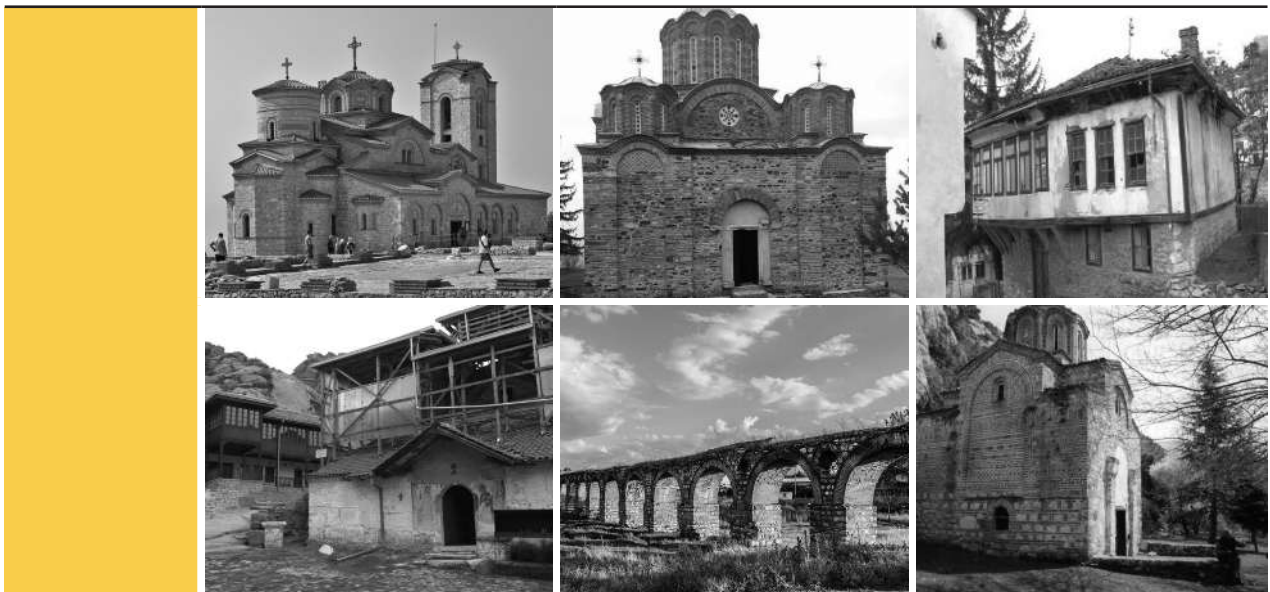
5.17.2 EFFICIENCY OF POLICIES AND MEASURES FOR PROTECTION, MANAGEMENT AND REVITALIZATION OF IMMOVABLE CULTURAL HERITAGE

We carried out performance audit on the topic "Efficiency of policies and measures for protection, management and revitalization of immovable cultural heritage" to answer whether existing legal framework, the manner of keeping records, financing activities and the measures taken by competent institutions for identification, protection and supervision ensure effective protection of immovable cultural heritage.

Cultural heritage is the foundation of a nation's national and cultural identity, an expression of the cultural and historical values we share and contributes to the well-being of our society and economy. Our country has a rich cultural heritage from past generations of immeasurable importance, which should be protected, preserved and maintained as a permanent investment for future generations. Cultural heritage is a fundamental value of the Republic of North Macedonia that is protected in all circumstances.










Cultural heritage can be owned by the state, local self-government units and other legal and natural persons.

According to its properties, cultural heritage can be divided into: immovable, movable and immaterial, i.e. spiritual cultural heritage. According to the Law on Protection of Cultural Heritage, immovable cultural heritage includes: monuments, memorial units and cultural landscapes.



According to data received from the Administration for Protection of Cultural Heritage on the territory of the Republic of North Macedonia, 1,292 immovable properties (monuments and memorial units) have been registered with a protection act (see graph below).

1292 REGISTERED IMMOVABLE PROPERTIES

	various categories of cultural goods	209
	memorial landmarks	35
	memorial unit	11
	houses	467
	churches and monasteries	205
	shops	184
	archaeological sites	122
	mosques	39
	hammams	20

In addition to goods registered with a “protection act”, the law recognizes “goods that are reasonably assumed as representing cultural heritage”. The total number of goods that are assumed to represent cultural heritage and are recorded by the competent institutions is 6.747.

The institutional framework for creation, implementation, supervision and control of activities and projects for protection of immovable cultural heritage consists of the Ministry of Culture, the Administration for Protection of Cultural Heritage and nine national institutions²⁸.

With the performed audit, we ascertained shortcomings in different audited areas.

Legal framework and institutional setting of institutions for protection of immovable cultural heritage

- there are certain ambiguities and absence of provisions for precise regulation of the use and management by owners - users of immovable cultural heritage; absence of penalty provisions due to unforeseen fines and lack of precise legal provisions for controlling the operation of the Administration;
- there is discrepancy between the provisions of the Law on protection of cultural heritage and the Law on construction in the definition of the term “reconstruction”, as well as in the categorization of the immovable cultural heritage, which complicates and prolongs the procedures for conservation measures for protection of immovable cultural heritage;

28 Three Conservation Centers (National Conservation Center Skopje, Conservation Center Skopje and Conservation Center Gostivar), five Institutes for Protection of Cultural Monuments and Museums (in Ohrid, Prilep, Strumica, Shtip and Bitola) and one Institution for management of the archaeological site Stobi.

- lack of adopted strategic documents for cultural heritage, which creates ambiguities regarding priority objectives and basic principles, measures and activities for protection of cultural heritage;
- necessary activities for adoption of planning and program documents for management and revitalization of the Old Bazaar in Skopje as a memorial unit have not been taken. This affected activities for protection, arrangement, permanent preservation of cultural values and authenticity, possibility of revitalization and rational use of the memorial unit and its contact zones;
- there is no full implementation of planned activities of the Plan for integrated protection of the old city center of Ohrid, as well as regular monitoring and evaluation of protection results;
- legal competences of institutions²⁹ do not ensure mutual connection as well as control by the Ministry on the work of the Administration for Protection of Cultural Heritage, which affects mutual coordination in creation of cultural heritage policies. In some NI³⁰, the foreseen legal obligation for reorganization from Institutes for Protection of Cultural Monuments and Museum into Conservation Center aimed at increased efficiency and possibility of strengthening capacities and better results in the protection of immovable cultural heritage; and
- evident lack of professional staff (conservator, senior conservator, advisor

conservator, etc.) in NI, which affects the performance of the main function and the activities for which they were established.

Instruments for protection through identification, keeping records and IT system for cultural heritage

- the classification of registered real estate, meaning identification of cultural heritage with codes and official names was implemented only on cultural monuments with issued revaluation decision;
- expert and scientific assessment of the value and properties of the cultural heritage - "revaluation", from 2005 until July 2022 was carried out on 233 real estates, which is 18% of 1.292 registered real estate entered in the national register of cultural heritage, although the procedure was supposed to end on 31 December 2007;
- protective records that should be kept on the cultural heritage and the goods that are reasonably assumed to represent cultural heritage, has not been fully and timely established by NI and the Administration for protection of cultural heritage; unified way of keeping main records has not been established in NI;
- The National Register of Immoveable Cultural Heritage, which is kept by the Administration for protection of cultural heritage does not contain complete and up-to-date data; the contents of the National Register and method of keeping records are not in line with the requirements of the laws and by-laws;

29 Ministry of Culture and Administration for Protection of Cultural Heritage

30 Institutes for Protection of Cultural Monuments and Museum in Ohrid, Prilep, Strumica, Shtip and Bitola;

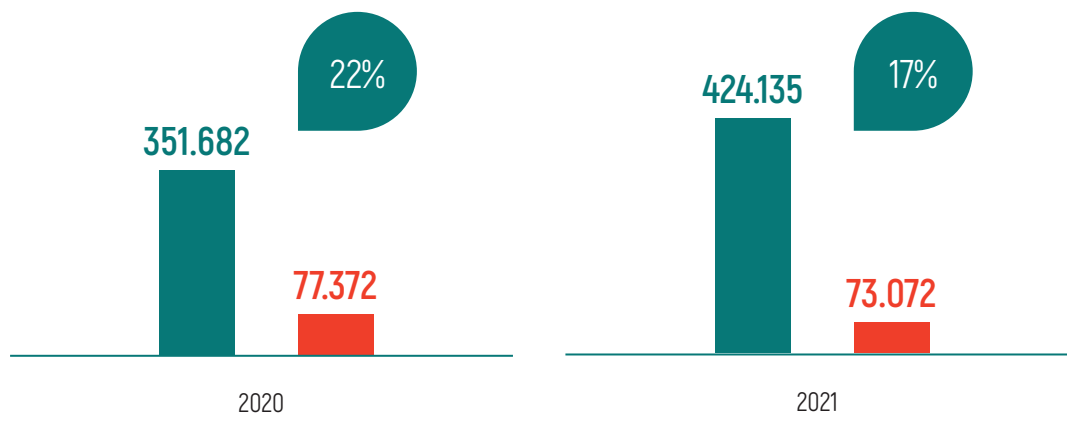
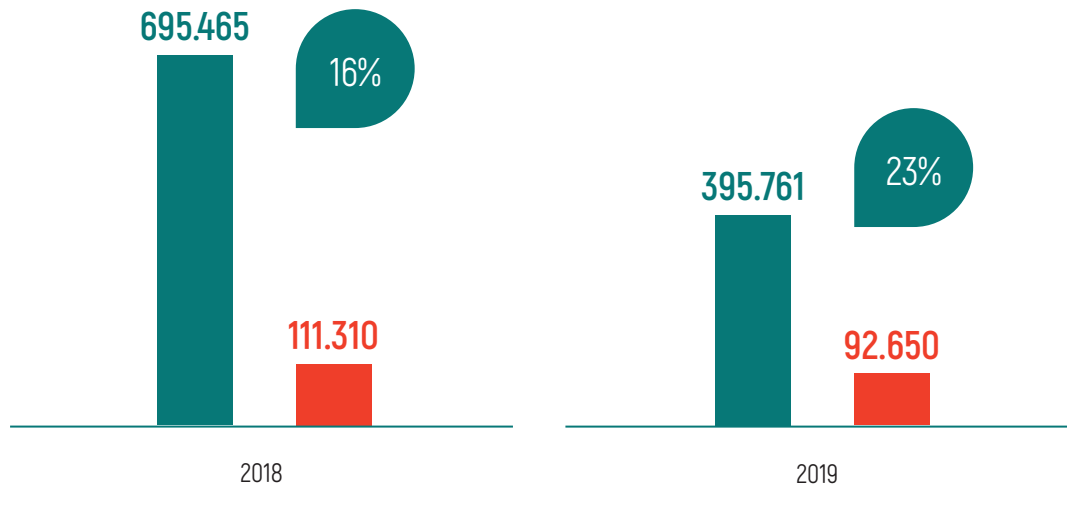
→ National Information System for cultural heritage has not been created, and thus there is lack of publicly available, comprehensive and accurate information on the cultural heritage and its protection, and comparability and usability of data. At the end of 2021 started activities for setting up the system.

