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TECHNICAL ASSISTANCE REPORT – PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY PERFORMANCE ASSESSMENT

This Technical Assistance Paper on North Macedonia was prepared by a staff team of the International Monetary Fund and the World Bank. It is based on the information available at the time it was completed in December 2021.

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NORTH MACEDONIA

PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY (PEFA)

ASSESSMENT REPORT / May 2022

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Republic of North Macedonia

Public Expenditure and Financial Accountability (PEFA) Performance Assessment Report

The PEFA Secretariat confirms that this report meets the PEFA quality assurance requirements and is hereby awarded the **“PEFA CHECK”.**

PEFA Secretariat

March 18, 2022

PEFA CHECK, ASSESSMENT MANAGEMENT AND QUALITY ASSURANCE

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Review of concept note

- Date of reviewed draft concept note: 7 April 2021

Invited reviewers: Suzana Peneva, State Advisor, MoF; Ana Nanevska, Head of Unit, MoF; Yasemin Hürcan, Senior Economist, IMF; Patrick Tete, Senior Financial Management Specialist, World Bank (WB); PEFA Secretariat

- Reviewers who provided comments: Suzana Peneva, State Advisor, MoF

Ana Nanevska, Head of Unit, MoF; Yasemin Hürcan, Senior Economist, IMF; Patrick Tete, Senior Financial Management Specialist, World Bank (WB), PEFA Secretariat

- Date(s) of final concept note: 28 April 2021

Review of the assessment report

- Date(s) of reviewed draft report(s): 28 November 2021
- Invited reviewers: Suzana Peneva, State Advisor, MoF; Ana Nanevska, Head of Unit, MoF; Yasemin Hürcan, Senior Economist, IMF; Patrick Tete, Senior Financial Management Specialist, World Bank (WB); Tony Bennett, Consultant, SECO; PEFA Secretariat
- Reviewers who provided comments: Suzana Peneva, State Advisor, MoF; Ana Nanevska, Head of Unit, MoF; Yasemin Hürcan, Senior Economist, IMF; Patrick Tete, Senior Financial Management Specialist, World Bank (WB); Tony Bennett, Consultant, SECO; PEFA Secretariat

Methodology

The assessment followed full the guidance issued by the PEFA Secretariat (available at www.pefa.org), The assessment team used full suite of methodological guidance and tools developed by the PEFA Secretariat, including the PEFA Handbooks.1

Type of assessment. The assessment is the second successive national PEFA assessment in North Macedonia, funded from the IMF's "Revenue Administration and Public Financial Management in South East Europe" project[2] and the World Bank's ongoing TA "Support to Public Revenue Office IT System Design", with in-kind contribution by the Government of North Macedonia. The previous assessment was conducted by an EU-funded technical assistance project using 2011 PEFA Framework. The 2021 assessment was external, conducted by the World Bank and the IMF in line with the 2016 PEFA Framework. The assessment tracked change from the previous assessment conducted in 2015, applying separate guidance on assessing PFM performance changes using different versions of the PEFA framework.

Number of indicators used. All 31 PEFA indicators across seven PFM pillars were applied for the assessment.

Timeline of the assessment: The assessment commenced in April 2021 with training in PEFA methodology delivered by the PEFA Secretariat on April 21. The training was followed by the main data collection mission conducted from April 22 to May 21, 2021. From May to July 2021 the assessment team focused on drafting the PEFA report, accompanied with additional data requests to the government and supplementary meetings to fill information gaps. Based on the first draft, the discussions with the government about the preliminary findings were continued in order to come up with the next iterations of the report. Final assessment findings were coordinated with the OECD SIGMA team which was conducting a concurrent Principles of Public Administration assessment. The report was subsequently subject to the review for PEFA Check endorsement and translation into Macedonian. It was delivered in January 2022, with PEFA Check logo, in English and Macedonian and published on the websites of the PEFA Secretariat, IMF, World Bank and the Ministry of Finance of North Macedonia.

Years covered: The assessment covers 2018, 2019 and 2020 as the last three completed fiscal years. This period applies to all indicators covering "three last completed fiscal years" and 2020 is the "last completed fiscal year" referred to in a number of dimensions.

Cut-off date: The assessment cut-off date was June 30, 2021, in line with the assessment Concept Note. It was used as such for the information collected and assessed, and in consideration of circumstances applying "at the time of the assessment", relevant to some dimensions.

Coverage: The assessment covers the central government. Section 1 (table 1.1) of the report presents the structure of government units. Other central government entities covered in the assessment included social security funds (3 institutional units, namely Health Security Fund, Employment Agency, Pension and Disability Fund) and other extra-budgetary units (as defined in section 1.1). Except on PI-6, which is exhaustive, the assessment of the different aspects of EBUs' performance was based on a representative sample of EBUs on indicators with CG coverage, given their number and variety of legal, organizational and governance arrangements. The assessment covered the sub-national government level and public corporations to the extent required under the PEFA 2016 Framework, i.e. assessing

[1] Revised Volume 3 (second edition, piloting in 2020) was used for the preparation of the PEFA Report in terms of content and format.
[2] With financial support from the EC and SECO.

fiscal risks arising from operations of sub-national governments and public enterprises and assessing transfers to the sub-national level.

Sources of information: The primary sources of data for the assessment were (i) interviews with relevant government officials and (ii) review and analysis of relevant documentation, such as government reports, analytical data and any other documents prepared by the government which are relevant to assessing PEFA indicators. The assessment team likewise consulted through meetings and relevant diagnostic and analytical reports produced by non-government stakeholders, including international organizations and donors. The full list of institutions and people met, as well as documents and reports used, is presented in Annex 3 of the report.

Country fiscal year: January 1 to December 31.

Exchange rate: 1 EUR = 61.6940 MKD; 1 USD = 50.2353 MKD

(median exchange rates of the National Bank of the Republic of North Macedonia as of December 31, 2020)

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Abbreviations and Acronyms

AG	Auditor General
BCG	Budgetary Central Government
BU	Budget User
CA	Customs Authority
CG	Central Government
CHD	Central Harmonization Department
CIT	Corporate Income Tax
COFOG	Classification of Functions of Government
CRMU	Compliance Risk Management Unit
DMIS	Debt Management Information System
EC	European Commission
EO	Economic Operator
ESPEO	Electronic System for Reporting and Recording of Liabilities
ESPP	Electronic Procurement System
EU	European Union
ERP	Economic Reform Program
FID	Financial Inspection Department
FS	Fiscal Strategy
FY	Fiscal Year
GDP	Gross Domestic Product
GFSM	Government Financial Statistics Manual
GTI	General Tax Inspectorate
GRNM	Government of the Republic of North Macedonia
HIF	Health Insurance Fund
IAU	Internal Audit Unit
IFRDMD	International Relations and Debt Management Department
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPA	Instrument for Pre-Accession Assistance
JSC	Joint Stock Company
LGSU	Local Self Government Units
LGU	Local Government Unit
LTO	Large Taxpayer Office
MC	Ministry of Culture
ME	Ministry of Economy
MES	Ministry of Education and Science
MESP	Ministry of Environment and Spatial Planning
MKD	Macedonian Denar
MLSG	Ministry of Local Self Government

MoF	Ministry of Finance
MOTC	Ministry of Transport and Communication
NBRNM	National Bank of the Republic of North Macedonia
OBL	Organic Budget Law
PDMS	Public Debt Management Strategy
PE	Public Enterprise
PEFA	Public Expenditure and Financial Accountability
PESR	Public Enterprise for State Roads
PFM	Public Financial Management
PIM	Public Investment Management
PIT	Personal Income Tax
PPB	Public Procurement Bureau
PPL	Public Procurement Law
PPP	Public-Private Partnership
PRO	Public Revenue Office
RNM	Republic of North Macedonia
SAC	State Appeals Commission
SAO	State Audit Office
SPP	Single Project Pipeline
SSC	Social Security Contributions
STA	Single Treasury Account
TrIS	Treasury System
UPEA	Unit for Public Enterprises and Agencies
VAT	Value Added Tax
WB	World Bank

Executive Summary

Purpose and management

This PEFA assessment provides a snapshot of the country's PFM system performance in order to support the government in defining PFM reform priorities. The previous assessment was conducted in 2015, therefore the current assessment follows after the recommended time period between the two assessments. Furthermore, the scope and objectives of the reforms initiated and implemented in the intervening period makes tracking the change in the PFM system needed and meaningful. The assessment was conducted by the International Monetary Fund and the World Bank, with the Ministry of Finance and other relevant country institutions being the primary beneficiaries of the assessment.

The assessment informed evaluation of the implementation of the PFM Reform Program 2018-2021, and preparation of a new reform program. The Public Financial Management Reform Program (PFMRP) is the key strategic document in the area of public financial management, which describes the planned reforms and set targets and indicators to measure implementation results. The Government completed the implementation of the PFMRP covering the period 2018-2021 and is in the process of preparation of a new program. A number of reforms have been implemented under the PFMRP 2018-2021, but the assessment identified further remaining areas for improvement. The assessment aims to inform the Government about the performance of its PFM system in line with the PEFA methodology, as well as to track the changes between the 2015 assessment and the current one.

Main strengths and weaknesses of the PFM systems in the Republic of North Macedonia

The assessment has identified the following main strengths of the country's PFM system:

- ✓ **Budget formulation, credibility and transparency**. Deviations of the executed versus the original budget are within manageable levels, with the exception on the revenue side in 2020 due to the pandemic. Deviation in the composition of expenditure and revenue is more significant, and it includes reallocations from capital to recurrent budget coupled with the capital budget underspending. Annual budget and budget execution reports are presented in line with all relevant classifications, namely administrative, economic, functional and program classification, while in-year reporting does not provide all classifications and tends to be more aggregated. However, the comprehensiveness of the published budget documentation provided to the legislature could be improved as some key elements are missing, such as current year's budget, aggregated budget data for revenue and expenditures, macroeconomic assumptions, information on financial assets, budgetary impact of new policy proposals and assessments of fiscal risks and tax expenditures. Fiscal information is transparent and publicly accessible. Transfers to lower levels of government are based on a rule-based, transparent and equitable system. Budget calendar is appropriate and generally adhered to, however the ceilings provided to budget users do not cover the total expenditures for which they are responsible.

- ✓ **Budget execution**. Predictability of available funds for budget execution during the year is robust and underpinned by suitable cash flow forecasting and monitoring. There are hard controls at the payments stage which ensure that the budget is executed within the approved allocations and against quarterly commitment ceilings. Available records on expenditure arrears report low stock of arrears. Internal controls, including payroll controls, are generally sound. Public procurement is competitive, transparent, with appropriate complaints mechanism in place.

- ✓ **External audit and parliamentary scrutiny**. The State Audit Office (SAO) is financially and organizationally independent and it conducts audits in line with its annual audit plan and international standards, while the number of audited entities and the audit coverage beyond statutory audits is dictated by the institution's capacity. Nonetheless, the SAO audits central government's budget execution report annually and in a timely manner (3-4 months after receiving the financial statements, with the exception in 2020 due to the pandemic) and the resulting audit report is published. There is effective follow-up of audit recommendations by the auditees. Procedures and practices for the parliament's review of the annual budget are appropriate in terms of scope and timeliness, while the scrutiny of the audit reports is also timely (within three months) and transparent, although public hearings and recommendations based on audit reports are insufficient.

- ✓ **Debt management**. Recording and reporting of debt and guarantees are overall adequate, and monthly reconciliation with creditors should be within reach considering the overall level of performance. The Ministry of Finance is the single entity in charge of approving government borrowing. There is a three-year debt management strategy whose implementation against the debt management objectives and indicators is monitored and publicly reported.

The following were assessed as areas for continued reforms and further improvements:

- ➢ **Medium-term perspective in planning and budgeting**. While budget documentation includes expenditure estimates and ceilings for two years following the budget year, analysis of deviations from such estimates and ceilings in the next budget cycle, and related explanations are not provided, reducing the effectiveness of the medium-term targets. A three-year Fiscal Strategy is adopted; however it does not include quantification of the fiscal impact of policy proposals, explanations of proposed changes in revenues and expenditures over the three-year period, nor is implementation progress towards fiscal outcomes reported. The Fiscal Strategy includes macroeconomic and fiscal forecasts, which lack some key elements, such as interest rate projections, and explanations of differences from the previous forecasts.

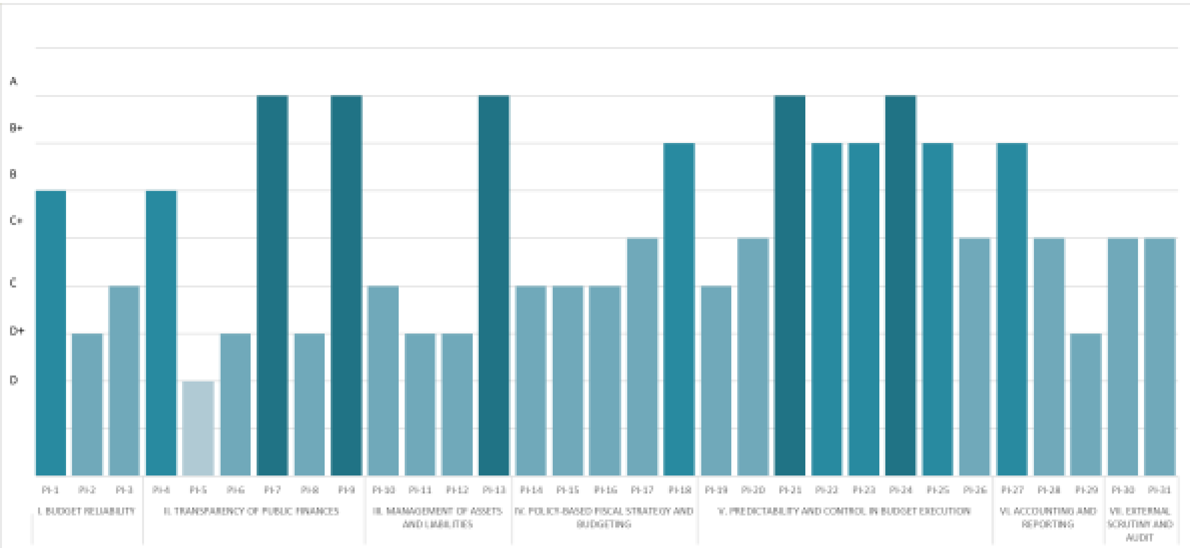
- ➢ **Management of fiscal risks, public investments, and assets**. These three areas are either not regulated or provide only simple management mechanisms since they are at an early stage of development. These weaknesses contribute to potential for sub-optimal use and management of funds and their related impact. The institutional set-up for monitoring fiscal risks is dispersed and includes only basic tasks and analysis, particularly for public corporations and local self-government related risk. There is no dedicated regulations, guidelines or standard criteria for identification, appraisal, prioritization and selection of capital investments, except for externally financed projects where procedures are driven by the financier. While records of major categories of financial and non-financial assets exist, they are too decentralized and fragmented to allow meaningful dialogue on performance of both portfolios. Data, in particular, is fragmented for non-financial assets, with concerns about accuracy.

- ➢ **Performance information and management**. Program budgeting practices are underdeveloped. While information on programs and expected performance is included in the budget, program budgeting has not yet been formally adopted, and remains at an immature level of development. Strategic and annual plans include information on program objectives, costs, expected results and performance indicators. Budget users prepare semi-annual and annual reports on the implementation of programs and progress towards achieving objectives. However, there is no established mechanism for comparing the results with targets, and reliability of available data is uncertain. Nonetheless, the SAO is reviewing government performance with increasing institutional and financial coverage.

- **Accounting and Reporting**. Published in-year budget execution reports are comparable to the approved budget only at the administrative and highly aggregated levels of economic classification. While in-year reports are timely and there are no material concerns about their accuracy, they capture the expenditures only at the payments stage with no information on commitments or liabilities. The Open Finance Portal is an improvement in terms of transparency of treasury operations. Annual government financial statements (the final account) include only revenue and expenditures while only individual budget users prepare Balance Sheets and present assets and liabilities, but these are not consolidated. Annual government financial statements are submitted timely for external audit, however the accounting standards used in their preparation are not disclosed.

- **Revenue Administration**. Comprehensive and up-to-date information on revenue rights and obligations is available but revenue risk management, audits and investigations and level of tax arrears lag behind and register weak performance. With regard to accounting for revenue, timeliness of information and funds transfer related to revenue collections is adequate, while frequency of reconciling revenue accounts could be improved.

Chart 1. Scores for PEFA Performance Indicators 2021



Impact of PFM performance on budgetary and fiscal outcomes

Aggregate fiscal discipline. Aggregate fiscal discipline aims to align the levels of revenue and expenditures without creating significant fiscal deficits which could jeopardize fiscal sustainability and manage spending within the available fiscal space. Regarding expenditure management, budget execution is performing well which contributes to the overall fiscal discipline. Deviations between the budget execution and the approved budget on the expenditure side are low to moderate. While there are hard controls embedded in the budget execution system at the payments stage, which allows spending by budget users only within approved budget allocations, there is no established mechanism which prevents the budget users from entering into contractual commitments which exceed annual and medium-term allocations and estimates. Fiscal information is transparent and publicly accessible and all relevant budget classifications are in place. As discussed above, the Budget documentation does not comprehensively include all the needed elements.

On the revenue side, revenue administration faces challenges with risk management, tax audit and tax arrears. Deviation of executed versus budgeted revenue registered a moderate seven percent in

2018 and 2019, with a more significant deviation of 16 percent in 2020 as a consequence of the pandemic.

Medium-term perspectives in planning and budgeting and program budget are rather formalistic and provisional and could be detrimental to fiscal discipline and present challenges if a fiscal rule is introduced as envisaged in the draft Organic Budget Law. This also applies to the quite basic fiscal risk monitoring.

Strategic allocation of resources. Allocating resources in line with strategic priorities contributes to maximizing the impact of public spending for an efficient public sector and economic growth. Ministries adopt costed medium term plans and a link between those documents and the budget can be established. However, medium-term targets are not binding and deviations from previous estimates and targets are not properly analyzed. Performance management and measurement of results are basic, which hinders budgeting based on performance and maximizing its positive long-term impact. This is largely because program budgeting has not been formally introduced, although some elements of program budgeting are applied in practice. Budget users provide information on programs and expected performance, however there is no established system for measuring results achieved against plans, and the quality of performance information provided is uncertain.

A fairly credible budget and sound budget execution favorably influence the strategic use of funds. Procurement management is scored at the higher end, which supports the execution of strategic allocations.

The weak public investment management system negatively influences the strategic allocation of resources, given that selecting capital projects with strategic significance is crucial. Lack of an effective system for management of fiscal risks can result in unplanned demands on the budget if fiscal risks materialize, which shrinks the fiscal space for strategic allocations.

Efficient service delivery. The reasonably credible budget enables implementation of service delivery expenditures, although a high variance in the composition of expenditures can pose risk of reallocation of service delivery funds to other expenditure categories, in particular from capital investment to less growth-enhancing recurrent spending. While information on revenue collections is timely and accurate, the accumulation of tax arrears can carry a risk of insufficient revenue levels to execute service delivery programs. Transparent fiscal information and reliable budget execution reports facilitate appropriate monitoring of service delivery programs. The sound budget execution system and controls provide a good foundation for executing budget allocations intended for service delivery in an orderly manner. MoF's information system that supports arrears registration provides some assurance that allocated funds for service delivery will not be subject to reallocations on an ad-hoc basis to settle overdue payments from previous periods.

Weak program budgeting and performance management prevent meaningful analysis of the efficiency of service delivery. Appropriate measurement of achieved results, key performance indicators, outputs and outcomes for each budget program would be highly beneficial for informing funds allocation and more efficient service delivery in the medium to long term. The current lack of effective systems of managing public investments and public assets can also be detrimental to ensuring adequate infrastructure for various service delivery sectors, such as health, education, transport, electricity, and water supply.

The well performing external audit by the SAO and parliamentary oversight provide additional scrutiny over expenditures related to service delivery. Further developing the internal audit function would contribute to improving the systems and governance in service delivery units.

Performance changes from previous assessment

PFM performance registered an overall improvement compared to 2015. Out of 28 performance indicators, 11 indicators maintained equal rating, 11 indicators registered improved scores (most due to improved performance), and only six indicators showed deteriorated scores (two on account of reinterpretation of the evidence against the scoring criteria). Reforms in the period between the two assessments have resulted in a mix of improved upstream and downstream PFM practices, without losing ground on earlier improvements documented in 2015. Major reforms are pending parliamentary approval of the authorizing legislation.

The improvements in scores relate primarily to the areas of budget formulation, budget execution and reporting, and external oversight. The improved performance and scores between the successive PEFA assessments more specifically relate to: monitoring of arrears; assessed aspects of tax administration; public procurement; internal controls; in-year budget reporting; external audit; and legislative scrutiny of the budget proposal and the final account. Scores on indicators on payroll control have improved nominally only, as the underlying practices remained largely unchanged compared to 2015. Of the 11 indicators that retained the same rating as in 2015, three scored A, two scored B/B+, four scored C/C+ and two indicators scored D/D+.

Performance and scores deterioration have been limited and some relate to consequences of the pandemic and reassessment of performance against the PEFA criteria. Score has deteriorated in terms of performance on the extent of the variance in expenditure composition during the last three years as well as on the comprehensiveness of information included in budget documentation (on account of higher portion of directly managed EU funds). Scores have nominally deteriorated on budget classifications and guidance for preparing budget submissions. Scores have also nominally deteriorated on debt management indicator as a result of reassessment of evidence available against PEFA criteria, while the underlying performance has remained stable and even improved in some aspects. On the annual financial statements, the change on timeliness dimension was caused by COVID-related disruptions while the dimension on accounting standards was scored lower due to reinterpretation of available evidence while performance has not changed.

Table 1: Overview of the scores of the PEFA indicators

PFM performance indicator		Scoring method	Dimension score				Overall score
			i.	ii.	iii.	iv.	
I. Budget reliability							
PI-1	Aggregate expenditure outturn	M1	B				B
PI-2	Expenditure composition outturn	M1	B	D	A		D+
PI-3	Revenue outturn	M2	C	C			C
II. Transparency of public finances							
PI-4	Budget classification	M1	B				B
PI-5	Budget documentation	M1	D				D
PI-6	Central government operations outside financial reports	M2	C	D	C		D+
PI-7	Transfers to sub-national governments	M2	A	A			A
PI-8	Performance information for service delivery	M2	C	C	C	D	D+
PI-9	Public access to fiscal information	M1	A				A
III. Management of assets and liabilities							
PI-10	Fiscal risk reporting	M2	D	C	B		C
PI-11	Public investment management	M2	C	D	C	C	D+
PI-12	Public asset management	M2	C	D	D		D+
PI-13	Debt management	M2	B	A	A		A
IV. Policy-based fiscal strategy and budgeting							
PI-14	Macroeconomic and fiscal forecasting	M2	D	C	B		C
PI-15	Fiscal strategy	M2	D	A	D		C
PI-16	Medium-term perspective in expenditure budgeting	M2	B	D	B	D	C
PI-17	Budget preparation process	M2	A	D	C		C+
PI-18	Legislative scrutiny of budgets	M1	A	B	A	A	B+
V. Predictability and control in budget execution							
PI-19	Revenue administration	M2	A	C	D	D*	C
PI-20	Accounting for revenue	M1	A	A	C		C+
PI-21	Predictability of in-year resource allocation	M2	A	A	B	A	A
PI-22	Expenditure arrears	M1	A	B			B+
PI-23	Payroll controls	M1	B	A	B	B	B+
PI-24	Procurement	M2	A	A	A	A	A
PI-25	Internal controls on non-salary expenditure	M2	B	B	A		B+
PI-26	Internal audit	M1	A	B	C	C	C+
VI. Accounting and reporting							
PI-27	Financial data integrity	M2	A	A	B	B	B+
PI-28	In-year budget reports	M1	C	B	B		C+
PI-29	Annual financial reports	M1	C	A	D		D+
VII. External scrutiny and audit							
PI-30	External audit	M1	B	C	A	A	C+
PI-31	Legislative scrutiny of audit reports	M2	A	D	D	A	C+

1. PFM Context in North Macedonia

1.1 Financial overview

Central government sub-sector is made up of the budgetary central government, social security funds and extrabudgetary units. The budgetary central government of North Macedonia comprises 95 first level budgetary units with 310 subordinate or second level budget units (agencies, departments). In addition, the central government includes three social security funds, the Health Insurance Fund, the Employment Agency of the Republic of North Macedonia, and the Pension and Disability Fund. There are 10 extrabudgetary entities (regulatory and other agencies), plus 10 entities legally organized as public corporations but classified as central government extra-budgetary units (EBUs) according to *GFSM 2014*. Furthermore, there are 108 Health Institutions partly financed from the budget.

The remainder of the public sector is made up of the local government and public corporations sub-sectors. Sub-national government comprises 81 municipalities, with 585 subordinate units and 151 public corporations. The broader public sector includes non-financial and financial public corporations. While there is no definitive list of publicly owned corporations, there are 33 non-financial legally organized as public corporations at central level, including 10 institutional units which should be classified as central government EBUs according to *GFSM 2014*.[3] The National Bank of the Republic of North Macedonia (NBRNM) is the country's central bank. North Macedonia Bank for Development Promotion (NMBDP) is a legally constituted public enterprise that is classified as financial public corporation under *GFSM 2014.* –as well as the Securities and Exchange Commission, the Insurance Supervision Agency, and the Agency for Supervision of Fully Funded pension insurance. The institutional structure of Government in North Macedonia is presented in Table 1.1.

TABLE 1.1: Structure of the public sector (number of entities)

National structure of entities	Structure of entities according to GFS				
	Public sector				
	Government subsector		Social security funds[1]	Public corporation subsector	
National structure of entities	Budgetary units	Extrabudgetary units		Nonfinancial public corporations	Financial public corporations
Central level					
First-level budgetary units	95				
Second-level budgetary units	310				
Regulatory agencies, independent and other bodies, Central Bank		10			4
Social security funds			3		
Health institutions	108				
Public enterprises		10		23	1
Local level					
First- level (municipalities)	81				
Second- level budgetary units	585				
Public enterprises				151	

Source: Authorities, PEFA team analysis, FTE (2018)

[1] Social Security Funds are classified as a sub-sector of central government.

[3] The MoF Budget and Funds Department monitors only 26 of the PCs, see PI-10.

Fiscal management

Fiscal balances had been improving before the COVID-19 crisis hit in 2020. The central government fiscal deficit had been declining, in terms of GDP, each year since 2014. This was largely due to under-execution of budgeted capital expenditure. In 2019 fiscal performance improved further, supported by the economic recovery and by recent revenue and expenditure measures (Table 1.2). However, in 2020 with the COVID crisis, revenues fell by 1 percent of GDP while spending on containment measures increased by 5.2 percent of GDP, resulting in an increased deficit to 8.4 percent of GDP. During this period, public debt rose to over 60 percent of GDP.

TABLE 1.2. North Macedonia aggregate fiscal data, 2018, 2019 and 2020 (percent of GDP)

	Central Government		
Element	**2018**	**2019**	**2020**
Total revenue	28.5	29.6	28.6
– Own revenue	28.1	29.0	28.1
– Grants	0.5	0.6	0.5
Total expenditure	30.3	31.5	36.7
– Noninterest expenditure	29.1	30.4	35.5
– Interest expenditure	1.2	1.2	1.2
Aggregate deficit (incl. grants)	-1.8	-2.0	-8.1
Primary deficit	-0.6	-0.8	-6.9
Net financing	1.8	2.0	8.1
– External	2.5	0.4	5.8
– Domestic	-0.8	1.5	2.3
General Government Debt (MKD bn)	267,160	280,180	340,302
Ratio of general government debt to GDP	40.43	40.6	51.2
Public debt (MKD bn)	319,906	340,686	399,979
Total public debt (percent of GDP)	48.4	49.4	60.2

Source: State Statistical Office, Ministry of Finance

The financial structure of the central government budget is given in table 1.3.

TABLE 1.3: Financial structure of central government – 2020 actual (MKD millions)

2020	**Central government**				
	Budgetary units[1] (1)	**Social security funds (2)**	**Consolidated total (of 1 and 2)[2] (3)**	**Extra-budgetary units (4)**	**Total 1/ (5=3+4)**
Revenue	117,784*	115,857	189,554	20,073	210,627
Expenditure	174,936	115,714	243,421	15,630	259,051
Transfers to (-) and from (+) other units of general government	n/a	n/a		n/a	
Liabilities	n/a	n/a		n/a	
Financial assets	n/a	n/a		n/a	
Nonfinancial assets	n/a	n/a		n/a	

[1] *corresponding to budgetary central government (BCG)*

[2] *as presented in the Final Account of the Budget of the RNM*

** Earmarked revenues collected by the BCG and transferred to SSFs have been eliminated.*

The budgets of institutional units are presented and described in a number of ways. These terms are reflected in the subsequent sections of the assessment and defined in the Budget Law. The Budget of Republic of North Macedonia is the budget of budget users plus the budgets of the three social security funds. The basic or core budget is a subsection of the BCG budget representing tax and non-tax revenues and expenditures of BCG (excluding earmarked inflows: loans, grants and self-financing). The development budget includes the budget year and two outer year projections for capital programs and development related expenditures for budget users. Further details based on the legal definitions of budgets are presented in the table below.

TABLE 1.4: Definitions of budget in the Budget Law and the PEFA assessment

Legal term	Legal definition	PEFA assessment term
"Budget of the Republic of Macedonia"	"annual plan of revenues and other inflows and appropriations. It includes the central government budget and the Funds budgets"	Consolidated budget of BCG and SSFs
"Central government budget"	"annual plan of revenues, other inflows and appropriations. It covers the budget users of the central government and includes the basic budget, the donation budget, the loan budget and the budget of self-financing activities"	BCG budget
"Basic budget" or "Core budget"	"annual plan of revenues, other inflows and appropriations for financing the basic competencies of the budget users"	Tax and non-tax revenues and expenditures of BCG budget users (excluding earmarked inflows: loans, grants and self-financing)
"Funds budgets"	"annual plans of revenues, other inflows and appropriations for financing the Funds activities regulated by law"	SSF's budgets
"Development Program Plan"	"mid-term review of programs for development investments"	Development budget

Source: Law on Budgets (Article 2), annotated by the PEFA assessment team

1.2 Institutional arrangements for PFM

Government sectoral policy and regulation at the national level is the responsibility of 16 line ministries subordinated to the Prime Minister. Policies are implemented and public services are delivered by agencies, services, secretariats and inspectorates (second-line budget users), accountable to the line ministries (first-line budget users). Strategic planning is coordinated by the General Secretariat of the Government, which oversees implementation of the government's four-year Work ProgramWork Program and ministries' and other state administrative bodies' three-year strategic plans.

