

ANALYSIS AND OBSERVATIONS FROM THE REVISION OF THE STATE BUDGET OF THE REPUBLIC OF MACEDONIA IN THE LAST 5 YEARS

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Abstract: The annual plan for financing the functions and the obligations of the Republic of Macedonia, the units of local government and the funds, and which consists of an annual appraisal of the revenues and the expenditures as purposed is called a basic budget.

The budget is being prepared at an annual level, which means each next year a new one is prepared. In order to determine whether the budget has met some basic requirements, that is, whether it has been: efficient, effective, legal and purpose-used, consistent etc., each year the State Audit Office performs financial audit, success audit and audit of the regularity.

After the performed audit, the conclusions of the conducted audit are sent to the Ministry of Finance, in written form, where they are explained in detail and, if necessary, appropriate recommendations are provided.

From the performed audit, reports were prepared for: the system of internal controls in the procedure of the planning of the Budget of the Republic of Macedonia and the financial reports of the Budget of the Republic of Macedonia for the year preceding the year, subject to revision.

If we make an analysis of the results of the conducted audits of the Budget of the Republic of Macedonia we could realize: whether the recommendations provided in the final report for the system of internal controls in the procedure of planning the budget of the Republic of Macedonia are conducted, whether there are controls that will ensure legality, completeness, accuracy and timeliness in the process of collecting the source revenues of the Budget of the Republic of Macedonia, whether the control procedures are functioning efficiently and properly, in relation to the prevention or the detection of errors in the process of the Budget execution, whether the financial report expresses the result of the financial activities truthfully and objectively, in accordance with the applied legislation.

Key words: basic budget, economy, efficiency, effectiveness, purpose-use, State Audit Office, compliance audit, success audit, financial audit, recommendations, reports, results analysis, observations.

Basic budget is an annual plan of revenues and other inflows and appropriations with the budget in order to fund the basic functions of the budget users. The introduction and the charge of the public revenues is done in order to fund the functions of the country and other public legal entities, related to the contentment of the public goods and services. But the realization of the public revenues must be done within a planning process, taking into consideration the actual material possibilities of the national economy, the feedback effects of the public revenues, and also the level of offer of various goods and services which need to be provided through the public sector.

The funding of the public goods and services also requires a certain formal and material order. Such order in the public funding is provided with the budget, where the public revenues and expenditures are connected in a single harmonious totality. Only on the basis of such arranged relations in the financial activity, a regular and continuous fulfillment of the country functions is possible, as well as contentment of the public goods and services. And the process of funding the expenditures and revenue performance and contentment of public goods and services is called budgeting.

The term "budget" has English origin (budget), and originated from the Latin word "bugle", which means leather bag in which the Minister of Finance carried the proposal of the budget to the Parliament for approval.

The budget is an act of the legislative body (the Parliament) in which the revenues and the expenditures of the country are planned and are approved in advance, or of any other public legal body which will be performed for a specified future period, usually one year.

On the basis of this definition, the following elements of the budget can be determined:¹

1. The budget is an act of the Parliament (the Assembly), as a legislative body. With the adoption of the budget by the legislature, a legal basis for the public (state) funding is created, that is, for the charge of the revenues and enforcement of the expenditures.

¹Prof. Dr. Zivko Atanasovski, Public finance, Faculty of economics, Skopje, 2006, page 486.

2. The revenues and the expenditures projected and approved in the budget are shown in figures, according to the constitutional classification. On one side of the budget the revenues are presented, according to the sources and the specific types of sources in which they will be charged. On the other side, the expenditures are presented, according to the purpose and the state authorities which will perform them.

3. The budget, as a plan of the revenues to be realized and the expenses to be performed, in general is prepared for a future period of one year. For this reason, the budget is adopted before the year in question begins.

The definition of terms is very important and necessary since in this way we can dive deeper into the essence of things. What is the subject, objective and purpose of each control is to determine whether certain actions are justified and whether they satisfy the determined criteria.

There are few things that the budget needs to meet and fulfill, such as: thriftiness, efficiency, effectiveness, the lawful and the earmarked use of funds from the budget.

The thriftiness means the accomplishment of any function or activity with the least possible costs;

Efficiency means the lowest possible level of costs compared to the realized effects;

Effectiveness means the highest possible level of accomplishment of program effects;

The lawful use of funds is the use of funds available to the entity audited in accordance with the laws, bylaws and internal regulations;

The earmarked use of funds is the use of funds in accordance with the purpose specified in the budget, that is, the financial plan of the audited entity;²

² Law on the State Audit, Official Gazette of RM, No. 66/2010, 145/2010, article 2.