Funding, measures taken for protection of immovable cultural heritage, supervision and control

- the method of financing immovable cultural heritage does not provide clear and objective criteria for allocation of funds and is one of the most significant weaknesses in the implementation of the functions of the competent institutions for protection of immovable cultural heritage;
- financial resources for protection of cultural heritage from budgetary and foreign sources for the period 2018-2021 amount to 293.528.000 denars. Budget resources approved by the Ministry of Culture for the draft programs for all national institutions are decreasing on average from 16% to 23% per year. The amount of provided funds and experts are not sufficient for efficient implementation of immediate protection activities, and improper allocation of protection funds limit the possibility of timely and adequate protection of immovable property, as presented in the graph below.

in 000
denars

**REQUESTED FUNDS
BY NI AND APPROVED
FUNDS BY MOC
PER ANNUAL PROGRAM**



- total requested funds from MoC in line with NU Draft program for projects
- approved funds from MoC in line with annual program
- % % of approved in relation to requested funds from NU

- absence of regular care, maintenance, security and measures for immediate protection by the holder and the competent institution for protection that contribute to permanent damage, loss, destruction and increased costs for maintenance and functioning of the cultural heritage;
- there is continuous investment in projects for thorough reconstruction of monastery lodgings, construction of new accompanying facilities, which go beyond the scope of conservation interventions and require allocation of significant financial resources, instead of taking measures for protection of cultural assets, and contribute to permanent damage, loss and destruction of cultural heritage;
- unresolved property and legal relations, i.e. the long duration of procedures for expropriation of real estate in private ownership, which includes the cultural good, affect the possibility of taking protection measures, finalizing archaeological research, conservation and revitalization of cultural and archaeological monuments and sites of public interest;
- lack of internal acts of the competent institutions for taking preventive measures for protection and prevention of illegal actions and emergency action, armed conflict and natural disasters, which contributes to lack of timely and reliable information about their condition and the resulting damage and destruction of immovable cultural heritage;
- inspection supervision is performed with significant shortage of inspectors, i.e. the Administration had three inspectors in 2021 with competence to perform supervision of all types of cultural heritage on the entire territory of the country. In such conditions, the inspection did not supervise all immediate protection measures and partially performed control supervisions on issued decisions.

To overcome the above shortcomings, we made recommendations to the competent institutions based on the results of the audit.

5.18 LOCAL GOVERNMENT



5.18.1 LOCAL SELF GOVERNMENT UNITS

During 2022, we carried out audit on the financial statements together with compliance audit for 2021, on nine LSGUs - Arachinovo, Butel, City of Skopje, Gjorce Petrov, Karposh, Kisela Voda, Sveti Nikole, Tetovo and Shtip, whereby the following shortcomings were ascertained.

Weaknesses in the financial management and control system were identified in the audited municipalities, in terms of written procedures, division of duties and established control mechanisms in business processes, inadequate organizational setup and non-operation of the internal audit.

Weaknesses have been identified in the budgeting process. In the municipalities Arachinovo, Butel, Gjorce Petrov, Karposh and Tetovo, there is significant deviation between planned and realized revenue and expenditure due to unexecuted or inadequately executed budget rebalancing. The municipalities of Karposh and Tetovo have been operating with blocked accounts for several years, and the mayors have not brought a Decision on declaring financial instability and Plan of measures for overcoming thereof, which leads to several years of over-indebtedness and illiquidity of the municipalities.

Weaknesses in the administration of utility taxes and fees were identified in the audited municipalities (utility tax on company i.e. name of business premises, use of music in public premises, use of space in front of the business premises for carrying out activities, use of parking space for motor vehicles, temporary residence fee, fee for

holding a B-integrated environmental permit). In the municipalities of Arachinovo, Sveti Nikole, Tetovo, Shtip and the City of Skopje, weaknesses have been identified in the administration of property taxes, which impact the realization of revenue in the budget of the municipality, i.e. the City of Skopje.

The City of Skopje and the municipalities of Sveti Nikole and Tetovo do not realize revenue from the fee for maintaining public cleanliness and the fee for maintaining public greenery.

The municipalities of Arachinovo, Butel, Gjorce Petrov, Karposh, Tetovo and Shtip do not comply with the legally prescribed deadlines for implementing procedures for determining the legal status of illegally constructed buildings. This leads to untimely informing of the applicants about necessary additional documents, prolonging of the procedures and no opportunity for owners to promptly register the property in the Real Estate Cadastre Agency.

The municipalities of Tetovo, Butel and Karposh do not submit annual reports to the Ministry of Transport and Communications on the use of the funds obtained from the compensation on this basis, which should be used specifically for the adoption of urban planning documentation with which illegal buildings are integrated and for infrastructural development of the area where they are located.

The municipalities of Arachinovo, Butel, Gjorce Petrov, Karposh, Kisela Voda and Tetovo do not comply with legal provisions when hiring people through private employment agencies, copyright contracts and on hire-to-contact basis. In certain municipality the number of employed on hire-to-contact basis during the year exceeds the number of regular employees in the municipality.

In the municipalities of Butel, Gjorce Petrov, Kisela Voda, Sveti Nikole, Tetovo and Shtip, inconsistencies were ascertained in allocation of funds for activities in the field of sports, culture and for support of the non-governmental sector in the amount of 20.935.000 denars. There is a phenomenon of giving funds to companies and associations and sports clubs without criteria for selecting projects and amount of funds.

Irregularities were found in the recording of receivables and determining aging structure of receivables. For the tax claims that have not been collected within the prescribed period, no interest is calculated and charged and no measures are taken for collection thereof.

The municipalities of Kisela Voda, Tetovo and Shtip do not keep accounting records for claims based on compensation for determining the legal status of illegally constructed buildings, compensation for arranging construction land and decisions issued for sale of undeveloped construction land owned by the Republic of North Macedonia. In the Municipality of Gjorce Petrov and the City of Skopje, these are recorded on the day of collection and not on the day of occurrence.

In the City of Skopje, claims for taxes older than ten/five years were recorded in the amount of 771.863.000 denars. In the municipality of Tetovo, write-off of receivables from property tax in the amount of 34.494.000 denars and write-off of utility tax for a company in the amount of 13.958.000 denars without seeking legal possibility for collection thereof.

Municipal property was leased without Decision of the Council of the Municipality of Sveti Nikole and without established criteria, conditions for leasing and price.

When performing activities for construction/reconstruction of streets and roads, water supply and sewerage networks, the audited municipalities do not follow the provisions of the Law on Construction in relation to secured approval for construction of buildings that belong to the second category of buildings, the construction activities are carried out without prepared design and design documentation, only based on technical specification/survey calculation and there is no handover of constructed buildings.

In the audited municipalities, there are problems in the inventory of assets and liabilities. This shortcoming is present for years and does not provide for inventory reconciliation. The property owned by the municipalities is not fully recorded in the ledgers.

In the municipalities of Arachinovo and Tetovo, obligations were taken/funds were paid in the amount of 33.269.000 denars without supporting documentation (counselor fees, fuel consumption, representation, repair and servicing of motor vehicles, winter maintenance of streets and roads, etc.).

In the audited municipalities, weaknesses were identified in public procurement procedures in relation to the technical specification and survey calculation, not determined quantities for individual items (Municipality of Butel, Gjorce Petrov, Kisela Voda and Tetovo), inconsistencies in the evaluation of offers (City of Skopje, Municipality of Karposh and Kisela Voda), inconsistencies in the implementation of contracts (Municipality of Arachinovo and Shtip) and non-compliance with legally prescribed deadlines (Gjorce Petrov, Karposh and Tetovo). Goods and services were procured and works performed without public procurement in the amount of 10.563.000 denars (Municipality of Arachinovo, City of Skopje, Kisela Voda, Sveti Nikole, Tetovo).

In the paragraph Emphasis of Matter, we pointed out shortcomings related to court proceedings. The municipalities of Gjorce Petrov, Karposh, Kisela Voda, Sveti Nikole, Tetovo and the City of Skopje are defendants in 640 proceedings based on debt of 2.176.850.000 denars, and plaintiffs in 27 proceedings for claims amounting to 194.533.000 denars.

The activities for construction of amusement park started in 2017 have not been completed due to illegally built/placed structures on the construction land, assigned for permanent use by the City of Skopje, for the purpose of building amusement park. Seven purchased amusement park props are in poor condition and there is a risk of technical malfunction. In 2019, the City of Skopje procured network infrastructure and IP telephony for the City House building, in the amount of 25.367.000 denars VAT inclusive. Due to the sale of the building, the procured equipment is non-functional for another purpose and it is kept in a warehouse, thus there is a risk that it will become technologically obsolete.

In the municipalities of Gjorce Petrov and Karposh, we highlight shortcomings in the construction of the administrative business building in the Municipality of Gjorce Petrov - the procedure started in 2013 and is still ongoing, and in the construction of the administrative building of the Municipality of Karposh, which started in 2011, stopped in 2016 and activities continued in 2021.

In 2016, following the loan agreement between the International Bank for Reconstruction and Development and the Republic of North Macedonia, the Ministry of Finance and the Municipality of Tetovo have concluded sub-loan agreements for construction of boulevard, procurement of buses, semi-underground containers and special vehicles for waste treatment. The first installment for the boulevard construction project in the amount of 3.030.000 denars was due, but it has not been paid until the end of 2022.

During 2021, funds amounting to 2.500.000 denars were paid by the Municipality of Shtip for repayment of overdue installment in accordance with the Agreement on Regulation of the Method of Debt Payment, signed between the Ministry of Finance, PE ISAR Shtip and the Municipality of Shtip, because PE ISAR Shtip, as the main debtor, is not able to pay the scheduled installments on time. The total debt to the Ministry of Finance amounts to 220.889.000 denars (main debt of 68.998.000 denars and legal penalty interest of 151.901.000 denars).

5.18.2. MUNICIPALITIES' OWN REVENUE FOR PROVIDING QUALITY SERVICES TO CITIZENS DURING THE PANDEMIC

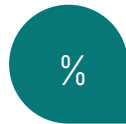
We carried out performance audit on the topic "Municipalities' own revenues for providing quality services to citizens during the pandemic" within the activities of EUROSAT TFMA – Task Force for municipal audit, as a cooperative audit of seven supreme audit institutions – SAI Albania, Montenegro, Romania, Slovakia, Poland, Turkey and the State Audit Office of the Republic of North Macedonia as coordinator. The audit objective was to answer whether municipalities' own revenue is sufficient to provide quality services to citizens in pandemic.