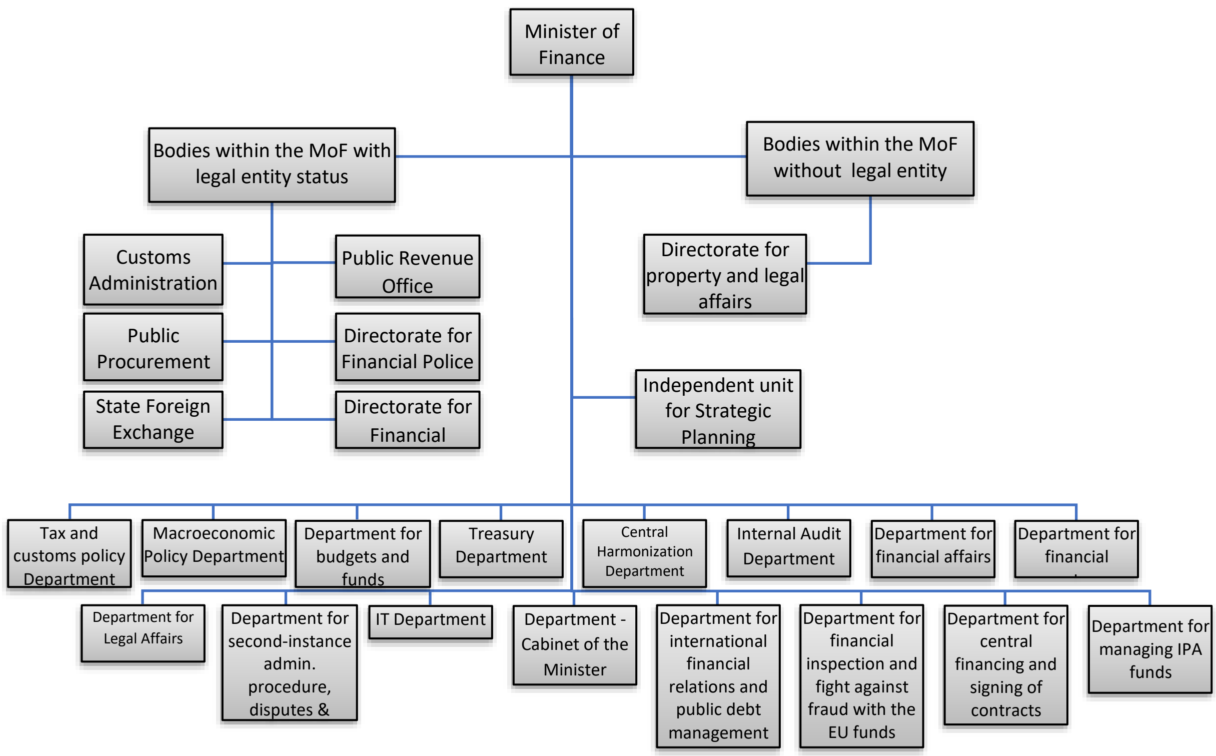
The PFM system in North Macedonia is relatively decentralized with the Ministry of Finance (MoF) taking a lead role in setting policies and procedures. This is done through issuance of rulebooks to set the framework for PFM at the budgetary central government level. The coordination functions for budget preparation, budget execution, and public internal control rest with the MoF. Budget users are responsible for delivering their financial plans (including capital budget) to the MoF within the ceilings provided in the fiscal strategy, executing their budgets within budget allocation levels, organizing their functions of internal audit and controls, and maintaining the auxiliary accounting records in line with the MoF rulebooks. The MoF, through its Public Revenue Office (PRO) and Customs Administration (CA), retains a central role for revenue policy and administration.

The lead role in public financial management is assigned to the MoF. This includes formulating and monitoring fiscal policy, preparation and implementation of the budget, public internal financial control, managing the internal and external public debt, integrating fiscal and monetary policies in the national economy in cooperation and coordination with the Central Bank and related institutions. The Ministry consists of several General Sectors as well as 6 agencies, including the CA, PRO, Public Procurement Bureau, Financial Administration Police, Financial Administration Intelligence, and Foreign Currency Inspectorate. The Strategic Planning Unit manages matters related to the medium-term planning of the policies of the Ministry and their harmonization with the budget and the Cabinet Department supports the Minister. The key PFM sectors of the Ministry are highlighted below and shown in figure 1.1.

Other entities beyond the Ministry of Finance and BUs play key roles in PFM. These include the General Secretariat which has a role in strategic planning and the selection and monitoring of public investment projects; the Public-Private Partnerships (PPP) unit of the Ministry of Economy that leads the development of related laws, maintains the register of PPPs, and has a role in evaluating feasibility studies; and the Secretariat for European Affairs, which manages the single project pipeline.

The independent State Audit Office (SAO) publishes an opinion on the core budget execution report and has a broad mandate. Its remit covers all public financial operations including the BCG budget, SSFs, budget spending units, local governments, public enterprises and other beneficiaries of public funds. The 2010 Law on State Audit provides for the independence of the audit office from the executive, including parliamentary appointment of the state auditor and deputy and approval for its budget. The Law on Budget requires the SAO to submit its annual report to the Parliament within six months of the end of the year.

Figure 1.1 Organogram of the Ministry of Finance



- **Tax and Customs Policy Department** drafts laws and bylaws and policies for taxation, fees and customs including harmonization of customs regulations in accordance with world and European standards, and analyzes and monitors free trade agreements and avoidance of double taxation and prevention of tax evasion.

- **Macroeconomic Policy Department** prepares macroeconomic projections and policies underpinning the medium-term fiscal strategy; coordinates the preparation of the Economic Reform Program, as well as the economic and financial dialogue with the EU; prepares and publishes monthly and quarterly reports on economic developments, and a statistical overview.

- **Budgets and Funds Department** develops the medium-term fiscal strategy and proposes allocation of funds for operating and capital investment expenditures at a detailed level, for submission to the Government. It develops laws and policies regulating the preparation, adoption and execution of the Budget. It provides opinions, information, reports on programs, and decisions related to the Budget and budget policy, and conducts analysis of budget revenues and expenditures and the impact of non-budget laws on budget policy. During budget execution, it approves redistributions and reallocations, and monitors and controls the payment of salaries to budgetary central government employees. It monitors the finances of local government units, public enterprises, and agencies.

- **Treasury Department** maintains the register of budget users; manages accounts within the single treasury account (STA), prepares liquidity projections on the STA, manages MKD and foreign currency payments; monitors revenue collection of central and local government entities and distribution, keeps the budget accounting records in line with the chart of accounts, approves annual, quarterly and monthly financial plans of budget users; and prepares reports on the collection of revenues and other inflows and realization of expenditures and other outflows of the Budget. The Department operates and maintains the Treasury Information System (TrIS). It is organized with the central unit within the MoF and 17 regional offices.

- **Central Harmonization Department** for public internal financial control (PIFC) coordinates and improves the system of public internal financial control through its three components: financial management and control, internal audit, and their harmonization. The mission of the Department is to build a system, in line with the requirements of the European Union *acquis,*[4] which guarantees the reasonable use of public funds by applying the principles of decentralized management accountability and establishing a functionally independent internal audit.

- **Internal Audit Department** organizes and performs internal audits in the Ministry of Finance in accordance with the legal regulations, international standards for professional execution of internal audit and the internal rules of the Ministry.

- **Financial Affairs Department** is responsible for accounting and financial operations, budget coordination and budget control for the MoF. Its role includes accounting records, financial material operations, preparation and calculation of salaries, treasury operations, receipt, recording and issuance of office supplies, preparation of the draft budget of the Ministry, preparation of financial plans, proposals for redistribution of funds and proposal for amendments to the budget of the Ministry, and implementation of ex-ante and ex-post financial control.

- **Financial System Department** prepares regulations for the banking system and non-banking financial institutions, capital market, insurance system, accounting system, auditing and payment operations, games of chance and gambling. It issues licenses for the organizers of games of chance

[4] *Acquis communautaire* is the accumulated legislation, legal acts and court decisions that constitute the body of European Union law.

and amusement games, financial companies and financial leasing companies. It manages the accounting and reporting framework for budget users and public corporations.

- **Department of Legal Affairs** prepares opinions on laws, collective agreements, by-laws and other regulations, prepares responses to complaints and lawsuits related to acts that determine the rights and obligations of employees, proper handling of documents and archives, free access to information for the public, as well as planning and monitoring the public procurement in the Ministry of Finance. It includes the human resources unit.

- **Department for Second-Instance Administrative Procedure, Disputes and Claim Collection** is in charge of resolutions of appeals relating to the pre-2015 tax and customs acts.

- **IT Department** performs the activities related to related to the organization and development of the information system in the field of public finance and proposals for improvements.

- **International Financial Relations and Public Debt Management Department** manages the public debt of North Macedonia, and issues guarantees with a view to minimizing risk and cost. It communicates and coordinates with international and bilateral financial institutions for preparation and implementation of projects financed with foreign loans and donations and concludes loan and guarantee agreements. It monitors the implementation of projects financed by foreign loans and donations and proposes remedial actions, as needed. The department works to maintain an efficient and liquid government securities market. It harmonizes legislation with EU laws and coordinates the fulfillment of the obligations arising from the national program for adoption of *acquis* and other strategic documents for European integration.

- **Department for Financial Inspection and Coordination for Combating Fraud against European Union (EU) Funds** performs financial inspections in accordance with the Law on Financial Inspection in the Public Sector and works on the protection of financial interests of the EU through coordination of administrative and operational activities regarding the fight against fraud in relation to EU funds and effective cooperation with the European Anti-Fraud Office (OLAF).

- **Department for Central Financing and Contracting** is responsible for sound financial management of projects financed by several IPA components for which it is the contracting authority responsible for tendering procedures. The tasks related to programming, technical implementation and monitoring of the implementation of the contracts are delegated to the competent beneficiaries.

- **Department for Asset Management for the Instrument for Pre-Accession Assistance** manages the finances of pre-accession funds of the EU, opens and manages bank accounts, applies for funds from the European Commission (EC), approves transfer of funds received from the EC, financial reporting to the EC, and works directly with the National Authorization Office regarding the legality and regularity of transactions.

Table 1.4: Assignment of key PFM functions and processes

PFM function/process	Responsible entities
Macroeconomic and fiscal forecasting	MoF Macroeconomic Policy Department prepares macroeconomic projections, and the MoF Budgets and Funds Department is tasked with the creation of fiscal policy and forecasts.
Budget preparation (including medium-term budgetary framework)	MoF Department for Budgets and Funds, with inputs from budget users.
Budget execution	Budget users manage their respective authorized budgets, Treasury Department manages the BCG budget through TrIS and processes payment requests. Health Insurance Fund processes the invoices received from health care institutions.
Fiscal risk monitoring	MoF Department for Budgets and Funds monitor PEs' and LGUs' financial performance, International Relations and Debt Management Department monitors

PFM function/process	Responsible entities
	debt related risk (e.g., re-financing risk) and debt-related contingent liabilities. The Deposit Insurance Fund and NBRNM monitor financial risks.
Public investment management	Individual budget users implement capital projects, while the General Secretariat of the Government ensures budgeted projects adhere to the priorities stated in the Government 4-year plan. The SEA manages the single project pipeline.
Public assets management	Budget users manage their respective assets, the Property and Affairs Administration manages sales and leases of land and expropriations. The State Cadaster Office records immovable property (land and buildings) owned by the state.
Debt management	MoF International Financial Relations and Debt Management Department.
Revenue administration	MoF Department for Income, Tax and Customs develops revenue policy. Public Revenue Office and Customs Administration collects the bulk of central government revenues. CG EBUs collect revenue directly under the respective legal basis (e.g. road tolls, regulatory fees, etc.).
Payroll administration	BUs at the central level maintain decentralized personnel records and prepare payroll calculations individually. MoF Budgets and Funds Department reviews and approves the calculations and the execution of the corresponding payment.
Public procurement	Budget users manage individual procurement procedures. The Public Procurement Bureau (PPB), within the framework of the MoF, is the central body responsible for coordinating and monitoring public procurement. State Commission on Public Procurement Appeals and Legal Protection in Public Procurement Procedures also plays a role.
Internal audit and Financial Management and Control	Budget users ensure day-to-day implementation, MoF Central Harmonization Department develops policy and methodology for all CG entities (and more broadly in the public sector). MoF Financial Inspection Department undertakes ex-post compliance verification inspections involving the use of budget funds.
Accounting and Financial reporting	MoF sets the overall accounting policy. The MoF Financial System Department manages the standards for accounting and records. MoF Treasury Department manages the General Ledger through the TrIS and prepares Government's consolidated final account. Budget users all report their final accounts separately (including assets and liabilities), they also maintain auxiliary records.
External audit	State Audit Office for all public funds.
Oversight and Scrutiny	The Parliament, the Budget and Finance Committee.

1.3 Legal and regulatory arrangements for PFM

The Constitution of the Republic of North Macedonia as the highest legal act provides fundamental principles of legality. The Constitution defines executive, legislative and judiciary power in North Macedonia. It stipulates responsibilities of the Government, Parliament, the President and courts. Parliament holds the legislative power and is mandated with adoption of the laws, including those regulating the PFM area. The executive power lies with the Government, whose institutions are responsible for implementing legislative provisions related to PFM.

The (Organic) Budget Law provides the overall legislative framework for key elements of the PFM system, with additional thematic laws and by-laws further regulating specific areas. The law includes provisions related formulation and execution of the annual budget. It also describes the process of medium-term budgeting, including preparation of the three-year Fiscal Strategy. The law prescribes the functioning of the STA as the core element of the public collections and payments system. It also includes provisions which regulate budgetary accounting and reporting. The law includes a section on fiscal discipline, including fiscal rules. There is a general mention of public internal financial control, public debt and public assets, which are further regulated by separate laws.

The Annual Budget Law determines planned revenue and expenditures and serves as the principal act for managing public finances in a given budget year and three-year development budget. The Annual Budget Law includes overall revenue and expenditures of the BCG, as well as for individual budget users. It presents budget expenditures in line with economic, functional, administrative and program classifications. Revenue is presented by source of funding. The law also includes information about the planned borrowing for the budget year, breakdown of state guarantees, and main projects financed by loans from international financial institutions and EU support to reforms through the Instrument for Pre-accession Assistance (IPA) funding. The annual budget law is adopted by the end of the year for the next year. Opportunities for public participation in the budget process are limited, as there are no legal provisions requiring public participation.

The Law on Final Accounts comprises the annual government financial statements and presents revenues received and expenditures for the year. Balance sheets are prepared by individual budget users, but are not consolidated at the level of BCG in the final account. The proposed Law on Final Accounts, together with the opinion of the State Audit Office, is by legislative provisions submitted to the Parliament by June 30 of the current year for the previous year.

Formulation and execution of the budget are further regulated through a set of by-laws. Relevant pieces of secondary legislation in these areas include the Rulebooks on (i) income classification, (ii) classification of expenditures, (iii) Chart of Accounts, and (iv) Content of Individual Accounts in the Chart of Accounts. These by-laws provide rules for budget classifications and budget line items.

Budgetary accounting and reporting are primarily regulated by the Law on Accountancy of the Budget and Budget Users. The law defines financial statements of the budget users as the statement of revenue and expenditure and the balance sheet. In line with Article 23, financial statements with the accompanying explanation represent the Final Accounts of the budget user. Additional by-laws regulate specific elements of accounting and reporting, such as the Rulebook on the Form and Content of the Balance Sheet and Revenue and Expenditure Statement and the Rulebook on Accounting of the Budget and Budget Users.

Revenue administration is subject to a comprehensive legal framework that specifies the roles and responsibilities of the revenue collecting entities and payers. The Public Revenue Office and Customs Administration are the principal revenue agencies which collected 91.6 percent of revenue in FY 2020. Separate legislation is in place for tax administration, customs administration, administrative procedures (general, tax and customs) and audit. There is dedicated legislation for all taxes and social security contributions. Besides the relevant legislation, important guidance in this area is provided by the Instruction for the manner of registration, allocation, refund and transfer of public revenues and the Instruction on the form and content of payment instruments for domestic transactions.

Separate legislation regulates the areas of external audit, public procurement, internal control and internal audit, public debt, and public assets management. The Law on SAO governs external audit within the public sector, and it includes provisions regarding the role of the SAO, its mandate and the scope, organization, and nature of audits. The Law on Public Debt defines provisions for new borrowing, institutional responsibilities and reporting and management of public debt. The Public Procurement Law (PPL) prescribes rules and requirements related to procurement within the public sector. Use, management, and disposal of public assets is affected by a broad spectrum of legislation with primary acts being the Law on Managing State Property and the Law on Use and Disposal of State-owned and Municipal-owned Assets. Primary legislation related to local self-governments comprises the Law on Local Government and the Law on Financing Local Self-Governments. The legislative framework relating to internal control and internal audit is described in the section below.

Other PFM-related medium-term planning documents

Strategies, programs and medium-term plans accompany legislation and describe objectives, priorities and measures for the PFM reform. The Fiscal Strategy, which covers a three- year period on a rolling basis, provides framework guidance for PFM, including medium-term fiscal targets. Additional strategies that define the PFM reform objectives include the strategies related to the State Audit Office, Public Debt Management, Tax System Reform and Public Revenue Office.

The Economic Reform Program (ERP) sets out the major structural reforms for a three-year period. The MoF is also coordinator of the annual ERP that contains a medium-term framework of the macroeconomic and fiscal policy, as well as a detailed overview of structural reforms. It is based on the fiscal strategy, the adopted annual budget, public debt management strategy and other relevant sectorial strategies, and is submitted to the European Commission (EC) after its adoption by the Government which is no later than January 31 each year.

Internal control framework

North Macedonia is reforming its system of public internal financial control (PIFC) in line with the EU accession priorities. In line with the country's EU accession agenda, the objectives of PIFC are aimed at aligning management, control and internal auditing with internationally recognized principles, standards, and good practices. The reform is seen as an integral building block in the country's ongoing effort to reform public administration and PFM. Developments in the period 2019-2021 were framed in the Government's PIFC Policy Paper.

General internal control arrangements and requirements in North Macedonia are set out in the Public Internal Financial Control Law (last amended 2015) with supporting by-laws.[5] The PIFC Law covers the three "pillars of PIFC", namely: financial management and control (FMC), internal audit (IA) and a committed central harmonization unit at the MoF to steer the reform. Primary provisions of the Law are elaborated in a number of by-laws, methodologies, and manuals to support practical implementation.[6] Legislation in areas such as policy development and coordination and civil service, outside of the PFM cycle but shaping the internal control landscape, are progressively being aligned with EU Administrative Space principles.

Coverage of the PIFC Law is comprehensive and its requirements encourage alignment to international standards. At the time of assessment, the provisions on FMC covered all revenues, expenditures, assets and liabilities of budget users, social insurance funds, and the sub-national government units (but did not extend to public corporations). FMC objectives as defined in the Law are formulated in line with international good practice requirements. They require sound compliance and value-for-money in operations, safeguarding of assets, and timely financial and non-financial reporting. Implementation of FMC is envisaged through five interrelated components based on the underlying framework of the Committee of the Sponsoring Organizations of the Treadway Commission (COSO).[7] Provisions on internal audit (IA) cover a range of topics including auditors' independence, their rights and responsibilities, and criteria for establishment of the IA units, among other things. The standards prescribed for internal auditors in the public sector are those from the International Professional Practices Framework (IPPF) issued by the Institute of Internal Auditors (IIA).

Responsibilities for management and internal control are clearly assigned under law. The head of each entity is required to set up, operate, monitor, evaluate and report on the functioning of the internal control system across the respective organization. Managers in the implementing organizations are explicitly required to manage the entrusted resources in a legally compliant, economical, efficient, and effective manner. Responsibilities of the entities' financial affairs units in relation to the budget cycle are prescribed in detail, including in terms of segregation of duties. A decentralized system of functionally independent internal audit units is expected to provide assurance and consulting services on governance, internal control and risk management issues in individual organizations. In the MoF, the Central Harmonization Department (CHD) retains overall responsibility for formulation, coordination and monitoring of the public internal control framework policy

[5] A new Law on PIFC (2020) was in legislative procedure but was not yet passed at the time of the assessment. Among other things, it expands the legal coverage to public enterprises, streamlines the requirements and criteria for setting up internal control and internal audit (based on lessons learnt to date) and clarifies the reporting requirements emphasizing the effectiveness of the control and audit framework.
[6] For example, implementing rulebooks, FMC manual, internal audit manual, code of ethics, model internal audit charter and others.
[7] Namely, control environment, risk assessment, control activities, information and communication, and monitoring.

(including legal and operational) as well as for provision of methodological guidance and capacity development.

The functioning of the internal control arrangements is monitored, reported and subject to external scrutiny. MoF's CHD annual reports are used to monitor overall development and functioning of the internal control framework, based on self-reported replies on implementation of FMC and IA from individual organizations. The CHD is also charged with conducting quality reviews of internal controls in individual organizations. The MoF's Financial Inspection Department provides ex-post verification of regularity (compliance) of financial transactions and compliance of specific public sector operations with the prevailing legislation. The SAO examines the functioning of the internal control framework in the course of its financial, compliance and performance audits.

1.4.PFM Reform Process

1.4.1 Approach to PFM reforms

The government's current Public Financial Management Reform Program (PFMRP) covers the period 2018-2021. The PFMRP was developed after the 2015 PEFA assessment and is the main strategic and operational guidance for planned reforms in public finances with the view to improve efficiency and effectiveness of public spending. PFM improvements are continuously placed among the top government priorities. The PFMRP measures are also intended to support fulfillment of the requirements for the country's EU accession process.[8]

The PFMRP covers seven priorities that correspond to the major PFM functions and is complemented by PFM sub-area strategies. PFMRP priorities include Improved Fiscal Framework, Revenue Mobilization, Planning and Budgeting, Budget Execution, Transparent Government Reporting, Internal Control, and External Control and Parliamentary Oversight. The priorities are broken down into measures, with annual action plans detailing the activities and sub-activities to be carried out. Monitoring and implementation is supported with a logical framework of qualitative and quantitative indicators to measure results against targets. In addition to the PFMRP, a number of PFM sub-area strategies are in place for horizontal functions (such as public internal financial control and taxation) and individual institutions (SAO, Customs Administration, Public Revenue Office). A new Public Procurement Strategy was being prepared during 2021. Most recently, in 2021 a complementary Action Plan was approved to address bottlenecks in the area of public investment management.

PFMRP is substantively informed through PFM diagnostic assessments in cooperation with development partners. In the period 2018-2020, the Government undertook a Fiscal Transparency Evaluation (FTE, 2018), Public Investment Management Assessment (PIMA, 2020), Tax Administration Diagnostic Assessment Tool (TADAT, 2021), and Tax DIAMOND (2020) assessment. OECD SIGMA monitoring assessment using the Principles of Public Administration (PPA) was conducted at the same time as this PEFA assessment. An independent view on some PFM functions is provided once every two years through the Open Budget Survey.

1.4.2 Recent and on-going reform actions

During the implementation of the current PFM Reform Program, progress has been achieved in number of areas, but many areas for improvement remain works in progress. In revenue mobilization, activities are in progress to improve collection of taxes, VAT refunds, automatic data exchange, modernization of the PRO and professional and ethical standards. On budget execution, a

[8] Sound public financial management is a key requirement in the European integration process and is linked to the following negotiation chapters: 5 – Public Procurement, 16 - Taxation, 17–Economic and Monetary Policy, 18 - Statistics, 29 – Customs Union, 32 - Financial control and 33- Financial and Budgetary Provisions.

detailed technical specification was prepared with technical assistance support for a new integrated Financial Management Information System (FMIS) that will replace in current TrIS. In public procurement, the authorities continued the process of complementing primary legislation with supporting secondary legislation. New concession and Public-Private Partnership (PPP) legislation is under development, expected to be adopted in 2021. There is increased transparency in debt management by including information on financial performance of public corporations in the Fiscal Strategy. Arrears data are now published quarterly. The Government is improving alignment of its statistics with the ESA 2010. The SAO is continuing to develop its institutional capacity, including capacity for performance auditing. A number of these reforms have translated into improved PEFA scores (see tracking of performance change over time).

A number of other expected improvements are closely tied with the adoption of the new draft organic budget law (OBL). Many of the critical reforms hinge on passing of this legislation and the resulting set of by-laws that will have major impact on the processes assessed under the PEFA Framework. Planned reforms under the improved fiscal framework, planning and budgeting and transparent government reporting priorities will be particularly strengthened by the new draft OBL.

Institutional considerations (leadership, coordination, sustainability, and transparency)

PFM reforms are spearheaded by the MoF and carried out in coordination with other institutions. The main stakeholders in the PFM reform management and coordination framework are the PFM Council and the PFM Working Group (PFM WG). All relevant country PFM institutions are represented.[9] Operational monitoring is assigned to priority coordinators and measure leaders (for individual measures within a priority area). PFMRP implementation is reported at least biannually to the Government by the PFM Working Group through the PFM Council. An updated Decision on the PFM WG composition and tasks (October 2021) provides the mandate for its members to develop the new PFM Strategy, coordinate its implementation, as well as to monitor, evaluate and report progress made. As of October 2021, civil society organizations (CSOs) and representatives of development partners are included as observers in the PFM WG.

Results of the PFMRP inform policy and technical assistance dialogues with the EU and other development partners. Implementation of the PFMRP is characterized by a high degree of transparency, with the main documents (program, action plan, reports, and policy dialogue conclusions) available publicly and without restrictions. Besides providing a synopsis of progress achieved across priorities, monitoring reports single out cross-cutting issues such as donor coordination and capacities (financial, IT and human) and interested parties, including CSOs, are invited to discuss the reported progress. Measures are reported as achieved/partially achieved/not achieved and accompanied with a forward-looking risk assessment for measures under implementation. To address capacity constraints, the government is expecting support from multiple technical assistance projects in the period 2021-2023.

The PFMRP is fully costed across pillars, measures, and activities. The 2021 Action Plan shows the PFM reforms are financed just over 50 percent from national sources of funds and the remainder through donor support. The financing gap is known and is addressed through proactive dialogue with the development partners.

[9] PFM WG includes representatives of Ministry of Economy, State Audit Office (SAO), State Statistical Office (SSO), Customs Administration (CA), Public Revenue Office (PRO), Public Procurement Bureau (PPB), State Appeal Commission for Public Procurement (SACPP).

2. Detailed analysis of PFM performance

PILLAR ONE: BUDGET RELIABILITY

What does Pillar I cover? Whether the government budget is realistic and is implemented as intended. This is measured by comparing actual revenues and expenditures (the immediate results of the PFM system) with the original approved budget.

Overall performance: key strengths and weaknesses

The annual budget can be considered as generally reliable, given that the deviations of both aggregate actual expenditures and revenue are low to moderate compared to the original budget. Deviation of total expenditures ranges from 91.8 percent in 2018, reducing to 102.8 percent in 2020. The variance in expenditure composition by economic category was however high - over 15 percent in two of the years assessed – 2018 and 2020. These deviations in economic categories were largely due to the under execution of the capital budget and overspending on the transfers and subsidies budget line. The contingency reserve was low, on average at 0.06 percent of the budgetary central government (BCG) expenditures.

Deviations in aggregate budget revenues was around 7 percent in 2018 and 2019, rising to slightly over 16 percent in 2020, largely due to the impact of COVID-19. Variance in revenue composition was high, tax and non-tax revenues were overestimated, while social security contributions were under-estimated.

PI-1. Aggregate Expenditure Outturn

This indicator measures the extent to which aggregate budget expenditure outturn reflects the amount originally approved, as defined in government budget documentation and fiscal reports. Coverage is BCG which includes central level Budget Users (BUs) and transfers to the three Social Security Funds (SSFs). The assessment is based on the budget and actual expenditure for the last three completed year 2018, 2019 and 2020. Detailed calculations are presented in Annex 5.

Indicator/Dimension	Score
PI-1. Aggregate expenditure outturn (M1)	**B**
1.1. Aggregate expenditure outturn	B

1.1 Aggregate expenditure outturn

The data used for calculation of expenditure deviation originates from audited final accounts of the Budget of the Republic of North Macedonia for 2018 and for 2019, and unaudited reports for 2020. The absolute deviation of the actual budget expenditures versus the approved expenditure in the last three completed fiscal years (i.e., 2018, 2019 and 2020) was between 2.8 percent and 8.2 percent. This translates into budget outturn for those years in the range between 91.8 percent and 102.8 percent.

Table 1.1. Total budget and actual expenditure (in MKD million)

	2018	2019	2020
Budget	154,324,721	163,395,691	170,241,447
Actual	141,694,691	151,517,166	174,936,364
Aggregate expenditure outturn (percent)	91.8	92.7	102.8

Source: Assessment team calculations based on the annual budget laws and final accounts

Since the variations in two of the three years covered by the assessment are between 90 and 110 percent, the rating for this dimension is B.

PI-2. Expenditure composition outturn

This indicator measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition. Coverage is BCG. The assessment period relates to the fiscal years 2018, 2019, and 2020. Data and calculations for this indicator are included in Annex 5.

Indicator/Dimension	Score
PI-2. Expenditure composition outturn (M1)	**D+**
2.1 Expenditure composition outturn by function	B
2.2 Expenditure composition outturn by economic type	D
2.3 Expenditure from contingency reserves	A

2.1. Expenditure composition outturn by function

This dimension measures the difference between the originally approved budget and end-of-year outturn in expenditure composition, by administrative or functional classification, during the last three years, excluding contingency items, and interest on debt.

