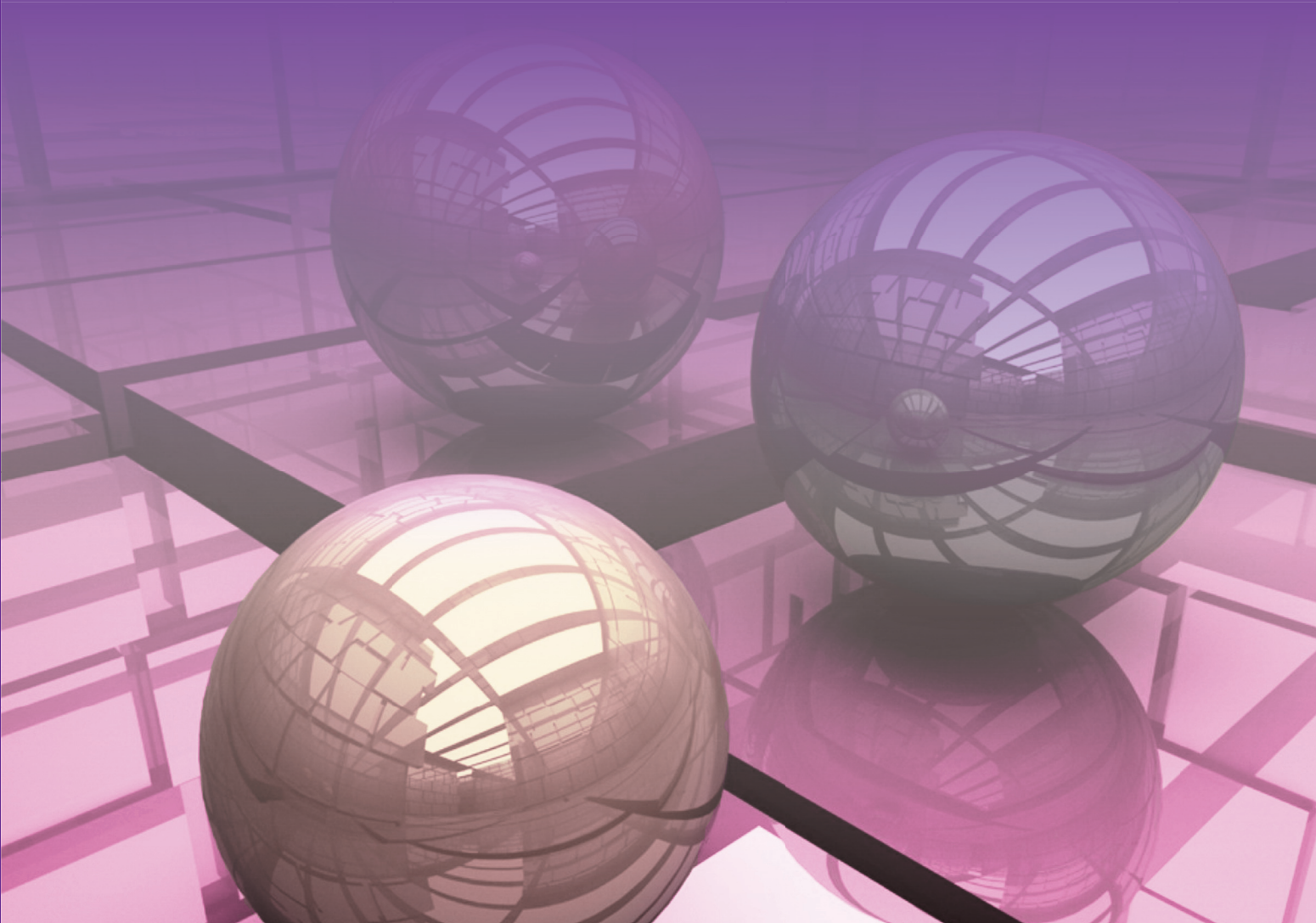




STATE AUDIT OFFICE

# ANNUAL REPORT 2010

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## GENERAL STATE AUDITOR OVERVIEW

*With the purpose of meeting our legal obligation, but in particular, feeling the need to share the news and main developments of the past year, the State Audit Office prepared Annual Report on performed audits and operation in 2010.*

*In this retrospective I would like to highlight that 2010 was a year of important, crucial and positive changes for the State Audit Office.*

*These changes guarantee greater independence of the State Audit Office, which is the key principle for obtaining its necessary integrity and credibility. 2010 was a year when we made great step forward in acquiring complete functional, organizational and financial independence, as our high priority strategic objective.*

*This leap forward was enabled with the adoption of the new State Audit Law in May 2010. Another very important development in this direction was the initiative of the Members of Parliament in February 2011 for amending the Constitution of the Republic of Macedonia in order to define the State Audit Office as an independent institution for external audit in the Republic of Macedonia.*

*In 2010 we made significant progress with the implementation of the development strategy and the accomplishment of the objectives for audit quality assurance and rational management of our entire capacities. Special attention was paid to the simplification of the form and*

*procedure for approval of final audit reports, as well as to the implementation of recommendations by auditees and other competent bodies.*

*My highest priority as a General State Auditor is to run an organization with highly trained professionals who apply international standards and consistently comply with the code of ethics in their work. I would like to inform you that since last year the state audit is being conducted by 33 authorized state auditors out of 79 auditors in total.*

*Last year we paid significant attention to the promotion of cooperation with the competent institutions, particularly with the Parliament of the Republic of Macedonia for the purpose of better understanding of audit reports and for defining future cooperation activities in line with European practice.*

*The credit for all these accomplishments goes to the employees of the State Audit Office who acquired the status of civil servants this year. I extend my congratulations on their good performance and I also thank them for their active involvement.*



Tanja Tanevska

A handwritten signature in blue ink, appearing to read 'Tanja Tanevska'.



# For the State Audit Office



## INDEPENDENT AUDIT INSTITUTION

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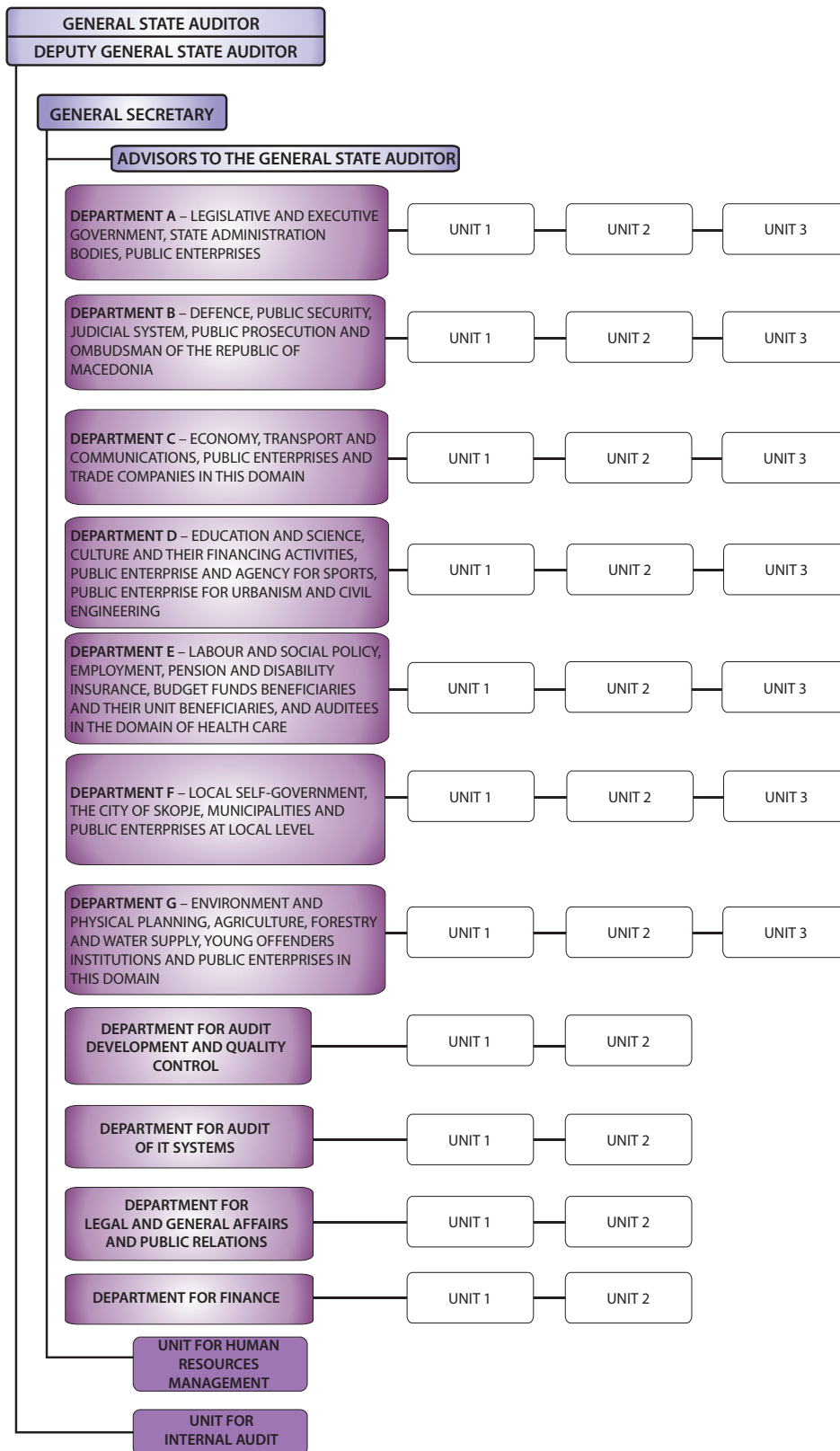
The State Audit Office is independent audit institution for external audit with competences to conduct audit on the public funds management in the Republic of Macedonia.

The competences of the State Audit Office were laid down in the Law on State Audit for the first time in 1997. Since then, the Law has been amended several times for the purpose of its harmonization with the basic principles of Lima Declaration of guidelines on auditing precepts.

The new State Audit Law was adopted in May 2010 due to the necessary harmonization of the operation of the State Audit Office with the standards and criteria of the European Union in this field, and particularly with the Mexico Declaration on Independence of Supreme Audit Institutions. The State Audit Law provides for strengthened operational and financial independence of the State Audit Office, defines the auditing process, as well as the procedure for adopting final audit reports, thus contributing to greater effectiveness of the state audit.

The Law for amending the State Audit Law adopted in November 2010 was intended for harmonization with the Law on Civil Servants. It provides for the status of state auditors as civil servants, it defines the titles of authorized state auditors and state auditors in line with the titles of the civil servants, as well as the quotient for calculating the salary of authorized state auditors and state auditors.





## ORGANIZATION AND STRUCTURE

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The State Audit Office is headed by a General State Auditor. The General State Auditor has a deputy and they are both independent in the performance of their tasks. The General State Auditor (GSA) and the Deputy GSA are appointed and dismissed by the Parliament for a term of 9 years without the right to be re-elected.

Due to the necessary harmonization with the new State Audit Law and the Law on Civil Servants, in November 2010 the State Audit Office adopted new acts for organizational layout and systematization of jobs, which are already implemented.

The organizational layout of the State Audit Office is corresponding to the nature, the scope and the complexity level for efficient performance of audit operations and tasks. The work is performed by eleven departments and two units; seven departments are directly involved in the audit process (audit departments) and they cover different areas of the public sector; one department is conducting audit on IT systems, one department is for audit development and quality control and two departments for administrative support. In order to provide independent operations relating to the internal audit and human resources the State Audit Office has two independent units as well.