The scope and evidence we have obtained with application of audit methodology and techniques, provide us basis to express the following conclusion:

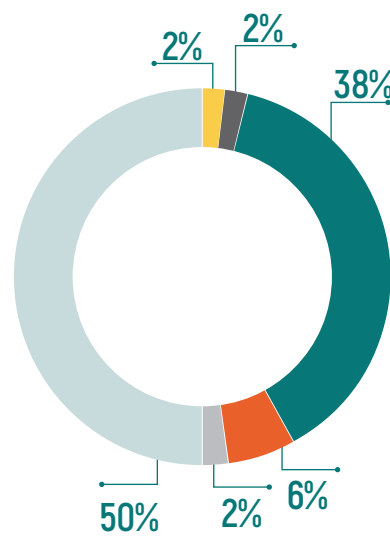
Municipalities' own revenue in 2020 shows a decrease of 15.2% compared to the previous year. The amount of 8.000 denars per capita is insufficient for creation of efficient policies at local level and effective implementation thereof for ensuring quality services to citizens, particularly because $\frac{1}{3}$ is used for the needs of the municipal bodies.

Republic of North Macedonia has monotype/ one-level model of local self-government, i.e. all municipalities have the same competences in different geographical, demographic and socioeconomic capacities. The measures taken for increasing municipalities' own revenues are solid basis for better financial position, but are still insufficient for successful performance of their legal responsibilities.

Therefore, some competencies are financed with subsidies from the central government and donations provided by international sources.



STRUCTURE OF REALIZED REVENUE BY SOURCES 2018-2020



Core Budget
VAT subsidies

Self-financing activities
Subsidies

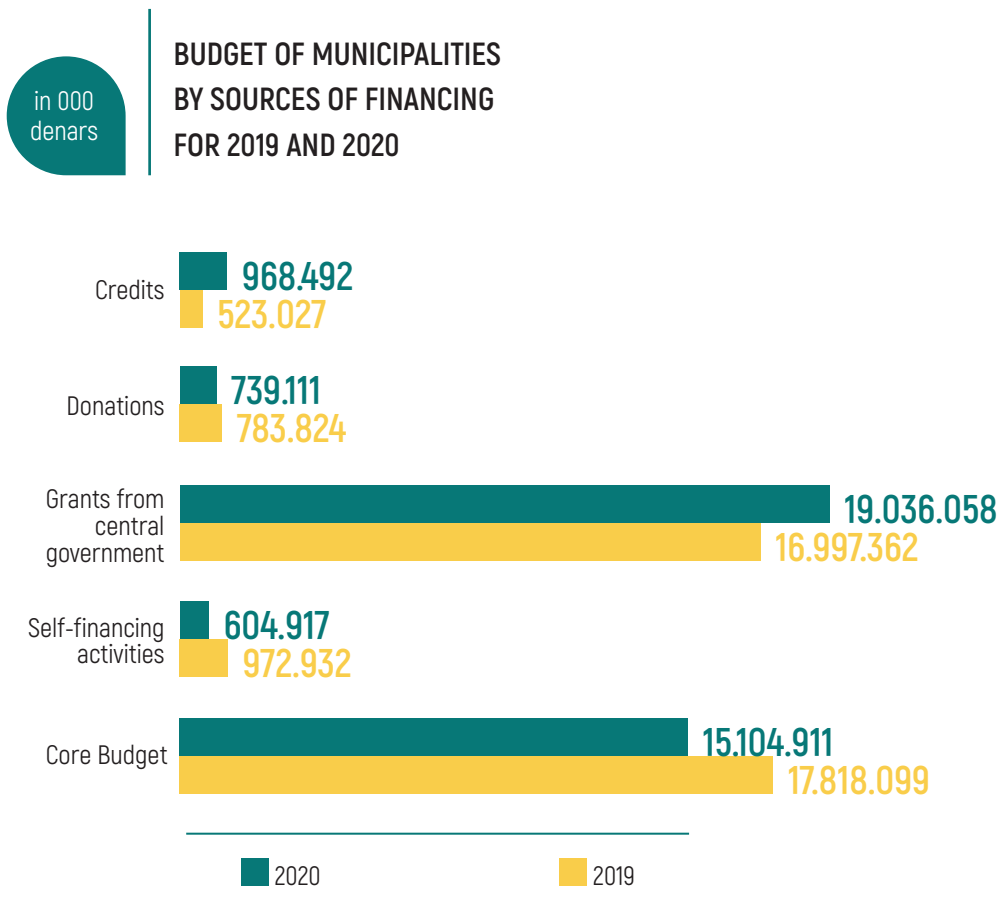
Donations
Credits

Largest share of 50% in the total revenue of municipalities are the funds received from central government based on block subsidies for financing current costs and salaries of employees in the field of education, child protection, culture and fire protection. 38% are own revenues, 6% is revenue from transferred tax, i.e. subsidy from VAT, 2% are revenues from self-financing activities and 2% revenues from donations and borrowing.

The absence of strategic planning for disaster risk reduction with clearly defined priorities and strategic goals at national level, that serve as basis for short-term, medium-term and long-term measures, lack of indicators for measuring implementation effects, as well as not implemented decentralization process in the field of healthcare and the subordinate role of municipalities in the system for dealing with the pandemic caused by Covid-19, are the reasons why municipalities are not able to take quick and independent measures to help and protect the population in pandemic conditions.

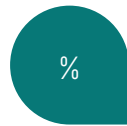
The impact of the pandemic on the structure of the municipal budget by sources of financing in 2019 and 2020 shows that the revenues of the core budget, which account for about 40% of the total revenue of the municipalities, recorded a drop of 15.2%, and

the subsidies from the central government which are 50% of the total revenue have increased for 12%. Borrowing revenues have rapidly increased (85%) compared to 2019.



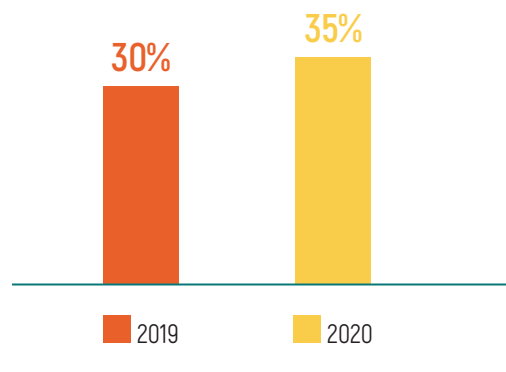
Compliance with the principles of participation and transparency is not ensured in the budget process, and thus it lacks solid basis for adoption of a civil budget in which the interests and needs of stakeholders are included. Only 5% of the citizens were consulted by their municipality when preparing municipal budgets and programs, while 39% believe that the municipal budget does not include the needs of the municipality's residents. Not implemented/untimely amendments to the

budgets, i.e. adjustment of expenditures in line with the realized revenue (which in 2020 amounts to 70% of the planned revenue) result in increased share of liabilities in the own revenues by 7% compared to the previous year. The increased liabilities and the rapid increase in revenue from borrowing compared to the previous year, in conditions of prolonged health and economic crisis, do not provide assurance for the financial stability and sustainability of the municipalities.

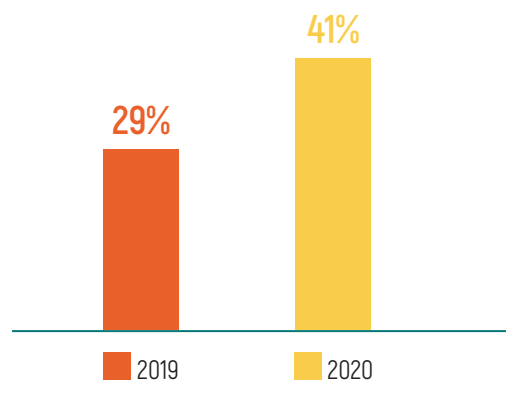


PARTICIPATION OF LIABILITIES IN OWN REVENUES BY TYPES OF MUNICIPALITIES

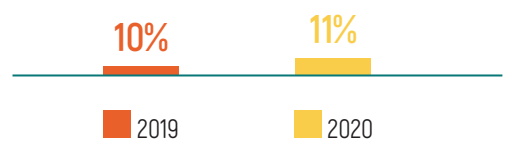
Rural municipalities



Urban municipalities



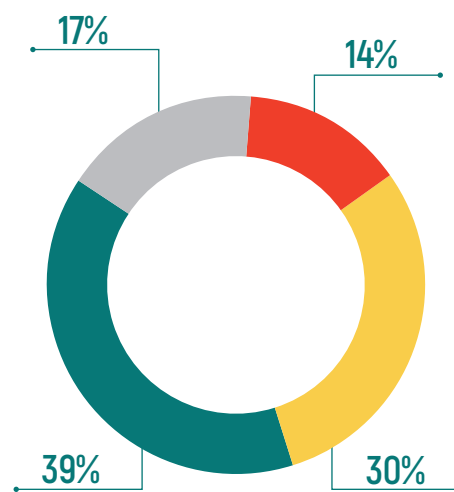
Municipalities on the territory of the City of Skopje



Program and economic adjustments of budgets are not aimed at taking additional activities to meet the needs of the citizens, which during the pandemic were predominantly in the field of healthcare, education and social protection. The funds spent by the municipalities for education (2%), social protection (1%) and healthcare (under 1%) are insignificant in relation to the total expenditure, as shown by the survey results. Thus, the biggest problem for citizens in both rural and urban municipalities during the pandemic were healthcare services, the closing of job positions and the distant learning, which resulted in 2.7 score (on a scale from 1 to 5) for citizens' perception of the quality of municipal services during the pandemic.



RESPONDENTS' ANSWERS TO THE QUESTION: WAS THERE TIMELY DELIVERY OF SERVICES FROM THE MUNICIPALITY DURING THE PANDEMIC?



Municipalities have not taken activities for developing post-crisis recovery plans aimed at overcoming healthcare and socioeconomic consequences of the pandemic. This points to lack of vision for recovery and lack of measures for adjustment, financial stability and building resilience of the municipalities, which should provide sustainable environment for economic investment and development.

To increase the effectiveness of municipalities' own revenues for providing quality services to the citizens, we made recommendations for taking action for adoption of normative and strategic acts for integrated crisis management and protection and rescue, for reconsideration of the territorial organization of the country at local level, the model of decentralization and the competences of municipalities, as well as for increasing transparency in the budget process and adopting plans for post-crisis recovery.