The assessment of the expenditure composition outturn is done at the administrative level, based on the twenty main budgetary votes. The variance of expenditure composition outturn by budgetary votes was 9.6 percent in 2018, 8.7 percent in 2019 and 17.8 percent in 2020. The source of variation differed from one year to the other. In 2018, the main source of deviation was under-execution of the approved budget by Ministry of Transport and Communication (51.3 percent), Ministry of Finance, (47.3 percent), and Ministry of Agriculture, Forestry and Water Economy (42.3 percent). In 2019 and in 2020, the variance was largest for the administrative head of Government of Republic of North Macedonia, due to overspending against the approved budget, largely due to measures to mitigate the impact of COVID-19.

Since the variations in expenditure composition were less than 10 percent in two of the past three years, the score for this dimension is B.

2.2. Expenditure composition outturn by economic type

This dimension measures the difference between the original approved budget and end-of-year outturn in expenditure composition by economic classification during the last three years including interest on debt but excluding contingency items.

The variance in expenditure composition by economic classification was 16.7 percent in 2018, 11.3 percent in 2019 and 18.2 percent in 2020. The variance was less than 15 percent in only one of the years assessed. Significant under-execution of capital expenditure and over-execution of transfers and subsidies were the key contributors to relatively high variances for all three years.

As the variations in expenditure composition by economic classification in two of the past three years exceeded 15 percent, the rating for this dimension is D.

2.3. Expenditure from contingency reserves

This dimension measures the average amount of expenditure actually charged to a contingency vote over the last three years.

Under the Budget Law (Article 11), permanent and current budget reserves are considered for addressing the consequences from natural disasters and other unforeseen events, respectively. The appropriations in the permanent budget reserve cannot be reduced with reallocations during the year, but they can be increased. The total volume of reserve funds shall not exceed 3 percent of the total current expenditures of the budget. The funds from the reserves are allocated to specific purpose based on a government decision.

Aggregate amount of funds spent within the contingency reserve as a proportion of the total BCG expenditure in 2018, 2019 and 2020 was at the levels of 0.04, 0.05 and 0.1 percent, respectively, while the average in the last three completed fiscal years was 0.06 percent.

Since the level of actual expenditure charged to a contingency was on average less than 3 percent in the past three years, the rating for this dimension is A.

PI-3. Revenue outturn

This indicator measures the change in revenue between the original approved budget and end-of-year outturn. Coverage is BCG. As per PEFA guidance, the calculations include social security contributions.[10] The assessment period relates to the fiscal years of 2018, 2019, and 2020. Data and calculations for this indicator are included in Annex 5.

Indicator/Dimension	Score
PI-3. Revenue outturn (M2)	**C**
3.1. Aggregate revenue outturn	C
3.2 Revenue composition outturn	C

Macroeconomic forecasting is performed by the MoF Macroeconomic Policy Department while the MoF Budget and Funds Department is tasked with the creation of fiscal policy, public finance management and improvement of the budgetary process.

3.1. Aggregate revenue outturn

This dimension measures the extent to which revenue outturns deviate from the originally approved budget. Total actual revenue deviated from the revenue foreseen by the annual budget laws by 7.3 percent in 2018, 7.1 percent in 2019 and 16.1 percent in 2020. The largest contributors to the variance were tax revenues, social security contributions and non-tax revenues. Tax and non-tax revenues were overestimated while the social security contributions were underestimated. Due to COVID-19 the deviation in 2020 was significantly higher.

10 see paragraph 3:1 of the PEFA Handbook, Volume II.

Table 3.1 BCG aggregate revenue deviation

	2018	2019	2020
Aggregate deviation (percent)	-7.3	-7.1	-16.1

Source: Assessment team calculations based on the annual budget laws and final accounts

Since the actual revenue deviation in two out of the three past financial years was under 8 percent of total revenue, the rating for this dimension is C.

3.2. Revenue composition outturn

This dimension measures the variance in revenue composition over the past three years. The variance in revenue composition was 12.4 percent in 2018, 13.7 percent in 2019 and 17.1 percent in 2020. The sources of variance remain the same as in the previous dimension. Namely, estimates of income and profit tax together, VAT and excise and social security contributions contributed the most to the overall misalignment of actual values with those set by the budget law. Due to COVID-19 the deviation in 2020 was significantly higher.

Table 3.2. BCG revenue composition variance

	2018	2019	2020
Composition variance (percent)	12.4	13.7	17.1

Source: Assessment team calculations based on the annual budget laws and final accounts

Since the variance in revenue composition in two out of the past three years was lower than 15 percent, the rating for this dimension is C.

PILLAR TWO: TRANSPARENCY OF PUBLIC FINANCES

What does Pillar II measure? Whether information on public financial management is comprehensive, consistent, and accessible to users. This is achieved through comprehensive budget classification, transparency of all government revenue and expenditure including intergovernmental transfers, published information on service delivery performance and ready access to fiscal and budget documentation.

Overall performance: key strengths and weaknesses

The budget is presented using all relevant budget classifications: economic, functional, organizational and program classifications, and bridge tables are used to enable presentation of data in line with *GFSM2014.* The budget documents, however, lack some key features notably comparable current year budget data with the budget proposal and aggregate data for both current and previous years at the detailed level. While the latter is available for the economic classification, the analysis is not provided by program or functional classifications. Providing this key information would provide legislators with a clearer picture of the fiscal forecasts, budget proposals and outturns to support allocation decisions.

There is very good public access to fiscal information, with reports published on respective websites in a timely manner. The coverage of the budget however could be more comprehensive. While a substantial share of total central government activity is covered in financial reports, they do not capture the activities of regulatory agencies (including the Agency for Electronic Communication and 5 smaller entities), 6 regulatory agencies and 10 public corporations (PCs) that should be classified as EBUs on the basis of international statistical standards (*GFSM 2014*), nor do they include the activities of the public health institutions' self-financed activities and some donations excluded from the budget. Excluded from the budget are also revenue and expenditure from EU funds that are directly managed by the EU Delegation.[11] Indirectly managed EU funds are included within the budget. The system of transfers to local self-government units is transparent, rule-based, and timely.

Although program budgeting has not yet been formally adopted and remains at a relatively early stage of implementation, information on programs is provided and planned performance is presented by most budget users. However the results framework is not uniform and the quality of information on service delivery varies from institution to institution, and there is no mechanism yet for comparing results against the plans. Details of resources received by service delivery are also inconsistent as the Health Insurance Fund publishes information on payments made to health institutions, but no information is available on resources received by schools. The SAO prepares and publishes several effectiveness and efficiency evaluations and the number of these are gradually increasing. To a much lesser extent, internal audit units have also started to undertake some evaluations.

PI-4. Budget classification

This indicator assesses the extent to which the government budget and accounts classification is consistent with international standards during all stages of the budget cycle including formulation, execution, and reporting. Indicator coverage is BCG and it assesses performance in 2020 as the last completed fiscal year.

[11] In the case of direct management of EU funds, the EC is directly responsible for all steps in a programme's implementation: launching the calls for proposals, evaluating submitted proposals, signing grant agreements, monitoring project implementation, assessing the results and making payments.

Indicator/Dimension	Score
PI-4. Budget classification	**B**
4.1 Budget classification	B

A common chart of accounts is used for budget preparation, budget execution and financial reporting. Administrative units (organizational classification), economic categories (economic classification), function/subfunction (functional classification), program classification and source of funds classification are used for budget formulation, execution, and reporting. The budget classifications are regulated by the Budget Law and the respective rulebooks (the Rulebook on Income Classification and the Rulebook on Classification of Expenditures).

4.1. Budget classification

This dimension measures whether the budget presentation, execution and reporting reflect the most important classifications, is reliable, and is consistently applied. The economic classification is defined by the two rulebooks (as mentioned above). A standard bridge table is used to map the economic classification to the classification used in the Government Finance Statistics Manual (*GFSM 2014*). The organizational classification is based upon several regulations, such as founding laws of individual institutions, and is defined with the annual budget. The programs within the program classification are also defined with annual budget. The functional classification directly follows the Classification of the Functions of Government (COFOG) determined by the United Nations. A detailed bridge table with fully documented methodology is used to derive the functional classification from a combination of the organizational and program classifications.

Budget formulation (the annual budget law and its adoption) is based on all the required classifications, i.e. (i) organizational classification, (ii) economic classification on a 3 digit level for presentation and approval, (iii) full functional classification (4 digit level), (iv) program classification and (v) source of funds classification,

Budget is executed through the STA and Treasury Information System (TrIS). STA, TrIS and centralized payment procedures allow for every transaction to be tracked by all classifications and reports to be generated against each classification during the year. For each transaction, a 24-digit account code is used, including: 10 digits dedicated for administrative classification, 5 digits for source of funds classification, 6 digits for the economic classification, 2 for the program classification and 1 digit is a control number. A detailed bridge table with documented methodology is used to derive the functional classification from a combination of the organizational and program classifications. Budget execution is monitored through the TrIS system.

Reporting is based on the classifications used for budget formulation. The annual Final Account report follows exactly the format of the adopted budget, i.e., it reports according to (i) organizational classification, (ii) economic classification, (iii) functional classification, (iv) program classification and (v) source of funds classification. In-year budget reports can also be produced in these formats.

Consistency of use of the classifications is supported by centralized IT systems for budget preparation (E-Budget) and budget execution Treasury Information System (TrIS).

The budget is classified by administrative, economic, and program classifications, and the functional classification is derived from the program and administrative classifications by a bridge table. The classification system allows transactions to be tracked throughout the budget's formulation, execution, and reporting cycle according to all classifications enabling to produce consistent documentation comparable to GFS/COFOG standards. **However, budget formulation is based only on the "Group" level of the GFS standard – 3 digits, hence the score B**.

PI-5. Budget documentation

This indicator assesses the comprehensiveness of the information provided in the annual budget documentation prepared by the government. It includes a list of four basic and eight additional elements. Time period is the last budget submitted to the Parliament (2021 Budget) and the coverage is BCG.

Indicator/Dimension	Score
PI-5. Budget documentation	**D**
5.1. Budget documentation	D

The budget documentation consists of five documents: the annual budget, the Fiscal Strategy, the revised Fiscal Strategy, the Debt Management Strategy, and the Final Account. The content and timing of the Fiscal Strategy and annual budget is regulated by the Budget Law and the Debt Management Strategy by the Public Debt Law. Both documents should be adopted by the Government by May 31st (see PI-15 and PI-13, respectively). Additionally, the Final Account for the previous year, to be submitted to the Parliament by June 30th (see PI-29), is considered as part of budget documentation.[12] The preparation and adoption of the supplementary budget in a given year depends upon economic and political circumstances and there is no obligation nor predetermined time frame specified in the Budget Law. Hence it is not considered as part of budget documentation for assessment purposes.

5.1. Budget documentation

The budget documentation for the 2021 annual budget consists of:

- The Fiscal Strategy of the Republic of North Macedonia for 2021-2023 (FS 2021-2023); adopted on July 28, 2020.
- The Revised Fiscal Strategy of the Republic of North Macedonia for 2021-2023 (with prospects until 2025); adopted on December 10, 2020.
- The Public Debt Management Strategy of the Republic of North Macedonia for 2021-2023 (with prospects until 2025) (PDMS 2021-2023); adopted on December 10, 2020[13].
- The 2021 Budget Law Proposal; submitted to the Parliament on November 10, 2020 and adopted on December 20, 2020.
- The Final Account for 2019; submitted to the Parliament on October 13, 2020.

The detailed structure of the annual Budget Law with several thousand budget lines according to different budget classifications makes systematic comparison of revenue and expenditure estimates of the budget proposal of the current year, and outturn of the previous year very difficult for decision makers since the information is not presented for comparison in the same document.

[12] Handbook Vol. II 5.1:2 "The indicator relates to documentation provided to the legislature as part of the annual budget information, or in advance of the executive's budget submission."

[13] The public debt management policy was a part of the Fiscal Strategy prior the legislative changes. Since 2020 it is part of the Public Debt Management Strategy which should according to the Law on Public Debt be adopted by the Government by May 31 in the current year for the next three years.

Table 5.1: Elements included in budget documentation for FY 2021

Element/ Requirements	Met (Y/N)	Evidence used/Comments
Basic elements		
1. Forecast of the fiscal deficit or surplus or accrual operating result	Y	Provided in the Budget 2021 and in FS 2021-2023 (Table 3) and in Revised FS 2021-2023.[14]
2. Previous year's budget outturn, presented in the same format as the budget proposal	Y	The Final Account for 2019 (previous year) was prepared in the same format as the budget proposal. It was submitted to the Parliament on October 13, 2020, while the budget proposal was submitted on November 10, 2020 which effectively supported a decision on the budget.
3. Current fiscal year's budget presented in the same format as the budget proposal	N	Current year (2020) data is presented in the same format as budget proposal (2021) for revenue and expenditure by economic classification. In cases of functional classification, government programs or development programs, the current year data is not presented hence no direct comparison is possible.
4. Aggregated budget data for both revenue and expenditure for all classifications used, including data for the current and previous year with a detailed breakdown of revenue and expenditure estimates	N	This data is not included in the budget documentation for all classifications used (see also basic element 3 above).
Additional elements		
5. Deficit financing, describing its anticipated composition	Y	*Table 4: Deficit and Sources for its financing* of the FS 2021 – 2023 and Revised FS 2021 - 2023
6. Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate	N	Assumptions of GDP growth, inflation and exchange rate are included in the FS 2021-2023. While incorporated in the macro forecasts, the estimates of interest rates are not explicitly elaborated.
7. Debt stock, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard	Y	Within the Fiscal Strategy (chart 19) there is information for latest stock of public debt. In addition, the debt management strategy (consistent with the data of Fiscal Strategy) projects the medium-term debt path, Table I: Public Debt Trend in PDMS 2021-2023.[15]
8. Financial assets, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard	N	No cash balances or other financial assets and projected movements are shown in budget documentation. The information on cash balances is available from the Final Account but not on other financial assets.

[14] Revised FS 2021-2023 was not available in advance or at the time of the budget submission.
[15] The PDMS 2021-2023 was not available in advance or at the time of the budget submission.

Element/ Requirements	Met (Y/N)	Evidence used/Comments
9. Summary information of fiscal risks including contingent liabilities such as guarantees, and contingent obligations embedded in structure financing instruments such as public-private partnerships (PPP) contracts, etc.	N	In the Fiscal Strategy 2021-2023 risks related to fiscal projections and to guarantees are discussed. Summary information on other specific risks (related to PPPs, arrears, PEs, local governments, etc.) is not provided. Guaranteed debt is reported in the PDMS 2021-2023.
10. Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of ***all*** major revenue policy changes and/or changes to expenditure programs	N	The changes to revenue and expenditure caused by new policy initiatives and major new public investments are included in the projections, but new policy initiatives and major new public investments are not separately explained or quantified in the budget documentation.
11. Documentation on the medium-term fiscal forecasts	Y	Table 3: Budget of the Republic of North Macedonia 2019-2023 of the FS 2021-2023 and Revised FS 2021-2023.
12. Quantification of tax expenditures	N	Tax expenditures are not reported.

The budget documentation fulfills five elements, including two of the four basic of the elements and three of the eight additional elements, and the dimension score is D.

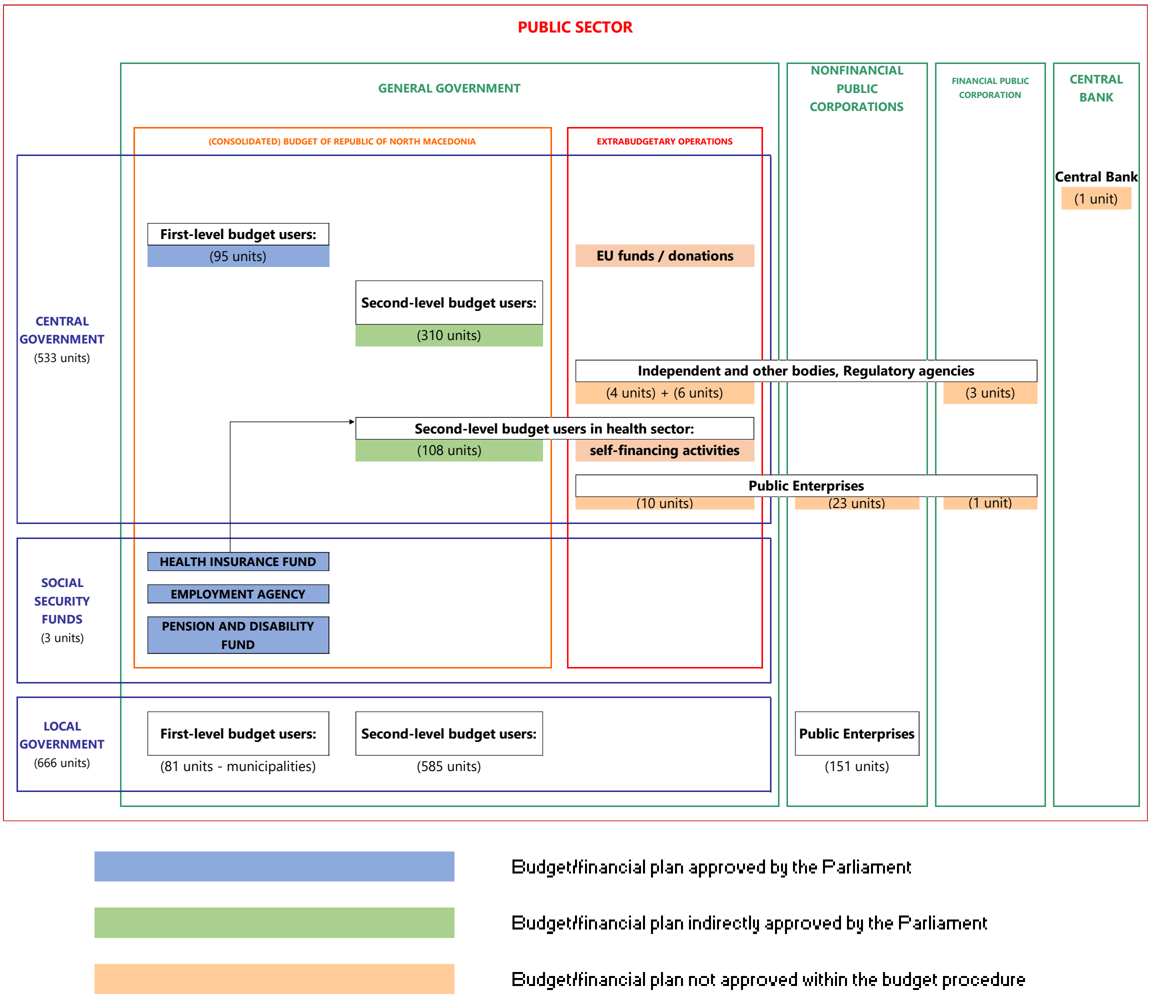
PI-6. Central government operations outside financial reports

This indicator measures the extent to which government revenue and expenditure are reported outside central government financial reports. The assessment of this indicator is based on the latest information and reports available, which are related to the fiscal year 2019.

Indicator/Dimension	Score
PI-6. Central government operations outside financial reports (M2)	**D+**
6.1. Expenditure outside financial reports	C
6.2. Revenue outside financial reports	D
6.3. Financial reports of extrabudgetary units	C

North Macedonia’s public sector comprises of over 1,300 separate units of various legal forms. Figure 6.1 shows distribution of these by subsectors including the sources of extrabudgetary revenues and expenditures.

Figure 6.1: Distribution of public entities by subsectors including the sources of extrabudgetary revenues and expenditures



Source: FTE, 2018 (2016 data), authorities and PEFA assessment team analyses

The Single Treasury Account (STA) system comprises a STA in the MoF and a separate STA in the Health Insurance Fund. Transactions of the other two SSFs are executed in the STA in the MoF. The coverage is comprehensive in the sense that all cash transactions of all budget users at all levels of government (except extrabudgetary operations) are conducted within the MoF STA. The accounting records which are consolidated to produce the annual Final Account, are based on the transactional data from the STA posted in the TrIS. The extrabudgetary entities (with exception of the public health institutions) are not part of the STA system. Own source revenues and grant funded expenditures of public health institutions are not included in STA, i.e. are extrabudgetary operations.

There is no formal register or list of public entities and the exact number of institutions varies based on the source, creating challenges to accurately assess the total size of extrabudgetary revenue and expenditure. Additionally, there are extrabudgetary operations, not included in the government's financial reports, linked to self-financing activities and donations. The four main sources of extrabudgetary operations are (see also Table 6.1):

- 6 regulatory agencies and 4 independent and other entities (central public sector entities which are not public enterprises (PEs)) which should be part of the BCG budget and budgetary procedures according to *GFSM 2014*.

- 10 PEs which are classified as central government according to the GFSM statistical rules (e.g. Public Enterprise for State Roads (PESR)).
- Revenue and expenditure of 108 public health institutions which originates from self-financing activities and donations.
- Revenue and expenditure which originates from the European Union (EU) funds (under IPA II and IPA III)[16] and are directly managed by the EU with only the co-financed portion shown in the budget.

Table 6.1: Extrabudgetary CG revenues and expenditures and financial reports of EBUs (MKD millions)

Entity		2020						
					Included in annual report (Y/N)			
		Revenue	Expenditure	Date of annual financial report received by CG	Expenditures and revenues by economic classification	Financial and non-financial assets and liabilities	Guarantees and long-term obligations	Expenditure as a percentage of total extrabudgetary unit expenditure (estimated)
Independent and other entities		**439.8**	**355.2**					**2.28%**
	Deposit Insurance Fund	95.5	17.5	n/a	Y	Y	Y	0.11%
	Central Registry of the Republic of North Macedonia	319.9	312.9	n/a	Y	Y	Y	2.01%
	Republic Council on Road Traffic Safety	24.4	24.8	n/a	n/a	n/a	n/a	0.16%
	Spatial Planning Agency	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Regulatory agencies*		**1,155.9**	**912.8**					**5.86%**
	Agency for Audio and Audiovisual Media Services	305.3	188.0	26/03/2021	Y	Y	Y	1.21%
	Agency for Electronic Communications	516.4	405.4	08/04/2021	Y	Y	Y	2.60%
	Energy and Water Services Regulatory Commission	80.2	65.4	n/a	Y	Y	Y	0.42%
	Postal Agency	32.0	32.0	n/a	Y	Y	Y	0.21%
	Civil Aviation Agency	201.1	201.1	n/a	Y	Y	Y	1.29%
	Railway Regulatory Agency	20.9	20.9	n/a	Y	Y	Y	0.13%
SOEs**		**12,129.8**	**7,983.0**					**51.21%**
	PUE for State Roads, Skopje (PESR)	9,983.4	5,191.8	15/07/2021	Y	Y	Y	33.31%
	PE "Macedonian Railways-Infrastructure", Skopje	780.5	1,103.1	11/06/2021	Y	Y	Y	7.08%
	PE "Macedonian Radio Television", Skopje	1,012.2	939.6	26/04/2021	Y	Y	Y	6.03%
	PLC "Macedonian Information Agency", Skopje	57.6	56.6	07/05/2021	Y	Y	Y	0.36%
	PE for Water Economy "Strezevo", Bitola	228.8	464.3	30/06/2021	Y	Y	Y	2.98%
	PE Hydrosystem "Zletovica", Probistip	22.8	142.3	27/05/2021	Y	Y	Y	0.91%
	PE for water economy "Lisice", Veles	44.6	85.2	26/04/2021	Y	Y	Y	0.55%
Health institutions		**2,568.1**	**2,586.8**					**16.60%**
	Self-financing activities and donations	2,568.1	2,586.8		Y	Y	Y	16.60%
Budget users		**3,750.0**	**3,750.0**					**24.06%**
	EU funds/donations not included in the budget	3,750.0	3,750.0		N	N	N	24.06%
Total extrabudgetary revenue and expenditure:		**20,044**	**15,588**					**100.00%**
Budgetary central government revenue and expenditure (outturn)		117,784	174,936					
Revenue and expenditure outside government financial reports:		**17.02%**	**8.91%**					
Financial reports provided to the government within 6 months after the end of the fiscal year				**21.71%**				
Financial reports provided to the government within 9 months after the end of the fiscal year				**55.02%**				

Source: Authorities, PEFA assessment team analysis and FTE, 2018.

* Regulatory agencies: Securities and Exchange Commission of the Republic of North Macedonia, Insurance Supervision Agency and the Agency for Supervision of Fully Funded Pension Insurance are public financial corporations.

** The other three SOEs classified as central government units (FTE, 2018) are LLC "Elem turs", LLC EU Center for Vulnerability of Industrial and Vital Systems and Centre for Technology Transfer and Innovations – INNOFEIT, which are immaterial in terms of revenue and expenditure.

[16] Instrument for Pre-Access Assistance

6.1. Expenditure outside financial reports

This dimension assesses the magnitude of expenditures incurred by budgetary and extrabudgetary units (including social security funds) that are not reported in the government's financial reports.

Table 6.1 above provides quantitative information on estimated extrabudgetary expenditures.

Extrabudgetary expenditure not included in ex-ante and ex-post financial reports amounted to less than 10 percent of budgetary central government expenditure in 2020, resulting in a C score.

6.2. Revenue outside financial reports

This dimension assesses the magnitude of revenues received by budgetary and extrabudgetary units (including social security funds) that are not reported in the government's financial reports.

Table 6.1 provides quantitative information on estimated extrabudgetary revenues.

Extrabudgetary revenue not included in ex-ante and ex-post financial reports amounted to more than 10 percent of budgetary central government revenue in 2020, resulting in dimension score D.

6.3. Financial reports of extrabudgetary units

This dimension assesses the extent to which ex-post financial reports of extrabudgetary units are provided to central government. The annual reports should be sufficiently detailed and timely to yield a full picture of government financial operations when combined with the financial reports for budgetary central government and SSFs.

The Budget Law regulates the semi-annual and annual reports on budget execution but not the annual reports of PEs or EBUs. These are regulated by the Law on Public Enterprises, and specific legal acts establishing individual entities, respectively. Out of nine regulatory agencies, seven report to the Parliament, while the remaining two report to the Government. All reports are scrutinized by the MoF. The MoF issues an opinion before the reports are adopted by the Parliament or Government.

About 22 percent (by value of expenditure) of financial reports are submitted to the government within six months and about 55 percent within nine months of the end of the financial year.

The majority of extrabudgetary units submit financial reports within nine months of the end of the financial year, resulting in dimension score C.

PI-7. Transfers to subnational governments

This indicator assesses the transparency and timeliness of transfers from central government to subnational governments with direct financial relationships to it. It considers (i) the basis for transfers from central government and (ii) whether subnational governments receive information on their allocations in time to facilitate budget planning. The time period assessed is the last completed fiscal year (2020).

Indicator/Dimension	Score
PI-7. Transfers to subnational governments (M2)	**A**
7.1. System for allocating transfers	A
7.2. Timeliness of information on transfers	A

About 60 percent of the revenues of the 81 local government units (LGUs) in the Republic of North Macedonia take the form of grants from central government. About 2 percent of revenues are from external grants and the rest are LGUs' own revenues from property taxes and other local charges (utility fees, fees for arranging construction on land, spatial and urban plans, mineral resources and other). The system for formula-based central government grants is prescribed in the Law on Financing of Local Self-Government Units and its secondary legislation.

The MoF issues guidance to LGUs about the amounts of government grants, and other factors to be taken into account in their preparation of the next year's budget, by the end of September each year, once the provision for grants to LGUs in the draft budget has been determined.

7.1. System for allocating transfers

This dimension assesses the extent to which transparent, rule-based systems are applied to budgeting and the actual allocation of conditional and unconditional transfers.

More than 90 percent on average of central government grants are distributed through a transparent, formulae-based system with clear objective factors (e.g., population, pupil numbers, surface area). In addition to their shares of block grants for education, culture and social protection, LGUs receive 4.5 per cent of the previous year's VAT revenue. LGUs' own revenues include 3 per cent of the current year's yield in their respective geographical area from personal income tax. The breakdown of LGU revenues is shown in Table 7.1 below.

Table 7.1: Local government revenue summary (MKD millions)

	Outturn 2018	Outturn 2019	Circular 2020	Budget 2020	Supplementary Budget 2020	Outturn 2020
LGUs' Own Revenues	**11,534**	**13,011**				**10,094**
Loans	**274**	**524**				**954**
Formula-based Central Government grants	**18,055**	**19,095**	**21,375**	**21,375**	**21,442**	**21,374**
Primary education	9,423	9,830	11,113	11,113	11,144	11,144
Secondary education	4,378	4,624	5,069	5,069	5,082	5,082
Culture	250	277	297	297	324	324
Social Protection- elderly homes	46	55	55	55	55	55
Kindergartens	1,518	1,783	2,095	2,095	2,093	2,077
Fire-fighting	288	310	400	400	401	349
VAT grant	2,152	2,216	2,346	2,346	2,343	2,343
Other Central Government grants	**776**	**861**				**1,323**
Total Central Government grants	*18,831*	*19,956*				*22,697*
Formula-based as percentage of total	*95.9%*	*95.7%*				*94.2%*
External grants	**844**	**698**				**679**
Total LGU revenues	31,483	34,189				34,424

Source: Authorities

The allocation of over 90 per cent on average of central government grants to LGUs is based on a transparent and rule-based system, resulting in dimension score A.

7.2. Timeliness of information on transfers

This dimension assesses the timeliness of reliable information provided to subnational governments on their allocations from central government for the coming year.

The MoF issues guidance to LGUs in the Budget Circular which includes the amounts of government grants, and other factors to be taken into account in their preparation of the next year's budget, by the September 30th each year as required under Article 19 of the Budget Law. The adopted budget allocation is identical to the allocation indicated within the Budget Circular (see also Table 7.1 above). This deadline is respected. LGUs' budgets should be approved before the beginning of the year to which they relate, but LGUs are free in other respects to fix their own budget calendars (Law on Financing of Local Self Government Units, Articles 27 and 28).

LGUs receive guidance on prospective allocations and other factors to be taken into account in budget preparation by 30 September each year, resulting in dimension score A.

PI-8. Performance information for service delivery

This indicator examines the service delivery information in the executive's budget proposal, its supporting documentation, and in year-end reports or performance audits or evaluations, as well as the extent to which information on resources received by service delivery units is collected and recorded. The time period covered is the fiscal year 2021 for dimension 8.1 and the fiscal year 2020 for dimension 8.2. For dimensions 8.3 and 8.4, the scope is the last three completed fiscal years, i.e. 2018-20. The coverage is CG.

