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STATE AUDIT OFFICE

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Press release

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Identified irregularities in JSC ESM operation

In the period 2011-2020 significant amount of funds was invested in projects that were not completed and equipment that was not put into use

The State Audit Office carried out audit of the financial statements for 2020 together with compliance audit on the **Joint Stock Company Power Plants of North Macedonia in state ownership Skopje (JSC ESM Skopje)** in line with SAO Annual Work Program for 2021.

The certified state auditor concluded that in the period 2011 - 2020 significant amount of funds was invested in projects that have not been completed and equipment that has not been put into use. For realization of the projects and procurements, contracts were signed in the amount of 1.3 billion denars or approximately 21.5 million euros. These projects and procurements refer to:

- implementation of integrated computerized business information system - BIS,
- procurement of equipment for improving telecommunications and networking,
- procurement of goods from the "system for monitoring movement and measuring quantities of coal and measuring activities of accompanying mechanization for PE Rudnici in REK Bitola",
- Hydro Power plant Boskov Most - construction of dam and accumulation,
- Lukovo Pole - drafting project proposal for renewable energy,
- construction of new administrative building - Office building of JSC ESM Skopje,
- reconstruction and extension of the facade for the administrative building of JSC EVN Macedonia and JSC ESM Skopje, and
- other expenditures related to consulting services, opinions on feasibility studies and other examinations, which were not used for realization of specific projects.

The certified state auditor determined that the project for modernization of Block 1 in REK Bitola was not realized. In the period from 2011 until the day of issuing of the audit report, the project has caused unproductive expenses amounting to 1.296.211.000 denars (about 21 million euros). The largest portion of the expenses i.e. 55% are legal fees for representation in arbitration proceedings and costs arising from the lost procedure. Additionally, 39% of the expenses are based on paid advance and withdrawn credit funds for loan insurance and 6% for commitment fee for not withdrawn approved funds from the credit line for financing this project.

The certified state auditor also found that the performed inventory of assets and liabilities at the end of the year was not complete and not in line with the Rulebook on performing inventory. For a long period of time there is a quantitative discrepancy of 2.505.956 kg between the fuel oil recorded in the

accounting books and the fuel oil shown in the inventory lists and the value of the difference is 62.650.000 denars (calculated at the average prices on 31 December 2020).

The inventory report states that land and buildings represent 56% of the total value of tangible assets of the company. Even though JSC ESM Skopje has title deeds, due to lack of detailed and accurate data in the business books, the auditors were not able to confirm the area and ownership. For the land granted for permanent use with a decision of the Government of RNM, where new administrative building is being built - Business building of JSC ESM Skopje, no procedure has been initiated for securing the title deed.

Weaknesses were identified in the application of the Public Procurement Law, inter alia, in determining estimated value of procurements, proving required ability within the procedure and in the contents of the technical specification. Since JSC ESM Skopje is not obliged to apply the provisions of the Law when the subject of procurement is energy or fuel for energy production, it announces public call for transparent implementation of these procurements. The certified state auditor points to the need of adopting procedure for planning and conducting public calls for procurement of fuel for electricity generation.

Inadequate records of provisions for reclamation of degraded land and their annulment affect the double presentation of expenditures in the previous period, as well as incorrect presentation of income from provisions in 2020.

The published audit report identifies weaknesses in established internal controls in the process of management and operation of the IT system. Internal controls are not in line with international standards on IT security and best practice and pose a risk to the system operation.

The Emphasis of Matter paragraph points to the following issues:

- Need for providing permit for compliance with the operational plan of the thermal power plant REK Bitola, as a requirement for its operation and control of sulfur dioxide and dust emissions arising from its activity. In the period 2019 - August 2021, measured emissions of sulfur dioxide and dust were continuously above the allowed limit values, which affects the quality of the environment and the health of citizens.
- Need for procurement of building and land in the central area of Skopje for a total value of 123.787.000 denars (excluding VAT), taking into consideration that in 2013 activities were commenced for construction of new administrative building for JSC ESM headquarters, and the renovation of the facade of the existing administrative building has been canceled.
- Review of decisions made for financing activities that are not within the main activity of the company, such as giving loans to entities in the amount of 134.7 million denars, due to their impact on the operation of the company, its liquidity and profitability.
- Disclosure of possible future plans for "Popova Shapka - Tetovo", which is a subsidiary within ELEM TOURS DOOEL Skopje, for its concession, public-private partnership or sale. The purpose of these plans is to improve the conditions in the ski center, accommodation facilities and tourism development, as well as the financial standing of ELEM TOURS DOOEL Skopje. The audit pointed out when making decisions to take into account the loans granted so far to ELEM TOURS DOOEL Skopje, as well as the significant investments in the period 2012-2020.
- Separate overview in the audit report describes the situation in RNM regarding possible sources of electricity generation, the role of JSC ESM Skopje in the energy system in the country, the revenue it generates from the sale of electricity, the problems it faces in terms of coal reserves and the price offered for electricity by the universal supplier.

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