5.19 POLITICAL PARTIES AND ELECTION CAMPAIGNS

5.19.1. STATE ELECTION COMMISSION – FUNDS PAID FOR LOCAL ELECTIONS 2021

State Election Commission (SEC) is the authority for conducting the elections. SEC competences include ensuring legality of preparation and implementation of elections in accordance with the Electoral Code and supervising the work of election authorities.

SAO carried out compliance audit to answer whether the payment of funds by SEC for execution of the election activity for implementation of local elections 2021 is in accordance with the legal regulations and internal acts.

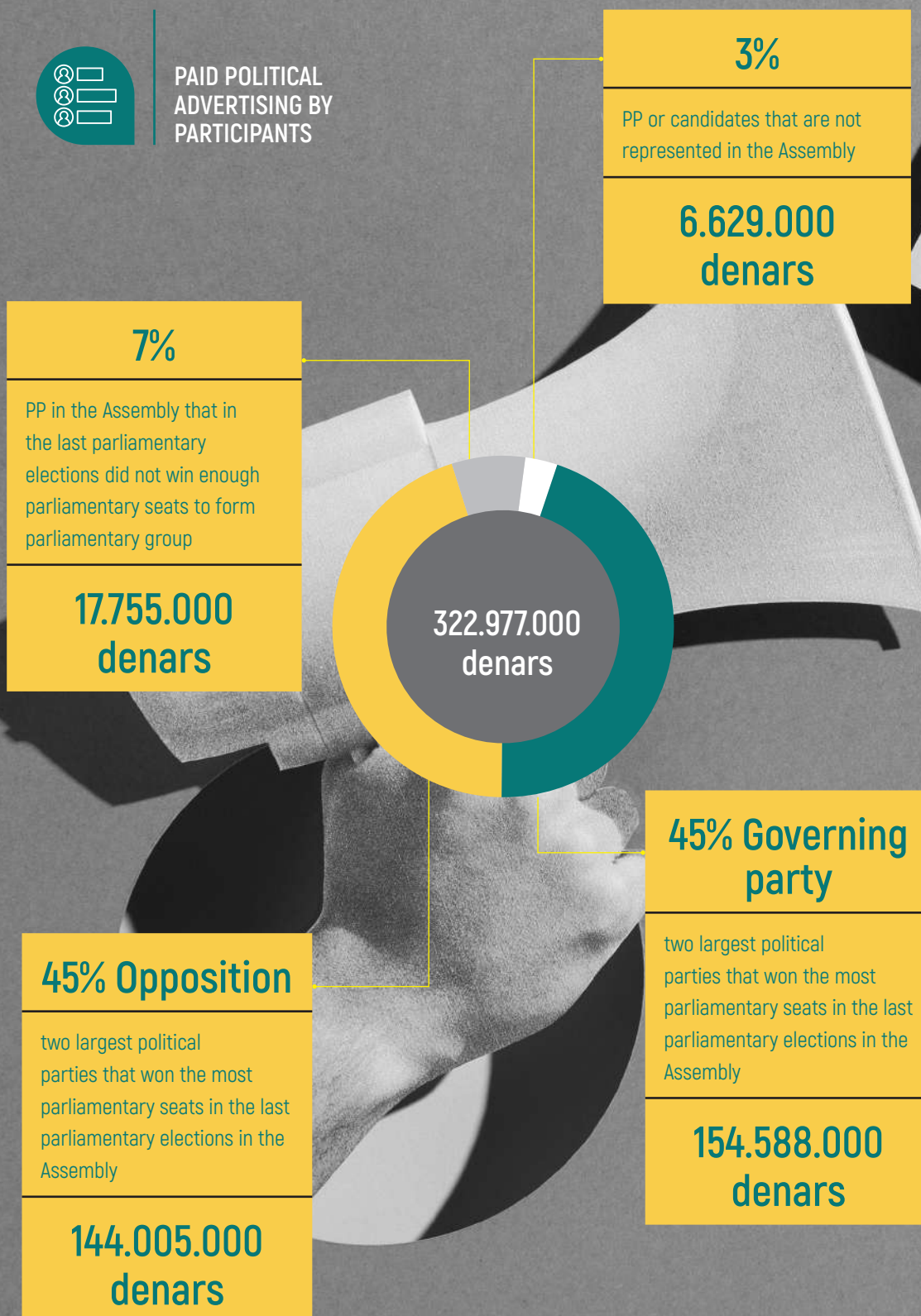
With the audit we found that the payment of funds from the Budget of the Republic of North Macedonia through SEC for execution of the election activity for implementation of local elections 2021 is in accordance with the agreements signed between the participants in the election campaign, the assignment agreements, the media plans by the participants in the election campaign and the reports on services provided by broadcasters, confirmed by AVMU and the invoices by the broadcasters for expenditure related to paid political advertising.

The implementation of the elections was affected by the lack of Secretary General who is responsible for the work of SEC expert service, failure to carry out qualitative acceptance of biometric voter identification system, failure to provide adequate spatial conditions for storing biometric voter identification devices, analysis of data from the integrated system for biometric identification of voters to determine the efficiency of the biometric voter identification system, and public procurement for production and printing of confidential election material without defined separate values for the procurement. Additional impact had the insufficiently prescribed legislation, frequent amendments and additions to the Electoral Code, as well as amendments to the law immediately before the elections.

The distribution of funds for paid political advertising amounting to **322.977.000 denars** is shown in the following graph:



PAID POLITICAL ADVERTISING BY PARTICIPANTS



ALLOCATION OF ADDITIONAL FUNDS PAID IN THE SECOND ROUND OF VOTING

37.593.000 denars

Paid to two largest political parties that received the most votes in the last parliamentary elections

26.115.000 denars

Paid to two largest political parties that received the most votes in the last parliamentary elections

878.000 denars

paid to PP in the Assembly that in the last parliamentary elections did not win enough parliamentary seats to form parliamentary group

850.000 denars

paid to PP or candidates that are not represented in the Assembly



Different method of allocation and payment of funds is applied for the second round of voting - for some political parties funds were paid according to the number of registered voters on the territory of the municipalities where second round of voting is held, and for other political parties allocation and payment was carried out according to the number of registered voters on the territory of the municipalities where the second round of voting is held and where the participants in the election process have their own candidate.

In the paragraph Emphasis of Matter, we pointed out the shortcoming concerning two participants in the election campaign that have not opened election campaign transaction account. The competent election commission has adopted decisions confirming the lists of candidates for election of mayor and election of council members and thus enabled these two participants to take part in the election process.

5.19.2. POLITICAL PARTIES - ELECTION CAMPAIGN - LOCAL ELECTIONS 2021

SAO is responsible for monitoring the financing of the election campaign through the financial reporting system regulated by the Electoral Code and by-laws, in accordance with the methodology prescribed by the State Audit Law and international auditing standards.

SAO performs regularity audit (financial audit together with compliance audit) on the Total Financial Report for the election campaign.

In the election process, the activities of participants include, inter alia, registering with competent authorities, opening transaction accounts, abiding by deadlines for opening and closing transaction accounts as well as the legal basis for presented revenue and expenditure for the election process.

In the Final Audit Reports, the authorized state auditor reports on: ascertained shortcomings, inconsistencies and illegalities in the functioning, financing and realization of expenditure, shortcomings that affect the operation in the upcoming period and systemic weaknesses of the legal regulations.

In line with the Annual Work Program for 2022, SAO carried out audits of the income statements of all 141 participants in the election campaign for the Local Elections 2021 as follows:

27	political parties;
22	coalitions and
92	independent candidates supported by a "group voters".

The audit ascertained shortcomings concerning disregard of the Electoral Code provisions, referring to the following:

- some participants have not prepared and submitted financial report for the election campaign;
- some participants have not prepared and submitted all legally prescribed reports, i.e. Report detailing the expenses of the election campaign transaction account (from the day of its opening until the end of the first election round), financial report for the election campaign, as well as two reports with a template for donations received on the election campaign transaction account;
- inconsistent application of deadlines for submitting reports on revenue and expenditure in the electoral process by some participants;
- inconsistent application of legal deadlines for closing the election campaign transaction account and deletion of the unique tax number by some participants;
- the total financial report of some participants does not present revenue and expenditure for paid political advertising based on assignment agreements paid by the State Election Commission, and payments with assignment are not made

through the transaction account of the election campaign participant; and

- for two participants in the election campaign despite the fact that they have not opened election campaign transaction account, the competent election commission has adopted decisions confirming the lists of candidates for election of mayor and election of council members and thus enabled these two participants to take part in the election process.

The election campaign can be financed from funds from the regular account of the political party, membership fees of the political party, donations to the political party, donations from natural persons





in the amount of 3.000 euros and legal entities in the amount of 30.000 euros in denar equivalent value and political party credits intended for election campaign.

To meet the legal obligations of broadcasters, print media and electronic media (portals) regarding paid political advertising during the election process, financial resources are provided by the Budget of the Republic of North Macedonia and paid by the State Election Commission.

From the analysis of all sources of election campaign funding, it was concluded that the total amount of funds of 446.191.000 denars were structured as follows:

2021 Election Campaign participants

Total revenue **449.157.000 denars** on the Election Campaign participants' accounts

	Funds for paid political advertising	322.977.000 denars
	Revenue from transferred funds from donations from PP regular operations account	18.740.000 denars
	Revenue from donations from legal entities and natural persons in money, goods and services	33.052.000 denars
	Revenue from transferred funds from PP regular operations account	74.388.000 denars

From the analysis of the revenue by types of funding sources, it was concluded that 72% of the election campaign funding was provided by the Budget of the Republic of North Macedonia and paid by the State Election Commission, while 28% were provided by other funding sources.

5.19.3. POLITICAL PARTIES – REGULAR OPERATION

Political parties are non-profit, voluntary organizations of citizens, formed for achieving and protecting political, economic, social, cultural and other rights and beliefs, and for the purpose of participating in the process of making political decisions by participation in government.

Political parties achieve their goals through democratic formation and expression of political will by participating in elections, as well as in other democratic ways.

They obtain funds for their activities from public and private funding sources. The public funding sources, the total funds for annual funding of political parties are planned within the budget of the Ministry of Justice for each fiscal year. As for the legally provided private sources of funding, political parties mostly provide funds from membership fees and donations.

In addition, to achieve goals and perform activities defined by their statute and by law, political parties have the right to ownership of office space, equipment, office supplies, means of transportation and other movable property.

SAO, as the competent authority for supervising the financial and material operations of political parties, carries out audits of the regular operation accounts of the largest political parties in the country.

Within the Annual Work Program for 2022, SAO planned and carried out audits of the financial statements of four political parties: VMRO-DPMNE, SDSM, DUI and Alternativa, thus covering 58% of the total public sources of financing of the political parties in 2021.