Indicator/Dimension	Score
PI-8. Performance information for service delivery (M2)	**D+**
8.1 Performance plans for service delivery	C
8.2 Performance achieved for service delivery	C
8.3 Resources received by service delivery units	C
8.4 Performance evaluation for service delivery	D

The dimensions under PI-8 are closely linked with the degree of implementation of program budgeting. North Macedonia has not formally adopted program, performance, or results-based budget systems but some elements of performance planning and program-based budgeting are in place. The legal framework explains the approach to strategic planning and requires budget users (BUs) to include the strategic priorities of the Government, as a summary of goals and initiatives, in their budgets through government programs and subprograms. Budget users are required to prepare three-year strategic plans covering programs and activities for realization of the strategic priorities of the Government, as well as the goals and the priorities of the budget user. The budget circular requires that the strategic plan is an integral part of the budget request, and it should contain quantified programs, activities, goals and priorities, harmonized with the budget request. A program classification is in place (see PI-4), providing the structure of codes for classifying programs and subprograms in budget planning, execution, and reporting.

8.1. Performance plans for service delivery

This dimension assesses the extent to which key performance indicators for the planned outputs and outcomes of programs or services that are financed through the budget are included in the executive's budget proposal or related documentation, at the function, program, or entity level.

Although North Macedonia has not formally adopted program budgeting, the budget presents some information on programs in the budget documentation and information on planned performance is presented separately by line ministries. The sample of service delivery ministries reviewed in detail that was agreed and assessed include: Ministry of Health, Ministry of Transport and Connections, Ministry of Agriculture, Forestry and Water Economy, Ministry of Education and Science.

The annual Budget Law presents the expenditures for administrative units with a breakdown by programs. Budget documentation includes description of the programs of line ministries at the aggregate level with main qualitative objectives and input and output indicators. Input indicators are standard, reflecting operational costs and are included for all programs. Output indicators are sector specific and included only for some programs.

Ministries with service delivery responsibilities, included in the assessment sample, prepare and publish three-year strategic plans and annual operational plans containing programs and activities for implementing the strategic priorities of the Government, as well as the goals and priorities of the ministry for the same period.[17] Strategic plans and annual operational plans contain information on programs as presented in the budget, their objectives, costs, expected results and success indicators which combine both outcome and output indicators.

In addition, the Health Insurance Fund, the Pension and Disability Fund and the PESR publish mid-term strategic plans and annual plans that include information on planned programs and projects, their goals and targets. Although the quality of information varies from institution to institution, it is estimated that the information is published annually on the activities to be performed under the policies or programs for the majority (greater than 50 percent but less than 75 percent) of ministries.

Since information is produced annually on activities to be performed and is published for the majority of ministries, the rating for this dimension is C.

8.2. Performance achieved for service delivery

This dimension examines the extent to which performance results for outputs and outcomes are presented either in annual budget documents, or separately by each ministry in the executive's budget proposal or in an annual report or other public document, in a format comparable to the plans.

Under the annual Budget Execution Law, specified budget users have to prepare Programs for the use of funds from the Budget and submit them to the Government within 30 days from the day of publishing the Budget in the Official Gazette. Budget users prepare and submit to the MoF semi-annual and annual reports on the implementation of programs indicating whether the announced performance targets have been achieved. However, this information is not systematically aggregated and presented in a format that would allow for comparison of achieved results against the performance indicators of planned programs and allocated funding.

The ministries included in the assessment sample, as well as social security funds, publish annual reports on implementation of the annual action plan of the mid-term strategy with the information about results achieved under each program.

Although the results framework for performance is not uniform and the quality of information varies from institution to institution, the assessed sample of ministries that includes all major service delivery ministries, such as Ministry of Education, Ministry of Health, Ministry of Transport and Communication, annually publish the activities to be performed under their policies or programs.

Since the information is not presented in a format that would allow for comparing results achieved against the performance indicators of planned programs and allocated funding, the rating for this dimension is C.

8.3. Resources received by service delivery units

This dimension measures the extent to which information is available on the level of resources actually received by service delivery units of at least two large ministries (such as schools and primary health clinics) and the sources of those funds.

The Health Insurance Fund (HIF) of North Macedonia is responsible for collecting and allocating funds to healthcare providers for provided services within the mandatory health insurance. HIF performs and documents all payment made to 108 public and a number of private healthcare institutions, and compiles and publishes reports on actual financing of these institutions by funding sources (own revenues, subsidies).

[17] The preparation of strategic plan is guided by the Manual for Strategic Planning, adopted by the Government.

No information was provided on the level of actual resources provided to schools in the education sector.

Since no information on the level of actual resources provided to schools is made available, the rating for this dimension is C.

8.4. Performance evaluation for service delivery

This dimension examines the extent to which the design of public services and the appropriateness, efficiency, and effectiveness of those services is assessed in a systematic way through program or performance evaluations, and whether these evaluations cover all or a material part of service delivery or if they are cross-functional and incorporate service delivery functions, including the performance audits undertaken by the government's external auditor.

The State Audit Office (SAO) has a legal mandate to conduct performance audit, alongside financial and compliance audit, under the Law on State Audit. The law also defines the concept of performance audit as an assessment of the cost-effectiveness, efficiency, and effectiveness of the operation and use of funds in a defined area of activities or programs. A performance audit manual provides the methodology for conducting such audits. Performance audits are carried out according to the annual plan for audit. The SAO carried out 19 performance audits during the last three completed fiscal years, presented in Table 8.4 below.

Available performance audit reports focus on the efficiency and effectiveness of a specific function, policy or measure being implemented by BUs, not the specific institution. For example, in 2020, the Ministry of Education and Science was evaluated with regard to the effectiveness of its measures to deal with labor market risks, within the broader performance audit of 9 government agencies on the same topic; in 2019, it was evaluated with regard (i) to effectiveness of the realization of the higher education staff on the labor market as a part of broader performance evaluation covering 13 government agencies and public institutions, and (ii) to improving the conditions for sports for children from primary and secondary education, alongside the LGUs. The performance audits carried out in the last three years include reports focusing on assessing effectiveness of service delivery (e.g. Improving the conditions for sports for children from primary and secondary education - Project construction of gyms in primary and secondary schools) as well as reports which put more emphasis on assessing efficiency of government administrative functions and policies (e.g. Government planning - Effectiveness of government measures to deal with labor market risks and how to plan funds to overcome them). As reported by the SAO, average coverage of expenditures managed by the audited ministries (not disaggregated by service delivery programs) for the last 3 years is 14 percent.

Performance audits have been also undertaken by public sector internal auditors, but to a limited extent, due to internal capacity constraints. Only 4 of the 161 internal audits carried out in 2019 were performance audits (2.4 percent), as reported in the annual report on the functioning of the Public Internal Financial Control System.[18]

[18] Published July 2020.

Table 8.4: SAO performance audits published in FY 2018-2020

Title of Audit	Year of Audit	Audited entities
Effectiveness of measures and activities for issuing B integrated permits	2020	Ministry for Environment and Spatial Planning (MESP) and Ministry for Local-Self Government (MLSG) + one inspectorate+11 LSGUs and the City of Skopje.
Effectiveness of the measures and activities in function of realization of the transferred competencies that are financed with funds from block donations	2020	Ministry of Labor and Social Affairs (MLSA), Ministry of Education and Science (MES), Ministry of Culture (MC), MLSG + 3 LSGUs and the City of Skopje
Effectiveness of measures and activities for utilization of mineral resources and collection of fees	2020	MoF – Public Revenue Office, Ministry of Economy (ME) + 2 institutions on central government level and 1 inspectorate
Capital transfers to LSGUs from the Budget of the RNM	2020	Government of the RNM (GRNM), Ministry of Defense (MD), MoF, Ministry of Transport and Communication (MTC), MESP, MC, MLSG + 1 institution and 1 agency on central government level
Institutional capacities of the inspectorates in the RNM	2020	GRNM, Ministry of Information Society and Administration (MISA), Ministry of Health (MH), MC, Inspection Council + 4 inspectorates
Government planning - Effectiveness of government measures to deal with labor market risks and how to plan funds to overcome them	2020	Ministry of Interior (MI), Ministry of Economy (ME), MLSA, MES, MH, 2 state funds + 1 institution on central government level + 1 state faculty
Efficient treatment and management of plastic waste	2020	MoF – Custom Office, MESP, 2 institutions on central government level, 1 inspectorate + 12 LSGUs and the City of Skopje + 12 public enterprises on local level + 8 regional development centers
Efficiency of policies, measures and activities in granting water rights	2020	Parliament, General Secretariat of RNM, MESP, MoF, 2 inspectorates, 2 institutions on central level, Association of Units of LSG of RNM, 51 LSG, 1 City of Skopje, 64 Public Enterprises
Improving the conditions for sports for children from primary and secondary education - Project construction of gyms in primary and secondary schools	2019	MES, 79 LSG
Measures, policies and projects for protection and promotion of beekeeping in the Republic of North Macedonia	2019	Ministry for Agriculture, Forestry and Water Management (MFWM), MESP, 2 institutions and 2 agencies on central level, 1 inspectorate, 2 state faculties
Service for General and Common Affairs of the Government of the Republic of North Macedonia	2019	Service for General and Common Affairs of the Government of the Republic of North Macedonia
Realization of the higher education staff on the labor market in the Republic of North Macedonia	2019	MLSA, MES and 1 state fund, 6 public and 6 private universities, 1 inspectorate, 1 institution on central level
Cross-border cooperation program Republic of Macedonia - Republic of Bulgaria 2014 – 2020	2019	MLSG, Joint Secretariat and National Assessors
Effectiveness of policies, measures and activities in awarding public procurement contracts at the level of public enterprises of the City of Skopje	2019	2 institutions on central level, 1 court, City of Skopje and 6 public enterprises on local level
Measures, policies and projects for gasification in the Republic of North Macedonia	2018	GRNM, ME, MTC, 1 institution on central level, 1 public company, 2 public enterprises on local level
Effectiveness of policies, measures and activities in granting water rights	2018	MESP, MoF, 37 LSGUs and City of Skopje and 37 public enterprises on local level, 2 inspectorates and 2 institutions on central level
Effectiveness of policies, measures and activities in the exploitation of gravel and sand from the Vardar river basin	2018	ME, MESP, 1 inspectorate, 17 LSGUs, 1 regional planning center, 1 joint venture
Joint audit of the European Court of Auditors and 15 SAIs in Europe on "Air Quality"	2019	LSG

Effectiveness of policies and measures in construction land management	2018	MTC, 9 LSGUs and the Association of the LSGU

Source: SAO website

Performance audits carried out comprise an average of 14 percent of total budget spending over the past three years. **The number, institutional coverage and amount of expenditure covered by performance audits is less than required for a C score, and the rating for this dimension is therefore D**.

PI-9. Public access to fiscal information

This indicator assesses the comprehensiveness of fiscal information available to the public based on specified elements of information to which public access is considered critical. The time period is 2020 which is the last completed fiscal year and the coverage is BCG.

The assessment includes five basic elements of fiscal information that are considered the most important to enable the public to understand the fiscal position and four additional elements that are considered to be good practice.

Indicator/Dimension	Score
PI-9. Public access to fiscal information (M1)	**A**
9.1. Public access to fiscal information	A

9.1. Public access to fiscal information

Table 9.1: Public access to fiscal information in 2020

Element/ Requirements	Met (Y/N)	Evidence used/Comments
Basic elements		
1. Annual executive budget proposal documentation. A complete set of executive budget proposal documents (as presented in PI-5) is available to the public within one week of the executive's submission of them to the legislature.	Y	A complete set of Budget proposal, adopted by the Government, is submitted to the legislature and published both on the website of the MoF and the Parliament within one week.[19]
2. Enacted budget. The annual budget law approved by the legislature is publicized within two weeks of passage of the law.	Y	Budget Law for 2021 was adopted by the Parliament on December 20, 2020. It was published in the Official Gazette No. 307 (December 23, 2020) and on the MoF website.
3. In-year budget execution reports. The reports are routinely made available to the public within one month of their issuance, as assessed in PI-28.	Y	In-year budget execution reports as assessed in PI-28 (with the economic breakdown) in a form of summary of quarterly reports are published on the MoF website (http://www.finance.gov.mk) within one month after the period completion. Narrative analysis of budget execution is provided in monthly reports for budget execution and the semi-annual budget execution report.
4. Annual budget execution report. The report is made available to the public within six months of the fiscal year's end.	Y	Annual budget execution reports are compiled in the Final Account of Budget Execution and published with the audit conclusion within six months after the completion of the fiscal year. (see PI-29)
5. Audited annual financial report, incorporating or accompanied by the external auditor's report. The reports are made available to the public within twelve	Y	External audit of the Final Account of the Budget Execution is routinely carried out and published with the report on the MoF website and SAO website

[19] In practice, the budget proposal is published on the Parliament website, once it is included as an agenda item of the Parliament session, usually within few days. However, the date of publication is not traceable.

months of the fiscal year's end.		within 12 month of the year end. (see PI-30)
Additional elements		
6. Prebudget statement. The broad parameters for the executive budget proposal regarding expenditure, planned revenue, and debt is made available to the public at least four months before the start of the fiscal year.	Y	As part of the budget procedure, MoF prepares and publishes the Instructions for Budget Preparation (Budget Circular) which contains an overview of the mid-term macro-fiscal framework, planned revenues, expenditure and vertically set expenditure limits. The document was circulated and published on June 12, 2019.
7. Other external audit reports. All nonconfidential reports on central government consolidated operations are made available to the public within six months of submission.	Y	External audit reports carried out by SAO are published on the institution's official website (https://dzr.mk/) within 6 months of submission. .
8. Summary of the budget proposal. A "citizen's budget" is publicly available within two weeks of the executive budget proposal's submission to the legislature and within one month of the budget's approval.	Y	The Citizen's Budget is publicly available through a web portal (http://budget.finance.gov.mk/) that allows access to the overview of the budget, through an interactive interface created for the citizens. It provides information about the budget revenues, expenditure and deficit, and macroeconomic indicators and usually published within one month after the budget approval.
9. Macroeconomic forecasts. The forecasts, as assessed in PI-14.1, are available within one week of their endorsement.	Y	Macroeconomic forecasts for the planning year and two following years (with the prospect of 2 more following years) are presented in the Fiscal Strategy. The Fiscal Strategy is prepared by the MoF and adopted by the Government (see PI-15). It is submitted to the Parliament alongside the draft annual budget as a part of the budget documentation. Fiscal Strategy is published on the MoF (http://www.finance.gov.mk) and Parliament (http://www.sobranie.mk) websites after adoption by the government. (See element 1 of this table)

Since all the elements are published within the required timeframe, the rating for this dimension is A.

PILLAR THREE: MANAGEMENT OF ASSETS AND LIABILITIES

What does the pillar cover? That effective management of assets and liabilities ensures that public investments provide value for money, assets are recorded, and managed, fiscal risks are identified, and debts and guarantees are prudently planned, approved and monitored.

Overall performance: key strengths and weaknesses

Fiscal risk reporting is variable in its quality, with good reporting of contingent liabilities relating to guarantees and the financial sector, but no disclosure of risks related to PPP contracts. There is oversight of the PE sector, however this is focused on the companies' income statements with little analysis of balance sheet risks, beyond reporting of arrears and PE debt. Similarly, there is no consolidated report on the financial position of local governments, and while the local government units prepare and submit annual financial reports within three months of end of the fiscal years, the reports are not audited nor analyzed from a risk perspective.

Public investment management is immature in North Macedonia with no national guidelines or standards for project appraisal of proposed investment projects, except projects financed externally. When it comes to project selection and prioritization, while there is a central entity for prioritization of major projects, there are no standard criteria focusing on economic efficiency and productivity to support the selection of the most effective investment projects.

Records of major categories of financial and non-financial assets are decentralized and thus fragmented. Fragmentation is especially pronounced for non-financial assets, with issues reported over the accuracy of inventories and asset record keeping in individual institutions. While the information on assets is available, it is not consolidated across budgetary central government (see also pillar VI). Work is continuing on identifying non-financial assets in preparation for financial reporting on accruals basis, but consistent rules have not yet been specified for asset valuations. Only aggregate information on asset disposal is available centrally while detailed information on disposal is too decentralized to allow for meaningful analysis that could impact fiscal decision-making.

In terms of debt management, recent technical assistance reports identify improvements with respect to: (1) amendments to the public debt management law; (2) functionalities of the debt IT system; (3) development of the domestic debt market; (4) development of a debt management strategy; and (5) development of a framework for loan guarantees and on-lending. These improvements, as evidenced by assessment findings, build upon already "extensive disclosure of public debt and explicit guarantees, accompanied by sound frameworks for their management" (IMF FTE 2018). While recording and reporting of debt and guarantees demonstrate strong overall performance, assessment findings suggest reconciliation practices could be more frequent.

PI-10. Fiscal risk reporting

This indicator measures the extent to which fiscal risks to central government are reported. Fiscal risks can arise from adverse macroeconomic situations, financial positions of subnational governments or public corporations, and contingent liabilities from the central government's own programs and activities, including extra-budgetary units. They can also arise from other implicit and external risks such as market failure and natural disasters. The scope on all dimensions is the most recent fiscal year (2020). The coverage is central government public corporations for 10.1, subnational governments for 10.2, and central government for 10.3.

Indicator/Dimension	Score
PI-10. Fiscal risk reporting (M2)	**C**
10.1. Monitoring of public corporations	D
10.2. Monitoring of subnational governments	C
10.3. Contingent liabilities and other fiscal risks	B

Fiscal risks are monitored by three entities, all within the MoF: the Unit for Public Enterprises and Agencies (UPEA) and the Unit for Budgets of Local Self-Government Units (UBLSU) within the MoF Budgets and Funds Department; and the Unit for Policy for Public Debt Management and Risk Analysis within the International Financial Relations and Public Debt Management Department. Their work is guided by the Budget Law, the Law on Public Enterprises, the Law on Local Self-Government Units, the Public Debt Law, and the Law on Accounting for the Budget and Budget Users. The three units report their opinions on the level of risk to the Government through separate channels.

Financial statements prepared by public enterprises (PEs), municipalities, and central government are the primary means for reporting financial positions that may constitute fiscal risks to the state. All three types of entities are required to prepare financial statements. The required content of financial statements is given in the Law on Commercial Companies[20] and the Law on Accountancy of the Budget and Budget Users. Outside of financial statements, dedicated procedures are in place to collect information on budget execution, debt, and arrears.

Publication of PE financial statements is required by law through two channels. First, financial statements must be submitted to the Central Registry, which makes the statements available to the public for a fee, and to BUs free of charge. Second, entities are required to publish financial statements independent of the Central Registry. Details of legal requirements, and compliance with those requirements, for PEs and municipalities are given below under dimensions 10.1 and 10.2 respectively.

The major recent reform in fiscal risk has been the introduction of fiscal rules, which is ongoing and applies to BCG and LGUs. Substantial reforms are contemplated soon, embodied in a new law dedicated to public-private partnerships (PPPs) and the new draft OBL. These laws will expand information gathered, clarify roles and responsibilities, and specify reporting covering most risks identified in this Indicator.

10.1. Monitoring of public corporations

This dimension assesses the extent to which information on the financial performance and associated fiscal risks of the central government's PEs is available through audited annual financial statements. It also assesses the extent to which the central government publishes a consolidated report on the financial performance of PEs annually.

The UPEA monitors 29 entities, consisting of 21 companies registered under the Law on Public Enterprises, and 8 joint stock companies registered under the Law on Commercial Companies and for which the Government is majority owner.[21] There is no formal list or register of PEs. Some of the 29 PEs do not meet the definition of PCs given in the *GFSM 2014.*[22] For example, the Public Enterprise for State Roads (PESR) carries out a public mandate and is supported primarily by state revenue and from state guaranteed loans. In total, there are 10 institutional units in total which the 2018 FTE classified as EBUs under GFS which have been assessed under dimension 6.3 on financial reports of EBUs. Since

[20] The Law on Public Enterprises stipulates that PE accounting standards and reporting requirements must follow those prescribed in the Law on Commercial Companies

[21] For simplicity, all 29 hereafter will be referred to as public enterprises.

[22] Discussed in more detail in PI-6.

they are registered as PEs under the national legislation they formally constitute fiscal risk as per dimension 10.1 criteria but are excluded in the scoring of the dimension as per PEFA Secretariat guidance.

Audited annual financial statements of PEs must be submitted to founders for approval. This is required by both laws under which PEs are incorporated. The Government is generally the founder for centrally-owned PEs, but, in some instances, Parliament is the founder. In both cases, the UPEA is requested to analyze the statement and provide an opinion to the founder. PE annual financial statements are typically audited by private auditors. PEs use International Financial Reporting Standards (IFRS) when preparing their financial statements. The quality of audits and accounting standard provides predictable information for analysis by the UPEA.

For the purpose of the PEFA, the date of publication is distinguished between (i) when the financial statement is made available to the founder, which provides an opportunity to assess fiscal risk, and (ii) when the financial statement is accessible to the public at large, which enables independent assessment of fiscal risk.

Regarding the first meaning of publication, the date when audited financial statement is received by central government is reported by UPEA, as shown in Table 10.1. For statements covering 2020 (received in 2021, the most recent year for which reporting information is available), of the 29 PEs, 13, 10 and 6 were received within 6 months, 9 months, or not received within 9 months,[23] respectively.

Table 10.1: Financial reports of public corporations monitored by UPEA for 2020 (last completed year)*

	Public enterprise / State-owned companies*	Audited annual financial statement		Expenditures** 2020 (MKD million)	Percentage within 6 months	Percentage within 9 months
		Date received by central government	Within 6 or 9 months of end of statement year			
1	Power plants of North Macedonia ESM, JSC - Skopje	12/08/2021	9	13,048.5		35.67%
2	Electricity Transmission System Operator of the Republic of North Macedonia, a JSC for electricity transmission and power system control, in state ownership – Skopje			3,720.0		
3	Public Enterprise for State Roads – Skopje	15/07/2021	9	5,191.8		14.19%
4	Railways of the Republic of North Macedonia Transport, JSC – Skopje			3,720.0		
5	Public enterprise for managing forests “National Forests“ – Skopje			1,516.8		
6	State owned JSC for postal traffic "Post of North Macedonia“ – Skopje	02/07/2021	9	1,258.8		3.44%
7	Public enterprise for railway infrastructure Railways of	11/06/2021	6	1,103.1	3.02%	

[23] The date of the Electricity Transmission System Operator, submitted to MoTC, was not reported.

	Public enterprise / State-owned companies*	Audited annual financial statement		Expenditures** 2020 (MKD million)	Percentage within 6 months	Percentage within 9 months
		Date received by central government	Within 6 or 9 months of end of statement year			
	Republic of North Macedonia – Skopje					
8	Public enterprise for the maintenance and protection of national and regional roads – Skopje	23/07/2021	9	1,194.1		3.26%
9	Public enterprise "National Television“ – Skopje	26/04/2021	6	939.6	2.57%	
10	JSC for construction and management of residential and commercial property significant to the country – Skopje	05/07/2021	9	1,284.5		3.51%
11	Air Navigation service provider of the Republic of North Macedonia, JSC “M- NAV“ – Skopje	16/06/2021	6	845.7	2.31%	
12	JSC Water Economy of Republic of North Macedonia	21/07/2021	9	657.8		1.80%
13	Public enterprise for water supply "Strezevo“ - Bitola	28/07/2021	9	464.3		1.27%
14	JSC "TEC Negotino“ - Negotino	11/05/2021	6	181.8	0.50%	
15	JSC "State lottery of North Macedonia“ – Skopje	23/07/2021	9	263.0		0.72%
16	Public enterprise Hydrosystem "Zletovica“ – Probistip	27/05/2021	6	142.3	0.39%	
17	Public enterprise "National Broadcasting“ – Skopje	28/06/2021	6	202.7	0.55%	
18	JSC for airport services "Airports of the Republic of North Macedonia“ - Skopje	01/04/2021	6	248.0	0.68%	
19	„Boris Trajkovski“, state owned limited liability company established by one person – Skopje	26/03/2021	6	99.5	0.27%	
20	Public enterprise for water supply "Lisice“ – Veles	26/04/2021	6	85.2	0.23%	
21	JSC for management of state - owned business premises – Skopje	21/06/2021	6	82.3	0.22%	
22	Public enterprise "Official Gazette of Republic of North Macedonia“ – Skopje	28/04/2021	6	73.1	0.20%	
23	Public enterprise for water supply "Studencica“ - Kicevo	24/04/2021	6	65.6	0.18%	
24	Media information agency - Skopje, a state owned JSC	07/05/2021	6	56.6	0.15%	

	Public enterprise / State-owned companies*	Audited annual financial statement		Expenditures** 2020 (MKD million)	Percentage within 6 months	Percentage within 9 months
		Date received by central government	Within 6 or 9 months of end of statement year			
25	Public enterprise “JASEN“ – Skopje	19/07/2021	9	44.9		0.12%
26	Public enterprise for management of pastures – Skopje			55.3		
27	JSC for performing energy activities “National energy resources“ in state ownership – Skopje			20.2		
28	Public enterprise “Agro - Berza“ – Skopje	07/05/2021	9	10.0		0.03%
29	State owned limited liability company established by one person “Naftovod“ - Skopje			7.0		
	TOTAL PEs MONITORED BY UPEA			36,582.50	11.28%	64.01%
	TOTAL PEs SCORED ON DIMENSION 10.1***			28,599.60	4.91%	48.55%

Source: Ministry of Finance

** relative to total of 33 non-financial public corporations identified in public sector overview table 1.1 not monitored by UPEA.*

*** Expenditure figures from statutory financial statements*

**** scoring of the dimension as per PEFA Secretariat guidance*

The usefulness of timely audited financial statements to assess fiscal risks is also determined by the quality of data and the quality of analysis. While the purpose of focusing on audited financial statements is to ensure high quality and comparable data, the UPEA report does not identify if it defines expenditures in a way differently from audited financial statements. For example, 2020 expenditures reported by UPEA for PESR are not clearly aligned with those reported in the 2020 audited financial statement.[24] The UPEA analysis focuses on changes in financial position from the prior year, and material changes in actual revenue and expenditure compared to the PE’s annual budget.[25] There are no internal guidelines for UPEA to assess risk when analyzing the financial statements, nor a template for reporting its opinion to the founder. The UPEA typically has one week to submit its opinion to the founder from the date of receiving a financial statement.

By law, financial statements are to be published by PEs after approval by the founder. Auditors routinely confirm compliance with legal requirements. For 2019 financial statements, 27 of 29 PEs published audited financial statements. In addition, PEs are required to submit financial statements to the Central Registry by March 31 of each year. To meet this deadline, financial statements are not

[24] Reconciling data in the UPEA report with each audited financial statement is not within the scope of the PEFA.

[25] On a voluntary basis, PEs submit their proposed annual budgets, including investment plans, for information only to the UPEA in October of each year.

always audited. In 2021 (for financial statements covering 2020), the Central Registry reported that all but two PE financial statements were submitted to it within the deadline.

Some consolidated information on PEs is provided annually in the Fiscal Strategy. This includes a list of PEs monitored, along with income statement information for each PE for the prior year and latest available budget. There is not a comparable list by PE of balance sheet risks. Summary data on PE arrears and debt are published. However, these risks are presented by type of risk incurred by all types of entities, not all risks grouped by PEs. For example, the total of arrears for all PEs is provided in the same Fiscal Strategy table as arrears incurred by central government BUs and municipalities. Similarly, information on PE debt, guaranteed and non-guaranteed, is provided in the Public Debt Strategy 2021-23. This style of presentation makes it difficult to understand the sum of risks presented by PEs. PE arrears and debt (guaranteed and non-guaranteed) are 1.6 and 9.2 percent of GDP, respectively, as of September 2020.[26]

Most public corporations submit audited financial reports within 9 months of the end of the fiscal year which qualifies for score C. **Excluding the institutional units assessed under dimension 6.3, the majority of the remaining PCs report within 9 months, resulting in dimension score D**.

10.2. Monitoring of subnational governments

This dimension assesses the extent to which information on financial performance, including the central government's potential exposure to fiscal risks, is available through the audited annual financial statements of subnational governments. It also assesses whether the central government publishes a consolidated report on the financial performance of the subnational governments annually.

While municipalities are required to prepare annual financial reports, they are not required to have them audited.[27] The SAO has authority to audit local governments but does so selectively based on a risk assessment. SAO performs all types of audits of the LSG (financial, compliance and also performance audits in which financial aspects are one of the risk areas covered); private audit firms are not used for this purpose. Annual financial reports are released only after approval by the respective Municipal Council, which has a deadline of March 15 each year to do so. Municipal Councils have a strong incentive to submit their reports on time because failure to do so by March 15 is a reason for dissolution of the Council.[28] Municipal Councils must approve the annual financial statement in open meetings, and with a formal decision.

In 2020 for the 2019 fiscal year, all municipalities submitted their annual financial reports within nine months of the end of 2020.

- Municipalities are required to submit annual financial reports to MoF by March 31. The UBLSU summarizes the data in an annex to the BCG annual Final Account, which should be completed by March 31. In 2021 (when reporting on 2020), all municipalities provided information to MoF for MoF to complete the annex on time.
- Municipalities are required to submit annual financial reports to the Central Registry by February 28, if reporting is on paper, or by March 15, if the reporting is electronic. In 2021, three reports were submitted past the legal deadline but were reported before nine months had elapsed

A consolidated report on the financial position of municipalities is not prepared. The UBLSU does not analyze the annual financial reports submitted by municipalities for fiscal risks. The compilation of budget execution data, attached to the BCG financial statement, does not achieve the aim of highlighting fiscal risks. Information on arrears incurred by, and the total debt of, municipalities is

[26] Assessment team estimates based on government documents
[27] Law on Accounting of the Budget and Budget Users
[28] Law on Local Self-Government, Article 75

provided annually in the Fiscal Strategy. The stock ofmunicipal arrears and debt outstanding is 0.6 and 0.8 percent of GDP, respectively, as of September 2020.

