



ДРЖАВЕН ЗАВОД ЗА РЕВИЗИЈА
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STATE AUDIT OFFICE

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- Press Release-

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Effectiveness of execution of transferred competencies financed with block subsidies can and should be improved

Methodology provisions on determining criteria for distribution of block subsidies are identical every year, i.e. there is no change in criteria or introduction of new ones, which indicates that competent ministries and bodies do not take on sufficient activities and measures to improve the situation concerning financing of transferred competencies to LSGUs

The State Audit Office conducted performance audit on the topic *“Effectiveness of measures and activities for realization of transferred competencies financed with block subsidies”* to answer the question whether established measures and activities enable effective execution of transferred competencies that are financed with block subsidies.

The performance audit covered the period 2017-2020, as well as certain areas, issues and events before 2017 and until the day of reporting on the audit.

In the area of normative requirements for regulating block subsidies in education, culture, child protection and social protection, the audit focused on analysis of legal regulations on block subsidies, adopted decrees on methodology for determining criteria for distribution of block subsidies, operation of the Commission for monitoring development of municipality financing and the activities of the Inter-ministerial working group.

The system of financing transferred competencies of municipalities is not based on the principle of financing competencies (functions) but institutions in the area of education, child and social protection and culture.

The audit report points out that decentralization does not ensure harmonious and balanced relation between demographic, economic and cultural development of the country, there are differences due to unequal development of urban and rural municipalities, and thus all municipalities cannot participate equally in the decentralized processes in all areas, especially in culture.

Ascertained state of affairs in education indicate that no assessment has been made to determine the necessary network of schools in each municipality, and thus there is no rationalization of expenditures for gross salaries and other costs necessary for the operation of each school. Secondary education lacks functional analysis of the network of secondary schools, especially of education profiles that are necessary for the municipalities and the country i.e. the labor market and the business community.

Block subsidies for kindergartens from 2019 are calculated in line with the new Decree on the methodology for determining criteria for distribution of block subsidies adopted due to the

inapplicability of the previous methodology. However, the problem with the centralized and complex employment process remains, which is particularly important in kindergartens that lack human resources.

Block subsidies in culture are distributed on the basis of unchanged criteria in the said decree, and the municipalities lack internal acts for distribution of funds to the end users.

We also emphasize that the legislation provides for the municipality to supplement received block subsidy for certain area with funds from its own sources, except for gross salaries of employees. However, with the audit we ascertained that funds allocated from municipalities' own revenues for financing transferred competencies are negligible.

The share of block subsidies in the total funds of the Budget of the Republic of North Macedonia by years is as follows:

- 6.62% in 2017,
- 6.54% in 2018,
- 6.78% in 2019, and
- 6.34% in 2020.

The audit report points to the need to continue with the policies for municipality development, i.e. fiscal decentralization and balanced regional development in order to strengthen financial resources of municipalities, and also to increase the responsibility and transparency in their operation.

Link to the Audit Report: Final performance audit report on "Effectiveness of measures and activities for realization of transferred competencies financed with block subsidies"

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