With the performed audits we identified shortcomings that point to the need of strengthening activities of responsible persons of the political parties, particularly in relation to conducting full and complete inventory of assets and liabilities, setting up a method of collection, payment and recording of revenue based on membership fees to enable confirmation and complete records of the property at parties' disposal, as well as in relation to assessment of separate balance sheet items contained in the general ledger in accordance with modified accrual accounting.

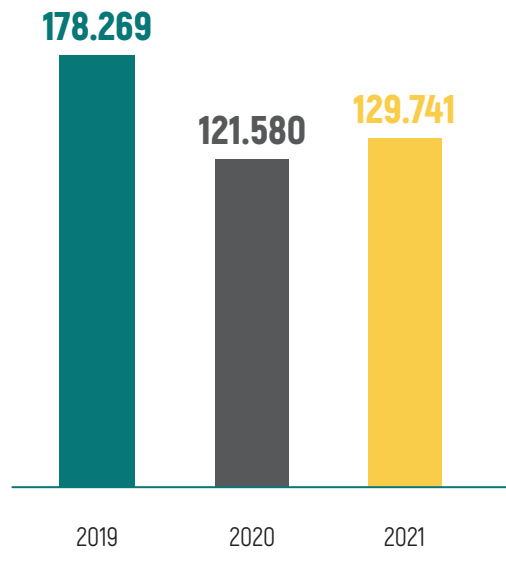
In the paragraph Emphasis of Matter, auditors disclose shortcomings related to unpaid obligations to suppliers from past years, and concerning the structure of funding sources in terms of participation of private and public funding sources.

The share of individual types of revenue by years and by political party is presented in the following graph:

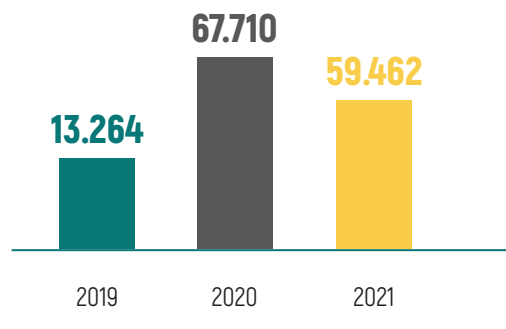
in 000
denars

REVENUE OF POLITICAL PARTIES FROM THE BUDGET OF THE REPUBLIC OF NORTH MACEDONIA, DONATIONS AND MEMBERSHIP FEES

Revenue from the Budget of the
Republic of North Macedonia



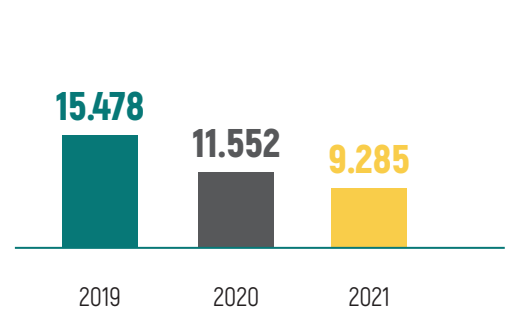
Revenue from donations



With the analysis of the total revenue by types of sources of financing, it was concluded that the share of public financing from the Budget of the Republic of North Macedonia for regular operation of political parties shows upward trend in 2021 by 6% compared to 2020, due to the increase in the total source revenue from the Budget of the Republic of North Macedonia.

In addition, with the performed audits we continuously point to certain systemic weaknesses in the Law on Financing of Political Parties and the need to overcome these weaknesses (detailed information presented in the section "Systemic Weaknesses").

Revenue from membership fees



A large, bold, yellow number '6' is centered on the page. The number is a solid color and has a thick stroke. The text 'SYSTEMIC WEAKNESSES' is positioned inside the upper loop of the number.

SYSTEMIC WEAKNESSES

The State Audit Office evaluates the degree of compliance of laws and by-laws and gives recommendations for amendments and harmonization thereof.

In this section, we highlight some of the key established systemic weaknesses for which there is a need for actions to be taken by the competent authorities from the executive/legislative authority to overcome them.

Law on Organization and Operation of State Administration Bodies

Law on the Government of the Republic of North Macedonia

Law on Commodity Reserves

Law on prevention of money laundering and financing of terrorism

Section II. Organization and competence of state administration bodies of the Law on Organization and Operation of State Administration Bodies, does not regulate the establishment of the General Secretariat as a state administration body. Its establishment is provided for in Article 39 of the Law on the Government of the Republic of North Macedonia, and thus it is necessary to harmonize the above laws.

It is also necessary to harmonize Article 19 of the Law on Organization and Operation of State Administration Bodies in relation to the bodies within the Ministry of Finance and their designation with separate laws, the Law on Commodity Reserves and the Law on prevention of money laundering and financing of terrorism.

Law on Organization and Operation of State Administration Bodies

Law on Waters

It is necessary to harmonize the Law on Waters and the Law on Organization and Operation of State Administration Bodies concerning regulation of competences of the Ministry of Environment and

Physical Planning and the Ministry of Agriculture, Forestry and Water Economy in relation to monitoring state of play, maintenance and protection of waters.

Law on Judicial Budget

Law on Budgets

Harmonization of Article 14 of the Law on Court Budget with Article 29 of the Law on Budgets in relation to the time frame, i.e. deadlines for drafting and submitting budget circular and budget requests from courts.

Law on Financing of Political Parties

It is necessary to amend Article 14 of the Law on Financing of Political Parties in relation to adoption of more specific guidelines for regulating the manner of payment and recording of membership fee as a source of funding for political parties for the purpose of uniformity in the accounting records and for confirmation of the legal limit for each member separately, taking into account the financing of the election campaign for a particular process;

Article 15 of the Law on Financing of Political Parties needs to be specified in terms of defining preconditions and limitations when the political party receives donations in real estate as a type of tangible asset.

Electoral Code

To review and clarify provisions of Article 83 paragraph 2 of the Electoral Code in relation to financing election campaign with funds from the regular account of the political party and from donations from a political party, in the part of individual and total limits of funds financed / donated by individuals and legal entities.

To amend Article 76-d of the Electoral Code by prescribing measurable criteria for provision and allocation of funds from the Budget of the Republic of North Macedonia intended for paid political advertising.

To regulate the manner of proving/confirming that donors are not "related persons" with broadcasters, printed media and electronic media (internet portals) when financing or giving donations to political parties.

Legal regulation of the provisions of Article 85 of the Electoral Code on the manner of acting in cases when the Total financial report presents surplus funds as well as unpaid liabilities on the election campaign account.

To prescribe provisions for regulating whether coalition or political party may support an independent candidate - group of voters and use the allocated funds for paid political advertising for the independent candidate - group of voters. If possible, under what conditions and in what manner, and whether with such support, the independent candidate is entitled to use the funds due as an independent candidate.

To prescribe an obligation for submitting report on used advertising panels and billboards by the municipalities in the Republic of North Macedonia and the City of Skopje.

To take on activities for further regulation of the Electoral Code for determining competent body for monitoring and reporting on the election media representation on the electronic media (internet portals).

To review the need to supplement Article 76-d paragraph 11 of the Electoral Code to provide for establishment of interoperable system for exchange and control of data on the activity of banners in which all stakeholders will be involved.

Electoral Code

To regulate the manner of organizing, paying, monitoring and reporting to the competent authorities on the internet representation of the participants in the election campaign through social media.

The further regulate conditions and criteria for electronic media to apply for political advertising in the State Election Commission.

To prescribe clear and precise criteria for allocation of budget funds intended for paid political advertising on electronic media (internet portals).

To reconsider the deadline for payment of donations, i.e. it is necessary to provide for payment of donations no later than the day of completion of election campaign.

To further amend Article 84-b, paragraph 8 of the Electoral Code, to enable Ministry of Finance to regulate the manner of keeping ledgers and preparing the financial report for the election campaign with a bylaw, considering all types / sources of campaign funds, particularly when they do not involve cash inflow to the transaction account.

To further amend the Electoral Code concerning Penalties and misdemeanor provisions for providing fines for the electronic media (internet portals) in case of non-submission of Report on advertising space used by each participant in the election campaign and the funds paid and claimed on that basis.

To appoint authority for conducting training related to financial reporting obligations, which will contribute to improving transparency for timely informing the public about the financing of the election campaign.

Law on Customs Administration

Pursuant to Article 67 point 5 of the Law on Customs Administration, it is necessary the Government of the Republic of North Macedonia to adopt an act for defining specific job positions of customs officers.

Law on Customs

Pursuant to Article 246-a of the Law on Customs, the Minister of Finance should adopt by-law for prescribing the contents, the manner of keeping customs records and removing from customs records of import and export duties and other duties and taxes collected by the Customs Administration.

Law on the Development Bank of North Macedonia

It is necessary to amend the Law on the Development Bank of North Macedonia, i.e. to specify Article 13 for regulating the right to subsidize interest of funds from the Budget of the Republic of North Macedonia, when the Development Bank borrows money from external creditors.

Law on Utility Fees

The utility fee for use of roads with motor vehicles is prescribed to be collected by the legal entities

performing vehicle registration and to be paid to the appropriate payment account of the municipality treasury account. The existing legal solution does not stipulate the deadlines for payment of collected fees to the municipality account, to inform the municipality on the number of registered vehicles depending on the cubic capacity and on the monthly amount of collected funds individually and cumulatively.

The utility fee for use and maintenance of public lighting is collected by the trade company responsible for electricity distribution from the meter holders; the trade company is not obliged to inform the municipalities, the municipalities in the City of Skopje and the City of Skopje about the number of tax payers by category (number of meters), in accordance with the tariff number, and on collected revenues and unpaid receivables on this basis.

Law on Property Taxes

The audit highlights uncertainty in the application of Article 39 of the Law on Property Taxes since its adoption in 2004, in terms of the obligation for harmonizing the real estate register managed by the municipalities, municipalities in the City of Skopje and the City of Skopje with the register managed by the Agency for Real Estate Cadaster of RNM; by 31 December of the current year, data from the registers should be submitted to the Central Register of the Republic of North Macedonia and to the Public Revenue Office. The implementation of this legal solution requires certain clarifications in the Law as well as software linking of the competent bodies.

The Law provides for the competences of the Public Revenue Office for supervising the operation of the bodies within the municipalities, municipalities in the City of Skopje and the City of Skopje. However, the Law does not clearly define the manner how

the Public Revenue Office will implement activities related to the competencies taken over by municipalities, nor does it provide further regulation of the Law by adopting a bylaw.