All subnational governments submit unaudited financial reports annually within 9 months of the close of the fiscal year, published on the individual municipality webpages, but the reports are not audited, the rating for this dimension is C.

10.3. Contingent liabilities and other fiscal risks

This dimension assesses monitoring and reporting of the central government's explicit contingent liabilities from its own programs and projects, including those of EBUs. Contingent liabilities are obligations that do not arise unless a particular, discrete event occurs. For the purposes of this analysis, significant contingent liabilities are those with potential cost in excess of 0.5 percent of total central government budget expenditures and for which an additional appropriation by Parliament would be required. In the case of North Macedonia, these are shown in Table 10.2.

Table 10.2. Significant contingent liabilities and reporting on them

Risk	Size	Legal basis	Who monitors	Report
Guaranteed public debt	8.3 percent of 2020 GDP	Loan covenants	MoF Debt Management Unit	Public Debt Management Annual Report; Public Debt Management Strategy 2021-23
Net exposure to financial sector	26.4 percent of 2017 GDP[29]	Deposit Insurance Fund Law	Deposit Insurance Fund and NBRNM	Deposit Insurance Fund annual report
Public-private partnerships (PPP)	6.4 percent of 2020 GDP[30]	Individual PPP agreements	No central unit for all PPPs; by BU that supervises each PPP	No consolidated report currently (although the new PPP law will likely require this)

Source: Government reports, PEFA team meetings, and IMF staff estimates

Two other potential contingent liabilities did not meet the definition of significant contingent liabilities for the purpose of this dimension but warrant noting. Legal cases are typically paid by the involved BU by reallocating funds among economic class items within its existing budget and thus have no impact on fiscal policy. However, this approach potentially leads to disruption of the BU's ability to meet the service priorities assigned to it. There is not a consolidated list of pending legal cases and their cost; actual payments made are reported in annual budget execution reports. Contingent liabilities relating to natural disasters, epidemics, and environmental catastrophes are covered, at least in part, by the Permanent Reserve Fund.[31] Because it is planned, and budgeted, it does not constitute a fiscal risk up to the value of the Fund. However, funds can be added to the Fund during the year if needed. See PI 2.3 for a discussion of the Fund and actual expenditures in the last three completed years (2018, 2019, and 2020).

[29] 2017 Deposit Insurance Fund annual report

[30] The registry of PPPs and concessions has not adopted a definition of PPPs and thus the number and value of PPPs reported by the PPP unit in the Ministry of Economy is not fully reliable. The 2020 Public Investment Management Assessment (PIMA) estimated the total value of approved PPPs as of 2019 to be 6.2 percent of GDP. PPPs approved in 2019 through mid-2021 represent a sum of approximately 0.2 percent of GDP. The PIMA estimate built on work done previously by the IMF *Fiscal Transparency Evaluation* 2018 and the World Bank *Public-Private Partnership in the Republic of North Macedonia, Baseline Report on the Current PPP Framework* 2019.

[31] Currently, the Organic Budget Law places a combined funding maximum of 3 percent of the total current budget for the Permanent Reserve Fund and the Current Reserve Fund (See accounts 412 Permanent Reserve and 413 Current Reserve in the budget). Consideration is being given in drafts of the new OBL to establish for the Permanent Reserve its own limit of 1 percent of planned revenue.

Based on data shown in Table 10.2, most contingent liabilities are quantified by central government entities in financial reports. In other words, guaranteed public debt and net exposure to the financial sector are reported officially and represent 84 percent of the total significant contingent liabilities.

Three risks have been subject to recent developments:

- Total public debt: the definition of total public debt was revised in 2019 to include non-guaranteed debt of public enterprises established by the state or municipalities and majority-owned joint stock companies. In effect, this acknowledges an implicit guarantee of PE regular debt.
- PPPs: since July 2020, the government has been drafting a new law dedicated to PPPs (a separate law on concessions is under consideration). The draft law has been released publicly. The new law will clarify measures of risk and reporting of them for proposed and ongoing PPPs.
- Guarantees: A credit guarantee scheme (CGS) is under active consideration to support small and medium-sized enterprises (SMEs) and the export sector for the purpose of mitigating the impacts of the Covid-19 pandemic. The legal character and operational design of the CGS, and thus the nature and size of risks, have not been finalized. If it becomes operational, it is prudent that a system of risk monitoring and reporting to the MoF be established.

While two of the three contingent liabilities noted in Table 10.2 are reported by specialized units, there is no single report that compiles all significant risks. The Fiscal Strategy includes a section on Fiscal Risks and Sensitivity Analysis, with a focus on factors that may cause deviations from the medium-term macroeconomic and fiscal projections underlying the fiscal policy adopted by the Government. The factors that form the basis for separate scenarios are lower economic growth, lower tax revenues by 5 percent, and lower execution of capital expenditures by 25 percent. Beginning in 2020, a fourth scenario was added to reflect the fiscal impact of the budget paying all outstanding loan guarantees.

The draft new OBL includes provisions creating a Fiscal Council, under Parliament, that will monitor fiscal risks and the probability of impacting the budget and the Fiscal Strategy. Presumably, this analysis will be published and thus could be characterized as a fiscal risk statement.

Because two of three significant contingent liabilities are quantified and reported, representing over 75 percent in value, but there is not a consolidated report including all significant contingent liabilities, the rating for this dimension is B.

PI-11. Public investment management

This indicator assesses the economic appraisal, selection, costing, and monitoring of public investment projects by the government, with emphasis on the largest and most significant projects. The assessment is based on 2020, as the latest completed fiscal year and covers CG.

Indicator/Dimension	Score
PI-11. Public investment management (M2)	**D+**
11.1. Economic analysis of investment projects	C
11.2. Investment project selection	D
11.3. Investment project costing	C
11.4. Investment project monitoring	C

North Macedonia's public investment management (PIM) system is characterized as decentralized. This conclusion is reached for the following reasons:

External sources of funding account for a large share of the capital budget. Sources, such as the EU and World Bank, typically impose their own appraisal, selection, costing, and monitoring requirements. For 2019, 2020, and 2021, external sources of funds accounted for 30, 38, and 37 percent, respectively, of the capital budget.[32]

Central institutions defer to the technical expertise of BUs. There are no central standards for the appraisal, selection, or costing of projects. That said, the General Secretariat of the Government strives to ensure that the development budget includes projects that adhere to the priorities stated in the Government 4-year plan. It also oversees a system to monitor implementation of development projects, primarily to identify and remove obstacles to implementation.

The coverage of the budget with regard to capital projects is mixed. Projects implemented by BUs, even if funded from external loans and grants, are included in the budget (except EU IPA funded projects). Projects implemented by PEs and through PPPs are not included in the budget. For example, the Public Enterprise for State Roads (PESR), which was created in 2013, budgeted MKD 16.0 billion in 2021,[33] which was equal to 67 percent of the total capital spending authorized in the 2021 BCG budget. The PESR is not subject to the annual budget process, and its expenditures are not included in public official data on public investment even though it is funded primarily by earmarked public revenue and state guaranteed loans.[34]

No project of budget users in the 2020 budget meets the criteria of major project stated in the PEFA Framework.[35] There are 3 projects under implementation by the PESR these are highlighted in Table 1.1 below and are all externally financed.

Table 11.1: List of major investment projects – PESR (MKD)

	Ministry Responsible	Capital project	Project cost (MKD)
1	Ministry of Transport and Communication (PESR)	Construction of highway A2, section Kicevo - Ohrid	25,373,989,538
2	Ministry of Transport and Communication (PESR)	Construction of express road Stip - Radovish	3,948,416,000
3	Ministry of Transport and Communication (PESR)	Construction of expressway Kumanovo - border with R. Bulgaria, section Rankovci - Kriva Palanka	3,609,099,000

Source: Public Enterprise for State Roads website.

The MoF plans significant revisions to the PIM framework. These are stated in the PIM Action Plan adopted by the Government in December 2020, and are reflected in the draft OBL. The IMF conducted a Public Investment Management Assessment (PIMA) in January 2020. The reforms seek to address many of the weaknesses identified in the decentralized nature of PIM, including by setting standards for appraisal, costing, and selection, and increasing the role of the MoF in applying those standards and monitoring project implementation.

[32] Percent are calculated using data in the approved annual budget for each year, and assumes that all loans and donations are foreign financed. This understates total external financing of public investment, as IPA projects funded by the EU and loans to PEs from external entities are not included in the budget.

[33] Source: MoF, includes all funding sources

[34] Public official data refers only to capital expenditures of general government units. PEs are outside the coverage of the general government.

[35] Major projects are defined as those meeting both of the following criteria. I) the total cost of the project amounts to 1 percent or more of total annual budget expenditure (or MKD 2.2 billion for 2021); and ii) The project is among the largest 10 projects (by investment cost) for each of the five largest central government units, measured by the units' investment project expenditure. For 2021, these are the Ministry of Transport and Communication (MoTC), the MoF – State Functions (primarily the Rural Development program), Ministry of Education and Science (MES), Ministry of Health (MH), and Employment Agency.

11.1. Economic analysis of investment projects

This dimension assesses the extent to which robust appraisal methods, based on economic analysis, are used to conduct feasibility or prefeasibility studies for major investment projects on the basis of an analysis of its economic, financial, and other effects; whether the results of the analyses are published; and whether the analyses are reviewed by an entity other than the sponsoring entity.

In North Macedonia, there is no legal framework providing policies, standards, or procedures across BUs for appraisal of major investment projects, the publication of the analyses, or review of the analyses by an independent expert or entity.

Externally funded major projects, including those implemented by PESR are subject to rigorous standards and procedures of the external funding entity imposed by the external funding entities. The details of these standards and procedures vary. Most external funding entities require appraisal by independent experts, and publication of the appraisal.

For domestically funded projects, BUs develop their own appraisal criteria. BUs often employ engineers from universities and private firms to assist in the development of preliminary engineering designs and feasibility studies. The MoTC certifies engineers who are qualified to perform such work, who then can be used by other ministries. In such cases, BUs rely on the professional competence of the expert. Project appraisals are typically not published.

For projects implemented through structured financing instruments, such as PPPs, no guidelines currently exist for economic analysis of projects. A new PPP law, currently being drafted, will likely address this issue.

Since there are no national guidelines, and appraisals based on economic analyses are conducted for some major projects (those funded from external sources), the score for this dimension is C.

11.2. Investment project selection

This dimension assesses the extent to which the project selection process prioritizes investment projects against clearly defined criteria to ensure that selected projects are aligned with government priorities. Rigorous and transparent arrangements for the selection of investment projects aim to strengthen the efficiency and productivity of public investment. The degree to which a project is "mature", or the completeness of project description and analysis, is not considered a selection criterion for the purpose of this dimension.

There are no published standard criteria for project selection. For externally funded projects, selection criteria are established by the external funding entity. That said, the Single Project Pipeline (SPP),[36] coordinated by the Secretariat for European Affairs and covering all externally funded projects, uses selection criteria published under the "Support to Western Balkans Infrastructure Investment Projects in the period 2014-2020" project. There are three main criteria, supplemented by sector specific criteria: (i) compliance with plans and legal framework (4 sub-criteria); (ii) impact indicators (2 sub-criteria); and (iii) maturity indicators (4 sub-criteria). For domestically funded projects, selection criteria are established by each BU independently, some of whom follow the SPP selection criteria (e.g. MoTC). The PPP unit in the Ministry of Economy has not adopted standard selection criteria for PPPs.

Prioritization of projects for inclusion in the budget is determined most directly by the General Secretariat of the Government. The focus of the prioritization is compliance with the Government 4-

[36] The SPP, managed by the Secretariat for European Affairs (SEA), is a list of planned and ongoing projects supported by all external funding entities. IPA funded projects are included in this list even though the projects are not included in the budget. The SPP is updated semi-annually, in February and September. The SPP is presented to the National Investment Council (NIC) and the Government for approval.

year Work Program, and is communicated through the 3-year strategic plan prepared by each BU in parallel with the budget (see PI-8 and PI-16.3 for a more detailed explanation of the planning system). There are three important shortcomings of the planning system for this purpose of this dimension. First, many priorities in the Government 4-year Work Program were not subjected to technical analysis to promote efficiency and productivity. Second, since the Government 4-year Work Program is not detailed at the project level, there is substantial room for interpretation when selecting projects on the basis of the plan. Third, the General Secretariat does not assess the technical qualities, feasibility, and costing of a proposed project as part of its annual review.

Since major projects are prioritized by a central entity but not on the basis of measurable criteria for selection that are rigorous and focus on economic efficiency and productivity, the score for this dimension is D.

11.3. Investment project costing

This dimension evaluates whether the budget documentation includes medium-term projections of investment projects on a full-cost basis and whether the budget process for capital and recurrent spending is fully integrated.

In North Macedonia, the budget shows the capital cost of a project, broken down by each year covered by the medium-term, along with a remainder if the project is implemented over more than three years.[37] Revisions to multiyear projects cost estimates from one budget year to the next are not identified in budget documentation.

Definition of what should be included in the capital costs of a project is not stated in law or rule. It is generally understood that construction costs are included in capital costs, but there is ambiguity on other related costs. For example, should the costs of feasibility studies and preliminary design be included in the capital costs, or the costs of furniture or equipment specific to its intended purpose, such as a school or clinic. Project documents often include such costs even if they are not included in the project appropriation. A project document in this context refers to the detailed project file that accumulates documents when developing, justifying, or describing a project.

For externally funded projects, costing methods are established by the funding entity; for domestically funded projects, costing methods are established by each BU independently. As noted in PI-11.1, BUs rely on the professional judgment of engineers to apply cost estimates for the design and construction phase of the project, based on site, preliminary design, time, and materials. Treatment of major component of a project's costs that could be included when estimating and budgeting for the total capital costs is shown in Table 11.1.

[37] The cost of capital projects is shown for each of three years under the sub-program section of the budget. Cost estimates beyond three years are collected in the budget preparation process, as stipulated by a dedicated form in the 2020 budget circular.

Table 11.3: Treatment of major project capital costs in project documents and the budget

A. Project cost component	B. Detailed project document	C. Budget presentation[38]
Preliminary design and feasibility studies	Externally funded: typically included in the agreement specific to a project Domestically funded: typically not included in project document	Externally funded: either i) separate project, or ii) included in the project with other components. Domestically funded: typically funded through the special budget of the BU without specifying individual projects.
Land acquisition	In project document in all cases	Externally funded: in all cases, funded domestically. Domestically funded: paid from the basic budget to minimize price escalation and use Government authority to resolve legal challenges; not included with other project components; a single project is budgeted for all land acquisition across all active projects because of cost uncertainty case by case.
Construction	In project document in all cases	Separate project in all cases
Furniture and equipment	In project document in all cases	Externally funded: typically included in the project Domestically funded: often a separate project in the budget
Project management	Externally funded: construction supervision and Project Implementation Unit (PIU) overhead typically included in agreement specific to a project Domestically funded: construction supervision included but not BU overhead	Externally funded: included in the project Domestically funded: construction supervision costs in the project (per budget circular); overheads funded through the special budget of the BU without specifying projects.

Source: PEFA assessment team, based on input from authorities

Recurrent costs associated with major projects are sometimes identified in project documents but not in the budget. For externally funded projects, operating and maintenance costs may be estimated, but such estimates will vary based on standards of the external funding entity. For projects carried out by BUs, and not funded externally, operating and maintenance costs are typically not part of the project cost estimates. **Since capital costs of a major project are included in each year of the medium-term budget, but recurrent costs of the project are not included in budget documents, the score for this dimension is C**.

[38] Under column B, a project is considered as resulting in a single non-financial capital asset. Under column C, a project is one line in the budget, or an identifiable element of one budget line. For example, individual capital project components may be split apart and presented under separate budget lines. Or, individual capital projects under column B may be grouped, such as consolidating water projects under one line in the budget.

11.4. Investment project monitoring

This dimension assesses the extent to which prudent project monitoring and reporting arrangements are in place to ensure value for money and fiduciary integrity. The monitoring system should maintain records on both physical and financial progress, including estimates of work in progress, and produce periodic project monitoring reports.

Standards or rules governing project monitoring and reporting vary based on funding source. There is no legal framework for monitoring project implementation. For externally funded projects, there is a high level of compliance with the funding entity's standards and procedures due to oversight by the funding entity, but the standards will vary by funding entity. For domestically funded projects, there are no standards, and there is no central oversight entity.

There are several aspects by which project monitoring should be evaluated: (i) if monitoring is by individual project or across all projects being implemented; (ii) if monitoring covers physical and financial progress; and (iii) if implementation information collected is published.

Each of these three aspects of monitoring is influenced by the institutional arrangements for monitoring.

- Individual project monitoring: the physical and financial progress of each major project is monitored by a PIU or a project implementation committee. For an externally funded project, detailed progress reports on physical and financial progress are prepared as required by the funding entity, which are sometimes published. For domestically funded projects, the nature of progress reports is determined by each BU independently, which are not published. PIUs retain implementation records; project implementation committees retain some records, such as minutes of meetings, while otherwise using regular administrative systems applicable to BUs, such as the treasury.
- Monitoring groups of projects:
  - Budget reports: financial progress of project implementation is reported within the year through budget execution reports, and at the end of the year through annual budget execution reports. These reports are published. However, reporting is made according to the structure of the appropriation, which may group individual projects so that the progress of individual projects cannot be discerned.
  - Government monitoring: a BCG-wide system of monitoring is managed by the General Secretariat of the Government. Every six months for major projects, and every 12 months for smaller projects, progress reports covering physical and financial progress are submitted to the General Secretariat by implementing BUs. The information is submitted through the e-Government system, which is accessible by major BUs and the MoF. The Government reviews the reports and comments received through the e-Government system, and issues decisions to remove obstacles to implementation. The decisions of Government are published, but not the progress reports.

Since the total cost and physical progress of major investment projects are monitored by the implementing government unit, but there are no standard procedures for project implementation and published annual reports address financial implementation status only, the score for this dimension is C.

PI-12. Public asset management

This indicator assesses the management and monitoring of government assets and the transparency of asset disposal. Coverage is the CG on dimension 12.1, BCG on dimension 12.2 and both CG and BCG on dimension 12.3. The indicator scope is 2020, the last completed fiscal year.

Indicator/Dimension	Score
PI-12. Public asset management (M2)	**D+**
12.1. Financial asset monitoring	C
12.2. Nonfinancial asset monitoring	D
12.3. Transparency of asset disposal	D

Categories of financial and non-financial assets considered in this indicator are those prescribed in the Government's Rulebook on the Chart of Accounts (2011). Financial assets of the government are managed in line with the applicable legislation for the respective category while the management of non-financial assets is subject to a complex legal framework illustrated in the table below for the different categories of non-financial assets.

Table 12.1. Overview of relevant legislation for management of non-financial assets

Legislation	Category of assets	Administered by	Categories of transfer / Type of procedures foreseen
The Law on Use and Disposal of State-owned and Municipal-owned Assets (2019)	Movable and immovable assets (buildings and other immovable assets) owned by the State and municipalities	MoF, Property and Affairs Administration	Lease, disposal or transfer of ownership or right to use (under Government decision)
			Electronic bidding procedure for disposal and lease of movable and immovable assets
Law on Sale and Disposal of Commercial Property held by the State	Commercial real estate asset owned by the state, state owned funds, agencies, public enterprises, regulatory bodies and other institutions owned by the state	MoTC	Sale and lease of commercial property
			Electronic bidding procedure
Law on Mineral Resources	Non-produced assets (mineral rights)	MoE	Electronic bidding procedure
Law on Concessions and PPP	Non-produced assets	MoE	Electronic bidding procedure
Law on Agriculture	Non-produced assets (agricultural land)	Ministry of Agriculture	Information not available
Law on Construction Land	Non-produced assets (construction land)	MoTC	Sale and lease of construction land upon request of citizens. Transfer of property rights to public enterprises owned by the state.

Legislation	Category of assets	Administered by	Categories of transfer / Type of procedures foreseen
			Electronic bidding procedure managed by the Association of the Units of Local Self-Government of the Republic of North Macedonia – ZELS, according to the Law.
Law on Privatization and Lease of State/owned Construction Land	Non-produced assets (construction land, conversion from the right to use to the right to own previously "socially-owned" land for individuals and legal entities)	MoF, Property and Affairs Administration	Administrative procedure based on request of individuals and businesses to transform the right to use to the right to own.

Source: PEFA assessment team, based on input from authorities

SAO has issued an emphasis of matter on setting up of the legal basis for recording of state assets and their presentation in the financial reports (2019 Audit Report). Other available diagnostic reports note that there is still no specific, [single] government entity responsible for managing the government's asset portfolio as a whole. (CEF 2020)

12.1. Financial asset monitoring

This dimension assesses the nature of financial asset monitoring, which is critical to effectively managing the key financial exposures and risks to overall fiscal management. The main categories of financial assets for the Government include cash and cash equivalents, equity in public corporations, and receivables and loans given. Information on Government financial assets in the form of equity and shares in public corporations is available from published financial statements of public corporations prepared in line with the International Financial Reporting Standards (IFRS). Records of receivables and loans given are held in the auxiliary ledgers managed by individual central government institutions in line with the prevailing legislation and reported on their individual balance sheets issued in line with the national accounting policies. While individual reports are published, information on performance of the two portfolios are not consolidated (see PI-10 and PI-29, respectively). National accounting policies require assets to be recognized at acquisition cost.

Finally, the National Bank of the Republic of North Macedonia's (NBRNM) holdings in monetary gold and other foreign currency reserves are reported in its published annual financial statements prepared in line with the International Financial Reporting Standards (IFRS) and audited by an independent external auditor. The statements also provide narrative on performance of the main categories of financial assets within the notes to the financial statements.[39] In line with the PEFA methodology, these are not considered for assessment under this dimension and the information is not reflected in the scoring.

While records of the major categories of financial assets are maintained, information on their performance is too fragmented to be considered useful for analysis and the score for the dimension is C.

[39] NBRNM classifies its financial assets in three categories: financial assets measured at amortized cost, financial assets at fair value through other comprehensive income, and financial assets at fair value through profit and loss. NBRNM 2020 Financial Statements

12.2. Nonfinancial asset monitoring

This dimension assesses the features of nonfinancial asset monitoring, including their identification and usage. At the MoF, the Property and Affairs Administration is the main organizational units with responsibilities over privatization and lease of state-owned land as well as expropriation. It however does not maintain any centralized records of the underlying assets. The State Cadaster Office records immovable property (land and buildings) owned by the state. Earlier external diagnostics reported concerns over timeliness of reported changes to source data in the cadaster. Some government institutions maintain partial registries for some main categories of assets, such as Ministry of Economy on mineral resources. Registries of movable property in state ownership are yet to be developed, pending completion of the ongoing legislative changes.[40]

Currently, records of the book values of non-financial assets are maintained in the accounting records of each budget user and presented in their individual balance sheets. Accounting recognition of value of assets is historic cost, consolidated at the level of first-level budget users but not for the budget as a whole (see PI-29 for details), with depreciation as value adjustment recorded through accounts 900/029. Valuation of non-financial assets follows the provisions of the Rulebook on Accounting for the Budget and Budget Users which regulates recognition, depreciation, and revaluation.

A register of mineral rights in the Ministry of Economy is internal to the Ministry and captures values of mineral resources and the percentage of their exploitation. Illustrative gaps in information needed to effectively monitor non-financial assets include the need to improve and upgrade the information systems in the Ministry of Environment and Physical Planning (water rights) and Ministry of Transport and Communications (disposal of land for construction).[41] In other instances, the SAO has reported issues with the accuracy of inventories and asset record keeping in individual institutions in the past.

There are issues reported with timeliness of information recorded in the cadaster, the only comprehensive centralized registry of immovable property, while other comprehensive asset registries are yet to be established so the score for the dimension is D.

12.3. Transparency of asset disposal

This dimension assesses whether the procedures for transfer and disposal of assets are established through legislation, regulation, or approved procedures. As illustrated in Table 12.1 above, regulations and rules are in place for disposal of movable and immovable assets. In case of sale, individual institutions propose the underlying decision to the Government, and the sale can proceed based on Government enactment. For sale and lease, announcements are published in daily newspapers ahead of electronic auctioning[42] which is open to all interested parties who submit the required information and bank guarantee (20 percent of the value of the bid). Bidding is carried out through an electronic platform and a contract is signed with the most favorable bidder. Each budget user (BU) reports on the sales individually. In line with the Law, all operations related to disposal, including the initial valuation, are to be carried out by a commission established within each BU. Minutes are prepared recording the details of the transactions. Direct negotiations are also foreseen but limited to exceptional cases, primarily involving matters of public interest.

Transfer of immovable property may entail transfer of the "right to use" and the "right to own" between BUs and has to be approved through a Decision of the Government. Subsequently, BUs

[40] The Law on Use and Disposal of State-owned and Municipal-owned Assets
[41] As reported in SAO performance audits: Efficiency of Policies, Measures and Activities in Awarding Water Rights (2020) and Efficiency of Policies and Measures for Managing Construction Land (2018), respectively.
[42] E-aukciji.gov.mk, created solely for the purpose of facilitating the implementation of the Law on Sale and Disposal of Commercial Property held by the State. Contains all the current public announcements but not the data base of past decisions (minutes). Logs are generated by the system, but detail is available in the Commissions' minutes only.

regulate the arrangement through a contract. Changes in the cadaster are made on the basis of the information contained in the Government decisions. In case of transfer of movable property, individual BUs carry out the transfer procedures without notifying the MoF Property Affairs Administration. In interviews with the PEFA team, the SAO highlighted a limited number of findings where the disposal of assets was not accompanied with reliable supporting documentation on transfers and associated receipts.

Ultimately, in addition to highly decentralized information on disposal of individual assets from transactions involving movable and immovable property, accounting information on the aggregated value of disposals of assets is reported in the in-year budget execution reports and the annual Final Account. This information, however, does not include the specific original purchase cost and disposal value.

Available information on asset disposal is highly decentralized and the information in the budget execution report limited to aggregate values, without reference at least to the original purchase cost and disposal value, so the score for this dimension is D.

PI-13. Debt management

This indicator assesses the management of domestic and foreign debt and guarantees. It seeks to identify whether satisfactory management practices, records, and controls are in place to ensure efficient and effective arrangements. Indicator coverage is CG and the time period assessed is at the time of assessment for 13.1 and 13.3, and last completed fiscal year (2020) for 13.2.

Indicator/Dimension	Score
PI-13. Debt management (M2)	**A**
13.1. Recording and reporting of debt and guarantees	B
13.2. Approval of debt and guarantees	A
13.3. Debt management strategy	A

The main parameters for public debt management are set out in the Public Debt Law, last amended 2019 to extend the coverage and monitoring of the public debt.[43] The law sets out the objectives of the public debt management policy, to be attained by defining short- and medium-term limits of specific debt portfolio indicators:

- financing the needs of the government with the lowest cost possible, in the medium and the long run, with sustainable level of risk;
- identifying, monitoring and managing the risks which the public debt portfolio is susceptible to; and
- developing and maintaining an efficient domestic financial market.

Government is charged with concluding loan agreements on behalf of the Republic of North Macedonia, while the Minister of Finance is the signatory for those agreements on behalf of the Government. The Parliament approves the total amount of borrowing under the financing part of the annual budget law. The Public Debt Law authorizes the MoF to undertake virtually all borrowing on behalf of the Government. Borrowing by the municipalities (Article 4) and borrowing of SOEs (Article 6) that is not backed by a sovereign guarantee requires MoF consent.

Within the MoF, the International Financial Relations and Public Debt Management Department (IFRDMD) is organized into front, middle and back office and manages the following processes relevant for the dimensions assessed below:

[43] Additional provisions on municipal borrowing are contained in the Law on Financing of Local Government

- proposes the source and the structure of borrowing for budget deficit financing;
- undertakes activities related to regular servicing of government debt;
- monitors the timely servicing of public debt by public debt issuers;
- undertakes measures for collection of claims from public debt issuers on behalf of which payment was made upon called-up guarantee, i.e. loan agreement;
- undertakes measures in relation to the public debt limit;
- prepares the Annual Report on Public Debt Management;
- prepares and publishes the Calendar of Planned Issues of Government Securities for the current year;
- organizes and issues government securities on behalf of the Republic of North Macedonia;
- records the issuance of government securities and creates conditions for development of the secondary market;
- monitors the balance of the STA and manages the investment of excess of funds thereon;
- monitors the balance of foreign currency accounts of the state opened and kept with the NBRNM and manages the excess funds on the account of the MoF;
- concludes agreements for exercising the competences laid down under the Public Debt Law;
- participates in the borrowing procedure of public debt issuers except in a case when the debt is not guaranteed by the state and,
- gives recommendations to public debt issuers regarding the borrowing terms and conditions in cases of financing projects which require borrowing.[44]

Beyond loans, the Public Debt Law (Article 18) authorizes the MoF for issuance of short-term and long-term government securities. Those may be denominated in domestic currency, with or without foreign exchange clause, or in foreign currency and are issued on both the domestic and the international capital markets. The interface between debt and cash management is described in PI-21.

Current provisions of the Public Debt Law also set out the requirement for preparation and implementation of a three-year Public Debt Management Strategy (PDMS), including prospects for additional two years.[45] In the period 2018-2020, the medium-term debt management policy and the annual borrowing limits were reviewed and adopted by the Government as part of the Fiscal Strategy and the annual budget documentation. Under the current rules, the MoF proposes and the Government adopts the PDMS by May 31 in the current year at the latest.

13.1. Recording and reporting of debt and guarantees

This dimension assesses the integrity and comprehensiveness of domestic, foreign, and guaranteed debt recording and reporting. MoF's competences for keeping the public debt registry and registry of issued sovereign guarantees are regulated in Article 11 of the Public Debt Law. In line with Article 19 of the same Law, information on holders of government securities is available from the registry managed by the Securities Depositary. Records on public debt in the form of loans, guarantees and government securities are maintained in the bespoke Debt Management Information System (DMIS) that was introduced in 2008 and most recently upgraded in 2020 with a debt projections module and additional reporting functionalities.