## STATE AUDIT OFFICE BUDGET

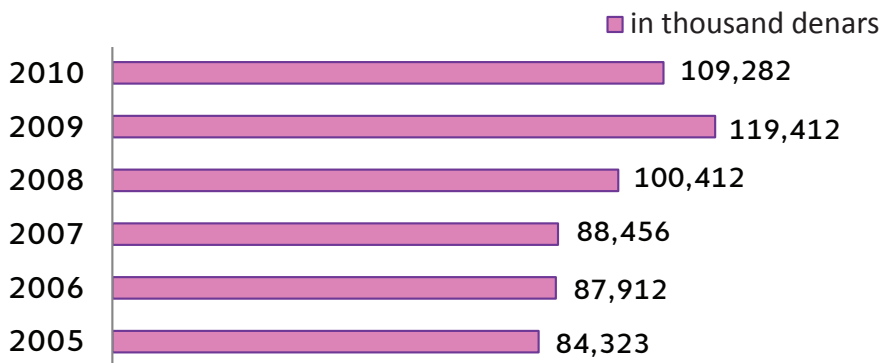
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The State Audit Office is financed by the Budget of the Republic of Macedonia in the frames of the annual limit and in accordance with the agreed fiscal strategy.

The financial statements of the State Audit Office are audited by an external audit company selected by the Parliament of the Republic of Macedonia. The independent auditor's report is an integral part of the Annual Report.

The independent auditor's report is reviewed by the Parliament of the Republic of Macedonia together with the Annual Report on performed audits and operation of the State Audit Office.

### Budget funds per year

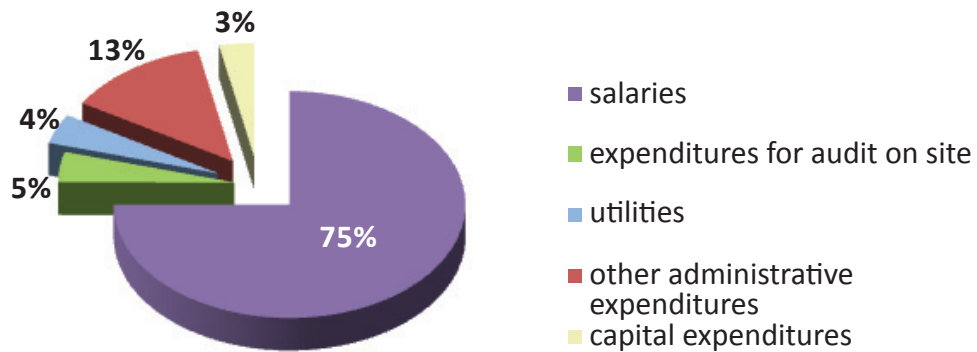


In 2010 the budget of the State Audit Office amounts to 109.282 thousand denars; 62% are from the Central Budget and 38% from its own income.

The new Law on State Audit in May 2010 abolished the provision for collecting state audit fee for certain category of auditees; thus the only source for financing the State Audit Office now is the Budget of the Republic of Macedonia.

MATRA Project (2009-2010) realized in cooperation with the Netherlands Court of Audit for financing development activities and capacity building of the State Audit Office was completed in 2010.

### Expenditures in 2010





## EMPLOYEES

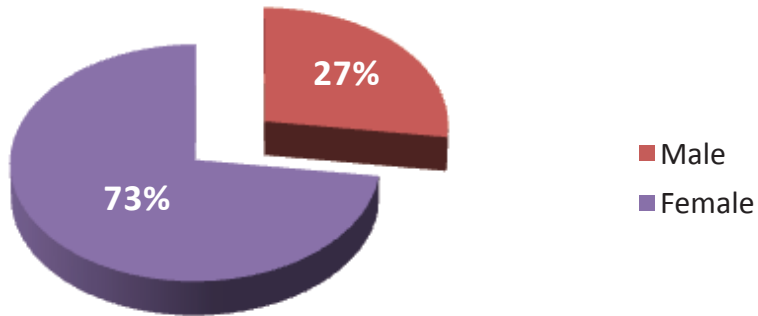
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In 2010 the State Audit Office had 93 employees – authorized state auditors, state auditors and administrative support – they all have wide range of professional knowledge and experience in the field of external and internal audit, law, economics, information technology and accounting. 96% of the employees have university degree in economics, law and information technology. Out of the total number of employees 79 are auditors.

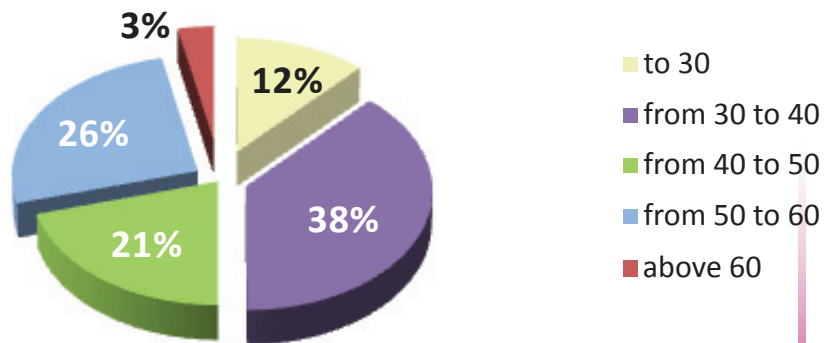
In 2010 the State Audit Office administered the exam for obtaining title of authorized state auditor according to the Programme adopted by the General State Auditor and approved by the Minister of Finance. Twenty two employees received the Certificate for authorized state auditor, thus the total number of authorized state auditors in the SAO is thirty three.



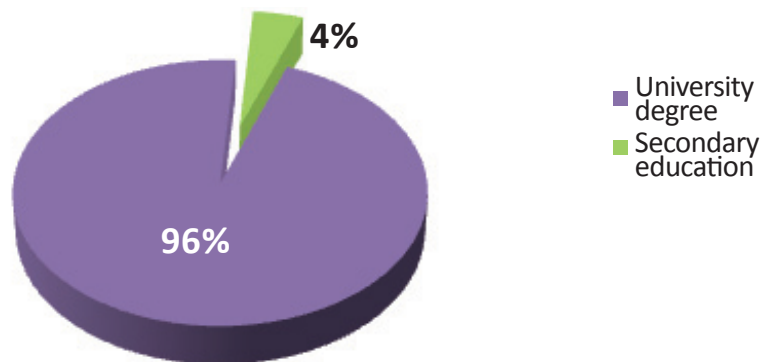
### Structure of employees by gender



### Structure of employees by age



### Structure of employees by education level



## TRAINING OF STATE AUDITORS

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For the purpose of realization of strategic goals for capacity building of the institution concerning professional and technical capacities, in 2010 SAO organized trainings on the following topics:

- Introduction to state audit (financial audit, performance audit and IT audit) for the new SAO employees, carried out by SAO trainers;
- Audit report writing and introduction to new methodology guidelines (target group: team leaders, GSA assistants, GSA advisors and department for development), in cooperation with NCA;
- Introduction to CAAT's IDEA software for state auditors, carried out by SAO trainers;
- Centralized operation (sharing documents, information and data) and novelties from MS Office 2007 package for SAO employees, carried out by SAO trainers;
- Building capacities and communication skills for senior auditors, carried out by external presenters;
- Workshop – emotional intelligence (EQ) in business communication, for all SAO employees, carried out by external presenters;
- Basic and specific legal regulations for SAO employees in the frames of the audit departments.

The cooperation with the Netherlands Court of Audit continued in 2010 in the frames of MATRA Project. The project activities included realization of advanced training for CAAT's IDEA software for SAO IT auditors, participation at a seminar for auditing large IT projects, execution of 4 pilot audits (2 financial audits and 2 performance audits), as well as several in-house trainings. Through the pilot audits, the auditors had an opportunity to exchange practical experience with NCA colleagues for certain aspects of audit planning and execution.

In 2010, 13 SAO representatives participated in six workshops, seminars and meetings of working groups on different topics, organized by INTOSAI, EUROSAI, SIGMA and others. We highlight the following: coordinated parallel audit of programmes for employment of disabled persons; follow up seminar for audit/assessment of PIFC system<sup>1</sup> organized by SIGMA and SAI<sup>2</sup> of Bosnia and Herzegovina; meeting on audit planning IDI - TP PDMA<sup>3</sup> – Programme for auditing public debt management; seminar of EUROSAI WGEA on climate change etc.



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<sup>1</sup> Public Internal Financial Control

<sup>2</sup> Supreme Audit Institution

<sup>3</sup> INTOSAI Development Initiative, Trans-regional Programme for Public Debt Management Audit

## AUDITING STANDARDS AND METHODOLOGY

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The standardization of professional requirements and the need for compliance with international standards requires development of audit methodology supporting audit activities in line with the changing environment, international trends and best practice. The State Audit Office follows all new developments in the methodology and audit practice in the world by partaking in workshops, seminars and other forms of presentation of methodology papers and practice organized and prepared by INTOSAI committees and working/regional groups and other professional bodies for setting up and developing professional standards. In this regard, the State Audit Office regularly updates its current methodology guidelines and prepares new ones in line with accepted auditing standards (ISSAI<sup>4</sup>/ INTOSAI GOV<sup>5</sup>), as well as with additional standards and documents prepared by other professional bodies.

In the frames of MATRA Project activities with the Netherlands Court of Audit, the State Audit Office was engaged in defining policies for follow up of recommendations of audit reports. The issue regarding effective mechanisms for follow up of recommendations has been tackled in several INTOSAI documents. Last year SAO continued upgrading the mechanisms for follow up of findings and recommendations of audit reports. To this end, technical specification with defined parameters was prepared and software for audit reports' data analysis was purchased. The software has wide range of parameters for analysis (annual programme data; submitted draft and final audit reports; analysis of findings and recommendations; audit opinions and conclusions; feedback on undertaken measures; submitted audit reports to competent institutions etc.).

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<sup>4</sup> International Standards of Supreme Audit Institutions

<sup>5</sup> INTOSAI Guidance for Good Governance

For defining proper standards for audit quality and audit results, in the frames of MATRA Project activities in 2010 the State Audit Office prepared Guidelines on quality assurance of the audit. This document together with the Guidelines on quality control of the audit, provide the basis and define the procedures for audit quality assurance in all phases of the audit process.

In the upcoming period SAO will continue updating and developing guidelines for conducting audit, implementation of the large number of standards on financial audit, performance audit and regularity audit, as well as other documents and materials adopted on the XX Congress of SAI (INCOSAI<sup>6</sup>) for conducting state audit.



<sup>6</sup> International Congress of Supreme Audit Institutions



## INFORMATION TECHNOLOGY AND AUDIT

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The activities in 2010 were realized in accordance with the objectives defined in the strategic documents for development of the IT system, application of information technology and its rational and efficient use in the audit. Thus, the implemented systems for centralized storage and exchange of data operate successfully, as well as the electronic mail, the archive system, the intranet, the integrated financial IT system; in addition, the auditors have internet access available when they work out of the office.

Regarding the support of data and information analysis of audit reports, in 2010 the State Audit Office purchased software for data analysis.

The constant support of audit by analyzing auditees' databases continues. For the analyses we use computer assisted audit techniques (CAAT's) and IDEA software. In the frames of MATRA project activities 4 (four) IT auditors became certified for advanced working with IDEA software.

We have assessed the IT systems of some auditees; lack of written and approved IT policies for regulating security measures for protection of the IT system were identified, as well as weaknesses in the IT system management according to the legal regulations, standards and best practice. The use of written and approved IT policies and procedures enables more efficient protection of the IT system, accuracy and reliability of records, as well as improvement of the entire institutional efficiency.