Law on Firefighting

Pursuant to Article 49 on the financing of activities of the territorial firefighting units (TFFUs), the City of Skopje and the municipalities have a possibility to realize additional revenue from collected fines for violations involving fire protection and explosions; donations and other funds from insurance companies, foundations, and legal and natural persons intended for promoting fire safety; and from own revenues for services rendered. The City of Skopje and the municipalities do not generate revenue on this basis, except for the revenue from the insurance companies amounting to 2% of collected premiums for insurance of motor vehicles and liability insurance for the use of motor vehicles. However, municipalities have no information on the amount of funds that are paid on this basis, nor have legal possibility to verify the accuracy and reliability of funds paid.

According to the Law on Public Sector Employees professional firefighters employed in territorial firefighting units belong to group II - jobs of officials with special authorizations, subgroup 10 - other authorized officials in the field of security, defense and intelligence.

The Law on Firefighting defines three categories of jobs: Category A - Senior Management Firefighters, Category B - Managing Firefighters and Category C - Professional Firefighters. According to Article 5 of the law, the salary of professional firefighters is 20% higher than the salary of other employees with appropriate professional training for jobs in the municipal administration. This provision is

not precise enough, given that the structure of employees in municipalities is very different and depends on several factors. Clear and concise legal solution is needed to determine the salary of professional firefighters to overcome the established shortcomings.

Law on the City of Skopje

Law on Sports

Financing sports and recreation activities is envisaged in the list of competencies of municipalities in line with Article 22 paragraph 1 item 6 of the Law on Local Self-Government, but not in the competencies of the municipalities in Skopje, defined in Article 15 of the Law on the City of Skopje. This Law does not include sports in matters of public interest as a competence of the municipalities in the City of Skopje. In accordance with Article 10 paragraph 1 of the same law, this competence is provided for the City of Skopje. Conversely, Article 22-a of the Law on Sports regulates competencies of municipalities, municipalities in the City of Skopje and the City of Skopje in the field of sports and for their realization, the councils of the municipalities and the Council of the City of Skopje or the commission of the municipality, the municipality of the city of Skopje and the City of Skopje responsible for sports, adopt programs at the proposal of the municipal sports unions and the Sports Union of the City of Skopje.

Law on Use and Disposal of State-Owned and Municipal-Owned Items

According to the provision of Article 21 paragraph (1) of the Law on Use and Disposal of State-Owned and Municipal-Owned Items, the municipalities in the City of Skopje and the City of Skopje with a decision may temporarily or permanently lease the real estate owned by the municipalities, with or without

compensation, to state bodies and legal entities established by the state, but not to institutions or legal entities established by the municipality.

To overcome this weakness, we believe that it is necessary to amend the legal solution on the manner of granting temporary or permanent use of real estate in municipal ownership, which will include the legal entities established by the municipality.

Law on Healthcare

The Ministry of Health should take on activities to review the legal solutions and the possibilities for implementation and operation of the National System for financial and accounting operations in Public Healthcare institutions and the Central System for recording working hours.

Law on Public Procurement

Amendments are needed to the Law on Public Procurement regarding limitation of sales margin and provision of services for servicing and spare parts at prices that correspond to the market, in the procedures for servicing equipment for which economic operators have monopoly / exclusive right.

Law on Waters

The Law provides for calculation of a variable value of the fee for water discharge determined in the permit for water discharge based on a "harmfulness unit", and calculated by the person who is performing discharge of untreated wastewater into the recipient. The Government, on proposal of the Minister of Environment and Physical Planning, should determine the method of calculating the "harmfulness unit" in accordance with the amount of water discharged in surface and underground waters, and the method of payment of a variable value of compensation for water discharge. With the audit, we found that the by-law is not adopted, and thus the method of calculating "harmfulness unit" is not defined and the permits for water discharge do not define the variable value, which is not calculated and collected.

Law on Waters

Law on Water Economy

Pursuant to the Law on Water Economy, inspection supervision is carried out by inspectors from the aspect of water use and the state of affairs of water management facilities and infrastructure in accordance with the competences arising from the Law on Waters. However, the Law does not provide for inspection supervision of the irrigation process of agricultural land as an agrotechnical measure. It is necessary to adjust the legal regulation on the competences of the inspection supervision of irrigation as an agrotechnical measure.

Law on Water Economy

Law on Pricing of Water Services

Defining the irrigation fee is not covered as a water service in the Law on Pricing of Water Services, which regulates the method of determining the price of water services, even though irrigation is the largest water consumer. On the other hand, the legal methodology for determining compensation for irrigation has not been adopted, and thus the prices set before the adoption of the Law on Water Economy are used, which significantly differ for irrigation of the same crops by those performing water economy activity. It is necessary to review and adjust the above legal solutions for defining the manner of calculating irrigation fee, which is collected by the operators of water economy activity.

Law on Agricultural Land

The application of some of the provisions of the Law on Agricultural Land creates a risk of non-fulfillment of the objectives of the law. Therefore, it is necessary to reconsider and improve the part for regulating the procedure for leasing state agricultural land with and without publication of advertisement, the possibility for using agricultural land for three years free of charge by natural persons and trade companies whose managers are under 40 years, as well as for introduction of secondary legal protection for bidders in all stages of the procedure.

Law on seeds and seedlings of agricultural plants

It is necessary to amend the Law on seeds and seedlings of agricultural plants in relation to the duration of validity of contracts for public powers.

Law on Social Protection

Law on Financing of Local Self-Government Units

Decree on the methodology for determining criteria for allocation of block subsidies for public institutions for social protection - homes for the elderly

Public municipal institutions for social protection - homes for the elderly are financed with block subsidies, and allocation is carried out in accordance with the Law on the Financing of Local Self-Government Units and the Decree on the methodology for determining criteria for allocation of block subsidies, without taking into account the costs for ongoing maintenance, construction and equipping of social protection facilities, although they are provided for in the Law on Social Protection. The Ministry of Labor and Social Policy, in cooperation with the municipalities, should take on activities to review and harmonize the criteria for allocating Budget funds for financing homes for the elderly.

Law on Employment and Unemployment Insurance

We identified inaccuracies in this Law and in other laws, as follows:

- ▶ Article 67 of the Law provides for the conditions when unemployed persons cannot receive monetary compensation based on termination of employment, which are not fully compliant with the Law on Labor Relations in the part of termination of employment contract;
- ▶ Article 68 of the Law does not precisely regulate the method of calculating the amount of monetary compensation when working part-time calculated for full-time as provided for in Article 66 paragraph 2 of the same Law, which causes different action;
- ▶ Article 77 of the Law regulates termination of the right to monetary compensation of an unemployed person if he/she is referred to by the Agency for employment, but the conditions are not specified if the person:
 - | "refuses to contact the employer", if the person is assigned to a job with appropriate professional training or has declared that he/she accepts employment at a lower level of professional training;
 - | "refuses to be employed by the employer" when the employer agrees and meets the employment conditions, and also when employment conditions are suitable for the unemployed person;
 - | is employed to perform works under contract;
- ▶ the Law does not precisely regulate whether individual farmers and other categories of persons who are not liable to pay contributions

for compulsory insurance in case of unemployment have the right to monetary compensation; according to the Law on Mandatory Social Insurance Contribution, these persons are liable for contributions to PDIF.

- ▶ the Law does not contain provisions for regulating Agency's rights to request return of monetary compensation (for exp. Retroactively, when unemployed person returns to work after a court decision), as well as for determining deadline for return of funds to the Budget of the Republic of North Macedonia /Agency subaccount.

Law on Construction

Law on the Protection of Cultural Heritage

There is a discrepancy in the definition of the term "reconstruction" in the Law on Construction and the Civil Code. According to the Law on Construction, the term "reconstruction" is "performance of works within the existing dimensions of a building that affect the fulfillment of the basic requirements for construction and change the compliance of the building with the original construction project by changing the facade, changing the technological process and the installation, rehabilitation and replacement of structural elements and the like, i.e. performing works that change the compliance of the building with the original project." Whereas, according to Law on protection of cultural heritage, the term "reconstruction" is a procedure and method of restoration of a protected asset that has been largely destroyed or whose structural and other parts have worn out. Due to inconsistency of the term "reconstruction" in both laws, the National institution for protection, as well as other legal entities and

individuals carrying out conservation projects face difficulties to secure approval from the Ministry of Transport and Communications in accordance with the Law on Construction.

Law on Mandatory Social Insurance Contributions

The system for determining, controlling and collecting contributions is not based on up-to-date and complete integration and exchange of data between the Public Revenue Office and the institutions in the mandatory social insurance system, the Pension and Disability Insurance Fund, the Health Insurance Fund and the Employment Agency, as provided for in section 21 and 23 of the Law. The Public Revenue Office has the obligation to submit the legally provided information to the institutions of the signed joint agreement. However, Public Revenue Office submits information only about collected contributions and the amount of unpaid contribution from tax payers that submitted the calculation and have the obligation to pay thereof, and not about the calculated obligation for payment of all taxpayers as prescribed by this.



**SAO
FINANCIAL
STATEMENTS**



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ИЗВЕШТАЈ НА НЕЗАВИСНИОТ РЕВИЗОР

До Собранието на Република Северна Македонија

Извештај за финансиските извештаи

Ние извршивме ревизија на приложените финансиски извештаи на Државниот завод за ревизија - Сметка на основен буџет на Република Северна Македонија 020021504063710, а коишто го вклучуваат билансот на приходите и расходите за годината којашто завршува на 31 декември 2022, како и билансот на состојба заклучно со таа дата, и прегледот на значајните сметководствени политики и други објаснувачки белешки.

Одговорност на раководството за финансиските извештаи

Раководството е одговорно за подготвувањето и објективното презентирање на овие финансиски извештаи во согласност со Законот за сметководството на буџетите и буџетските корисници, Правилникот за сметководството на буџетите и буџетските корисници и Правилникот за примена на Меѓународните сметководствени стандарди за јавниот сектор на готовинска основа, и интерната контрола којашто е релевантна за подготвувањето и објективното презентирање на финансиски извештаи кои што се ослободени од материјално погрешно прикажување, без разлика дали е резултат на измама или грешка.

Одговорност на ревизорот

Наша одговорност е да изразиме мислење за овие финансиски извештаи врз основа на нашата ревизија. Ние ја спроведовме нашата ревизија во согласност со стандардите за ревизија кои што се во примена во Република Северна Македонија. Тие стандарди бараат да ги почитуваме етичките барања и да ја планираме и извршиме ревизијата за да добиеме разумно уверување за тоа дали финансиските извештаи се ослободени од материјално погрешно прикажување.