The MoF manages the Public Debt Registry and Registry of Issued Sovereign Guarantees. Public debt issuers (other than municipalities) are required to submit monthly information on changes of the stock and any new borrowing relative to the last report (Article 26). Template M1, prescribed by the MoF, also captures the information on whether the debt is guaranteed. Municipalities report the change in stock and new borrowing (including information on any issued guarantees) that cover their debt and

[44] Full list of the MoF duties and competencies is contained in Article 11 of the Public Debt Law.
[45] (DMS 2021-2023), reference is to Article 7 of the Public Debt Law.

debt of public enterprises established by the municipality in quarterly intervals, 30 days after the end of the quarter. The data is registered in the DMIS by the IFRDMD without delays and is considered up to date. DMIS was being audited by the SAO at the time of the assessment but there are no earlier audit findings related to accuracy and completeness of debt records.

Formal reconciliation with creditors is carried out in quarterly and monthly intervals. In practice, each payment advice issued by the Government's creditors (major international financial institutions) provides information on the credit balance. When processing the invoice and preparing the payment order, internal procedures require the IFRDMD staff to reconcile the outstanding amounts with the figures in the DMIS and address any discrepancies. Other major creditors, such as the World Bank and the European Investment Bank, provide the MoF with access to their internal websites (client connection), which contain real-time data on all credit lines with the specific lender. The reconciliation with these creditors is done monthly.

The MoF publishes general government and total public debt statistics and a discussion on debt trends on a quarterly basis. A comprehensive management and statistical Annual Report on Public Debt Management Report which covers the features of the debt portfolio, as well as debt management measures undertaken in the course of the reporting year is also produced.[46] The annual report is submitted to the Parliament by 30 June.[47]

Even though the central records are updated regularly and comprehensive statistical and management reports are publicly available, the quarterly frequency of reconciliations with most creditors results in score B.

13.2. Approval of debt and guarantees

This dimension assesses the arrangements for the approval and control of the government's contracting of loans and issuing of guarantees. As per the Public Debt Law, the MoF has exclusive competence for domestic and external public debt operations. These cover debt of (i) central government, including social insurance funds and (ii) sovereign-guaranteed subnational governments and public enterprises and state-owned joint stock companies. Domestic debt issues are likewise managed exclusively by MoF. The provisions in primary legislation are operationalized in secondary legislation which includes the Manual on information collected monthly from debt issuers (2006), Rulebook on Government Securities (last updated 2009), and, more recently, Credit Risk Manual (2020).

Borrowing procedures and requirements for loan agreements are spelled out in the Public Debt Law (Article 16). Sovereign guarantees may be issued (Article 21) for projects in compliance with the strategic documents of the Government with available co-financing resources. The MoF assesses the creditworthiness of the public debt issuers in line with the Credit Risk Manual but creditworthiness requirements may be waived in cases of projects "determined as strategic". The Public Debt Law does not specify which criteria are to be met for the project to be considered "strategic."

Approval for non-guaranteed borrowing of PEs and LGUs is provided by their governing bodies (supervisory boards and municipal assemblies, respectively) but still requires MoF consent. To gain MoF consent, valid for the calendar year, these public debt issuers are required to submit the decision on borrowing and a request form for borrowing.[48] Terms and conditions for on-lending of funds to

[46] Reference is to Article 27 of the Law.
[47] (2019 Annual Report on Public Debt Management in the Republic of North Macedonia), reference is to Article 27, para. 2 of the Public Debt Law
[48] Reference is to Article 16, Public Debt Law.

public debt issuers under the loan are regulated in on-lending agreements between the MoF and the beneficiary of the on-lending.[49]

Annual borrowing, as presented in the financing section in the annual Budget Law, is approved by the Government and the Parliament and the total level of borrowing must stay within the limits indicated in the Fiscal Strategy.

The MoF is, de facto, the single responsible debt management entity which undertakes borrowing operations in line with documented rules and procedures and within the Government- and parliament-approved limits, so the score for the dimension is A.

13.3. Debt management strategy

This dimension assesses whether the government has prepared a debt management strategy with the long-term objective of contracting debt with robust cost-risk trade-offs. The Public Debt Management Strategy (PDMS) sets out the amount of public debt for the period 2021-2023 (with prospects until 2025), the maximum amount of net borrowing in the first year covered by the Strategy, the maximum amount of newly issued sovereign guarantees in the first year covered by the Strategy, as well as the government debt structure.[50] The Strategy contains cost/risk indicators, including financing/rollover risks, foreign-currency risks, and interest-rate risks.

The PDMS is developed by the MoF with inputs from several MoF departments. In practice, the fiscal assumptions are updated with the revised macro and fiscal data available in Q3 of the current year. For financial years 2018, 2019, and 2020 this update was carried out and published within the debt management sections of the Fiscal Strategy documents for the respective periods.

Outturns against the PDMS targets (i.e. debt targets in the FS up to 2020) are reported annually in the Annual Debt Management Report. Reports include an overview of newly concluded loans of the CG and municipalities and the guarantees issued. The MoF reported the realization against the short- and medium-term limits for the public debt management policy in all of the annual reports for the period 2017-2019. Public debt was reported as within the set thresholds in each of the three years, implying that the MoF managed the public debt in line with the authorizations by the Government and the annual plan outlined in the Budget Law and consistent with the PDMS.

As a current, comprehensive DMS is in place and its execution against the debt management objectives publicly reported, including on target ranges for various indicators, the score for the dimension is A.

[49] Reference is to Article 17, Public Debt Law.
[50] PDMS 2021-2023

PILLAR FOUR: POLICY BASED FISCAL STRATEGY AND BUDGETING

What does the pillar cover? The fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections.

Overall performance: key strengths and weaknesses

Macroeconomic forecasts for the budget year and the two following years are prepared and presented annually and updated once each year. While forecasts of most key macroeconomic indicators are presented in the Fiscal Strategy and the Government's Economic Reform Program, they are presented to Parliament for information and are not reviewed independently nor are differences in assumptions provided in the previous year's fiscal strategy and budget explained. In years where there is a supplementary budget however, explanations are provided in the revised Fiscal Strategy.

The Fiscal Strategy is prepared annually and covers a three-year period on a rolling basis, with an additional two years in the 2021 Fiscal Strategy. The Fiscal Strategy includes time-bound and quantified fiscal goals and targets. However, reporting on the progress of implementation of the Fiscal Strategy and explanations of deviations from its objectives and targets are weak.

Expenditure estimates are presented for the budget year and two following fiscal years in line with economic and administrative classifications. Expenditure ceilings are presented in the Fiscal Strategy and set at the level of direct budget users. However, for the 2021-23 Fiscal Strategy due to COVID-19, budget users were not issued ceilings prior to the budget circular, and therefore not approved by government before issuance. Under procedures established by the General Secretariat of the Government, strategic plans are prepared in parallel with budget preparation so as to ensure alignment between plans and budgets, but in practice costed plans are prepared by a majority, not most, ministries. Deviations of medium-term expenditure estimates from previous years' initial or amended estimates for the same year are not explained in budget documents.

There is a clear budget calendar prescribed by the Budget Law which allows budget users at least six weeks to complete their detailed estimates meaningfully and this is respected. However, the ceilings provided to budget users do not cover the total expenditures for which they are responsible, since grant and "self-financed" expenditures are excluded from the ceilings. The law requires that budget proposals are submitted to the Parliament by November 15 of the preceding year, while this is respected it does not allow the required 2 months for parliamentary scrutiny of the budget proposal.

Parliamentary review of the government's proposed budget is broad in its scope, and the budget has been approved before the start of the fiscal year in each of the last three years. There are clear procedures for reviewing budget proposals, and the procedures are approved in advance of the hearings and adhered to, including internal organizational arrangements. However there has been no public consultation during the process in recent years. During execution of the budget, clear rules exist for in-year budget adjustments by the executive, which set strict limits on the extent and nature of amendments, and are adhered to in all instances in the past three fiscal years.

PI-14. Macroeconomic and fiscal forecasting

This indicator measures the ability of the country to develop robust macroeconomic and fiscal forecasts, which are crucial to developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations. It also assesses the government's capacity to estimate the fiscal impact of potential changes in economic circumstances. The scope is last three years on all dimensions and coverage is whole of the economy on dimension 14.1 and the CG on dimensions 14.2 and 14.3.

Indicator/Dimension	Score
PI-14. Macroeconomic and fiscal forecasting (M2)	**C**
14.1. Macroeconomic forecasts	D
14.2. Fiscal forecasts	C
14.3. Macro-fiscal sensitivity analysis	B

The Budget Law envisages preparing macroeconomic projections as a basis for the preparation of the Fiscal Strategy. The Fiscal Strategy consists of basic macroeconomic assumptions and guidelines for drafting the budget, and assessment of the amount of revenues, expenditures, and financing of the budget for a medium-term period of three years. The budget includes the basic macroeconomic projections for the budget year and the general part of the budget contains the total revenues and other inflows, the total expenditures and other outflows for the fiscal year, as well as the global projections of revenues, inflows, expenditures and outflows for the next two years.

In case of revision of the macroeconomic indicators, at the proposal of the MoF, the Government of the Republic of North Macedonia corrects the budget policy and changes the maximum determined amounts of approved funds per budget users of the BCG budget and the SSFs.

The MoF coordinates and also contributes to the preparation of the annual Economic Reform Program (ERP) that contains a medium-term framework of the macroeconomic and fiscal policy, as well as a detailed overview of structural reforms.

14.1. Macroeconomic forecasts

This dimension assesses the extent to which comprehensive medium-term macroeconomic forecasts and underlying assumptions are prepared for informing the fiscal and budget planning processes and are submitted to the legislature as part of the annual budget process.

The macroeconomic forecasts are prepared by the MoF Macroeconomic Department for the purpose of informing the fiscal and budget-planning processes. The macroeconomic forecasts are not reviewed by an entity other than the Macroeconomic Department. The projections are part of the Fiscal Strategy that is approved by the Government no later than 31 May and afterwards it is submitted to the Parliament only for information purposes.

The forecasts cover the budget year and two following years. The macroeconomic projections published in the latest fiscal strategy broaden the scope to a five-year medium-term framework, from 2021 to 2025. The macroeconomic forecasts are updated at least once a year, and if there is a revision of the macroeconomic indicators, at the proposal of the MoF, the Government of the Republic of North Macedonia corrects the budget policy.

The key macroeconomic forecasts consist of the main economic indicators including real GDP growth - including projections for demand components, the average inflation rate, the nominal growth of exports and imports of goods, the current account balance as a percent of GDP, the nominal growth of net wages, the average unemployment rate and the average employment rate. To be consistent with PI-5 element 6, the key macroeconomic forecasts should include interest rates, which are not explicitly elaborated in the budget documents.

The macroeconomic forecasts are also presented in the ERP. The ERP consist of macro projections for a medium term of three years, with an exception with the latest ERP (2021-2023 (2025)), which covers medium-term framework of five years. The ERP document is a comprehensive document covering more categories of projections or expectations including GDP, labor market, sources of growth, potential growth and production gap, inflation, monetary and exchange rate policies, bank deposit and loan forecast, external sector, debt, balance of payments, and the financial sector.

Since the forecast of the key macroeconomic indicators that is prepared and included in the Fiscal Strategy covering the budget year and the two following years excludes interest rates, the score for this dimension is D.

14.2. Fiscal forecasts

This dimension assesses whether the government has prepared a fiscal forecast for the budget year and the two following fiscal years based on updated macroeconomic projections and that reflects government-approved expenditure and revenue policy settings.

Based on the macro projections, the MoF Budget and Funds Department prepares the fiscal forecasts. The Fiscal Strategy includes fiscal forecasts covering the budget year and two following fiscal years while the Budget includes fiscal forecasts only for the budget year.

The fiscal forecast framework, as part of the Fiscal Strategy, includes the executed budget of the last completed fiscal year, the current year's Budget and the forecasts for the budget year and for the two following years, with an exception of the last fiscal strategy (2021-2025) that enlarges the scope of the forecasts to five years. The policy strategy and medium-term fiscal objectives are also part of the ERP. This document also includes a detailed overview of the medium-term structural reforms concerning the energy and transport sector, agriculture sector, business environment and reduction of the informal economy, innovation and digital transformation, economic integration reforms, education and skills, and social protection and inclusion. There is also an estimated costing of the reforms and the planned funding, including the budgetary impact.

The fiscal forecasts in the Fiscal Strategy are broken down by the economic classification including revenues, expenditures, and the budget balance. The revenues consist of the main types: tax revenues, contributions, non-tax revenues, capital revenues and donations, while the expenditures consist of the current expenditures by type and capital expenditures. Additionally, Appendix 1 of the Fiscal Strategy gives medium-term expenditure estimates by administrative classification.

The Budget proposal contains projections broken down by administrative and functional classification for the budget year, and economic classifications for the budget year and the next two years. The regular Budget proposal incorporates a comparison between last year's budget and the budget year's projections broken down by the economic classification and provides a brief explanation of the policy changes and decisions that affect the projections. However, the explanations do not include a detailed or quantitative presentation of the impact of new reforms and policies on revenues and expenditures or actions to address the deviation. In case of a supplementary budget, the budget document includes a more detailed explanation comparing the projections from the initially approved budget with the revised one and the reasons for the changes.

Since the MoF prepares a forecast of the main fiscal indicators, but the underlying assumptions and the differences from the projections provided in the previous year's budget are not explained and published as a part of the annual budget process, the score for this dimension is C.

14.3. Macro-fiscal sensitivity analysis

This dimension assesses the capacity of governments to develop and publish alternative fiscal scenarios based on plausible unexpected changes in macroeconomic conditions or other external risk factors that have a potential impact on revenue, expenditure, and debt.

For the first time an overview of the results of the sensitivity analysis based on alternative macroeconomic assumptions was provided in the Fiscal Strategy 2019-2021 covering four main risks for the fiscal policy in the medium term: risk of reduced economic growth, lower collection of tax revenues by 5 percent, lower realization of capital expenditures, and servicing of liabilities based on issued guarantees with funds from the Budget. The results of this analysis are presented as an average for the entire analyzed period, and a detailed overview by years is not provided. This analysis is only presented in the original Strategy and not in the revised version of the document.

As part of the Fiscal Strategies (2018-2020; 2019-2021; 2020-2022) a scenario-analysis for managing the debt portfolio of the Republic of North Macedonia was also provided. The risks were defined as debt re-financing risk, market risk, including interest rate risk and exchange rate risk, risk associated with the contingent liabilities, and operational risk.

The macro-fiscal sensitivity analyses in the Fiscal Strategy are prepared in collaboration between the MoF's Budget and Funds Department, Macroeconomic Policy Department, and IFRPDM.

The ERP document contains a separate chapter (3.3) discussing two alternative scenarios for sensitivity analysis, assuming slower growth of foreign demand during the forecasting period and risk of weaker contribution of domestic demand to economic growth, amid lower realization of infrastructure projects and execution of capital expenditures, as well as weaker impact from the support to the enterprises' investment activity. Additionally, the ERP has a separate chapter (4.7) on sensitivity analysis including sensitivity of budget deficit and debt.

As the fiscal forecast scenarios based on unexpected changes in macroeconomic conditions or other external risks are being published starting from the Fiscal Strategy 2019-2021 and the requirements for scoring this dimension should take into account the last three completed years (2018-2019-2020), the score for this dimension is B.

PI-15. Fiscal strategy

This indicator provides an analysis of the capacity to develop and implement a clear fiscal strategy. It also measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support the achievement of the government's fiscal goals. The coverage is CG, with the scope 2018-2020 on dimension 15.2 and 2020 on dimensions 15.2 and 15.3.

Indicator/Dimension	Score
PI-15. Fiscal strategy (M2)	**C**
15.1. Fiscal impact of policy proposals	D
15.2. Fiscal strategy adoption	A
15.3. Reporting on fiscal outcomes	D

The content and timing of the Fiscal Strategy is regulated by the Budget Law. The Fiscal Strategy is prepared by the MoF for a medium-term period of three years and contains the fiscal policy objectives and determines the amounts for the main categories of estimated revenues and approved funds for the period. The Fiscal Strategy should be adopted by the Government of the Republic of North Macedonia no later than May 31 of the current fiscal year. Following the law, this document consists of the basic economic assumptions and guidelines for preparation of the draft budget, an estimate for the amount of revenues, expenditures and the financing of the budget for the current fiscal year and the medium term of three years and other necessary data.

The budget execution reports are published on the website of the MoF monthly. The Minister of Finance is required to submit a semiannual execution report to the Government no later than July 31 as well as an updated report on the macroeconomic indicators and projected revenues and expenditures for the budget year.

15.1. Fiscal impact of policy proposals

This dimension assesses the capacity of government to estimate the fiscal impact of revenue and expenditure policy proposals during budget preparation. As part of the Fiscal Strategy, the Ministry of Finance prepares forecasts of the revenues and expenditures for the budget year and the two following years. In addition to the forecasts, a brief explanation is provided for the policy changes that are planned for the next period that can have a fiscal impact on the revenues or expenditures (e.g., reforms in the pension system, in the area of expenditures for salaries and allowances, tax reforms, etc.).

The changes in the policy proposals are not explained in detail and the fiscal impact is not quantified. It is noted that all changes or reforms that are foreseen in the upcoming period, are incorporated in the fiscal projections of revenues and expenditures according to the economic classification that cover the budget year and the next two fiscal years.

The ERP document includes detailed overview of structural reforms and the planned funding broken down by categories, which suggests the possible impact on the budget.

Since there are brief explanations of the proposed changes in revenues and expenditures, but they do not cover the next two fiscal years, and are not all quantified, the score for this dimension is D.

15.2. Fiscal strategy adoption

This dimension assesses the extent to which government prepares a fiscal strategy that sets out fiscal objectives for at least the budget year and two following years. Based on the macroeconomic forecasts and in accordance with the current Budget Law, the MoF Budget and Funds Department prepares a Fiscal Strategy for a medium-term period of three years, which proposes the objectives of the fiscal policy. Based on the Fiscal Strategy, the MoF proposes to the Government maximum amounts of approved funds for the next three fiscal years broken down by budget users of the BCG and the SSFs. The Organic Budget Law does not require that the Fiscal Strategy is submitted to the Parliament, however in practice it is submitted and forms part of the budget documents.

In case of revision of the macroeconomic indicators, at the proposal of the MoF, the Government adjusts the budget policy and a revised Fiscal Strategy may be prepared.

The Fiscal Strategy is published and contains the basic macroeconomic assumptions and guidelines for preparing the Budget, assessment of the amount of revenues, expenditures and financing of the budget for the budget year and the following two years, and a short overview of the policy changes or reforms that might have an impact on the revenues and expenditures.

Starting with the Fiscal Strategy 2019-2022 the results from the analyses on sensitivity of budget deficit and level of general government debt to the possible effects of the four main identified risks is provided as a separate chapter. Additionally, as discussed under PI-14, with amendments to the Law on Public Debt in 2019, the public debt management policy, which was initially a part of the fiscal strategy, is now prepared as a separate document. For the first time in the Fiscal Strategy 2020-2022, a detailed comparative analysis with the revised strategy 2019-2022 is provided. This kind of analysis was not presented in the previous strategies and is also not presented in the original (2021-2023) or the revised fiscal strategy (2021-2025).

Since the fiscal strategy for the last completed fiscal year (2020-2022) includes quantitative fiscal goals and targets together with qualitative objectives for the budget year and the following two years, the score for this dimension is A.

15.3. Reporting on fiscal outcomes

This dimension assesses the extent to which an assessment of government's achievements against its state fiscal objectives and targets is provided to the legislature as part of the budget documents. The MoF publishes monthly and annual Budget execution tables for the BCG budget , quarterly data for the General Government Budget, quarterly data for the Local Government Budget and a semi-annual report on execution of the Budget by economic classification and by budget users (see also PI-28).

The annual and monthly data are contained in a table broken down by economic classification; however, it does not provide any narrative explanation or assessment of the achievements. The semi-annual report includes a brief tabular and narrative overview of the average execution rates (compared to the original approved budget). The report does not include proposed corrective actions or detailed explanation of any deviations from the approved objectives.

There is no separate report consistently published which elaborates on the progress made against the Fiscal Strategy and explaining the reasons for any deviations in objectives or targets.

Since there is no published or internal report that describes the progress made against the Fiscal Strategy or an explanation of the deviations from the objectives and targets set, the score for this dimension is D.

PI-16. Medium-term perspective in expenditure budgeting

This indicator examines the extent to which expenditure budgets are developed for the medium-term within explicit medium-term budget expenditure ceilings. It also examines the extent to which annual budgets are derived from medium-term estimates and the degree of alignment between medium-term budget estimates and strategic plans. Coverage is BCG and the scope for dimensions 16.1, 16.2 and 16.3 is the last budget submitted to the legislature (2021-2023), and for dimension 16.4 is the last completed and the current approved medium-term budgets.

Indicator/Dimension	Score
PI-16. Medium-term perspective in expenditure budgeting (M2)	**C**
16.1. Medium-term expenditure estimates	B
16.2. Medium-term expenditure ceilings	D
16.3. Alignment of strategic plans and medium-term budgets	B
16.4. Consistency of budgets with previous year's estimates	D

In North Macedonia, the medium-term budget is comprised of the Fiscal Strategy and the detailed budget. The Fiscal Strategy includes a medium-term fiscal plan, including aggregate revenue, expenditures, and borrowing covering three years. The detailed budget is prepared based on the Fiscal Strategy. The detailed budget covers one year for operating expenditures (the Special Budget) and three years for capital expenditures (the Development Budget).

The structure and requirements of the medium-term budget have been in place since 2010, when the current Budget Law was passed. Refinements have been made since then, including adoption of a program classification and fiscal rules. Since 2018, the Government has been working on development of a new draft OBL and integrated financial management information system. Key planned reforms relating to the medium-term budget are:

- Establishment of a Fiscal Council under the Parliament
- Publication of a Register of Public Sector Entities
- Medium-term Fiscal Strategy improvements, including preparation of a baseline scenario with separate identification of new initiatives, and

- Improvement of transparency (e.g. submission of data from public enterprises and local self-governing units).

16.1. Medium-term expenditure estimates

This dimension assesses the extent to which medium-term expenditure estimates are prepared and updated as part of the annual budget process. The preparation of medium-term estimates is intended to strengthen fiscal discipline and improve predictability of budget allocations.

The Fiscal Strategy includes estimates, for each year over the medium-term, of aggregate budget expenditures financed from all major sources of funding: basic budget, self-financing activities, loans, and grants. The aggregate expenditure estimate is further presented by the economic classification only (not by administrative or functional classification), and is subdivided at the second level of the adopted economic classification[51] for each year of the medium-term, thus allowing for flexibility when developing the detailed budget. Appendix 1 of the Fiscal Strategy gives medium-term expenditure estimates by administrative classification – i.e., first-line BUs, which are the budget heads for appropriation – for the sum of basic budget and loans only. While Appendix 1 does not cover the entire BCG budget, it meets the aim of strengthening fiscal discipline and improving predictability of budget allocations. First, because the deficit is not affected by self-financing activities and grants[52], Appendix 1 estimates by BU satisfy the aim of enforcing fiscal discipline. Second, because BUs are individually most knowledgeable about the dynamics of non-tax revenue it collects and retains, and grants it applies for, predictability is not enhanced by including multiyear estimates for these funding sources in the Fiscal Strategy. That said, estimates for all financing sources and activities supported by them are included in the detailed medium-term budget.

The Fiscal Strategy, including the medium-term expenditure aggregates, is updated every year. The forward two years of the medium-term estimates are indicative only.

Since the annual budget presents estimates of expenditure for the budget year and the two following fiscal years allocated by administrative and economic classification, but not program (or functional) classification, the score for this dimension is B.

16.2. Medium-term expenditure ceilings

This dimension assesses whether medium-term expenditure ceilings are applied to the estimates produced by ministries to ensure that expenditure beyond the budget year is consistent with government fiscal policy and budgetary objectives. Such ceilings should be issued to ministries before the distribution of the first budget circular at the commencement of the annual budget preparation cycle.

The expenditure estimates by BU provided in Appendix 1 of the Fiscal Strategy are treated as expenditure ceilings.[53] There is not a release of ceilings other than the Fiscal Strategy before budget circulars are issued. Customary practice in recent years has been for the Government to approve the Fiscal Strategy, which contains aggregate and ministry-level expenditures ceilings in Appendix 1, before release of the budget circular. However, approval of the 2021-2023 Fiscal Strategy was delayed because of uncertainty caused by the Covid-19 pandemic, and when issued did not include the customary Appendix 1. Thus, in the 2021-2023 budget process BUs were not notified of expenditure ceilings prior to receiving the budget circular. The ceilings can be allocated by BUs to operating or capital expenditures when preparing detailed budget proposals.

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[51] See PI-4.1 on classifications

[52] For both self-financing activities and grants, money cannot be spent until cash has been received.

[53] Authorities treat estimates, appropriation limits, and maximum amount of funds as expenditure ceilings

Since the aggregate expenditure ceilings for the budget year and the two following fiscal years were not approved by government before the first budget circular was issued for the 2021-23 budget, the score for this dimension is D.

16.3. Alignment of strategic plans and medium-term budgets

This dimension measures the extent to which approved expenditure policy proposals align with costed ministry strategic plans or sector strategies. Strategic plans should identify resources required to achieve medium- to long-term objectives and planned outputs and outcomes.

The formal system of planning is designed primarily to implement Government's 4-year strategic program[54] and is managed by the General Secretariat. It focuses on ministry medium-term strategic plans, even as there are other national and sectoral strategies[55].

Ministry strategic plans are costed. They are developed in parallel with preparation of the annual budget. Parallel development ensures that the plans are made with full knowledge of financial constraints, while influencing the allocation of resources required to achieve medium-term objectives and planned outputs and outcomes.

However, implementation of the integrated planning and budgeting system has been less than complete. The SAO audit of the 2018 budget noted that only 76 percent of BUs submitted strategic plans along with their budget request, of which 21 percent did not include data on the cost of programs or activities. For the 2021 budget preparation, one third of BUs did not submit a strategic plan with their budget request.[56] Thus, in practice the majority, not most, of BUs prepare strategic plans that are effectively aligned budget proposals.

Recent updates to the planning process include the requirement for BUs to prepare annual work plans (beginning in 2019) and an information system for BUs to submit their annual work plans (beginning in 2020). Annual work plans reflect the proposed budget, and add confidence that resources in the budget will lead to realization of the strategic plans.

Since medium-term strategic plans are prepared for the majority of ministries, and include cost information, and the majority of expenditure policy proposals in the approved medium-term budget estimates align with the strategic plans, the score for this dimension is B.

16.4. Consistency of budgets with previous year's estimates

This dimension assesses the extent to which the expenditure estimates in the last medium-term budget establish the basis for the current medium-term budget. This will be the case if every expenditure variation between the corresponding years in each medium-term budget can be fully explained and quantified.

The MoF recognizes the need to explain changes between previous and current medium-term estimates. As discussed in PI-15, the Fiscal Strategy 2020-2022 included a numerical comparison of the three-year fiscal aggregates (revenue and expenditures estimates at the second level of the economic classification) in the budget under development with the medium-term fiscal aggregates in the Fiscal Strategy of the previous year.[57] However, there is no explanation for why the changes

[54] The planning process is defined through the Law on the Government of the Republic of North Macedonia, the Budget Law, and the Rules of Procedure of the Government of the Republic of North Macedonia. The detailed planning methodology is authorized in Article 27 and paragraph 3 of the Rules of Procedure, and is published as a decision of the Government.

[55] National and sectoral strategies are prepared on a selective basis. There are no criteria that determine when a national or sector strategy should be developed or its scope. More than 20 national strategies are listed on the Government's website. Sector strategies exist, or are under development, for transport, energy, water, agriculture, environment, waste management, fighting Covid-19, and equity.

[56] Source: MoF; 31 of 92 BUs did not submit strategic plans. Data was not available for 4 BUs.

[57] For example, see Table 14, Fiscal Strategy 2020-22.

occurred. At the BU level, changes in expenditures estimates with the previous year's estimates are not quantified.

That said, consistency of fiscal aggregates across the medium-term Fiscal Strategies is reasonably good. Table 16.2 shows the percent change from earlier to later versions of the Fiscal Strategy for the same year in two consecutive Fiscal Strategies. The percent changes in versions show a mix of positive and negative differences, and the absolute value of the differences are not unusually large.[58]

Explanation of deviations of expenditure estimates across years, at both the aggregate and BU levels, will become more important in the future. The draft new OBL envisions development of baseline budget projections and separate identification of policy changes, including new initiatives.

Table 16.2: Cross-year consistency of expenditure aggregate in Fiscal Strategies*

Fiscal Strategy	2018	2019	2020	2021	2022
2018-2020	-1.2 percent	0.4 percent			
2019-2021		1.8 percent	0.5 percent		
2020-2022			0.3 percent	-0.7 percent	
2021-2023				-2.7 percent	-4.5 percent

Source: Fiscal Strategy documents

** percent change compared to the estimate for the same year in the previous year Fiscal Strategy*

Since the budget documents do not provide any explanation of changes to expenditure estimates between the second year of the last medium-term budget and the first year of the current medium-term budget at the aggregate level, the score for this dimension is D.

PI-17. Budget preparation process

This indicator measures the effectiveness of participation by relevant stakeholders in the budget preparation process, including political leadership, and whether that participation is orderly and timely. The time period for Dimensions 17.1 and 17.2 is the last budget submitted to the legislature (2021-2023) and for Dimension 17.3 it is the last three completed fiscal years. The coverage is BCG.

Indicator/Dimension	Score
PI-17. Budget preparation process (M2)	**C+**
17.1. Budget calendar	A
17.2. Guidance on budget preparation	D
17.3. Budget submission to the legislature	C

17.1. Budget calendar

This dimension assesses whether a fixed budget calendar exists, which allows sufficient time for BUs to comply with it, and the extent to which it is adhered to. Dates of prescribed and actual events in the 2021-2023 budget cycles are presented in Table 17.1.

[58] One way to assess how reasonable the percent changes are is to consider the changes in underlying macro-economic forecasts. See Table X in PI-14.

The budget calendar is determined primarily by the Budget Law.[59] The annual budget circular provides detailed guidance necessary for completing tasks in the calendar. The budget calendar applies to all BUs in the BCG. The tasks in the budget calendar defined in the Budget Law are discrete actions not susceptible to misinterpretation.