## 2010 AUDIT ACTIVITIES THROUGH FIGURES

196	AUDIT REPORTS ON COMPLIANCE AUDITS
6	AUDIT REPORTS ON PERFORMANCE AUDITS
169	AUDITEES COVERED BY AUDIT
1.067	FINDINGS IN AUDIT REPORTS
927	RECOMMENDATIONS IN AUDIT REPORTS
122	FOLLOW UP REVIEWS OF IMPLEMENTATION OF RECOMMENDATIONS
430	IMPLEMENTED RECOMMENDATIONS
162.038	MILLION DENARS AUDITED PUBLIC REVENUES
94.355	MILLION DENARS AUDITED PUBLIC EXPENDITURES
180	AUDIT REPORTS SUBMITTED TO THE PARLIAMENT OF RM
16	AUDIT REPORTS SUBMITTED TO THE PUBLIC PROSECUTION OFFICE OF RM
11	AUDIT REPORTS SUBMITTED TO THE STATE COMMISSION FOR PREVENTION OF CORRUPTION

## PERFORMED AUDITS AND ISSUED REPORTS

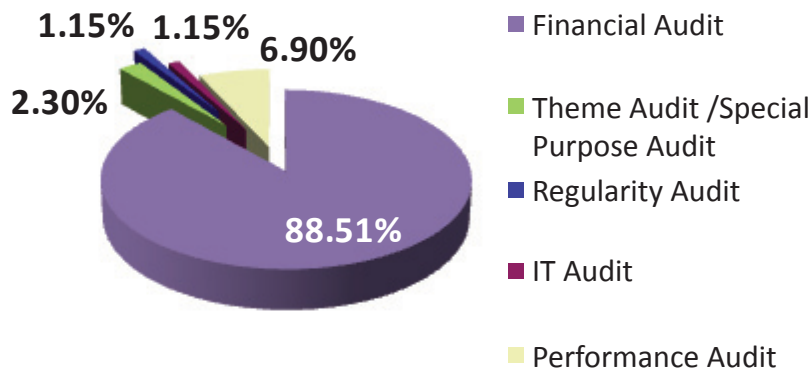
In 2010 the State Audit Office performed 87 audits (compared to 90 audits in 2009); 77 financial audits (3 obligatory and 74 audits of other entities in line with SAO Annual Programme), 2 theme audits, 1 regularity audit, 1 IT audit and 6 performance audits.

Total number of 202 audit reports were issued upon completed audits (170 in 2009); 192 reports on financial audits (157 in 2009), 2 reports on thematic audits (10 in 2009), 1 report on regularity audit, 1 report on IT audit and 6 reports on performance audits (3 in 2009).

The table below presents information on the number of performed audits and issued reports with data structure for two years:

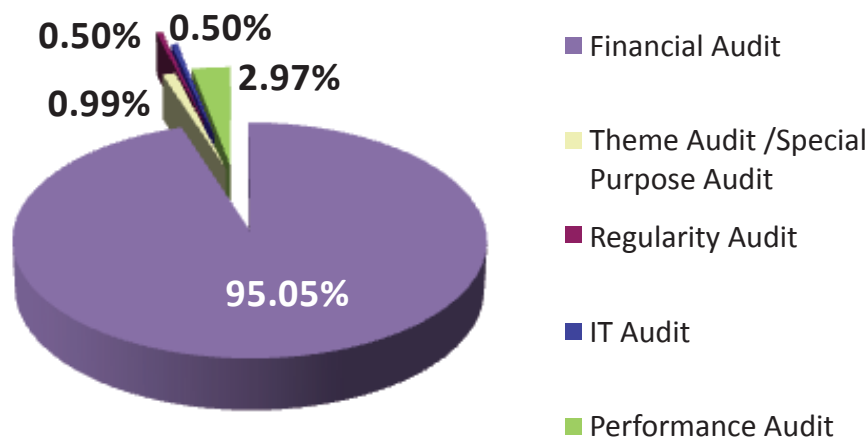
### Performed audits and structure

Type of audit	2010		2009	
	Number of performed audits and structure			
	Number	Structure	Number	Structure
1	2	3	4	5
Financial audits	77	88,51%	77	85,56%
Theme audits/ Special purpose audits	2	2,30%	10	11,11%
Regularity audit	1	1,15%	0	0,00%
IT audit	1	1,15%	0	0,00%
Performance audit	6	6,90%	3	3,33%
<b>Total number of audits</b>	<b>87</b>	<b>100%</b>	<b>90</b>	<b>100%</b>



### Issued reports and structure

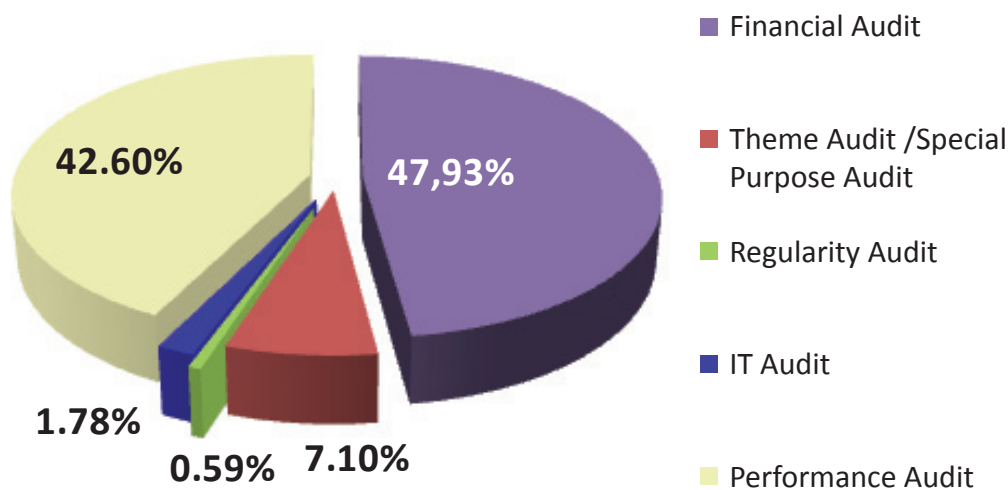
Type of audit	2010		2009	
	Number of performed audits and structure			
	Number	Structure	Number	Structure
1	2	3	4	5
Financial audits	192	95,05%	157	92,35%
Theme audits/ Special purpose audits	2	0,99%	10	5,88%
Regularity audit	1	0,50%	0	0,00%
IT audit	1	0,50%	0	0,00%
Performance audit	6	2,97%	3	1,76%
<b>Total number of audits</b>	<b>202</b>	<b>100%</b>	<b>170</b>	<b>100%</b>



## Auditees by type of audit in 2010

Total number of 169 auditees was covered by different types of audit of accounting records, documents, analyses, as well as economy of administrative activities, efficient use of resources and effectiveness of operation as opposed to the achieved objectives. The following table presents the structure of auditees by different types of audit.

Type of audit	2010		2009	
	Auditees	Structure	Auditees	Structure
1	2	3	4	5
Financial audits	81	47,93%	85	44,97%
Theme audits/Special purpose audits	12	7,10%	20	10,58%
Regularity audit	1	0,59%	0	0,00%
IT audit	3	1,78%	0	0,00%
Performance audit	72	42,60%	84	44,44%
<b>Total number of audits</b>	<b>169</b>	<b>100%</b>	<b>189</b>	<b>100%</b>



## Follow up audits on the implementation of recommendations

In 2010 the State Audit Office conducted 72 follow up audits (37 in 2009) on the implementation of recommendations in order to identify the degree of their implementation; the recommendations of 122 final audit reports were reviewed (55 reviews and 1 audit in 2009). It is evident that the number of follow up audits is doubled in comparison with 2009.

Follow up audits	2010	2009	Index (2/3)
1	2	3	4
Number of follow up audits	72	37	194,59%
Number of audit reports on which implementation of recommendations was reviewed	122	55	221,82%

## Audited public revenues and expenditures in 2010

The total amounts of public revenues and expenditures from the audited financial statements for 2009 are presented below.

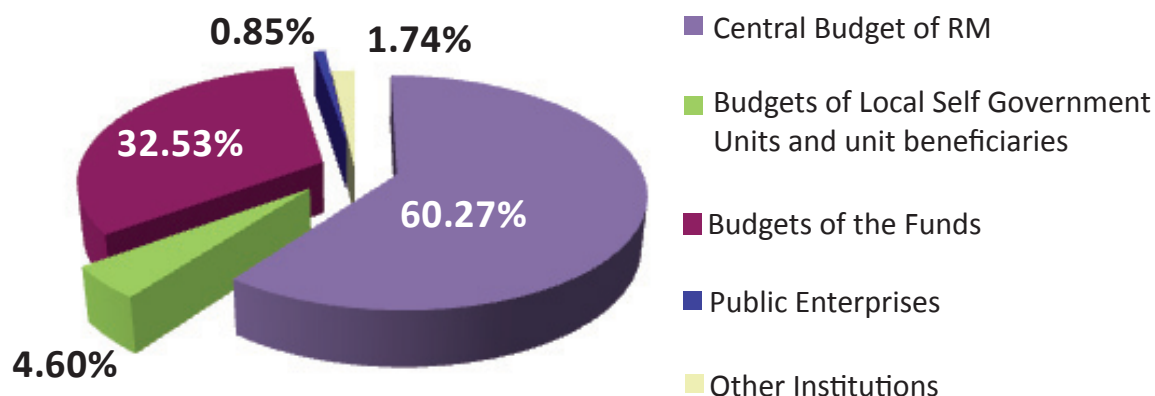
### Audited public revenues in 2010

(in million denars)

Audited public revenues	2010		2009	
	Revenues	Structure	Revenues	Structure
1	2	3	4	5
Central Budget of RM	97.665	60,27%	96.591	54,21%
Budgets of local self government units and their unit beneficiaries	7.453	4,60%	5.971	3,35%
Budgets of funds	52.712	32,53%	71.133	39,92%
Public enterprises	1.381	0,85%	4.477	2,51%
Other institutions	2.827	1,74%	0	0,00%
<b>Total</b>	<b>162.038</b>	<b>100%</b>	<b>178.172</b>	<b>100%</b>



In the structure of audited public revenues of the annual accounts for 2009, the Central Budget participates with 60,27%, the local self-government units and their unit beneficiaries participate with 4,60%, the funds on a national level participate with 32,53%, the public enterprises with 0,85% and other institutions participate with 1,74%.

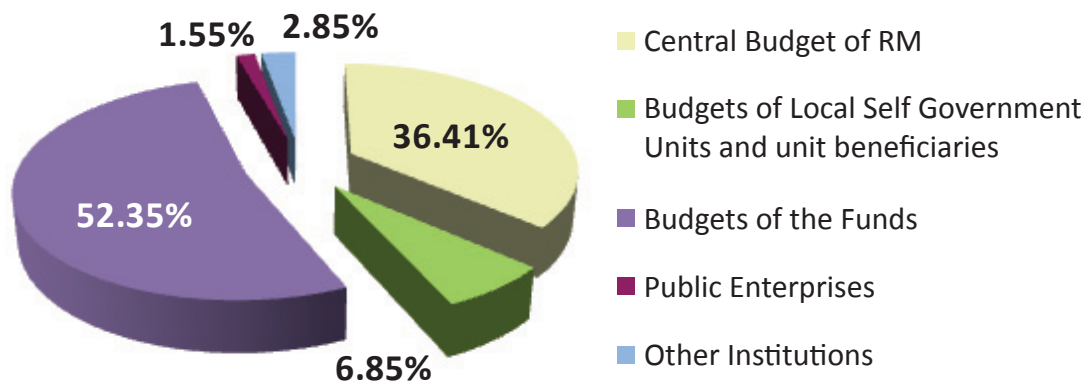


### Audited public expenditures in 2010

In the structure of audited public expenditures of the annual accounts for 2009, the Central Budget participates with 36,41%, the local self-government units and their unit beneficiaries participate with 6,85%, the funds on a national level participate with 52,35%, the public enterprises with 1,55% and other institutions participate with 2,85%.

(in million denars)

Audited public expenditures	2010		2009	
	Expenditures	Structure	Expenditures	Structure
1	2	3	4	5
Central Budget of RM	34.353	36,41%	41.602	34,24%
Budgets of local self government units and their unit beneficiaries	6.463	6,85%	6.218	5,12%
Budgets of funds	49.395	52,35%	68.471	56,35%
Public enterprises	1.459	1,55%	5.218	4,29%
Other institutions	2.685	2,85%	0	0,00%
<b>Total</b>	<b>94.355</b>	<b>100%</b>	<b>121.509</b>	<b>100%</b>



## AUDIT OPINIONS

---

The primary objective of the audit of financial statements is to allow the auditor to express an opinion as to whether:

- financial statements give true and fair presentation of the financial position and of the results of the financial activities, and
- the activities, financial transactions and information reflected in the financial statements are in compliance with the relevant legal regulations, guidelines and established policies.

In accordance with the objectives defined in the audit reports, auditors express opinions on both the financial statements and the compliance with the laws and regulations.

The audit reports on financial statements for 2009 include 43,8% unqualified opinions (positive opinions); 21,4% qualified opinions; 12,9% adverse opinions and 21,9% disclaimers.