THE POWER OF BEING UNDERSTOOD

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Ревизијата вклучува извршување на постапки за прибавување на ревизорски докази за износите и обелоденувањата во финансиските извештаи. Избраните постапки зависат од расудувањето на ревизорот, вклучувајќи ја и проценката на ризиците од материјално погрешно прикажување на финансиските извештаи, без разлика дали е резултат на измама или грешка. Кога ги прави тие проценки на ризикот, ревизорот ја разгледува интерната контрола релевантна за подготвувањето и објективното презентирање на финансиските извештаи на ентитетот за да обликува ревизорски постапки коишто се соодветни во околностите, но не за целта на изразување на мислење за ефективноста на интерната контрола на ентитетот. Ревизијата исто така вклучува и оценка на соодветноста на користените сметководствени политики и на разумноста на сметководствените проценки направени од страна на раководството, како и оценка на севкупното презентирање на финансиските извештаи.

Ние веруваме дека ревизорските докази коишто ги имаме прибавено се достатни и соодветни за да обезбедат основа за нашето ревизорско мислење.

Мислење

Според нашето мислење, финансиските извештаи ја презентираат објективно, од сите материјални аспекти, финансиската состојба на Државниот завод за ревизија - Сметка на основен буџет на Република Северна Македонија 020021504063710 заклучно со 31 декември 2022 година, како и неговите приходи и расходи за годината којашто завршува тогаш во согласност со Законот за сметководството на буџетите и буџетските корисници, Правилникот за сметководството на буџетите и буџетските корисници и Правилникот за примена на Меѓународните сметководствени стандарди за јавниот сектор на готовинска основа.

THE POWER OF BEING UNDERSTOOD

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Извештај за други правни и регулативни барања

Во согласност со Законот за државна ревизија, Државниот завод за ревизија има обврска да изготвува годишен извештај за извршените ревизии и за работата на Државниот завод за ревизија.

Наша одговорност во согласност со Законот за ревизија е да изразиме мислење во врска со конзистентноста на годишниот извештај за работа со годишната сметка и финансиските извештаи за истата година.

Мислење

Според наше мислење, податоците во годишниот извештај се конзистентни со оние во годишната сметка и финансиските извештаи на Државниот завод за ревизија за 2022 година.

Скопје, 31.05.2023

Овластен ревизор

Љубица Евтимовска Костовска

Друштво за ревизија

PCM МАКЕДОНИЈА ДООЕЛ Скопје

Јаглика Јорданова Андријеска

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Државен завод за ревизија
Финансиски извештаи за Сметката на основен буџет на РСМ 637-10 за годината завршена на 31 декември 2022

БИЛАНС НА ПРИХОДИ И РАСХОДИ

во денари

Опис на позицијата	Образлож ение	во денари		
		Буџет 2022	Реализирано 2022	Реализирано 2021
Приходи				
Трансфери и донации	3.1.	139.875.000	133.663.705	111.147.301
Вкупно приходи		139.875.000	133.663.705	111.147.301
Расходи				
Тековни расходи				
Плати, наемнини и надоместоци	3.2.1.	102.680.000	100.721.812	93.793.726
Стоки и услуги	3.2.2.	27.075.000	23.526.749	13.368.469
Разни трансфери	3.2.3.	1.580.000	1.303.105	291.580
Вкупно тековни расходи		131.335.000	125.551.666	107.453.775
Капитални расходи				
Капитални расходи	3.3.	8.540.000	8.112.039	3.693.526
Вкупно капитални расходи		8.540.000	8.112.039	3.693.526
Вкупно расходи		139.875.000	133.663.705	111.147.301
Нето вишок на приходи - добивка по оданочување		-	-	-

Скопје, 21.02.2023

Данче Ангеловска

Раководител на одделение за
буџетска контрола и плаќања
Данче Ангеловска



Максим Ацевски


Главен државен ревизор
Максим Ацевски


Државен завод за ревизија
Финансиски извештаи за Сметката на основен буџет на РСМ 637-10 за годината завршена на 31 декември 2022

БИЛАНС НА СОСТОЈБА

Опис на позицијата	Образло- жение	во денари	
		2022	2021
Актива			
Тековни средства	4.1.		
Побарувања од купувачи	4.1.1.	218.497	218.497
Побарувања од вработените	4.1.2.	223.301	74.137
Активни временски разграничувања	4.1.3.	14.219.873	9.472.618
Залихи	4.1.4.	1.694.777	1.625.110
Вкупно тековни средства		16.356.448	11.390.362
Постојани средства	4.2.		
Нематеријални средства	4.2.1.	9.054.927	8.549.427
Материјални средства	4.2.2.	440.110.900	367.019.426
Вкупно постојани средства		449.165.827	375.568.853
Вкупна актива		465.522.275	386.959.215
Вонбилансна актива		-	-
Пасива			
Тековни обврски	4.3.		
Краткорочни обврски спрема добавувачи	4.3.1.	1.301.645	1.163.527
Краткорочни обврски за плати и други обврски спрема вработените	4.3.2.	9.054.967	8.309.091
Пасивни временски разграничувања	4.3.3.	441.798	292.634
Вкупно тековни обврски		10.798.410	9.765.252
Долгорочни обврски	4.4.	3.863.261	-
Извори на средства	4.5.		
Извори на капитални средства		376.107.605	374.223.689
Ревалоризациона резерва		74.752.999	2.970.274
Вкупно извори на деловни средства		450.860.604	377.193.963
Вкупна пасива		465.522.275	386.959.215
Вонбилансна пасива		-	-

Скопје, 21.02.2023


Раководител на одделение за
буџетска контрола и плаќања
Данче Ангеловска


Главен државен ревизор
Максим Ацевски

Државен завод за ревизија
Финансиски извештаи за Сметката на основен буџет на РСМ 637-10 за годината завршена на 31 декември 2022

ПРЕГЛЕД НА ПРОМЕНИ НА ИЗВОРИ НА СРЕДСТВА

О П И С	Државен јавен капитал	Останат капитал (залихи на материјали, резервни делови и ситен инвентар и хартии од вредност)	во денари
			Вкупно
Состојба 01.01.2022 година	375.568.853	1.625.110	377.193.963
Зголемување по основ на:	87.659.610	1.047.216	88.706.826
Зголемување на вредноста (капитализација)	15.827.185	1.047.216	16.874.401
По попис 2022			-
Ревалоризација	71.832.425		71.832.425
Намалување по основ на:	14.062.636	977.549	15.040.185
Амортизација	13.706.444		13.706.444
Издатници		966.747	966.747
По попис 2022	306.492	10.802	317.294
Ревалоризација	49.700		49.700
Состојба 31.12.2022 година	449.165.827	1.694.777	450.860.604



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ИЗВЕШТАЈ НА НЕЗАВИСНИОТ РЕВИЗОР

До Собранието на Република Северна Македонија

Извештај за финансиските извештаи

Ние извршивме ревизија на приложените финансиски извештаи на Државниот завод за ревизија - Сметка на основен буџет на Република Северна Македонија 020021504063119, а коишто го вклучуваат билансот на приходите и расходите за годината којашто завршува на 31 декември 2022, како и билансот на состојба заклучно со таа дата, и прегледот на значајните сметководствени политики и други објаснувачки белешки.

Одговорност на раководството за финансиските извештаи

Раководството е одговорно за подготвувањето и објективното презентирање на овие финансиски извештаи во согласност со Законот за сметководството на буџетите и буџетските корисници, Правилникот за сметководството на буџетите и буџетските корисници и Правилникот за примена на Меѓународните сметководствени стандарди за јавниот сектор на готовинска основа, и интерната контрола којашто е релевантна за подготвувањето и објективното презентирање на финансиски извештаи кои што се ослободени од материјално погрешно прикажување, без разлика дали е резултат на измама или грешка.

Одговорност на ревизорот

Наша одговорност е да изразиме мислење за овие финансиски извештаи врз основа на нашата ревизија. Ние ја спроведовме нашата ревизија во согласност со стандардите за ревизија кои што се во примена во Република Северна Македонија. Тие стандарди бараат да ги почитуваме етичките барања и да ја планираме и извршиме ревизијата за да добиеме разумно уверување за тоа дали финансиските извештаи се ослободени од материјално погрешно прикажување.

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Ревизијата вклучува извршување на постапки за прибавување на ревизорски докази за износите и обелоденувањата во финансиските извештаи. Избраните постапки зависат од расудувањето на ревизорот, вклучувајќи ја и проценката на ризиците од материјално погрешно прикажување на финансиските извештаи, без разлика дали е резултат на измама или грешка. Кога ги прави тие проценки на ризикот, ревизорот ја разгледува интерната контрола релевантна за подготвувањето и објективното презентирање на финансиските извештаи на ентитетот за да обликува ревизорски постапки коишто се соодветни во околностите, но не за целта на изразување на мислење за ефективноста на интерната контрола на ентитетот. Ревизијата исто така вклучува и оценка на соодветноста на користените сметководствени политики и на разумноста на сметководствените проценки направени од страна на раководството, како и оценка на севкупното презентирање на финансиските извештаи.

Ние веруваме дека ревизорските докази коишто ги имаме прибавено се достатни и соодветни за да обезбедат основа за нашето ревизорско мислење.

Мислење

Според нашето мислење, финансиските извештаи ја презентираат објективно, од сите материјални аспекти, финансиската состојба на Државниот завод за ревизија – Сметка на основен буџет на Република Северна Македонија 020021504063119 заклучно со 31 декември 2022 година, како и неговите приходи и расходи за годината којашто завршува тогаш во согласност со Законот за сметководството на буџетите и буџетските корисници, Правилникот за сметководството на буџетите и буџетските корисници и Правилникот за примена на Меѓународните сметководствени стандарди за јавниот сектор на готовинска основа.

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Извештај за други правни и регулативни барања

Во согласност со Законот за државна ревизија, Државниот завод за ревизија има обврска да изготвува годишен извештај за извршените ревизии и за работата на Државниот завод за ревизија.

Наша одговорност во согласност со Законот за ревизија е да изразиме мислење во врска со конзистентноста на годишниот извештај за работа со годишната сметка и финансиските извештаи за истата година.

Мислење

Според наше мислење, податоците во годишниот извештај се конзистентни со оние во годишната сметка и финансиските извештаи на Државниот завод за ревизија за 2022 година.