Table 17.1 Budget calendar

	Budget milestone	Deadline	Actual (in 2020 for the 2021-23 budget)
1	Government approves Fiscal Strategy	31 May	28 July 2020
2	Government approves ceilings (limits)	31 May	12 June 2020
3	MoF issues budget circular	15 June	12 June 2020
4	BUs submit proposed detailed budget to MoF	1 September	Most BUs submit draft budgets on time
5	MoF submits detailed budget to Government	1 November	30 October 2020
6	Government submits budget documents to Parliament	15 November	10 November 2020
7	Parliament approves budget	31 December	20 December 2020

Source: PEFA assessment team, based on input from authorities

The budget calendar is generally and largely adhered to. The majority of tasks were completed by the respective deadline in 2020. As noted in Dimension 16.2, the Fiscal Strategy and issuance of ceilings were delayed in 2020 due to disruptions caused by the Covid-19 pandemic.The budget calendar allows all BUs 10 weeks from receipt of the budget circular to meaningfully complete their detailed estimates by the deadline of September 1. Because Appendix 1 of the Fiscal Strategy, normally issued by the end of May, is interpreted as being a statement of BU expenditure ceilings (for the basic and loans funding sources), BUs effectively have 12 weeks in which to prepare the detailed budget proposal.

That said, planning for capital projects funded from external sources is ongoing through the year and culminates in the SPP (see dimension11.2). Domestically funded projects are developed over many months, and are prioritized within expenditure ceilings following issuance of the Fiscal Strategy. Thus, while it is not possible to specify the number of days available to BUs to prepare the development budget, the open-ended beginning of the planning process suggests that BUs have adequate preparation time if they choose to use it.

Material changes in the budget calendar are contemplated in the draft new OBL currently under consideration in Parliament. The Fiscal Strategy is proposed to be completed by April 30 rather than May 30; the proposed budget is proposed to be submitted to Parliament by October 15 rather than November 15.

Since a clear annual budget calendar exists, is generally adhered to, and allows all budgetary units at least six weeks from receipt of the budget circular to meaningfully complete their detailed estimates on time, the score for this dimension is A.

59 All tasks and deadlines listed in Table 17.1 are prescribed in the Budget Law, except item 4 which is established in the Budget Circular. Two provisions in the Budget Law have been informally abolished, pending the new OBL. First, strategic priorities of the Government should be approved by April 15. This function has been combined with the Fiscal Strategy. Second, the proposed development budget should be submitted to the Government by July 15, and approved by the Government by August 15, separate from the operating budget. This is not consistent with international good practice, which supports close coordination of capital and operating budgets.

17.2. Guidance on budget preparation

This dimension assesses the clarity and comprehensiveness of top-down guidance on the preparation of annual detailed budget submissions. It examines the budget circular to determine whether clear guidance on the budget process is provided, including whether expenditure ceilings or other allocation limits are set for ministries or other budgetary units or functional areas.

This dimension covers a number of scoring factors relating to the budget circular. For simplicity of presentation, they are listed below as bullets:

- Clear circular: the Budget Law defines the general content of the budget circular: macroeconomic forecasts included in the Fiscal Strategy, strategic priorities of the government expressed through programs and sub-programs, expenditures ceilings by BU, and technical guidance and instructions, among other issues. These requirements have been in place since 2010, and thus are well understood.
- Covers all BUs: the budget circular applies to all BUs included in BCG.
- Covers total expenditures: expenditure ceilings apply to the basic budget and loans only, thus excluding self-financing and grant funds. Therefore, the expenditure ceilings do not provide guidance on total expenditures.
- Covers all year: the ceilings and general guidance cover the full fiscal year for each year of the medium-term budget.
- Adherence to ceilings: for the 2021 budget, BUs submitted a total of 4.5 percent more than the sum of limits assigned to them. The approved 2020-2022 budget for BUs was 3.6 percent higher in total than the ceilings issued to them.[60] These deviations are reasonable in light of international experience.
- When BU ceilings are announced: for the 2021-23 budget process, BU expenditure ceilings were announced in the budget circular, not in the Fiscal Strategy, as is customary.

Since the budget circular does not provide expenditure ceilings for total funds, the score for this dimension is D.

17.3. Budget submission to the legislature

This dimension assesses the timeliness of submission of the annual budget proposal to Parliament and thus the adequacy of time for its review of the budget before the start of the fiscal year.

The Budget Law prescribes that the proposed budget should be submitted to Parliament by November 15 of each year. The Budget Law is consistent with the Rules of Procedures of Parliament, which specifies that the date to receive the Government's proposed budget shall be prescribed by law. Table 17.1 indicates the dates for the last three years on which the executive submitted to Parliament its proposed budget.

Table 17.1: Actual dates of budget submission for the last three completed fiscal years

Budget submission	Actual date of submission to the Parliament
2019-21	14 November 2018
2020-22	12 November 2019
2021-23	10 November 2020

Source: MoF

[60] Source: MoF

Since the executive did not submit its proposed budget to Parliament at least two months prior to the start of the fiscal year, the score for this dimension is C.

PI-18. Legislative scrutiny of budgets

The indicator assesses the nature and extent of legislative scrutiny of the annual budget. It considers the extent to which the legislature scrutinizes, debates, and approves the annual budget, including the extent to which the legislature's procedures for scrutiny are well established and adhered to. The indicator also assesses the existence of rules for in-year amendments to the budget without ex-ante approval by the legislature. Coverage is BCG and the reference period in this indicator are the last three completed fiscal years for dimension 18.3 and the last completed fiscal year for dimensions 18.1, 18.2 and 18.4.

Indicator/Dimension	Score
PI-18. Legislative scrutiny of budgets (M1)	**B+**
18.1. Scope of budget scrutiny	A
18.2. Legislative procedures for budget scrutiny	B
18.3. Timing of budget approval	A
18.4. Rules for budget adjustments by the executive	A

Legislative scrutiny of the budget operates under a clear legal framework. The Constitution gives Parliament the power to approve the budget of the Republic of North Macedonia. The Budget Law sets several important guidelines on Parliament relating to procedures and substance, such as prohibiting changes to total expenditures proposed by the executive. The Law on the Assembly of the Republic of North Macedonia, and subsequent Rules of Procedures, provide detailed guidance.

The capacity of Parliament to scrutinize the budget is being strengthened. In 2020, the Parliamentary Budget Office was created to answer finance and budget questions from individual members of Parliament. The draft new OBL includes establishment of a Fiscal Council under the Parliament with responsibilities to address broader issues of fiscal policy, including the Fiscal Strategy, macroeconomic forecasts and fiscal assumptions underlying the budget proposal, and fiscal risks. In addition, the Finance and Budget Committee of Parliament is considering creation of sub-committees to better manage the workload of budget review in the 45 days allotted to it under the budget calendar.

18.1. Scope of budget scrutiny

This dimension assesses the scope of legislative scrutiny. Such scrutiny should cover review of fiscal policies, medium-term fiscal forecasts, and medium-term priorities as well as the specific details of expenditure and revenue estimates. Regarding key budget-related documents, Parliament has the following roles:

Table 18.1: Budget documents reviewed by Parliament

Date available / reviewed	Document	Role of Parliament
May 31 (time of Government approval)	Fiscal Strategy	Notified only
November 15 – December 31	Medium-term budget (including the Fiscal Strategy)	Approval

Source: Budget Law

Parliament views the Fiscal Strategy as an integral part of the budget submission. It exercises a challenge function for fiscal policies, fiscal indices, medium-term macroeconomic and medium-term priorities included in the Fiscal Strategy, as well as allocations to each BU. That said, its authority to unilaterally change the budget proposed by the executive is limited. It can ask the executive to revise fiscal policy, macroeconomic projections, and medium-term priorities as stated in the Fiscal Strategy, but cannot revise them itself. However, Parliament has authority to re-allocate expenditures among BUs, programs, and sub-programs in the executive proposed budget, and thus to change priorities directly. Any increase of proposed appropriations must be accompanied by equal reduction of other proposed appropriations.

The Finance and Budget Committee of Parliament actively scrutinizes, debates, and comments on the budget documents. This is evidenced in 2020 by the time devoted to the second reading of the budget (Committee meetings were held on 9 days between November 24 and December 5, 2020), officials from the executive appeared before the Committee to explain and defend the executive's budget proposal, revisions were made by Parliament to the allocations of funding across BUs proposed by the executive, and some members of the Committee proposed to press the executive to revise the total fiscal envelop[61] . Opposition Members of Parliament serve on the Committee, who typically scrutinize the executive's budget proposal with a critical eye.

The draft new OBL expands Parliament's capacity to challenge the executive on its budget proposal. The planned Fiscal Council will examine the macroeconomic and fiscal assumptions used for preparation of the budget and the Fiscal Strategy, fiscal risks and the probability of fulfillment of the budget and the Fiscal Strategy, and fulfillment of the fiscal rules. The deadline for submission of the executive's proposed budget is envisioned to be October 15 rather than November 15, thus allowing more time for Parliamentary review. However, the authority of Parliament to unilaterally amend the executive's budget is, arguably, less clear than under the current Budget Law.

Since the legislature's review covers fiscal policies, medium-term fiscal forecasts, and medium-term priorities as well as details of expenditure and revenue, the score for the dimension is A.

18.2. Legislative procedures for budget scrutiny

This dimension assesses the extent to which review procedures are established and adhered to. This includes public consultation arrangements as well as internal organization arrangements, such as legislative committees, technical support, and negotiation procedures.

The procedure for reviewing the budget, reflected in law and Rules of Procedure, have been stable. The Law on the Assembly of the Republic of North Macedonia was approved in 2005, with the latest revisions taking effect in 2010. The current Rules of Procedure were initially approved in 2010, and last updated in 2013. The procedure for adoption of the budget is explained in a dedicated section of the Rules of Procedure.[62] There is an Internal Audit Department of Parliament, which evaluates adherence by Parliament of its own Rules and Procedures.[63]

The internal organization arrangements are laid out in the Law on the Assembly and the Rules of Procedure. The Finance and Budget Committee is responsible for detailed review of the budget proposal, supported indirectly by the Parliamentary Budget Office. The Finance and Budget Committee is supported by a staff of five persons. The Parliamentary Budget Office has a staff of six persons.

The Rules of Procedure determine how Parliament negotiates the budget. Adoption of the budget follows the same procedure for second readings of any proposed legislation, with a compulsory

[61] Described in meetings with Finance and Budget Committee staff.
[62] Section 15 of the Rules of Procedure
[63] While audit reports prepared by the Audit Department of Parliament are not public released, there is indirect evidence that procedures are adhered to. First, the Rules and Procedures Committee working group is tasked, among other responsibilities, with reviewing implementation of the Rules of Procedure of the Assembly and the rules of procedure of the working bodies, and gives opinions on solutions to disputable questions. The Committee is active (i.;e. it meets). Second, its openness is measured by debate and referral to the full Parliament of a proposal in 2020 to amend the Rules of Procedure submitted by an oppoistion MP (Mr. Talat Xhaferi). There is no mention in the agenda of the Committee's 2020 meeting of complaints or audit findings of material violation of existing Rules of Procedure.

general debate. Additional features established in the Rules of Procedure apply specifically to the procedure for reviewing the state budget, including: (i) the revised draft budget, reflecting amendments approved by the Finances and Budget Committee and adopted by Parliament, must be drafted by the executive;[64] (ii) an explanatory note must be attached to the revised draft budget issued by Finances and Budget Committee; (iii) time limitations – debate cannot start for 20 days following receipt of the executive's budget proposal and maximum number of days devoted to stages of review; and (iv) the maximum number of minutes members can speak on the proposed budget. By custom, the Finances and Budget Committee is chaired by a member from the major opposition party.

The Committee has authority to hold public consultation on the draft budget, but has not done so in recent years. The Finances and Budget Committee invites representatives of the Government to answer questions on the draft budget.

Since the legislature's procedures to review budget proposals are approved in advance of budget hearings and are adhered to, and the procedures include internal organizational arrangements, but there is no public consultation, the score for the dimension is B.

18.3. Timing of budget approval

This dimension assesses the timeliness of the scrutiny process in terms of the legislature's ability to approve the budget before the start of the new fiscal year. The deadline is important so that BUs know at the beginning of the fiscal year what resources they will have at their disposal. Scoring is based on the experience of the most recent three years.

For each of the three years under review, Parliament approved the annual budget law before the start of the fiscal year. Actual dates of approval are shown in Table 18.2. In addition, as noted in Table 17.1 for 2020, the Government submitted the annual budget proposal to Parliament within the deadline established in law, thus giving Parliament the full amount of time for review of the budget allotted to it by law.

Table 18.2: Actual dates of budget approval for the last three completed fiscal years

Fiscal year budget	Actual date of approval
2019	21 December 2018
2020	22 December 2019
2021	20 December 2020

Source: MoF

Because the legislature has approved the annual budget before the start of the year in each of the last three fiscal years, the score for the dimension is A.

18.4. Rules for budget adjustments by the executive

This dimension assesses arrangements made to consider in-year budget amendments that do not require legislative ex-ante approval.

The rules for budget adjustments are provided in the Budget Law, Articles 33-34. There are not more detailed implementing rules or instructions. However, detailed guidance on in-year transfers can be given each year in the annual Law on Budget Execution.

The extent and nature of adjustments are shown in Table 18.3. There is no special prohibition on reallocating funds between capital and recurrent items, which are appropriated together under a

[64] Formally referred to as the New Integral Text of the Budget

program. There are no limits on the total size of transfers other than what is stated in the detailed rules.

Table 18.3: Authority of entities to reallocate funding in the approved basic budget

Entity	Authority
BU	Reallocation of line items within subprograms within a BU budget, but (i) cannot reduce any line item by more than 20 percent, and (ii) cannot increase salaries by more than 10 percent
MoF	Reallocation between programs and subprograms within a BU budget up to MKD 5 million
Government	Reallocation between programs and subprograms within a BU budget over MKD 5 million
Parliament	Reallocation between Bus

Source: Budget Law

The Budget Law permits the MoF to increase the total budget of a BU without Parliamentary approval in the case of proven increases in self-financing revenue, loans, and grants. There are no limits on such increases. Parliamentary approval is required to increase the total amount of the basic budget.

The rules for budget adjustments are adhered to in all cases. First, systems are in place to enforce adherence to the reallocation rules in all cases: BUs propose reallocations to MoF; MoF, which has exclusive direct access to the e-Budget system, adjusts the BU's budget; the e-Budget system automatically transfers the change to the TrIS, where expenditures are controlled and reported. This means that MoF controls, and must approve, all budget adjustments. Second, adherence by MoF to the rules are assessed by the SAO. Audits on execution of the approved budget are performed annually by the SAO, which also regularly completes compliance audits on MOF, and its adherence to rules and procedures. The SAO has not reported material errors by MoF in recent years with regard to in-year budget adjustments.

Since clear rules exist for in-year budget adjustments by the executive, which set strict limits on the extent and nature of amendments, and are adhered to in all instances, the score for this dimension is A.

PILLAR FIVE: PREDICTABILITY AND CONTROL IN BUDGET EXECUTION

What does this pillar cover? The budget is implemented within a system of effective standards, processes and internal controls, ensuring that resources are obtained and used as intended.

Overall performance: key strengths and weaknesses

On the revenue administration side, revenue agencies provide comprehensive and timely information to taxpayers which is conducive to voluntary compliance. Electronic filing of tax returns is the default option which translates into data integrity improvements and efficiency gains in their processing. Compliance risks are assessed and prioritized, although not with an equally comprehensive, structured, and systematic approach for all categories of revenue. Risk management in the customs administration (CA) is an area of strength. Both the Public Revenue Office (PRO) and CA carry out audits, but the PRO's 2020 audit plan has been derailed due to the pandemic. The share of tax arrears is still considered substantial at almost 11 percent of annual revenue collection. A high proportion of tax arrears older than 12 months in the total arrears (almost 99.9 percent) signals a large portion of tax debt may not be collectable. In the CA, around 80 percent of arrears are classified as uncollectable. In the PRO, where arrears are concentrated at 83 percent of the total debt, there is no information on which arrears are uncollectable and the PRO is not able to generate reports with the age of tax debt due to obsolete tax accounting information systems. In terms of accounting for revenue, information and transfer of revenue collection continue to perform well. With regard to reconciliation, performance slipped as data on revenue assessments are not reconciled between the revenue agencies and the Treasury Department which manages the STA.

Virtually all spending agencies' bank accounts are under the control of the MoF Treasury Department. MoF has been able to forecast cash commitments and provide reliable quarterly commitment ceilings to budget users. The Liquidity Management Committee facilitated the exchange of information and coordination with the Debt Management Department to establish short-term financing needs. Use of in-year virements was orderly and transparent.

Controls over entering into legal commitments are decentralized to each budget user, with the responsibility to register all contracts with the MoF within 15 days of signing. No hard central ex-ante controls are in place to ensure that BUs do not enter into legal commitments above the approved appropriation, but any such irregularities are followed up by the budget inspection function. The MoF Treasury Department centrally controls that the registered commitments do not exceed the annual appropriation and cash needs communicated through budget users' financial plans. Subsequent payment orders are processed in an orderly manner. Due dates of invoices received under registered contracts are available in TrIS only at the payment order stage so the only records of the stock and composition of payables (including both liabilities due and past due) on file centrally are those self-reported by budget users through the ESPEO information system. Notwithstanding the recent reported issues with comprehensiveness of the arrears data, the ESPEO was a major step forward in managing information on arrears since the last PEFA assessment.

Controls over salary calculations and payments centralized in the MoF performed well in the assessed period. MoF controls new hiring against evidence of availability of funding and processes the monthly payroll changes based on its internal records. An increasing body of SAO audit work on payroll suggests multiple areas for improvement in the policy framework for salary calculation but processing and data integrity in the MoF's database are not singled out as weaknesses.

Public procurement practices have been being progressively aligned with international best practices reflected in the updated 2019 public procurement legal framework. In addition to increasing transparency and supporting competition through better dissemination of key procurement information, the ESPP information system includes a number of functionalities that will help the PPB discharge its mandate over procurement monitoring. Procurement procedures are competitive and transparency in procurement during the pandemic was upheld through the e-procurement portal with data on public procurement contracts available in the portal. The procurement complaints management system is an area of strength.[65]

Overall, the internal control framework provides for appropriate segregation of duties over authorizing, processing, recording, and reviewing of individual transactions. Segregation of duties is hard-coded in the TrIS environment. Decentralized internal audit operates as an independent provider of assurance and consulting to management, but multiple large ministries have low internal audit staffing rates which adversely affects the ability of those internal audit units (IAUs) to ensure substantial coverage and meet the requirements of the standards, including those on quality assurance. Accountability arrangements include the budget inspection function with the mandate to follow up and sanction irregularities.

PI-19. Revenue administration

This indicator covers the administration of all types of tax and non-tax revenue for the central government. It assesses the procedures used to collect and monitor CG revenues. [66] The assessment period for dimensions 19.1 and 19.2 is at the time of assessment. For dimensions 19.3 and 19.4, the relevant scope is the last completed fiscal year (FY 2020).

Indicator/Dimension	Score
PI-19. Revenue administration (M2)	**C**
19.1. Rights and obligations for revenue measures	A
19.2. Revenue risk management	C
19.3. Revenue audit and investigation	D
19.4. Revenue arrears monitoring	D*

Overall revenue policy is managed by the MoF Tax and Customs Policy Department, while the Public Revenue Office (PRO) and the Customs Administration (CA) administer and collect all principal tax revenue streams (including VAT, CIT, PIT, customs, excise taxes) and mandatory social security contributions (SSC). Together, the PRO and the CA account for all central government tax revenues and SSC and for 91.3 percent of total revenues collected in the Budget of the Republic of North Macedonia. A limited number of other entities have the mandate to raise most of the non-tax revenues that are collected in the form of charges and fees. EBUs collect revenue in accordance with their enabling legislation (see PI-6 for details). The table below presents the categories of tax and non-tax revenues in North Macedonia and the responsibilities assigned for their collection.

[65] The evidence collected and analyzed in PEFA is in contrast with the data from the Transparency International Corruption Perception Index rating for North Macedonia which has been progressively deteriorating. North Macedonia ranked 111th among 180 countries in 2020, The country ranked 106th in 2019 and 93 in 2018. It is noted that the Index measures "perceptions by business people and country experts of the level of corruption in the public sector." on Bribery, Diversion of public funds, Use of public office for private gain, Nepotism in the civil service, State capture and is therefore much broader in thematic scope than PI-24.

[66] Due to the variety of EBUs' revenue administration arrangements, and impracticability to describe and apply weights for the purposes of the assessment, these been excluded from scoring.

Table 19.1. Budget of the RNM revenue categories, collecting agencies and annual collection for 2020

Category of CG revenue	Collecting entity	Collected revenue	
		Amount (MKD million)	Percent of the total
Taxes & SSC	PRO and CA	170,941	91.6
Taxes	PRO and CA	104,377	55.9
Taxes on income, profit and capital gain	PRO	29,122	15.6
Taxes on goods and services	PRO and CA	69,011	37.0
Taxes on international trade and transactions	CA	5,734	3.1
Other tax revenue	PRO	510	0.3
Social Security Contributions	PRO	66,564	35,7
Other Budget of the RNM revenue	Other	15,460	8.3
Donations	Other	184	0.1
Total		186,585	100.00

Source: Final Account and PRO and CA data

Revenue administration is subject to a comprehensive legal framework that specifies the roles and responsibilities of the revenue collecting entities and payers. Separate legislation is in place for tax administration, customs administration, administrative procedures (general, tax and customs), and audit, alongside specific legislation for all taxes and social security contributions.

Within the tax administration area, the institutional reforms laid out in the PFMRP 2018-21 and Tax System Reform Strategy (2021-2025) are being operationalized through the PRO's Strategic Plan 2021 – 2023. The plan sets out three strategic programs of the tax administration: (i) strengthening administrative capacities, (ii) protecting against tax fraud and reducing the size of the gray economy, and (iii) mobilizing tax revenue. One of the key activities envisaged is the deployment of a new integrated information technology (IT) system to support core tax administration functions and replace the existing information systems that are outdated, fragmented, incomplete and too rigid to keep up with the legal changes and core tax administration functions. Following a review of the detailed design and business processes, the PRO began developing the Integrated Tax Information System (ITIS). The system's core modules (Registration, Filing and Service Management, Accounting, Payments, and Refunds, Debt management, Assessments, Legal, and Audit) are expected to be fully operational in 2022.

19.1. Rights and obligations for revenue measures

This dimension assesses the extent to which individuals and enterprises have access to information about their rights and obligations and also to administrative procedures and processes that allow redress.

The PRO and the CA, as the two main collecting agencies responsible for administration of nearly all central government revenue, maintain a variety of physical and on-line communication channels to provide timely information about the rights and obligations of individual payers. Both administrations maintain a physical presence through a network of regional and local offices outside of headquarters. The PRO has 30 local offices (6 regional offices, 17 branch offices and 7 service points), mobile tax counters (serving municipalities in which it is not financially feasible to have a permanent counter) and a Large Taxpayers' Office (LTO). They deal with VAT, PIT, CIT, and SSC. The CA has 5 customs houses, 18 customs offices and 15 border crossing points and is in charge for collecting VAT on import, customs duties and excise tax. Both agencies undertake regular outreach efforts, as well as campaigns on social networks, electronic media and in print. In addition, both administrations interact with taxpayers by answering queries submitted online, over the phone, or in writing. Web pages of both administrations included on-line access to guidance and forms, brochures and leaflets, annual reports, and series of frequently asked questions.

Beyond data dissemination, both administrations continue to improve online services for registration and filing of tax returns and payments, thus further reducing associated transaction costs and mitigating the risk of potential discretionary treatment. In the CA, filing of customs declarations electronically is mandatory and in 2020, 100 percent of customs declarations were filed electronically. All supporting documentation related to export can be filed electronically, with the plan to move to paperless import by the end of 2021. In the PRO, electronic filing of tax returns is available for all major taxes and is widely used. In 2020, 98.58 percent of all VAT and 100 percent of all other tax returns were filed electronically. The PRO offers service to taxpayers who are not able to file their returns electronically on their own, requests for VAT and other tax refunds, as well as access to individual registration data and taxpayers' individual tax file.

Within the PRO, a contact center has been opened, offering a combination of communication channels and development solutions aimed at communication, information, provision of services and providing support to all taxpayers in realization of their tax rights and obligations. Within the contact center there are, among others, the following two services: (i) "Schedule a meeting @" - electronic system for scheduling an appointment for a meeting with tax agents in the contact center of the PRO (RD Skopje), and (ii) "Inform @" - an online knowledge base that provides access with search option to the archive of questions and answers raised previously by taxpayers.

In terms of redress procedures, all decisions of the PRO and CA may be appealed in front of the Administrative Court in administrative dispute. Information about the available legal remedy is an integral part of each decision issued to payers by the revenue collecting agencies. Administrative review which was handled by a second instance body in the MoF was abolished in 2015, leaving the administrative dispute as the only redress mechanism.

Information provided by the revenue collecting entities covers notifications, instructions, and procedures for registration, declaration, and payment, customized for different revenue streams and taxpayer segments.

Revenue collecting agencies provide comprehensive and up-to-date information of revenue rights and obligations, including a redress process, so the score for the dimension is A.

19.2. Revenue risk management

This dimension assesses the extent to which a comprehensive, structured, and systematic approach is used within the revenue entities for assessing and prioritizing compliance risks.

The PRO has a Compliance Risk Management Unit (CRMU) that was established in 2017. It became functional in 2019 with the appointment of the Head of Unit and made some preliminary steps to develop risk management plans for several sectors. Since its creation, the CRMU has developed draft risk management plans for several sectors, such as the auto mechanic industry and cash heavy businesses. The PRO made some progress in the development of both a comprehensive risk register and sector-specific risk analyses and adopted its Compliance Improvement Strategy. However, there is no comprehensive approach to tax types and compliance obligations, or comprehensive assessment. The LTO has a risk framework but it has not been operationalized yet.

Risk management processes in the PRO is partially structured and systematic (with compliance improvement plans only for some industries) and they cover some categories of revenue (mainly VAT). The PRO applies diverse risk mitigation measures such as audits, post clearance audits, investigations, and public outreach.

Systematic risk management in the CA has been in place for 15 years. It is regulated by the Customs Law, bylaws and internal rules and instructions as well as the Risk Management Strategy 2018-2022. The Risk management department located within the Control and investigation sector is the holder of risk management activities in the CA. Risk management in CA is a cyclical process that begins with the analysis and evaluation of available information, on the basis of which appropriate decisions are made and appropriate action is taken (creation of risk criteria / profiles). After the evaluation of the control results, the existing criteria / profiles are modified / extended or deleted. All types of income are covered by risk analysis. The compliance risk management approach applied by the CA covers all revenue streams and taxpayers. The CA has a compliance risk register.

Risk management processes in CA are comprehensive, structured, and systematic and they cover all categories of revenue and taxpayers. The CA applies diverse risk mitigation measures such as post clearance audits, investigations, and public outreach.

Partially structured and systematic approaches are used for assessing revenue compliance risks across revenue collecting entities and the score for the dimension is C.

19.3. Revenue audit and investigation

This dimension assesses whether sufficient controls are in place to deter evasion and ensure that instances of non-compliance are revealed. Revenue audit is managed by the General Tax Inspectorate (GTI) based in the PRO headquarters. An annual audit plan is designed on the basis of available human resources. The GTI Unit for Risk Analysis and Planning of Controls determines 80 percent of the annual plan on the basis of risk analysis. The remaining 20 percent is determined by directors of regional offices. The selection of audit cases is based on risk analysis and requests from other government agencies. The system for electronic selection of cases is based on 54 predetermined risk rules, covering all types of tax revenues.

Annual audit plans are not publicly accessible, while the information on the number of executed audits is published in the PRO Annual Report. In 2020, due to COVID-19 the PRO realized only 47.23 percent of planned audits[67]. In 2019, the PRO exceeded its audit plan by 9.39 percent. The PRO has no tax fraud investigation function. Jurisdiction for investigating tax crimes lies with the Financial Police office which is a separate legal body within the MoF.

The CA's Department for post clearance control undertakes its controls on the basis of an annual control plan. The plan relies on the optimal use of resources (personnel, material, financial), the optimal use of time, and is based on risk analysis. There is no compliance improvement plan. The annual control plan is not publicly available. In 2020, the CA planned for 465 post clearance audits and investigative controls and completed 421, delivering 90.53 percent relative to the Plan.

Table 19.2. Revenue audits and investigations planned and carried out in the PRO and CA in 2020

Type of revenue audit, by revenue stream	Total planned	Total carried out	Percent completed
Number of audits, non-tax audits and checks without findings (PRO)	9,451	4,482	47.23
Number of post clearance audits and investigative controls (CA)	465	421	90.53
Total	9,916	4,903	49.44

Source: PRO and CA

[67] In addition to audits, in 2020 PRO conducted 17,120 compliance checks for cash register compliance.

Given that neither of the revenue agencies has a compliance improvement plan (PRO has plans only for some sectors) the score for the dimension is D.

19.4. Revenue arrears monitoring

This dimension assesses the extent of proper management of arrears within the revenue entities by focusing on the level and age of arrears. In 2020, the CA reported MKD 3,454.4 million of revenue arrears (17.04 percent of total revenue arrears), while in the same period, the PRO reported MKD 16,810 million (82.96 percent of total revenue arrears).

Table 19.3. CG tax and SSC arrears stock and age profile in 2020 (MKD million)

No.	Central government tax arrears stock and age profile	
1	Total CG revenue collections	186,585
2	Total stock of tax arrears at end of the fiscal year	30,454
2.1	PRO arrears at the end of fiscal year	27,000*
2.2	CA arrears at the end of fiscal year	3,454
3	Share of tax arrears in the total revenue collections (2/1, percentage)	16.32
4	Tax arrears older than 12 months	9,895
4.1	PRO	6,478**
4.2	CA	3,417
5	Share of tax arrears older than 12 months in the total arrears (4/2, percentage)	32.49

Source: PRO and CA data generated for the needs of the PEFA assessment (June 2021).
** Data does not include interest accrued non-VAT revenue streams*
*** Data does not include non-VAT tax arrears older than 12 months*

The amount of CA arrears that is older than 12 months is 99.81 percent of the total amount of arrears managed by the CA. A significant amount of CA arrears is classified as uncollectable (81.39 percent). Uncollectable arrears relate to arrears accumulated from 1999 until 2010 that were not written off. Following several legal changes since 2009 that gave additional authority for forced collection, the CA improved its arrears management.