Audit of compliance / regularity is the procedure of determining and assessing the compliance of the operation of the entity with the laws, bylaws and internal regulations;

Audit of success is an assessment of the thriftiness, efficiency and effectiveness of the operations and the use of funds in a defined area of activities or programs;

The financial audit is to verify the accuracy and the completeness of the accounting records and financial statements;

The State Audit Office (SAO) was established by an act of the Parliament of the Republic of Macedonia and the State Audit Act (enacted in 1997), that is, with its amendments (in 2003 and 2004). According to the Law on State Audit, the State Audit Office is an audit institution.

The practical operation of the SAO began in the early 1999 with 9 employees who were taken from the Directorate of economic and financial audit in the former institution - Payment Operations Bureau.³

For each year, huge efforts are made in order to prepare an annual work program for the operations of the Office.

The SAO operates according to an appropriate methodology for audit of the subjects from different areas, including audit of budget as well.

The State Audit Office is an autonomous and independent institution and it should provide reliable and realistic data on the legal and earmarked spending of budget funds.

Some of the many tasks of the State Audit Office and directly related to the budget of the Republic of Macedonia are given below. They are:

- Identification of legal and earmarked execution of the state budget, the budgets of the local government authorities (the municipalities) and the budgets of the funds established by the Assembly of the Republic of Macedonia, to their users and spending units, the extra-budgetary accounts and to the quality of the use of funds in terms of the thriftiness, efficiency and effectiveness;

³ <http://dzt.gov.mk/DesktopDefault.aspx?tabindex=0&tabid=211>

- Identification of legal and earmarked execution of the financial plans of the public enterprises and the enterprises where the state is the dominant shareholder, the institutions established by law, agencies and other institutions which are users of public funds and the successful operation;
- Evaluation of the accomplishment of the functions of the National Bank of Macedonia, and the relations with the state budget;
- Identification of the legal, earmarked and successful implementation of the financial assets which the Republic of Macedonia receives from the countries of the European Union, the international financial institutions and other international donors;
- Identification of the legal funding and financial operations of the political parties which are financed from State budget of RM;
- Evaluation of the financial performance of the public institutions;
- Surveillance and control of the administered procedures for public procurements at the entities for which the state audit is performed, and
- Audit of success and quality.

The audit of the basic budget of the Republic of Macedonia should provide the auditor to obtain with a reasonable assurance whether:

- the procedure of planning, decision and performance of the Budget of the Republic of Macedonia is conducted in a manner that provides the planned funding to reflect the strategic needs of the budget users,
- the established record and the coordination between the institutions will ensure completeness, accuracy and timeliness in the planning and collecting of the tax and the capital revenues of the Budget of the Republic of Macedonia and the control procedures operate efficiently and correctly to prevent or detect errors in the functioning of the treasury and records.

An audit of the regularity of the Basic Budget of the Republic of Macedonia for 2010 has been conducted by the State Audit Office.⁴

The implementation of the recommendations made in the Final Report of the authorized state auditor for 2009 was covered with the audit, and it is determined that from the ten given recommendations, four are in the phase of implementation, three have been partially implemented and three have not been implemented.

⁴ www.drz.gov.mk

The auditors have expressed their opinion with a reserve opinion on the process of planning of the Budget of the Republic of Macedonia and the alignment with the strategic plans of the budget users, as well as for the completeness, accuracy and timeliness in the collection of the tax and capital revenues of the Budget of the Republic of Macedonia.

The audit concluded that there are deviations of the projected deadlines in the phases of preparation of the Budget of the Republic of Macedonia, incompleteness of part of the budget circulars and misalignment of the budgetary requirements with the maximum amounts determined by the Government of the Republic of Macedonia.

The audit recommends to all participants in the process of planning the Budget of the Republic of Macedonia to carry out their activities within the statutory determined limits, and provisions for determining responsibility should be projected in the Budget Law in case of their neglect.

The audit also recommends to the line ministries to take measures to establish a full and complete record of the area they are in charge with (which is not the case), for the complete monitoring of the revenue collection, as well as takeover of measures for failure to act in accordance with the concluded contracts and their termination.

An audit of the regularity of the Basic Budget of the Republic of Macedonia for 2009 has also been conducted.

The findings were: acting according to the recommendation of the audit report from 2008 regarding the alignment of the budget requests, partly acting according to the recommendations relating to the timeliness of the budget process, planning of the budget at the budget users and the system of payment of salaries, while the recommendations concerning the non-tax revenues - concessions, the use of funds for capital expenditures and the employment system are not implemented.

An opinion has been expressed with a reserve opinion about the process of planning the Budget of the Republic of Macedonia and alignment with the strategic plans of the budget users, since the participants in the budget process do not respect the time limits stipulated in the Law on Budgets and the budget requirements do not reflect the true strategic needs.

An opinion has been expressed with a reserve opinion about the process of collecting the source revenues of the Budget of the Republic of Macedonia. In terms of revenue charge, the audit concluded that activities for the tax revenues have been undertaken which contributed to improving the process of collection of revenues, but there are weaknesses in the system of collection of non-tax revenues.