Скопје, 31.05.2023

Овластен ревизор

Љубица Евтимовска Костовска

Друштво за ревизија

PCM МАКЕДОНИЈА ДООЕЛ Скопје

Јаглика Јорданова Андријеска



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Државен завод за ревизија
Финансиски извештаи за Сметка на основен буџет на РСМ 631-19 за годината завршена на 31 декември 2022

БИЛАНС НА ПРИХОДИ И РАСХОДИ

во денари

Опис на позицијата	Образложение	Буџет 2022	Реализирано 2022	Реализирано 2021
Приходи	3.1.			
Трансфери и донации	3.1.1.	2.970.000	2.494.120	2.516.120
Вкупно приходи		2.970.000	2.494.120	2.516.120
Расходи	3.2.			
Тековни расходи				
Стоки и услуги	3.2.1.	896.000	84.316	22.000
Вкупно тековни расходи		896.000	84.316	22.000
Капитални расходи				
Капитални расходи	3.2.2.	2.074.000	2.039.966	-
Вкупно капитални расходи		2.074.000	2.039.966	-
Вкупно расходи		2.970.000	2.124.282	22.000
Остварен вишок на приходи		-	369.838	2.494.120
Даноци, придонеси и други давачки од вишокот на приходи				
Нето вишок на приходи		-	369.838	2.494.120
Распоредување на вишокот на приходи				
Дел од нето вишокот на приходи за пренос во наредна година		-	369.838	2.494.120
Обврски за данок на добивка		-	-	-
Вкупно распоред на вишок на приходи		-	369.838	2.494.120

Скопје, 21.02.2023

Данче Ангеловска

Раководител на одделение за
буџетска контрола и плаќања
Данче Ангеловска



Максим Ацевски

Главен државен ревизор
Максим Ацевски

Државен завод за ревизија
Финансиски извештаи за Сметка на основен буџет на РСМ 631-19 за годината завршена на 31 декември 2022

БИЛАНС НА СОСТОЈБА

Опис на позицијата	Образло жение	во денари	
		2022	2021
Актива			
Тековни средства	4.1.		
Парични средства	4.1.1.	369.838	2.494.120
Побарувања од купувачите во земјата	4.1.2.	9.341.850	9.341.850
Побарувања од вработените	4.1.3.	-	-
Активни временски разграничувања	4.1.4.	-	-
Вкупно тековни средства		9.711.688	11.835.970
Постојани средства	4.2.		
Нематеријални средства	4.2.1.	-	-
Материјални средства	4.2.2.	-	-
Вкупно постојани средства		-	-
Вкупна актива		9.711.688	11.835.970
Вонбилансна евиденција - актива		-	-
Пасива			
Тековни обврски	4.3.		
Краткорочни обврски спрема добавувачи	4.3.1.	-	-
Пасивни временски разграничувања	4.3.2.	9.711.688	11.835.970
Вкупно тековни обврски		9.711.688	11.835.970
Извори на средства	4.4.		
Извори на капитални средства		-	-
Ревалоризациона резерва		-	-
Вкупно извори на деловни средства		-	-
Вкупна пасива		9.711.688	11.835.970
Вонбилансна евиденција - пасива		-	-

Скопје, 21.02.2023

Данче Ангеловска

Раководител на одделение за
буџетска контрола и плаќања
Данче Ангеловска



Максим Ацевски

Главен државен ревизор

Максим Ацевски



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ИЗВЕШТАЈ НА НЕЗАВИСНИОТ РЕВИЗОР

До Собранието на Република Северна Македонија

Извештај за финансиските извештаи

Ние извршивме ревизија на приложените финансиски извештаи на Државниот завод за ревизија - Сметка на буџет на донации Проект од General Court of Audit – Saudi FISP, а коишто го вклучуваат билансот на приходите и расходите за годината којашто завршува на 31 декември 2022, како и билансот на состојба заклучно со таа дата, и прегледот на значајните сметководствени политики и други објаснувачки белешки.

Одговорност на раководството за финансиските извештаи

Раководството е одговорно за подготвувањето и објективното презентирање на овие финансиски извештаи во согласност со Законот за сметководството на буџетите и буџетските корисници, Правилникот за сметководството на буџетите и буџетските корисници и Правилникот за примена на Меѓународните сметководствени стандарди за јавниот сектор на готовинска основа, и интерната контрола којашто е релевантна за подготвувањето и објективното презентирање на финансиски извештаи кои што се ослободени од материјално погрешно прикажување, без разлика дали е резултат на измама или грешка.

Одговорност на ревизорот

Наша одговорност е да изразиме мислење за овие финансиски извештаи врз основа на нашата ревизија. Ние ја спроведовме нашата ревизија во согласност со стандардите за ревизија кои што се во примена во Република Северна Македонија. Тие стандарди бараат да ги почитуваме етичките барања и да ја планираме и извршиме ревизијата за да добиеме разумно уверување за тоа дали финансиските извештаи се ослободени од материјално погрешно прикажување.

Ревизијата вклучува извршување на постапки за прибавување на ревизорски докази за износите и обелоденувањата во финансиските извештаи. Избраните постапки зависат од расудувањето на ревизорот, вклучувајќи ја и проценката на ризиците од материјално погрешно прикажување на финансиските извештаи, без разлика дали е резултат на измама

THE POWER OF BEING UNDERSTOOD

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PCM МАКЕДОНИЈА ДООЕЛ Скопје

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или грешка. Кога ги прави тие проценки на ризикот, ревизорот ја разгледува интерната контрола релевантна за подготвувањето и објективното презентирање на финансиските извештаи на ентитетот за да обликува ревизорски постапки коишто се соодветни во околностите, но не за целта на изразување на мислење за ефективност на интерната контрола на ентитетот. Ревизијата исто така вклучува и оценка на соодветноста на користените сметководствени политики и на разумноста на сметководствените проценки направени од страна на раководството, како и оценка на севкупното презентирање на финансиските извештаи.

Ние веруваме дека ревизорските докази коишто ги имаме прибавено се достатни и соодветни за да обезбедат основа за нашето ревизорско мислење.

Мислење

Според нашето мислење, финансиските извештаи ја презентираат објективно, од сите материјални аспекти, финансиската состојба на Државниот завод за ревизија - Сметка на буџет на донации Проект од General Court of Audit – Saudi FISP заклучно со 31 декември 2022 година, како и неговите приходи и расходи за годината којашто завршува тогаш во согласност со Законот за сметководството на буџетите и буџетските корисници, Правилникот за сметководството на буџетите и буџетските корисници и Правилникот за примена на Меѓународните сметководствени стандарди за јавниот сектор на готовинска основа.

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Извештај за други правни и регулативни барања

Во согласност со Законот за државна ревизија, Државниот завод за ревизија има обврска да изготвува годишен извештај за извршените ревизии и за работата на Државниот завод за ревизија.

Наша одговорност во согласност со Законот за ревизија е да изразиме мислење во врска со конзистентноста на годишниот извештај за работа со годишната сметка и финансиските извештаи за истата година.

Мислење

Според наше мислење, податоците во годишниот извештај се конзистентни со оние во годишната сметка и финансиските извештаи на Државниот завод за ревизија за 2022 година.

Скопје, 31.05.2023

Овластен ревизор

Љубица Евтимовска Костовска

Друштво за ревизија

PCM МАКЕДОНИЈА ДООЕЛ Скопје

Јаглика Јорданова Андријеска



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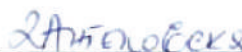
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Државен завод за ревизија
Финансиски извештаи за Проект од General Court of Audit – Saudi FISP за годината завршена на 31 декември 2022


БИЛАНС НА ПРИХОДИ И РАСХОДИ

Опис на позицијата	Образложе ние	Буџет 2022	Реализирано 2022	Реализирано 2021
Приходи				
Вкупно приходи		-	-	-
Расходи				
Вкупно расходи		-	-	-
Нереализирани средства од буџетот		-	-	-
Даноци, придонеси и други давачки од вишокот на приходи - добивка пред оданочување				
Нето вишок на приходи - добивка по оданочување		-	-	-

Скопје, 21.02.2023


Раководител на одделение за
буџетска контрола и плаќање
Данче Ангеловска




Главен државен ревизор
Максим Ацевски

Државен завод за ревизија
Финансиски извештаи за Проект од General Court of Audit – Saudi FISP за годината завршена на 31 декември 2022

БИЛАНС НА СОСТОЈБА

Опис на позицијата	Образло- жение	во денари	
		2022	2021
Актива			
Вкупна актива		-	-
Пасива			
Вкупна пасива		-	-

Скопје, 21.02.2023

Данче Ангеловска

Раководител на одделение за
буџетска контрола и плаќање
Данче Ангеловска



Максим Ацевски

Главен државен ревизор

Максим Ацевски

Abbreviations

SAO	State Audit Office	SEA	Secretariat for European Affairs
SAI	Supreme Audit Institution	IPA	Instrument for Pre-Accession Assistance
AG	Auditor General	SIGMA	Support for Improvement in Governance and Management
DAG	Deputy Auditor General	OECD	Organization for Economic Co-operation and Development
EU	European Union	IDI	INTOSAI Development Initiative
INTOSAI	International Organization of Supreme Audit Institutions	TFMA EUROSAI	Task Force on Municipality Audit
ISSAI	International Standards of Supreme Audit Institutions	WFD	Westminster Foundation for Democracy
EUROSAI	European Organization of Supreme Audit Institutions	MoF	Ministry of Finance
AMS	Audit Management System	NPAA	National Program for the Adoption of the Acquis
WBIF	Western Balkans Investment Framework	JSC MEPSO	Electricity Transmission System Operator of North Macedonia
IT	Information Technology	MoI	Ministry of Interior
LSGUs	Local Self-Government Units	MoES	Ministry of Education and Science
PHI	Public Healthcare Institutions	MoEPP	Ministry of Environment and Physical Planning
PRO	Public Revenue Office	SEI	State Environmental Inspectorate
VAT	Value Added Tax	MAFWE	Ministry of Agriculture, Forestry and Water Economy
GDP	Gross Domestic Product	AFSARD	Agency for Financial Support of Agriculture and Rural Development
PE	Public Enterprise	FVA	Food and Veterinary Agency
PUE	Public Utility enterprise	TFFUs	Territorial Firefighting Units
JSC	Joint Stock Company	SCPC	State Commission for Prevention of Corruption
TIRZ	Technological Industrial Development Zones	PDI	Pension and Disability Insurance
IZ	Industrial Zones	PP	Public procurement
FITR	Fund for Innovation and Technology Development	IAS	International Accounting Standards

CAATs	Computer Assisted Audit Techniques
NI	National Institution
PP	Political Parties
PHI	Public health institutions
PrHI	Private health facilities
JSC ESM	JSC ESM JSC Power Plants of North Macedonia
EC	Employment centers
FS	Financial Security
MC	Monetary compensation
LFA	Law on Film Activity
CHPO	Cultural Heritage Protection Office
LPCH	Law on the Protection of Cultural Heritage
AAAMS	Agency for Audio and Audiovisual Media Services
SEC	State Election Commission
VMRO-DPMNE	Internal Macedonian Revolutionary Organization - Democratic Party for Democratic Party for Macedonian National Unity
SDSM	Social Democratic Union of Macedonia
DUI	Democratic Union for Integration
CMC	Crisis Management Center