On the compliance with the laws and regulations there are 37,2% - unqualified opinions (positive opinions); 23,0% qualified opinions; 32,5% adverse opinions, and 7,3% disclaimer.

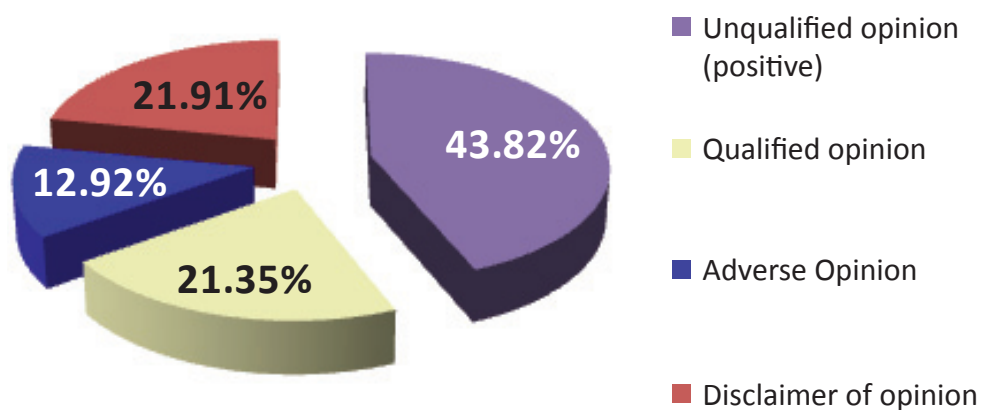
Due to the broad mandate of the state audit containing around 1400 auditees, the Annual Programme for operation of the State Audit Office covers mandatory auditees in line with the provisions of the State Audit Law, as well as selected number of auditees in line with criteria established by the State Audit Office. Therefore, in 2010 we conducted financial audit for the first time in 43 entities, i.e. 53% of the total number of auditees subject to financial audits. These reports make around 68% of the total number of audit reports.

The table of expressed opinions on the financial statements and the compliance with laws and regulations for 2009 included in the audit reports for 2010 is given below.

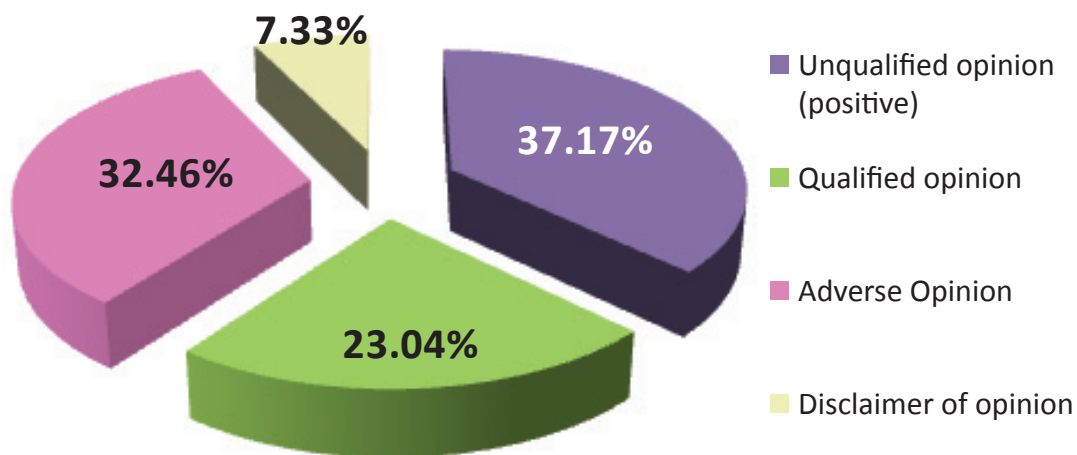
### Expressed opinions on financial statements and compliance with laws and regulations

Audit opinion	Financial statements		Compliance with laws and regulations	
	Number of reports	Structure	Number of reports	Structure
	2009	2009	2009	2009
Unqualified opinion (positive)	78	43,82	71	37,17
Qualified opinion	38	21,35	44	23,04
Adverse opinion	23	12,92	62	32,46
Disclaimer of opinion	39	21,91	14	7,33
<b>Total</b>	<b>178</b>	<b>100%</b>	<b>191</b>	<b>100%</b>

### Structure of expressed opinions on financial statements



### Structure of expressed opinions on compliance with laws and regulations



In addition to the audit opinions on the set of financial statements, there were diverse opinions on the Profit and Loss Account/Income Statement and the Balance Sheet in 13 audit reports.

## MEASURES TAKEN UPON AUDIT REPORTS

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The goal of the audit, as an essential part of the control system, is to promptly identify deviations from the accepted standards and the violations of the principles of legality, efficiency, effectiveness and economy of public funds management, for the purpose of taking corrective measures in certain cases, and taking steps for elimination or prevention of such deviations and violations in the future.

According to the State Audit Law, the legal representative of the auditee is obligated to notify the State Audit Office, as well as the competent body for supervision and control, on the measures taken upon the findings and recommendations of the audit report within 90 days of receipt of the final report

The State Audit Office follows the implementation of recommendations of audit reports in the frames of the regular audits, the follow up audits and the reviews of implementation of recommendations, as well as through received information from the auditees.

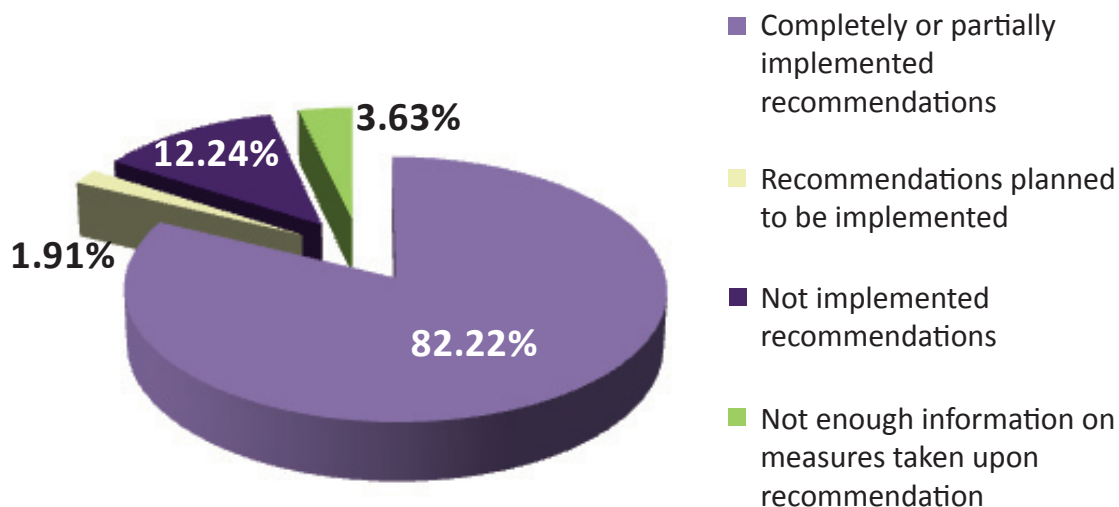
In 2010 the State Audit Office performed 72 follow-up audits (37 in 2009) on the implementation of recommendations; 816 recommendations of 122 final audit reports were reviewed (55 reviews and 1 audit in 2009); compared to 2009 (459 recommendations) it is an increase of 78%.

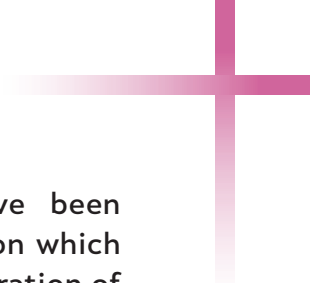
Upon completion of audits from the Annual Programme for 2010, the State Audit Office made 927 recommendations. Until the date of preparation of the Annual Report for 2010, the deadline for feedback from auditees for 404 recommendations has not expired. Out of 523 recommendations, 430 have been implemented completely or the implementation is in progress, 10 recommendations are planned to be implemented, and 64 have not been implemented (related to other competent bodies/external factors or discrepancies). Auditees have not provided feedback or comment upon 19 recommendations.



The following table presents the status categories for measures taken upon recommendations for 2010 and 2009:

Description	2010		2009	
	Number	Structure	Number	Structure
Completely or partially implemented recommendations or recommendations whose implementation is ongoing	430	82,22%	630	80,15%
Recommendations that are planned to be implemented	10	1,91%	5	0,64%
Not implemented recommendations (no measures taken due to external factors, auditee does not agree with recommendation, related to other external factors (competent bodies etc.))	64	12,24%	113	14,38%
Not enough information on measures taken upon recommendation	19	3,63%	38	4,83%
<b>Total (number of recommendations for which the feedback deadline of 90 days has expired)</b>	<b>523</b>	<b>100,00%</b>	<b>786</b>	<b>100,00%</b>





The general conclusion is that majority of recommendations have been implemented. The analyses show that out of 523 recommendations upon which the auditees were obligated to take measures until the date of the preparation of the Annual Report, 430 or 82% were implemented, completely or partially.

For the purpose of continuous follow up of the implementation of recommendations, the State Audit Office will continue using different approaches for gathering information on measures taken upon given recommendations including those that require longer implementation period. For that reason the State Audit Office purchased software for analyzing data and other information from audit reports.

## COOPERATION WITH COMPETENT BODIES

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The cooperation with the Parliament of the Republic of Macedonia continues in several directions. According to the State Audit Law, the final audit reports are to be submitted to the Parliament. For the performed audits in line with the Annual Programme for operation for 2010 the State Audit Office submitted 180 audit reports to the Parliament.

At the session held on 14 September 2010, the Parliament of the Republic of Macedonia reviewed the Annual Report on performed audits and operation of the State Audit Office for 2009 and adopted conclusions for measures that need to be undertaken by the Government of the Republic of Macedonia and the other competent bodies for the purpose of improving the supervision and the spending of the public funds.




In June 2010 in Skopje in the frames of MATRA Project activities (pre-accession assistance in cooperation with the Netherlands Court of Audit) the State Audit Office realized a workshop on the subject “Improvement of the cooperation between the State Audit Office and the Parliament of the Republic of Macedonia”. The experiences of EU member countries on the cooperation of their SAs and Parliaments were presented.

The broader objective of the workshop was

to define possible solutions and mechanisms for reviewing audit reports by the Parliament of the Republic of Macedonia, thus increasing the effect of audit reports and strengthening the accountability in the public funds management in the Republic of Macedonia.

The advancement of the cooperation with the Parliament of the Republic of Macedonia is one of the priorities of the State Audit Office in the upcoming period.



In 2010 the cooperation with the Public Prosecution Office of the Republic of Macedonia continues. The State Audit Office regularly receives quarterly and individual reports from the Public Prosecution Office for acting upon submitted audit reports. During the reporting period 16 audit reports that included findings on possible misdemeanour or crime were submitted to the Public Prosecution Office.

Eleven final audit reports were submitted to the State Commission for Prevention of Corruption.

## TRANSPARENCY

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During last year, the transparency of the State Audit Office, defined as one of the key strategic objectives of its operation, was displayed through several forms. In addition to the priority obligation for regular publishing of final audit reports on SAO web page, the public was informed about the operations of the State Audit Office through direct contacts with the media and the journalists.

During 2010, the operation of the State Audit Office was a subject of interest to the daily informative professional web publications (web sites) that are treated as a new type of media in Macedonia information market.

In cooperation with the Macedonian Institute for Media (MIM) 3 (three) regional round tables on the subject “Using and understanding the reports of the State

Audit Office” were organized. The local media representatives as well as representatives from the auditees were present at the regional meetings in Stip, Bitola and Tetovo. Another workshop on the same subject was organized in Skopje for journalists from several Macedonian towns.



The official web page of the State Audit Office in 2010 was visited 156.363 times; it is an increase of 29.862 visitors compared to 2009. To a certain extent this shows an increased interest of the public for the operation and the results of the State audit Office.

In 2010 the State Audit Office received 9 (nine) requests for access to public information that is at disposal of the State Audit Office.