For the charge of the revenues on the basis of concessions in the Ministry of Finance there is no updated register of concluded agreements for concessions with timely, complete and authorized data. The ministries – grantors of concession do not respect the obligation and did not deliver data on the concluded agreements.

The following is the matter of interest of the performed audit of the Budget of the Republic of Macedonia for 2008:

- planning of the Budget of the Republic of Macedonia;
- collection of source revenues of the Budget of the Republic of Macedonia;
- performance of the Budget of the Republic of Macedonia - the functioning of the Treasury,
- the financial report on revenues and expenditures of the Basic budget - funded by source revenues determined in the Budget of the Republic of Macedonia.

The purpose of the audit is to determine:

- whether the procedure of planning, deciding and execution of the Budget of the Republic of Macedonia is conducted in a manner that provides for the planned funding to reflect the real needs of the budget users;
- whether there are controls which will ensure legality, completeness, accuracy and timeliness in the process of collecting the source revenues of the Budget of the Republic of Macedonia;
- whether the control procedures operate efficiently and correctly in the prevention or detection of errors in the process of functioning of the Treasury;
- whether the financial report objectively and truthfully expresses the result of the financial activities in accordance with the applied legislation.

In the end, recommendations are given. These are:

- For better allocation of the budgetary resources, overcoming the traditional budgeting and replacing it with performance budgeting, the

audit suggests the need to strengthen the administrative and the institutional capacity necessary to introduce the new concept of budgeting, thus the planning of the budget according to activities should be based on specific measurable outcomes and effects to be achieved through the planned activities.

- To establish control by the state administration authorities for the full and timely realization of revenue from sale of administrative and judicial tax stamps.

- To examine the effect of the application and the justification of the existence of the article in the Law on the budget performance which refers to the percentage binding of using the capital assets within the legally prescribed time limit.

All the above listed recommendations arise from determined irregularities and are listed in order to overcome these obstacles and weaknesses.⁵

The audit of the budget for 2007 is being made in order to check:

- the implementation of the given recommendations in the final report on the system of internal controls in the process of planning of the Budget of the Republic of Macedonia;

- the system of internal controls in the process of collecting source revenues of the Budget of the Republic of Macedonia;

- the system of internal controls in the procedure of performance of the budget of the Republic of Macedonia - the functioning of the Treasury,

- the financial report on revenues and expenditures of the Basic budget-financed with source revenues specified in the Budget of the Republic of Macedonia.

The audit was performed in accordance with the Standards for State Audit of the International Organization of the Supreme Audit Institutions (INTOSAI) which are ordered in the Republic of Macedonia during the performance of the state audit.

These standards require the audit to be planned and prepared in order to obtain reasonable assurance whether:

- the effects of the previous audits are monitored, that is, whether the process of planning of the Budget of the Republic of Macedonia is

⁵ http://www.dzr.gov.mk/Uploads/2008_Budzet_na_RM.pdf.

aligned with the strategic plans of the budget users and the budgetary policy,

- the process of collecting source revenues provides completeness and timeliness in their charge,
- The process of budget execution is aligned with the planned funds in monthly plans.

The audit also includes an assessment of the reliability of the internal controls which ensure the prevention or detection of errors in the process of planning and performance of the Budget of the Republic of Macedonia.

As with the other audits, during the audit of the budget for 2007 some additional recommendations are provided, which, of course, are not fully implemented.

Analyzing the budget audits which are conducted every year, we can conclude that every year the same things are repeated.

The Audit Bureau conducts the research and provides appropriate messages which are repeated for years and nothing is done in terms of their improvement or removal.

What was stated above also applies to the budget revision for 2006.

The audits performed by the State Audit Office have concluded irregularities in every organ, numerous weaknesses in almost all cases. It is possible that a very small number of exceptions exists at the small budget users.

A documentation why the money was spent is missing at some places. Often these money are spend irresponsibly, inappropriately and ineffectively, without transparency and accountability where they ended. The law on public procurement or procedures and the criteria are not respected.

What is a concerning is that the authorities of the persecution do not take timely action to determine the responsibility on the public procurement, or they do that selectively.

In the fourth quarter of 2010, the value of the concluded direct contracts is 26, 3 million Euros, which is 3, 4 million Euros more than in 2009. Instead of reduction, an increase has been registered in the observed announcement. The law accurately predicts in which cases direct contracts can be concluded, without notice. However, there are

examples where this is not respected and the threshold determined in the law is surpassed. The observations conducted in these last 2-3 years show that it is becoming a frequent practice to conclude direct contracts without the announcement. There is a tendency of avoiding the publication of the proceedings, since when it is implemented with an announcement, transparency and competition are enabled or need to be enabled, so that everyone could participate, thus a better offer would be received. The direct agreements are commonly misused, or used for contracting with a firm chosen in advance. The control in this case is quite smaller.

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