# Audit Activities





## MAIN ASPECTS OF SITUATION IDENTIFIED WITH AUDITS IN 2010 ON BASELINE BUDGET, BUDGET BENEFICIARIES AND UNIT BENEFICIARIES OF THE BUDGET OF THE REPUBLIC OF MACEDONIA

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### BASELINE BUDGET

The important segments of the baseline budget of the Republic of Macedonia that were subject to audit in 2010 are: the operation of the Treasury Department, the realization of planned tax and non-tax revenues and the use of budget funds i.e. the transfer of budget funds to the budget beneficiaries.

The Treasury Department is legally obligated to record all transactions of budget beneficiaries in the Treasury General Ledger; these operations are supported by outdated software that does not provide complete information on all transactions of the budget beneficiaries and does not allow complete adherence to the accounting standards and principles laid down in the Law on accounting of the Budget and the budget beneficiaries. There is a several years' old idea for purchasing and implementing new advanced software, but it is still not realized.

With regard to the realization of planned tax and non-tax revenues, it is necessary to point out the important risk of untimely and incomplete collection of non-tax revenues, primarily from concessions and sale of state-owned residences. Namely, regarding the collection of revenues from concessions, the Ministry of Finance has not updated the register for signed contracts for concessions. Due to the lack of proper records of concessioners and lack of control of the method and dynamics of exploitation of minerals, which are a national source of state revenues, the baseline budget faces incomplete and untimely collection of these revenues.





Concerning the collection of revenues from sale of state-owned residences – there is no single register for unsold residences, or for signed contracts for sold residences and for collected funds from the sales.

The provisions from the Law on Budget Execution of the Republic of Macedonia for 2009 enable the Government of the Republic of Macedonia i.e. the Minister of Finance to approve funds as financial plan (right on spending) from the Section “Functions of the State” to a section for other budget beneficiary. By Government Decisions, from the Section “Functions of the State” payments have been made to certain budget beneficiaries in amounts exceeding the approved budgets and for purposes that could have been planned ahead either in the process of preparation of the budget for “Functions of the State” or in the process of preparation of budgets for the budget beneficiaries.

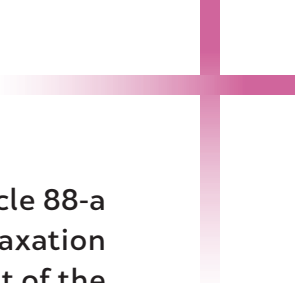
There is a drain of funds from the Budget of the Republic of Macedonia to certain budget beneficiaries for engaging persons through the Agency for temporary employment for jobs that are included in the act on systematization of jobs. This situation is not in compliance with the provisions from the Law on Agencies for temporary employment and creates an opportunity for subjective approach in deciding on these engagements.

There is no legal provision for the Budget of the Republic of Macedonia to prepare Balance Sheet i.e. to present property, accounts receivable & accounts payable, which could have an impact on the future planning of revenues in the creation of the Budget of the Republic of Macedonia.

## REGULATORY BODIES



There are several regulatory bodies for different areas in the Republic of Macedonia. The State Audit Office conducted audit on the Regulatory Commission for Energy of the Republic of Macedonia, the Energy Agency and the Agency for Electronic Communications; it was discovered that some of these auditees are purchasing government treasury bills, which is not in compliance with neither the laws, nor with the financial plans of these bodies.



With the new amendments to the Law on electronic communications, Article 88-a provides for the Agency to make payment of the surplus income after taxation based on financial statements for 2005, 2006, 2007 and 2008 to the account of the Budget of the Republic of Macedonia no later than 6 months from the day of the adoption of this Law; these funds should be allocated for development of digital terrestrial television of the Republic of Macedonia i.e. for realization of the Action plan for transition from analogue to digital terrestrial television broadcasting. The audit points out that these provisions in the Law on electronic communications are contradictory to the provisions from Article 26, paragraph 6 of the same Law, which stipulates that the unrealized funds from the annual financial plan of the Agency from the previous year shall be transferred to the annual financial plan for the next year.

The Energy Agency of the Republic of Macedonia was created with the Law for establishing Energy Agency of the Republic of Macedonia in 2005 for supporting the Government of the Republic of Macedonia in the implementation of the energy policy.

This important institution operates in situations when the legal regulations do not make clear distinction between the roles and competences of institutions involved in the energy sector. Namely, the Law for establishing the Agency does not clearly define Agency's competences, as an important segment in the field of energy, energy efficiency and use of renewable energy resources for production of electrical power.

According to the Energy Law, the energy policy is set up with the Strategy for Energy Development in the Republic of Macedonia. The Strategy for Energy Development has been adopted by the Government in 2010.

Taking into consideration the different interpretations provided by the Ministry of Finance for the management of accounting records of the regulatory bodies, it is necessary to adopt single legal solution for managing this type of entities, as well as for the management of their accounting records.

## PUBLIC REVENUE OFFICE

According to the Law on Public Revenue Office, this body establishes and collects taxes. The receivables based on taxes are future inflow in the Central Budget. However, those are not presented in the financial statements of the Budget of the Republic of Macedonia, because according to the Law on accounting of the Budget and the budget beneficiaries., the Budget is not obliged to present outstanding receivables and unsettled payables. The receivables based on tax debt are not presented in the financial statements of the Public Revenue Office because they are paid to the account of the Central Budget of the Republic of Macedonia. Due to the above mentioned system weakness, the receivables based on tax debt are not recorded in any financial statement, but they are a database necessary for creating the macroeconomic policy and for preparation of the Budget.

In the frames of its activities, the Public Revenue Office records the confiscated goods based on unsettled tax debt of tax payers. However, the Public Revenue Office has not prepared final account for the deposit account intended for activities regarding confiscated goods, although there is turnover from sale of confiscated property of tax payers in 2009. In 2010 the conditions for managing confiscated goods have improved. The Government of the Republic of Macedonia brought a decision for granting an office building to the Center for storing and matching confiscated movables. Thus, the weaknesses of the previous period are expected to be overcome. Operative instructions have been prepared for regulating seizing, selling, recording and auctioning confiscated movables for the purpose of more successful management.



## IT AUDIT ON THE OPERATION OF THE JOINT IT CENTER

In 2010, the State Audit Office conducted IT audit on the operation of the Joint IT Center.

The IT audit was conducted in accordance with COBIT 4.1 (Control Objectives for Information and Related Technology); “Establishing continuity and availability of service” was analyzed in order to limit the scope of the audit and because of the fact that 24 state bodies rely on the availability of the accounting system of the General Affairs Service. The budgets of the state bodies - beneficiaries of this service, in 2009 participate with 13.33% and in 2010 with 12.92% in the Baseline budget of the Republic of Macedonia.



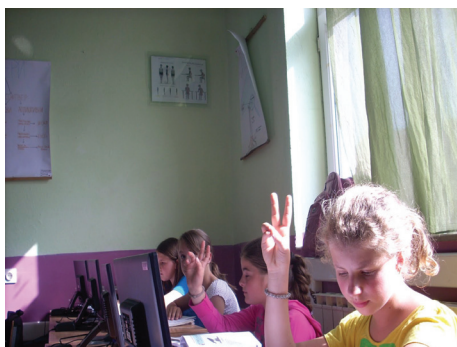
The Joint IT Center operates in accordance with planned objectives and relevant legal regulations, guidelines and established policies, except in certain segments as a result of: lack of organizational unit that would maintain the whole system, undefined premises for server room, lack of IT strategy, as well as lack of written policies and procedures for IT and IT safety. All of the above increase the risk of not established continuity and unavailability of service.

Recommendations are given for improvement of the organizational layout of the Joint IT Center for the purpose of improving its management, as well as for creating of IT strategy and procedures.

## EDUCATION

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In 2010 the State Audit Office performed horizontal financial audit and regularity audit in the domain of primary and secondary education and students' standard, in order to locate the weaknesses and to highlight the need for overcoming identified situation that slows down development and improvement of conditions in the education process.



The audit included the Ministry of Education and Science (as an executive government institution that creates and implements the education policy), six state student dormitories (that provide quality students' standard), eight high schools and six primary schools (whose operation is within the competences of the local self-government).

### MINISTRY OF EDUCATION AND SCIENCE

The audit of the Ministry of Education and Science identified system weakness in the realization of programmes for construction and reconstruction of primary schools and high schools arising from the provisions of the Law on Budget Execution for 2009. According to this Law, the budget beneficiaries should use at least 30% of planned capital expenditures no later than 30 June of the current year, or they would be returned into the approved funds of the Budget of the Republic of Macedonia. Taking into consideration that the physical realization of construction works in the schools begins in June after the school year ends, we suggest an exception to the projected deadline for use of approved funds for capital investments due to timely realization of programmes for construction and reconstruction, as well as for complete discharge of obligations toward contractors.

We also direct attention to the method of financing municipality primary schools and high schools; these are financed by earmarked and block subsidies of the Budget of the Republic of Macedonia without established criteria by the municipality for allocation of funds in the schools. Concerning this issue, we recommend the Commission for monitoring of the development of the municipality financing system, which is competent for the earmarked use of subsidies, to give instructions and guidelines for objective allocation of funds for the schools.

## STATE STUDENT DORMITORIES

The State Audit Office conducted audit on three state student dormitories in Bitola, Prilep and Ohrid that provide accommodation and food for students. We identified the following weaknesses in their operation:

- not established good organizational structure and procedures that would provide internal control, as well as assurance that all financial transactions are in compliance with legal regulations and are based on proper accounting documents;
- not complete and quality inventory of funds and sources of funds available to student dormitories; improper and outdated accounting records that affects the fair and objective presentation of items in financial statements;
- lack of table of norms for food preparation and lack of records for produced and sold products in the catering stores; thus the audit was not assured in the accuracy and completeness of production costs and for the income from sale of products and goods;
- payments for engaging persons on limited contracts and other temporary employments due to insufficient HR capacities without prior approval by the Ministry of Education and Science and the Ministry of Finance;



- irregularities in the implementation of the Law on public procurement - improper implementation of public procurement procedures, exceeding agreed value and change of public procurement subject, adopting and harmonizing the public procurement plan, following the realization of contracts etc.;
- not established bodies required in the Law on pupils' and student's standard (Council of tenants and Council for food) which have mandate to follow and improve the quality of food and boarding for students;
- incompliance with procedures for admission and moving in of students in student dormitories; admission of students that do not fulfil requirements and are not in the final ranking lists published by the Ministry of Education and Science;
- not recording uncollected receivables from students and no measures undertaken for their collection, which jeopardizes the liquidity of the financial operations of student dormitories. Lack of criteria for financing dormitories, which is within the competence of the Ministry of Education and Science also contributes to the impaired financial stability;
- the financing is not done in line with the real economic price for boarding and food of students, as required by the Law, which creates uncertainty for timely payment of obligations;
- state student dormitories earn income by renting office space to other legal entities; the decision is brought by the director without seeking approval from other higher instances and for price lower than the market one; renting office space to external entities reduces the capacities and imperils the accommodation standard of the students;
- we draw attention to the fact that internally resettled persons (that have lost this status since 2005) are still being accommodated in student dormitories; the costs for their accommodation are covered by the dormitories they stay in.




## HIGH SCHOOLS AND PRIMARY SCHOOLS

The State Audit Office conducted audit in eight high schools (7 in Skopje and 1 in Tetovo) and in six primary schools (3 in Skopje, 1 in Kumanovo, 1 in Bitola and 1 in Prilep); the following weaknesses have been identified:

- not implemented decisions adopted by the Government of the Republic of Macedonia in June 2005 for transferring founding rights and obligations of current state-owned high schools and primary schools to the municipalities and the City of Skopje, as well as for transferring right of ownership of the structures/buildings. These decisions are legal basis for writing down the right of ownership in the cadastre, writing down changes in the court register, in the central register and in the registers of municipality schools. According to the above decisions, if the schools do not have proper documentation for writing down the right of ownership, the Law on using possessions of state bodies is applied. Unregulated ownership status of structures and land transferred from previous years and ongoing procedures for establishing ownership right with the process of denationalization are usually the reasons for this situation;
- the inventory of funds and sources of funds from 31 December 2009 has not been done in accordance with the Rulebook on accounting of the Budget and the budget beneficiaries, i.e. the inventory is not complete and quality. This situation has an effect on the truthfulness and fairness of funds presented in the financial statements, and it does not provide protection from unauthorized expropriation or spending;
- lack of accounting records for purchased materials, spare parts and small inventory that are in use; thus there is no true presentation of supplies and no material responsibility for the persons that are using these possessions;
- not implemented proper and prompt recording of receivables and payables that should provide true presentation of the planning of assets and their earmarked;



- not recorded computer equipment and school inventory handed over for permanent use by the Ministry of Information Society and the Ministry of Education and Science, due to lack of documents for establishing their value. The received computer equipment is from the project “Computer for every child” – realized in line with the Government’s decision for granting movables for permanent use to the public high schools and primary schools from December 2008. This Decision and the Law on using possessions of state bodies provide for signing contracts between the school directors and the Minister for education and science. However, these contracts have not been signed. Significant damage has been done on some of the computer equipment and no one can be held responsible for that, while in some schools the computer equipment is still not completely installed. This indicates that the computer equipment is not used rationally, effectively and as assigned. It is necessary to sign the contracts as soon as possible and to set up mutual rights and obligations between the parties, while the equipment in stock should be put in use;
- the schools are being financed by block and earmarked subsidies from the Ministry of Education and Science through the municipalities that still have not established measures and criteria for distribution of received funds as provided for in the Law on primary and secondary education. The funds are distributed based on historic data, not according to the actual needs of the schools. This improper approach creates the risk of unequal treatment in the financing of schools, as well as untimely settlement of obligations, which results in lawsuits and high interests for deferred payments;
- the schools make profit by renting buildings and by other services done for the students (excursions, food, insurance and other organized events; for this purpose they have opened an account for self-financing activities. The audit concluded that the income from rent in a situation when the ownership right is not transferred to the municipality, is unjustified and the payments for rent should be made to the Budget of the Republic of Macedonia in accordance with the Law on using possessions of state bodies. The income from students for organizing different events and for providing food for the students is not legal



and very often creates problems for the financial liquidity of the school when they are prosecuted due to unsettled obligations by the students. The audit recommends ending this practice and the students to settle their obligations individually.

## HEALTH CARE AND HEALTH INSURANCE OF THE CITIZENS IN THE REPUBLIC OF MACEDONIA

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Financing health care activity in the Republic of Macedonia is done through the Budget i.e. the Central Budget and the Budget of the Health Insurance Fund of the Republic of Macedonia. The main doers in the policy making, the objectives and global directions of health care development in the Republic of Macedonia are the Parliament, the Government, the Ministry of Health and the Health Insurance Fund, while health care activity is done by the organizations in this domain/health care centers.

We have audited the method for financing health care, the method for using funds set in different programmes in the Section for the Ministry of Health and the Health Insurance Fund, as well as the operation of the public health centers. The following situation was identified:

### FINANCIAL MANAGEMENT AND CONTROL

The established policies, procedures and activities by the auditees' managers do not provide reasonable assurance that the auditees' objectives would be fulfilled. Introducing ex-ante and ex-post financial controls should reduce the consequences from possible risks in the processes for: procurement and payment, budgeting, recording and payment of invoices for prescription medicines, managing and recording cash assets, supply of medicines and dispensable medical materials, issuing confirmation for paid contributions for health insurance, recording and

payment of invoices for conducted health care services for insured persons in the primary health care – general medicine, occupational medicine and pediatrics.

## **PLANNING AND EXECUTION OF PROGRAMMES**

The programmes in the field of health care summarize related activities and projects for realization of policies and objectives of the health care for citizens of the Republic of Macedonia. The audit scope included planning, execution, recording of financial transactions and following results from the execution of programmes. In the process for harmonization of proposals for budget requests between auditees' managers and the authorized ministry, it is necessary to satisfy the right on health care of the citizens of the Republic of Macedonia with the provided funds. The activities in the programmes of the Ministry of Health should be realized with funds from the baseline budget of RM, as well as from donations' funds.

The programmes specify public health care centers that will conduct the activities. Signing contracts for defining mutual rights and obligations of the Ministry of Health and the public health care centers will enable unobstructed realization of programme activities. In addition, the contracts should specify the amounts of unsettled liabilities from the previous period. For the realized services in line with the programmes, the public health care centers submit invoices to the Ministry of Health. The Ministry of Health applies ex-ante and ex-post control on the invoices and the accompanying documents and supervises the realization of separate programmes. The invoices should reflect the real situation of the price of service; the invoices whose amount exceeds the limit of programmes' funds should be recorded and presented as realized services that exceed the limit set within the programmes because the public health care centers record these health care services as receivables from the Ministry of Health. The reports on realized measures and activities in line with the programmes should be submitted to the Ministry of Health no later than 15 January the following year.

## **RECORDING MATERIAL ASSETS**

The implementation of program activities is also connected to the procurement of vaccines, medications, disinfection and other protection agents. For unhampered realization of programme activities it is necessary to take measures for their receipt, storage, prescription, disposal and proper recording in the business books. The vaccines, medicines and protection agents whose expiration date has passed should be destroyed in groups by the authorized ministry.


## **PUBLIC HEALTH CARE CENTERS**

The public health care of citizens i.e. the health care activity in the Republic of Macedonia is done by health care centers, including the Public health care centers audited by the State Audit Office.

The financial audit and the regularity audit conducted on the operation of the Public health care centers in line with the Annual Program for Operation of the State Audit Office for 2010, identified the following: for the purpose of complete overview of the situation of supplies of medicines and medical materials, the public health care centers should introduce complete material and financial records of medicines and medical materials connected via LAN (local area network) connection with the warehouses for medicines, the health departments, the outpatient departments, the inpatient departments, into single IT system. Implementation of integrated software will reduce the risk of errors and frauds in the course of use, disposal and management of medicines and medical disposable materials.

When doing inventory of medicines and medical disposable materials it is necessary to synchronize the accounting with the actual situation for the purpose of true and objective presentation of data, thus enabling complete and thorough presentation of supplies at the end of the year.

The hospital pharmacies of the public health care centers carry out procurement, storing and issuing of medicines. Establishing their status, the type and the scope of their activities in the frames of the public health care centers is of great importance.



The teachers and other professionals that carry out higher education, scientific and research work, and health care activities, should realize their right on salary and other rights in accordance with the signed employment contracts with the university clinics and the Faculty of Medicine in Skopje in proportion to the working hours in both institutions.

Engaging volunteers in line with the legal regulations should be done by established procedure, requirements and criteria for selection. The Annual Plan and the Programme for volunteers should include the projected need for volunteers in the current year, as well as the criteria for their engagement, thus providing the necessary transparency of operations.

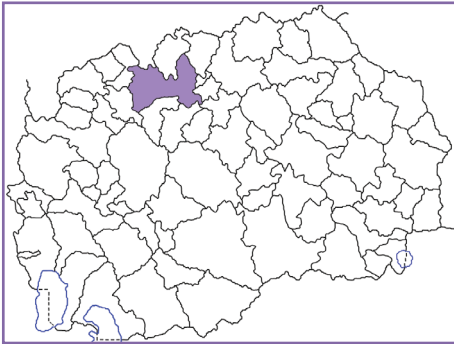
During planning, implementation and realization of public procurement procedures, special attention should be paid to adoption of public procurement plan, presenting value of procurements in public procurement decisions, realization of procedures with complete bidding documents and undertaking responsibilities in line with signed procurement contracts.

The audit in the Ministry of Health and the Health Insurance Fund of the Republic of Macedonia found out that health care centers are financed according to set budget limits, and real purchase of health services is missing. It is necessary to obtaining funds for covering expenditures made for realization of activities and providing guaranteed health care services. The realization of health care for the citizens of the Republic of Macedonia implies establishing reference pricing for all medications that are on the list of the Health Insurance Fund, as well as harmonization between the unique price (private entities' selling price for medications) and the reference price (maximum amount that the Health Insurance Fund is paying to the health care centers).

Competent authorities for managing the auditees should undertake appropriate measures and activities that would create conditions for proper control environment, for surpassing identified situation, creating reasonable assurance that the auditees' objectives i.e. the activities for health care of the citizens are done in correctly, effectively and efficiently.

## LOCAL SELF GOVERNMENT

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In 2010 we conducted financial audit and regularity audit in 18 self government units, in the Ministry of Local Self Government (as the competent authority for following the development and for proposing measures for development of the local self government in the Republic of Macedonia) and one regularity audit on establishing and collection of income from communal taxes in the City of Skopje and the Municipalities in the City of Skopje. For the first time audit was conducted in 4 (four) local self government units.

In most of the audited local self government units we identified the same weaknesses from previous years:

- not established internal controls or insufficient coverage of risks in the processes of internal control;
- not updated or incomplete databases of tax payers for property tax, or the process of updating is ongoing;
- no readjustment of budget;
- no legal solution for having at disposal property and immovables owned by the municipalities;
- not registered immovable property acquired by transfer of ownership rights to the municipalities based on division balance sheet from 2000, as well as the newly acquired property;
- not regulated mutual rights and obligations of local self government units and public enterprises;

- payments are being made without previously adopted programs and criteria for granting social care funds, funds for companies and associations, NGOs, cultural and sports events; and
- disregard of legal regulations, in particular the provisions of the Law on construction.

Some of the audited local self government units disregard the provisions from the Law on civil servants concerning promotion and awarding of civil servants. Workers are being engaged with short-term contracts, as well as through the Agency for temporary employment. In some local self government units these employments make 60% of the total number of regular employees. This type of employment is against the law and violates the principle of transparency and legality of employment.

Another characteristic of most audited local self government units is rewarding Council members for the good cooperation between the Mayor and the Council, or paying lump sum for participation in coordinative bodies.

In 2009 some of the auditees used the current reserves for covering expenditures, which could have been planned ahead in the process of budget preparation.

The income from communal taxes is a source of income of the local self government units. The experience from the application of the Law on communal taxes demonstrated difficulties in the application of certain types of communal taxes; thus we conducted regularity audit on establishing and collecting income from communal taxes in the City of Skopje and in all ten municipalities in the City of Skopje. We identified weaknesses that have larger financial implications for which we think that the competent bodies should undertake appropriate measures. The State Audit Office gives the following recommendations:



- the City of Skopje should adopt internal act for placing advertisement boards in line with the Decision for setting standards for placing temporary structures and urban equipment in the City of Skopje; should supervise the number of advertisement boards on the territory; and the communal tax should be collected on time.
- for the purpose of punctual and complete collection of communal tax for parking, measures should be undertaken for regulating the operation of public parking lots without permits and the competent inspection service should regularly control the entities that manage public parking lots and do not collect communal tax.
- as for the communal tax for using space in front of business premises and placing movables on public areas (tables, chairs, sun umbrellas etc.) and in order to improve the situation and the collection of this tax, we suggest initiating amendment to the Law – issuing permits to be in the competences of the City of Skopje, for the City and the municipalities in the City, instead of the current practice of one-year contracts between the municipalities and the City for yielding competences. This would also increase the income on this basis.
- competent inspection services should undertake measures for regular control of the timely and complete collection of communal tax for use of the streets, and the entities that collect this communal tax should submit monthly reports for their work.
- the current provisions of the Law on communal taxes and the Law on catering industry do not specify who issues permits for playing music and the type of music. The permit is a requirement for establishing and collecting communal tax. In order to improve this condition, the legal provisions should be modified – they should specify the entity that is issuing permits for playing music. In this way there will be a register of users that play music and the collection of this type of communal tax would be easier.

With regard to the public procurement, certain goods and services are being purchased without public procurement procedure.

Some of the audited local self government units often made purchase of goods and services without specifying the quantity in the decisions for public procurement. The procedures refer to certain type of activities, not to certain objects/structures, because at the start of the procedure the municipality still does not have defined objects/structures where the work will be done in the following year, does not have project designs with bill of quantities for the work to be done. This affects the quality of bidding documents that typically includes a list i.e. description of possible works during the construction, and without established quantity for which the economic operators should offer a price. This approach to public procurement enables economic operators to offer lower prices for certain items that rarely occur or do not occur at all in practice; this affects the total price and it could be crucial in the selection of most favourable economic operator. In this way the procedure follows legal provisions formally, but the municipalities violate the principle of economic and efficient spending of public funds.

In 2009 in some public procurement procedures the municipalities apply the criterion of most favourable economic offer without explaining in the bidding documents how the criterion's elements are being valued and applied.

## **SYSTEM WEAKNESSES IN LOCAL SELF GOVERNMENT UNITS**

- The municipalities in the Republic of Macedonia create income from concessions which, according to the legal regulations, are being granted by the competent body in the relevant domain; this body also conducts the procedure for selection of concessioner and sets the conditions for exploiting natural resources. The municipalities are not included in the procedure for granting concession and the competent ministry does not have information on the number of granted concessions, the length of the concessions, and the income on this basis. With the current Law on concessions and other types of public private partnerships the municipalities have no competences

in this area, cannot inspect the concessioners, and cannot have a control over the collection of the agreed fee, even though 78% from concessions are the income of the budget of the municipality where the concession is granted.

- According to the current Law on financing local self government units, the permanent and current reserve cannot exceed 3% of the total planned funds of the municipality's baseline budget; on the other hand, the Law on budgets provides for the permanent and current budget reserve cannot exceed 3% of the total current expenditures of the baseline budget. The conflict between these two provisions creates certain dilemmas in their implementation. We suggest the legislative body to harmonize these laws.

With reference to the allocation of earmarked and block subsidies that local self government units receive from competent ministries and transfer to municipality's public institutions - the audit recommendations are being followed i.e. procedures and criteria for allocation of funds are being adopted.

## **MINISTRY OF LOCAL SELF GOVERNMENT**

The Ministry of Local Self Government does not have established internal control as a system of financial and other control, including organizational structure, methods and procedures for operation. This increases the risk of illegal and non-earmarked spending of budget funds and increases the number of payments without proper supporting documentation.

For overcoming identified weaknesses the audit recommends preparation of written procedures for segregation of duties and responsibilities of employees in the process of payment, particularly in the part for obtaining complete documentation in support of the objectiveness of the procurement of goods and services.

The audit of public procurement procedures in the Ministry of Local Self Government ascertained that in some cases the public procurement procedures

were conducted subsequent to the procurement, the methodology for expressing criteria in points for granting public procurement contracts is not applied in the evaluation process, and for some procurements there were no public procurement procedures.

## PERFORMANCE AUDIT

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In 2010 we conducted six performance audits (one performance audit from SAO Annual Programme for 2009 that continued in the beginning of 2010, and five audits in line with SAO Annual Programme for 2010) and covered 72 auditees.

All performance audits relate to assessment of quality and quantity of public funds and services in the areas with significant financial risks, as well as possibilities for social and system improvements; indicators were created, that gave audit its added value to the chosen activities.

Subject of interest for the performance audit were public services, like the emergency aid in the Republic of Macedonia, the systems for control of administrative taxes on a national level, in particular the tax stamps, the system for Public Internal Financial Control in the Republic of Macedonia, the improvement of public transportation in Skopje, the employment of disabled persons. The following text is a summary of the performance audits conducted in 2010.

### **PERFORMANCE AUDIT – assessment of risks and possibilities for improvement of the realization of the right on health care - emergency medical service for the citizens in the Republic of Macedonia**



The general objective was to answer the question “Can the emergency medical aid provide the guaranteed right on health care to the citizens of the Republic of Macedonia, taking into consideration its organization and operation in practice?”

The emergency medical service in the Republic of Macedonia (in the following text EMS) faces irregularities that affect the realization of the guaranteed right on health care in the country. This activity is regulated by laws and bylaws that have not undergone important changes for a long time; these legal regulations are also not harmonized and they operate in an environment where there is no formally adopted EMS strategy. Although there are some positive movements, the harmonization is not done in the set time frame; the legal framework does not provide concrete procedures for operation with established criteria for the organizational layout of EMS, criteria for the premises, equipment and professional staff. 80% of Health centers keep their records in writing in different form, type and contents. The situation with EMS car park is alarming concerning the number, the usable condition, the age and equipment of EMS vehicles; there is no analysis and criteria for determining the optimal number of vehicles depending on the territory, the density and the configuration of the population. The segregation of duties between home doctors and the professional of EMS is not clear. EMS functions with different number of teams, as well as with teams with different structure which demonstrated that the criteria for their formation and distribution are not being followed. There are different procedures for answering emergency calls, categorization, frequency, answering, time for responding to calls, procedures for transferring patients for further medical services; small number of trainings were conducted that do not follow programmes and needs of health care workers; there are vague criteria for allocation of funds in the budgets of health centers; there are differences in the regulation of the method of payment for health care services, as well as unsatisfactory control mechanisms for the legality and professionalism of EMS. Therefore we point out that the recommendations given are of great importance to the relevant factors in this domain, taking into consideration the interest of the citizens and the role of all key institutions incorporated in the emergency aid service activities in the Republic of Macedonia.

## PERFORMANCE AUDIT – identifying risks and possibilities for improvement of the system for control of administrative taxes on a central/national level, in particular the tax stamps

The general objective was to answer the question “ Can current control mechanisms of the system in the competent institutions for issuing, printing, emission and putting on sale tax stamps prevent the practice of their misuse, taking into consideration the legality, the organization and operation of these institutions in practice? “



The audit identified several risks in the current system for control of administrative tax stamps – lack of clear legal provisions for identifying entities competent for taxation, as well as different practice in public administration bodies for the evaluation of administrative taxes by tariff numbers and for establishing the value of tariffs. With regard to the income from administrative taxes we ascertained that the application of historic approach to planning of

expected income from administrative taxes, the lack of analysis and follow up of how and to what extent will the increase i.e. the decrease of administrative taxes affect the Budget of RM, as well as the lack of familiar criteria for price formation of one tax stamp and comparison of incoming and outgoing elements negatively affect the projections of expected income and the cost & benefit analysis of the system expenditures.

The audit ascertained that the contract between the National Bank of RM and the Ministry of Finance which regulates interrelations concerning tax stamps does not include definite criteria for establishing the amount and the dynamics of emission of tax stamps, nor definite criteria for the type of expenditures which the Budget refunds to the National Bank of RM.

The processes relating to the activities of the National Bank of RM regarding tax stamps showed satisfying results. However, later we identified weaknesses in the control mechanisms for the sale of tax stamps to the authorized traders. We identified lack of written definite criteria for the requirements that need be met by the traders that purchase tax stamps from NBRM and sell them to the end users. In the public administration bodies where testing was done, the number

of irregularities in the processes for processing documents and activities ranges around 10%; the irregularities mainly refer to the following: applications are not being subjected to taxation, tax stamps on applications are not being annulled, and applications on the same basis are being subject to taxation with a different amount.

Our testing also confirmed a positive practice in the Customs Office regarding the regulation of these processes with detailed bylaws that were in procedure. Taking into consideration that a new concept of administrative taxes is soon to be created in the Republic of Macedonia, we point out that the given recommendations are of great importance to the relevant institutions in this domain.

## **PERFORMANCE AUDIT – assessment of the level of implementation of the system for Public Internal Financial Control in the Republic of Macedonia**

The general objective was to answer the question “Do competent institutions undertake necessary activities for proper implementation and development of the Public Internal Financial Control in the Republic of Macedonia? “

The audit ascertained that the activities concerning the implementation and development of the concept of Public Internal Financial Control (PIFC) in the auditees and in the Ministry of Finance demonstrated medium risks and irregularities that contributed to postponements in the timeframe set for realization of the PIFC concept; however, these risks and irregularities can be overcome by proper measures and efforts by all relevant factors. The processes relating to the conclusion of bylaws necessary for better development of PIFC concept on central and local level were expedited in 2010 and resulted in adoption of 10 out of 13 bylaws. Although the timeframe for passing bylaws for PIFC was surpassed for one year, we think that these bylaws will be of practical importance for the auditees and for the improvement of PIFC concept.





The level of formed and functional units for financial issues and units for internal audit were assessed as incompletely implemented due to the high percentage of auditees that do not have appointed responsible persons and do not have formed units. At the same time we point out that it is necessary to pay attention to the proper and objective necessity of filled-in PIFC sector in the Ministry of Finance as a basis for harmonization of the processes. In accordance with the results from our audit, the areas that need additional efforts for the purpose of complete, quality and efficient operation of PIFC concept in the auditees and in the Ministry of Finance are: creating and filling in the real number of necessary human resources and designing and implementing required number of trainings for the auditees.

If the auditees and the Ministry of Finance obtain necessary human resources and harmonize there organizational structure, raise awareness of the management structure for the significance of PIFC concept and the implement directions from the Government of the Republic of Macedonia, the degree of implementation and development of PIFC concept will improve. Therefore we gave recommendations in this direction that mostly depend on the activities tackled by the Government, the Ministry of Finance and the auditees, as well as on the obtainment of sufficient financial funds for the realization of these activities.

## **PERFORMANCE AUDIT – assessment of risks and possibilities for improvement of the public transportation in the City of Skopje**

The general objective was to answer the question: “Can the quality of public transportation in the City of Skopje be improved with the introduction of the new buses? “

The activities for improvement of the quality of public transportation in the city of Skopje depend to a great extent on the creation, introduction and fulfilment of several components and requirements that together would contribute to the improvement. The audit ascertained that there is improvement of the quality of the public transportation of the City of Skopje by introduction of the new busses. Taking into consideration the other components as well, the audit identified several irregularities, improprieties and risks in several areas of the

public transportation. There are several aspects where competent institutions should undertake activities for the purpose of building urban transportation system and for reducing the risks in these areas.

With the lack of or the partial operation of these conditions, the introduction of new busses would enable citizens to ride in new vehicles, but in risky environment due to the following irregularities: lack of coordination and harmonization of strategic objectives and documents on national and local level; planning and realization of infrastructure programmes in the City of Skopje and in the Public Enterprise for Streets and Roads regarding issues like permeability of crossroads, traffic jams, traffic regime and light signalization; issues on the level of the City of Skopje and the Public Transportation Enterprise Skopje regarding established criteria for obtaining licences, improper timetables, conditions of bus stops; issues regarding external and internal control and penalty provisions in this domain. In addition, the Public Transportation Enterprise Skopje should regulate issues regarding management, ownership, training, the maintenance and service center for the new busses, the system of payment and everything else that would contribute to fulfilment of needs of the users for timely, fast and economical public transportation.



## **PERFORMANCE AUDIT – programmes and measures aiming at increasing the employment of disabled persons**

The audit ascertained that the Republic of Macedonia is pursuing an active policy towards the disabled persons (DP) by signing and ratifying large number of international documents, as well as by constant harmonization of the national legislation on this issue. The policies for employment of DP have a positive effect on the actual employment i.e. the percentage of unemployed DP notes a trend of decrease from 46% in 2005 to 30.7% in 2009. There is social inclusion of DP in the working environments where they are employed; progress is noticed with many of them regarding their development, way of life and overall integration in the

society. The treatment of DP by their employers is also on a satisfactory level i.e. they pay their salaries regularly and DP receive equal treatment as the rest of the employees.

However, certain weaknesses and irregularities were identified in the following areas:

Occupational DP do not have the same benefits as DP by birth, and the right on permanent financial aid for the persons who are unfit to work depends on the social and economic status of their family.




The state does not have relevant information on the total number of DP in the Republic of Macedonia.

Regarding DP education, there are no conditions for all forms and phases of inclusion of these students in the regular educational process. The programmes for high school education and for vocational training of DP are limited and outdated and the work posts for which they are being trained usually do not correspond to the demand on the labour market.

The procedures for obtaining documents verifying disability and documents necessary for employment of DP are very complicated and it can take more than 3 months to be issued. Processing of request forms for using funds from the Special Fund takes more than a year or two years; this has a negative effect on the interest of entities to employ DP or to make improvements of the working conditions.

The employment policies for DP have positive effect on the increase of number of DP employed in the sheltered workshops, but not in the public or private sector. The public institutions are not obligated to employ DP and this sector employs only 0.2% of the total number of employed DP. The Ministry of Labour and Social Policy through the Employment Agency monitors and evaluates the effects of the implementation of programmes, which resulted in many policy changes. However, no concrete measures and activities have been undertaken for DP integration in the public and the private sector.

In the period from 2005 until 2009 sheltered workshops and sole proprietors have used irretrievable funds form the Special Fund. Most of the funds were used for



employment of DP, as well as for procurement of equipment. Employers however, have not made any adaptation of the working posts depending on the type and the degree of disability, although irretrievable funds have been intended for this purpose. There is no complete and efficient system for control of earmarked use of funds from the Special Fund.

In order to improve the conditions and to develop the programmes and measures aiming at increase of employment of DP, we prepared a set of recommendations for the Government, the Ministry of Labour and Social Policy, the Employment Agency, the Ministry of Education and Science and the Ministry of Transport and Communications.

## PUBLIC PROCUREMENT

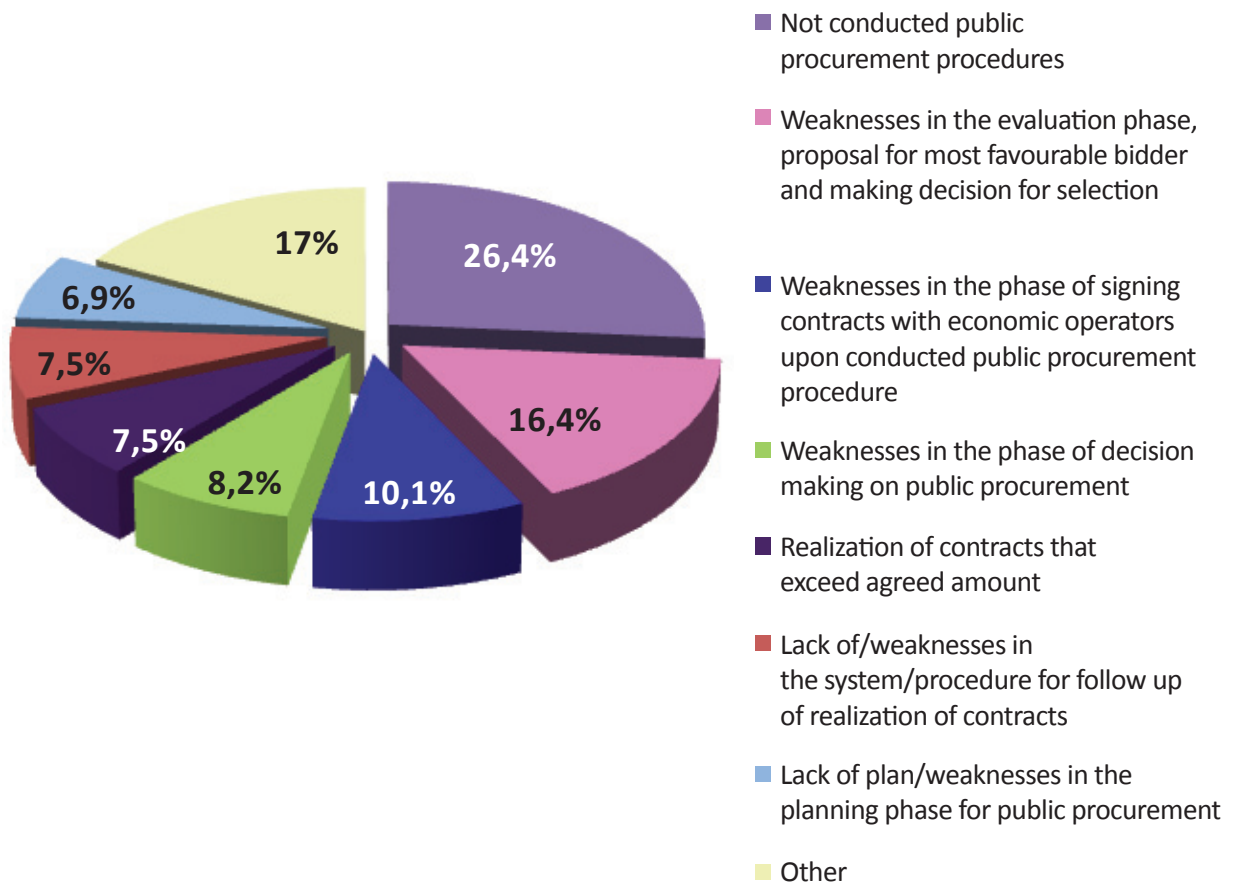
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In the frames of planned audits in 2010, the State Audit Office conducted audit on public procurement in auditees and identified the following irregularities in the planning, implementation and realization of public procurements:

- Around one fourth of irregularities relate to conducted procurement without public procurement procedure.
- Over 16% of irregularities relate to the evaluation phase, the proposal for selection of the most favourable bidder and the decision making for the selection. Irregularities were identified in the methodology for ranking, in the preparation of reports on the evaluation, the ranking lists, and the proposal for selection of most favourable bidders and making decisions for selection.
- The phase of signing contracts relates to one tenth of the total number of identified irregularities. These irregularities refer to signed contracts that do not include the basic elements of the bidding documentation or the bid itself (price, quantity or value), as well as contracts with conditions different from the ones in the bids or in the bidding documentation and with higher value than the one included in the decision for public procurement or the plan.
- Irregularities were identified in the application of the Law on public procurement in the process of making decision on public procurements (8.2%) which frequently do not include all necessary elements (type of procurement, amount and source of funds, method and procedure for granting public procurement contract).
- The realization of contracts that exceed the agreed amount relate to 7.2% of the total number of findings in the public procurement. The same percentage relates to the identified weaknesses in the control systems.

- The weaknesses in the planning phase of public procurement make 7% of the identified irregularities. These mostly refer to improper plan for public procurement (absence of some elements prescribed by law), as well as lack of or untimely changes in the plan.
- There are other weaknesses and irregularities in the public procurement that do not occur that often.

## Public Procurement in 2010



# International Cooperation





## INTERNATIONAL COOPERATION

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In 2010 the State Audit Office realized fruitful international cooperation with other SAIs and with international organizations and institutions aimed at exchange of information and acquiring new experience on public sector audit. The State Audit Office is a member of both the International Organization of Supreme Audit Institutions (INTOSAI) since 2001 and the European Organization of Supreme Audit Institutions (EUROSAI) since 2002.

In 2005 SAO became an active member of the SAI Network of EU candidate and potential candidate countries and the European Court of Auditors in Luxembourg. The candidate status of the Republic of Macedonia has granted SAO regular participation at the meetings of the Contact Committee of the Heads of EU SAIs and ECA as an active observer.



### ACTIVITIES IN THE FRAMES OF INTOSAI AND EUROSAI

The State Audit Office is a member of EUROSAI WG on environmental auditing since 2002 and EUROSAI IT WG since 2005. During 2010 SAO representatives took part in the meetings and theme seminars in these areas held in Copenhagen and Ljubljana.

At the invitation of INTOSAI Development Initiative (IDI) and EUROSAI, in 2009 the State Audit Office joined two new international projects: audit of public debt management activities and cooperative audit of programs for increasing employment of disabled persons in the public sector – with the purpose of



strengthening capacities and developing professional skills of SAO employees. SAO auditors were included in the activities of these programs in 2010 – preparatory seminars and meetings for making audit plan, conducting audit and reporting on audit results.

In November 2010 SAO delegation attended XX INTOSAI Congress in Johannesburg, South Africa. The main topics of the Congress were “Values and Benefits of Supreme Audit Institutions” and “Environmental Auditing and Sustainable Development”.

SIGMA - OECD initiated and organized a meeting of representatives of 10 SAIs for the purpose of exchanging ideas and experience in several directions of focus to the network, the European Court of Auditors and SIGMA, as well as for overcoming dilemmas and/or open issues in the SAI operation. The SAI network organized by SIGMA, the European Court of Auditors and EUROSAI focuses on discovering themes of mutual interest to SAIs through discussions, suggestions and decisions; the network operates through sharing experiences at meetings, seminars, roundtables and other forms of cooperations between network members. The State Audit Office gave important contribution by giving suggestions and opening discussions by its own representative at this meeting.

## **SAI NETWORK OF EU CANDIDATE AND POTENTIAL CANDIDATE COUNTRIES AND THE EUROPEAN COURT OF AUDITORS**

Representatives of the State Audit Office attended the meetings of the Network and were actively included in defining the priorities for strengthening institutional capacities of SAO and the other SAIs on the road to EU accession. To this end, in October 2010 the General State Auditor participated at the meeting of the Contact Committee in Luxembourg. Here it was agreed SAIs of Macedonia, Turkey and ECA together with representatives from SIGMA and JWGAA<sup>7</sup> to meet and define the agenda of the following meeting of the Heads of the Network to be held in Istanbul in March 2011. The previous meeting of the Heads of the Network was held in Skopje in June 2007.

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<sup>7</sup> Joint Working Group on Audit Activities

The extraordinary meeting of the liaison officers held in Luxembourg in December 2010 also focused on the preparations for the meeting and on both documents to be adopted in Istanbul: the Istanbul Agreement and the General plan of Network activities for the period 2011-2013.

The cooperation with the European Court of Auditors continues with the internship program for junior auditors of SAIs of EU candidate countries: Croatia, Macedonia, Turkey, Montenegro and Island. By the end of 2010 seven junior auditors of the State Audit Office had completed the five-month program.

## **BILATERAL AND REGIONAL COOPERATION**

Within the bilateral cooperation, highest level working meetings were realized with representatives from Slovenian SAI in Skopje and with Bulgarian SAI in Sofia. SAO hosted a study visit of Moldavia SAI delegation. These visits were used for exchange of experience on current topics in the area of the state audit, among which was audit of the central budget. For this purpose SAO auditors realized a working visit of the Supreme Audit Institution and the Ministry of Finance of Slovenia.

The successful cooperation between the State Audit Office and the Netherlands Court of Audit within the Twinning Project of 2005-2008 continued with activities in 2009-2010. The Project was financed through the Ministry of Foreign Affairs of the Government of the Netherlands. The program aimed at strengthening administrative capacities of the State Audit Office, building audit skills, developing IT and IT audit, and improving the cooperation with the Parliament. The activities, inter alia, included several pilot audits and study visits to the Netherlands. A workshop on the subject “Strengthening the cooperation between SAO and the Parliament” was organized in the frames of the last project component. Members of Parliament



also took part in the workshop for the purpose of better understanding of audit reports. NCA and other SAIs experiences were presented at this workshop.

The five-year partnership between both institutions was concluded with a closing conference held in Skopje in December 2010. The results from the cooperation that contributed to strengthening accountability in the use and management of public funds in the Republic of Macedonia were presented at the conference.

## **COOPERATION WITH SIGMA AND THE EUROPEAN COMMISSION**

The cooperation with SIGMA and the European Commission proceeds in the frames of the annual assessment missions for the operation of the financial control in the Republic of Macedonia. In addition SIGMA in 2010/2011 organized and/or supported the organization of several events like the workshop in Skopje in June 2010 and the follow up seminar for PIFC. This cooperation has a positive effect on the process for further development of the State Audit Office as a competent institution for external audit in line with EU requirements and the international state audit standards.

## WHAT WAS SAID ABOUT THE STATE AUDIT OFFICE

**Mr. Gerrit De Jong**, Member of the Board of the Netherlands Court of Audit:

„We have seen the State Audit Office rapidly moving towards international and European Standards“

Her Excellency **Mrs. Simone Filippini**, Ambassador of the Kingdom of the Netherlands to the RM

„Our cooperation with the State Audit Office is one of the finest examples of a good project. In the region SAO has gained a leading position“

**Elisaveta Foca**, Deputy President of the Court of Audit of the Republic of Moldova:

„Although there are differences between both countries, the fact that SAO conducts audit on all sources of revenues encouraged the Court in conducting audits. In the beginning there was concern for auditing own income of the local self government, but when we found out that SAO is including these sources in its audits, the Court will be more confident in performing these audits“

**Vesna Ilievska**, Agency for Development of the Agriculture in the Republic of Macedonia

„I must point out that for the first time in my 25 years' experience I encountered a professional audit team with audit approach that took into consideration the entire operation of the Agency and gave concrete findings, recommendations and suggestions for better functioning and for establishing systems in the operation.“

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