Tax arrears are defined by PRO internal documents as an unpaid due tax debt. The Department for Analysis is in charge for monitoring and reporting on tax arrears. Quarterly reports are being prepared and tax arrears are broken down by taxpayers and revenue streams (VAT, PIT, CIT and SSC). The PRO is able to generate reports that include information on the age of tax debt only for VAT. For other revenue streams the PRO is not able to determine the age of arrears as the tax accounting system is not capturing the age of tax debt. Also, PRO was not able to determine the share of uncollectable arrears. Interest on arrears is accrued and accounted automatically for VAT only, while for other revenue streams interest is not systematically accrued and accounted. For this reason, the PRO does not have reliable data on interest for non-VAT revenue streams. PRO is currently implementing improvements in the tax accounting system that are expected to enable accurate and timely reporting on the age of tax debt and corresponding accrued interest for all revenue streams. It is expected that the new tax accounting system will be operational by 2022.

Based on the analysis and supporting evidence and given that the PRO is not able to determine the age of tax arrears and accrued interest (except for VAT), the score for the present dimension is D* due to lack of reliable data.

PI-20. Accounting for revenue

This indicator assesses procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling tax revenue accounts. It covers both tax and nontax revenues collected by the central government. Coverage of the indicator is at the time of assessment, and the scope is CG.[68]

Indicator/Dimension	Score
PI-20. Accounting for revenue (M1)	**C+**
20.1. Information on revenue collections	A
20.2. Transfer of revenue collections	A
20.3. Revenue accounts reconciliation	C

The procedural framework for collection of public revenues in North Macedonia is regulated by the Budget Law and several bylaws, including the Instruction for the manner of registration, allocation, refund and transfer of public revenues and the Instruction on the form and content of payment instruments for domestic transactions.[69] The Instruction for the manner of registration, allocation, refund and transfer of public revenues defines the accounts to which payment of public revenues specified by the law and other regulations is to be made (as sub-accounts of the system of the single treasury account, STA).

The STA is used for public revenues collection and for making allocations for respective beneficiaries such as the CG budget, LGU budgets, and institutions entitled to receive public funds in line with the law. Transaction accounts are analytically systematized by type and form of fiscal obligation, which ensures a clear presentation of reports by structure and type of collected revenues in the revenue collecting agencies and the MoF Treasury Department. There is a specific sub-account for each type of tax to ensure the information required for the recording of tax receipts in the Treasury Main Ledger and the reconciliation of tax liability in revenue collecting entities by payer and type of tax are disaggregated.

20.1. Information on revenue collections

This dimension assesses the extent to which a central ministry, i.e., MoF, coordinates revenue administration activities and collects, accounts for, and reports timely information on revenue collected.

Since the collection of public revenues is done through the STA, information on revenue collected is available to the MoF on a daily basis. The PRO and CA receive information on the payments to accounts for their respective revenues from the MoF Treasury Department on a daily basis. Each payment of public revenue has a mandatory identifying reference which is in most cases tax identification number (for legal entities) or unique personal identification number (for individuals). This enables verifying the source of payment. The MoF issues on a monthly basis publicly available information, which comprehensively reports on revenues (disaggregated by revenue type) and expenditures in the previous months and cumulatively for the current year, as well as on other relevant macro-economic issues.

The MoF Treasury Department has daily access to revenue data broken down by type which is reported on a monthly basis, resulting in score A.

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[68] EBUs manage their accounts separately, but are not considered material for scoring in relation to their share of total CG revenue and expenditure. Own source revenues of BCG and SSF stood at slightly over 2 percent of the total central budget and are likewise immaterial for scoring.

[69] Official Gazette of the Republic of North Macedonia numbers. 64/05, ...167/2016, Official Gazette of the Republic of North Macedonia numbers. 161/07,...114/08.

20.2. Transfer of revenue collections

This dimension assesses the promptness of transfers to the Treasury of revenue collected. STA is used for public revenues collection which includes own source revenues as well.

Payments of public revenues to the relevant subaccount within the STA are made through payment service providers (commercial banks or other financial institutions with license for providing payment services in North Macedonia) either in cash or via wire transfer or to the relevant subaccount within the STA.

All revenue payments are collected in the STA controlled by the MoF Treasury Department so the score for the dimension is A.

20.3. Revenue accounts reconciliation

This dimension assesses the extent to which aggregate amounts related to assessments/changes of collections, arrears, and transfers to (and receipts by) Treasury take place regularly and are reconciled in a timely manner.

The reconciliation of data between the MoF Treasury Department and the PRO is done monthly, and with the CA daily. Information received from the MoF Treasury Department on receipts of public revenues to the STA under the jurisdiction of revenue agencies are processed and automatically reconciled with the corresponding tax or customs debt.

Table 20.1: Revenue accounts reconciliation practices

Collecting entity	Revenue category	Frequency	Type of reconciled data (Y/N):		
			Assessments	Collections	Arrears
PRO	See table above	Monthly	No	Yes	Yes
CA		Daily			

Source: PRO, CA, Treasury.

Given that revenue agencies are not reconciling data related to assessments, the score for the present dimension is C.

PI-21. Predictability of in-year resource allocation

This indicator assesses the extent to which the MoF is able to forecast cash commitments and requirements and to provide reliable information on the availability of funds to budgetary units for service delivery. The coverage is BCG and the scope is at the time of assessment on dimension 21.1 and last completed year (2020) on the remaining three dimensions.

Indicator/Dimension	Score
PI-21. Predictability of in-year resource allocation (M2)	**A**
21.1. Consolidation of cash balances	A
21.2. Cash forecasting and monitoring	A
21.3. Information on commitment ceilings	B
21.4. Significance of in-year budget adjustments	A

21.1. Consolidation of cash balances

This dimension assesses the extent to which the MoF can identify and consolidate cash balances as a basis for informing the release of funds.

MoF's Treasury Department manages a comprehensive STA which receives all revenues and from which all payments are made on behalf of BUs at central and local levels. BUs do not have transaction accounts in the commercial banks. The Health Insurance Fund runs a separate single account for health care institutions also consolidated daily, except for own-source revenue and donations in the range of MKD 300 million annualy (outside of the PI-21 scope). All accounts (domestic and foreign currency) are held with the NBRNM.

Information on account balances is available in real time and the cash is consolidated daily across the different type of accounts operated by the spending units (core budget, own-revenue, loans, donations). Rules for opening and closing of local currency accounts are contained in the Treasury Operations Manual (Article 14-16). The MoF's Treasury Department must authorize creation of accounts. [70] Foreign currency accounts may be opened only with the consent of the MoF and these provisions are upheld in practice. Foreign currency accounts are used primarily to finance external debt service.

Since all BCG bank and cash balances are calculated and consolidated daily the score for the dimension is A.

21.2. Cash forecasting and monitoring

This dimension assesses the extent to which BU commitments and cashflows are forecast and monitored by the MoF.

The MoF Treasury Department Unit for Liquidity Management and Projections holds the primary responsibilities for BCG cash planning. An annual forecast is developed using a combination of top-down and bottom-up approaches for forecasting different categories of revenue and expenditure. Information on commitments (see PI-25.2) is used for longer-term projections of cash needs. The forecast is formally updated monthly on a rolling basis to reflect quarterly cash needs broken down by days, in line with the MoF Treasury Department's internal cash management procedure. Efforts were underway at the time of assessment to develop breakdown of the annual projections by days. Spending units are required to advise the MoF Treasury Department of any payments that exceed the threshold of MKD 10 million a week in advance.

Information on actual cash inflows is received from the PRO and CA (for tax revenues) and from the other BUs in the treasury (for non-tax revenues from the social insurance funds and own-source funds of other BCG). Information on actual outflows is available from the Treasury Department-administered TrIS that covers all BCG entities and social security funds. Cash inflow estimates build on forecasts of tax and contributions provided by the tax collecting agencies while the outflow estimates are based primarily on historic data.

Treasury Department representatives are involved in the work of the Liquidity Management Committee, which brings together mid-level officials from the NBRNM, PRO, Customs, and MoF's Budget Department and IFRDMD to discuss more granular, weekly projections and expectations as well as to analyze major variances in the preceding period. Information from the proceedings of the Committee, however, is not systematically recorded although it could be used to analyze past variations. While the Committee provides an interface between the Unit for Liquidity Management

[70] Rulebook on the Manner of Opening the Foreign Exchange Accounts of Budget Users and Spending Units of the Republic of Macedonia and the Budget of Local Government Units (2005).

and the IFRDMD, earlier assessments have found limited coordination between cash management and the borrowing strategy.

Considering the frequency of updates to the annual cash forecast and the scope of information used to update it, the score for this dimension is A.

21.3. Information on commitment ceilings

This dimension assesses the reliability of information available to BUs on ceilings for expenditure commitments for specific periods.

All BUs are required to submit their financial plans for the quarter with monthly breakdown of cash needs to the MoF Treasury Department, which validates their inputs in the TrIS. Financial plans of first-level BUs incorporate the financial plans of all second-level BUs, with a clear breakdown by each institution. Controls to prevent entering of financial plans which exceed the annual appropriation are embedded in the TrIS.

The quarterly financial plans are updated and approved by the Treasury Department on a rolling basis at the beginning of each month, effectively providing the spending units with a quarterly horizon of limits up to which they can incur commitments and file the respective payment orders. There are no further restrictions on how the spending units can manage the funds released with the approval of the financial plan as long as the rules on reallocations explained in PI-18.4 are upheld. Reliability of the financial plans is conditional upon the quality of financial planning in individual institutions and the practices differ depending on their institutional capacity. In practice, the MoF Treasury Department does not reduce the financial plans as long as the spending units stay within the annual appropriation.

Based on reliable information on commitment ceilings issued to spending units that are updated monthly on a rolling basis for the following quarter, the score for the present dimension is B.

21.4. Significance of in-year budget adjustments

This dimension assesses the frequency and transparency of adjustments to budget allocations.

Above the management of spending units, in-year adjustments are decided by the Parliament in case of reallocations between BUs and increase in overall revenue and expenditure (as described in PI-18.4). Once a year, in December, the Parliament approves the Decision on Reallocation between BCG BUs and Social Insurance Funds which documents increases and decreases by budget Chapters (organizational classification), programs, and categories of revenue and expenditure (3-digit economic classification). In 2019, the total size of these adjustments was MKD 170 million or under 1 percent of the BCG expenditure for the year excluding the contingency. In 2020, due to a large extent to the COVID-19 response, the total size of the adjustments stood at MKD 1.3 billion or under 1 percent of total CG expenditure for the year. Variance in expenditure composition in 2020 by economic classification (as seen from PI-2) against the original budget stood at 18.2.

In response to the pandemic, the Government initially adopted the Decree (with legal force) on budget amendments in May 2020 that resulted in an overall decrease of revenues of MKD 25.5 billion and increase of expenditure of MKD 3.2 billion, increasing the deficit by MKD 28.8 billion against the original budget. In October 2020, the Government proposed and the Parliament approved one supplementary budget against the revised figures from the above Decree. Those resulted in further overall decrease of revenue of MKD 425 million and increase of expenditure of MKD 9.9 billion, increasing the deficit by MKD 10.3 billion.

Despite the increased volume of adjustments caused by the COVID pandemic, these took place twice in 2020 and have remained transparent and systematic which results in dimension score A.

PI-22. Expenditure arrears

This indicator measures the extent to which there is a stock of arrears, and the extent to which a systemic problem in this regard is being addressed and brought under control. As per PEFA requirements, the calculations below exclude arrears between public sector entities. VAT refunds are executed by the Treasury Department in line with the Budget Execution Plan and the arrears for unprocessed VAT refunds have not been a material concern (2019, latest available data). The assessment below accordingly looks at BCG expenditure arrears to third parties.[71] Performance is assessed for the last three completed fiscal years on dimension 22.1 and at time of assessment on dimension 22.2.

Indicator/Dimension	Score
PI-22. Expenditure arrears (M1)	**B+**
22.1. Stock of expenditure arrears	A
22.2. Expenditure arrears monitoring	B

Payment deadlines throughout the economy are defined in the Financial Discipline Law (2013) which requires all invoices to contractors and suppliers to be settled within 60 days (fully applicable to the government from January 2016). All payments beyond this deadline are considered arrears to government contractors and suppliers. Payment deadlines to civil servants and government employees for salaries and allowances (as assessed in PI-23) are defined in the respective contracts. The Law on Reporting and Recording of Liabilities (2018) further defines unpaid due liabilities as all financial liabilities arising from legislation and contract where the public entity is the debtor which are past the deadline for payment of the liability (Article 3).

Information on arrears is available from the bespoke Electronic System for Reporting and Recording of Liabilities (Macedonian: ESPEO). ESPEO allows collection, recording and reporting of information on assumed liabilities, liabilities not past due and liabilities past due (i.e. arrears) that is self-reported by virtually all public sector entities. Responsibility for accuracy of data lies with the individual institution and is not externally verified. In line with the Law on Reporting and Recording of Liabilities, reporting entities include all public sector bodies.[72]

The ESPEO system, managed by the MoF Budget Department, was developed with technical assistance as a stand-alone[73] information system in 2017-2018. For BCG entities, the MoF Budget Department uses the information from the ESPEO for both medium-term projections as well as when considering in-year reallocations and adjustments. The MoF's Financial Inspection Department (FID) is charged to perform inspection supervision over the reported irregularities with reporting and recording of liabilities. SAO audited the ESPEO system as a part of regularity audit in FY 2020. SAO raised concerns over comprehensiveness of the reporting, as the system contained data from only 1,047 entities out of 1,380 entities required to report.[74]

[71] Expenditure arrears of SNGs, outside of assessment scope and not affecting the performance under the indicator, were reported as significant.
[72] State bodies, local self-government units, institutions in the sector of culture, education, health, child and social protection, and other activities of public interest as determined by the central or local government, public enterprises and limited liability companies owned by the state, and other legal entities established by the state or local government units.
[73] i.e., not linked with TrIS and its modules.
[74] Information available from after the assessment cut-off date. At 76 percent of reporting institutions using the system, ESPEO data is considered representative and relevant for analysis.

22.1. Stock of expenditure arrears

This dimension measures the extent to which there is a stock of expenditure arrears.

For all categories of entities reporting through the ESPEO, the total amount of arrears over the three years has remained constant at around MKD 17.7 billion annually on average. Within those figures, the share of arrears of the reporting entities towards other public sector entities has been increasing from nearly 40 percent of the total at end Q4 2018 to just over 50 percent at end Q4 2020.

For BCG entities, there was a trend of reducing arrears over the period 2018-2020 (Table 22.1). Deducting the BCG arrears to other public sector entities from the total, this decrease is even more pronounced from Q4 2018 to Q4 2019, remaining steady at end of Q4 2020. These arrears against the total BCG expenditure for the fiscal year have remained under 1 percent in each of the assessed years.

Table 22.1: Stock of BCG expenditure arrears, total and excluding arrears to other public sector institutions (thousand MKD)

	31 Dec. 2020	31 Dec. 2019	31 Dec. 2018
Total arrears of BCG entities	605,921	573,645	1,369,846
BCG arrears to public sector	213,064	224,576	335,412
Arrears considered for the assessment (i)	392,857	349,070	1,034,434
Total actual expenditure for the FY* (ii)	174,936,364	151,517,166	141,694,691
Ratio (i)/(ii)	0.22%	0.23%	0.73%

Source: ESPEO, MoF Budget and Funds Department

* in reference to the expenditure used for PI-1

Arrears of BCG entities in terms of specific expenditure categories and the totals for the assessed period as recorded in Template 3 of the ESPEO reports is presented in the table below. The largest categories of arrears are for other construction objects (MKD 88.5 million), contracted services (MKD 76.8 million), and material and small inventory (MKD 55.5 million) which accounted for just over half of the total.

Table 22.2: Stock of reported expenditure arrears: breakdown by economic classification categories* (thousand MKD)

Account	31 Dec. 2020	31 Dec. 2019	31 Dec. 2018
401 Salaries	11,761	8,054	19,263
402 Social security contributions	2,432	0	4,409
403 Other contributions from salary	0	0	0
404 Allowances	249	71	112
412 Permanent reserve	0	0	0
413 Contingency reserve	0	0	0
420 Travel and subsistence allowances	1,216	6,025	3,257
421 Utilities, heating, communications and transportation	39,731	39,582	73,505
423 Material and small inventory	44,522	17,974	374,956
424 Repairs and current maintenance	25,305	16,528	144,553
425 Contracted services	76,782	38,579	42,053
426 Other current expenditure	17,813	9,767	15,409
427 Temporary work	2,764	1,407	1,830
442 Earmarked transfers	0	1,753	0
451 Interest payment to non-residents creditors	0	0	1
452 Interest payment to resident creditors	0	0	0
453 Interest payment to other govt. levels	0	0	0

Account	31 Dec. 2020	31 Dec. 2019	31 Dec. 2018
461 Subsidies to public enterprises	0	0	0
462 Subsidies to private enterprises	0	0	0
463 Transfers to NGOs	36,140	45,007	44,470
464 Transfers, not classified elsewhere	31,698	14,307	14,909
465 Payments being enforced	0	0	89,265
471 Social allowances	78	141	390
474 Payment of allowances to social security	0	0	0
480 Purchase of equipment and machinery	5,309	11,601	54,425
481 Construction objects	1,315	277	10,673
482 Other construction objects	88,486	119,828	124,489
483 Purchase of furniture	0	2,686	2,557
484 Strategic stock and other reserves	0	0	37
485 Investment and non-financial assets	5,211	6,095	1,511
486 Purchase of vehicles	0	0	3,286
489 Capital subsidies to companies and NGOs	2,045	9,388	9,067
491 Payment of principal to non-residents	0	0	0
492 Payment of principal to local govt. institutions	0	0	0
493 Payment of principal to other govt. levels	0	0	0
Total	392,857	349,070	1,034,434

Source: ESPEO, MoF Budget and Funds Department customized data set for the PEFA Assessment

** excluding arrears to other public sector institutions*

Based on the ratio of reported arrears at the end of the last three fiscal years against the total annual expenditure of under 1 percent, the score for the dimension is A.

22.2. Expenditure arrears monitoring

This dimension measures the extent to which any expenditure arrears are identified and monitored.

Requirements are in place to report arrears information on 4 standardized templates by all types of accounts and sources of funds,[75] by type of creditor, by due date status (unpaid, unpaid past due), and by 3-digit economic classification. While due/past due status is recorded, the data is not broken down by age structure of arrears (e.g., 30, 60, 90 or 120 days past due). The public sector entities report information to the ESPEO on monthly basis, by the 10th day of the next month for the previous month. The legal provisions require the MoF to generate and publish summary reports on a quarterly basis. With reporting completed by the 10th and the report published, this corresponds to 2 weeks from the end of the quarter. Reporting is also technically possible on a monthly basis.

Table 22.2: Expenditure arrears monitoring: overview of reports generated

Category of reports	Data generated (Y/N):			Frequency	Timeline
	Stock	Age	Composition		
By individual entity By type of entities By type of expenditure By type of creditor	Y	N	Y	Quarterly	within 2 weeks from the end of the quarter

Source: MoF Summary reports on liabilities (Templates 1-4), Q1 2021

[75] For Treasury budget users this includes: core budget accounts (637, 603, 631), donation accounts (785), loan accounts (786), self-financing activities account (787, 788), funds budget account (660), funds branch unit account (661), expenditure from transfer accounts (937, 903), local government self-financing account (784), and earmarked account (789). For HIF Treasury users this includes: HIF funds account (737), own-revenue account (531), and donations account (485).

The requirement is in place for the MoF FID to take action and sanction those entities which are breaching the payment deadlines but resource constraints to date have led to a significant backlog in addressing these. At the time of the assessment, around 600 reports were pending inspection and sanctioning.

Information on stock and composition of public sector arrears (including BCG entities) is prepared and published quarterly within 2 weeks from the end of the quarter but there are no records of the arrears age profile, so the score for the dimension is B.

PI-23. Payroll controls

This indicator is concerned with the payroll for public servants only: how it is managed, how changes are handled, and how consistency with personnel records management is achieved. Wages for casual labor and discretionary allowances that do not form part of the payroll system are included in the assessment of non-salary internal controls, PI-25. Indicator coverage is CG and the assessment of all dimensions is undertaken at the time of assessment, except the 23.4 which is assessed for the last three completed years (2018-2020).

Indicator/Dimension	Score
PI-23. Payroll controls (M1)	**B+**
23.1. Integration of payroll and personnel records	B
23.2. Management of payroll changes	A
23.3. Internal control of payroll	B
23.4. Payroll audit	B

Each institution specifies the work posts, number of civil servants in each post and work requirements in their rulebooks on internal organization and systematization of work posts. Applicable legislation includes the Law on Public Sector Employees (which defines the categories of administrative employees and technical support staff),[76] the provisions of special laws,[77] the regulations adopted on the basis of this Law and collective agreements. In accordance with the Law on Administrative Servants, the remuneration for employees consists of the basic salary and salary allowances. Individual institutions process the salary and allowances in line with their internal enactments. For the technical support staff, there are no central provisions that regulate the method for salary calculations and these differ from sector to sector.[78]

In line with past Public Administration Reform Strategy decisions and the Law on Public Employees, the Ministry of Information Society and Administration was charged with setting-up the electronic Register for public sector employees (HRMIS).[79] The system was implemented in 2016, but the 2019 SAO's audit report notes, inter alia, that (i) the module for personnel records is not used by all institutions despite the legal obligation, and data entered are not complete and up to date, and (ii) the module for salary calculation is used in less than 30 institutions.[80] This information system is not used for payroll processing and is therefore not assessed under this indicator.

In the absence of a centralized HRMIS, BUs at the central level maintain decentralized personnel records and prepare payroll calculations individually. Data is reported on the F1 form, with a breakdown of all details by individual employees, including changes month-on-month relevant for the payroll calculation. The role of MoF in line with the Budget Law and the annual Budget Law is to review the monthly changes and approve the calculations and the execution of the corresponding payment.

[76] Administrative and other technical staff that do not qualify as civil servants, i.e. administrative employees.
[77] e.g. health, internal affairs, and other sectoral legislation.
[78] SAO 2020 Annual Report
[79] A comprehensive registry for the public sector, excluding only the institutions in the defense, internal affairs and intelligence sectors.
[80] See SAO IT audit: Effectiveness and Efficiency of Measures and Actions Taken by Ministry of Information Society and Administration for Full Implementation of the HRMIS in Public Sector Institutions (2019)

All centralized payroll controls are conducted in line with MoF Budget and Funds Department's internal procedures.[81]

In decentralized systems such as the one in North Macedonia, the PEFA methodology encourages the assessors to consider using a sampling approach. The sample for this indicator is the MoF's centralized payroll calculation, which retains the same scope as in the assessment undertaken in 2015 using the 2011 Framework. This makes it possible to capture performance changes over time and to set a relevant baseline for subsequent assessments. Coverage of the MoF's payroll operations assessed under this indicator applies to institutions, primarily budget users, which represents close to 70 percent of the total CG expenditure.

23.1. Integration of payroll and personnel records

This dimension assesses the degree of integration between personnel, payroll, and budget data.

Individual BUs send the monthly payroll calculation for their staff on template F1. Information collected through the F1 form includes around 25 items that capture identification parameters, work post, formal education and years of experience as well as all variable parameters that may affect monthly earnings of individuals (such as overtime, sick leave and the like) for all staff. MoF's Budget and Funds Department maintains the records collected from template F1 in a Microsoft Access database. Once all payroll changes are processed (as described in PI-23.2 below), the MoF Budget Department sends the summary calculation back to the submitting institution which can then instruct the Treasury Department to process the corresponding payments. Salaries are disbursed by electronic transfer to individual bank accounts of individual employees monthly.

The number of staff in each BU is subject to control by the MoF. MoF consent is required for each new employment in the BUs and is a prerequisite for any further steps. Each BU is obliged to provide evidence of available funding, upon which the MoF can issue the consent needed. MoF consent needs to be referenced on the M1 form that shows mandatory registration with social insurance funds.

Considering there is an indirect link between personnel and payroll databases and that staff hiring is controlled by approved staff positions and available funding, the score for the dimension is B.

23.2. Management of payroll changes

This dimension assesses the timeliness of changes to personnel and payroll data.

Changes to the payroll are made on the basis of data and documents submitted each month by BUs, electronically or in hard copy. MoF Budget and Funds Department controls these inputs in terms of formal check for completeness of the necessary forms and data. Upon completing the check, MoF advises the submitting entity of any errors and missing information and may request supplementary information, as needed. Additional analysis entails verification of the contents of the submissions, in terms of compliance with laws and their fit within the planned funds in the budget of the respective BU. Where analysis shows discrepancies, respective BUs are required to adjust their payroll calculation. Upon completion of these steps, the template for approval of salaries is approved by the Head of the Budget and Funds Department.

No statistics are maintained on the amount and frequency of retroactive adjustments, but these have been reported as rare in interviews. There is a notable absence of findings on this aspect of payroll management in the SAO 2020 Annual Report. Dividing the 2020 amount of arrears for basic salaries (as shown in PI-22) with the total spending on this line item from the budget for the year shows these were under 0.10 percent of the total salaries paid. Using this percentage as a proxy for the volume of

[81] Procedure for Control and Approval of Salary Payment Requests of CG Budget Users and Individual Users (2013) specifies the responsibilities and authorizations for the different steps in the process.

unresolved issues with salary payments (including any related to retroactive adjustments) shows these are well below the threshold of 3 percent of retroactive adjustments in salary payments set in the PEFA scoring criteria.

As the changes between personnel records and payroll calculations are updated monthly and in time for the next month's payment with low presumed retroactive adjustments, the score for this dimension is A.

23.3. Internal control of payroll

This dimension assesses the controls over making changes to personnel and payroll data.

There is a fairly robust framework of internal controls at the MoF Budget and Funds Department over data needed for control activities envisaged in the procedures. Data held in a Microsoft Access database, with individual staff identifiable from their personal identification number. For comparability purposes, the structure of data corresponds to the information captured on template F1. Access to the database is password protected and privileges to access and edit the data assigned to Budget and Funds Department staff in line with the applicable procedure but is not programed to create an audit trail of interventions on data. Similar to retroactive adjustments above, no SAO findings raise the issue of integrity of data submitted by the BUs and held at the MoF which is therefore considered high. At the same time, most recent SAO findings highlight a number of systemic weaknesses in payroll processing (including lack of common legal provisions for calculation of salary of technical support staff) across the BCG and in other sub-sectors of the central government.

While systemic issues highlighted in SAO findings indicate a number of internal control weaknesses in payroll, none are related to authority and integrity of data which is considered high so the score for this dimension is B.

23.4. Payroll audit

This dimension assesses the degree of integrity of the payroll.

Personnel and payroll records in BUs and the MoF can be audited by both internal and external auditors. Interviews with the SAO highlighted that this line item is audited annually and is considered one of the lower risk areas. SAO audit programs for this group of accounts includes standardized checklists including analytical procedures and testing of individual transactions with a view to determine whether the accounting policies in relation to the Revenue and Expenditure Statement are in line with the law and identify any irregularities and discrepancies in terms of compliance. The MoF Central Harmonization Department does not maintain statistics on internal audits specifically addressing personnel and payroll operations.

In terms of coverage, the statutory annual regularity and financial audit by the SAO encompasses the MoF's operations with respect to payroll of the BCG budget each year. In addition, the SAO audits the personnel and payroll records on a sample of other central government institutions in line with its risk-based annual audit plan. SAO reported adverse audit findings involving lack of standardized coefficients for technical-support staff in BCG (repeated since 2018), calculation of salaries in health care institutions (2019), judiciary, culture and higher education (2019 and 2020), as well as irregularities in processing of allowances calculated and paid under confidential arrangements in the judicial sector (2020). The number of non-statutory SAO audits has increased and is considered to have progressively encompassed virtually all central government entities over the past three years as risk-based planning is guided, inter alia, by materiality.

As the SAO progressively audits more central government institutions but without the complete annual coverage of all CG salary expenditures, the score for this dimension is B.

PI-24. Procurement

Significant public spending takes place through the public procurement system. A well-functioning procurement system ensures that money is used effectively in acquiring inputs for, and achieving value for money in, the delivery of programs and services by a government. The principles of a well-functioning system need to be stated in a well-defined and transparent legal framework that clearly establishes appropriate policy, procedures, accountability, and controls. This indicator examines key aspects of procurement management. It focuses on transparency of arrangements, emphasis on open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements. Coverage is CG and the assessment of all dimensions is undertaken for the last fiscal year (2020).

Indicator/Dimension	Score
PI-24. Procurement (M2)	**A**
24.1. Procurement monitoring	A
24.2. Procurement methods	A
24.3. Public access to procurement information	A
24.1. Procurement complaints management	A

Public procurement in North Macedonia is governed by the current Public Procurement Law (PPL)[82] which was adopted on January 29, 2019, and became effective as of April 1, 2019. It is harmonized with the new EU Directive and regulates the manner and procedures of public procurement, the competences of the Public Procurement Bureau (PPB), the competences of the State Commission on Public Procurement Appeals and Legal Protection in Public Procurement Procedures, as well as the legal protection in the procedures for awarding concessions and public private partnership contract.

The PPB, within the framework of the MoF, is the central body responsible for coordinating and monitoring the public procurement system in North Macedonia. The main objectives of the PPB include ensuring a coherent legal framework in line with EU public procurement legislation, providing a framework for uniform application of public procurement regulations and developing the capacity to implement procedures for awarding public procurement contracts horizontally.

24.1. Procurement monitoring

This dimension measures the extent to which prudent monitoring and reporting systems are in place within government to ensure value for money and promote fiduciary integrity.

The PPB owns and manages the national electronic system for public procurement (ESPP).[83] The system reflects the requirements of the PPL and is technically stable with a strong technical infrastructure to handle the usage from all contracting authorities and economic operators (EO). The ESPP covers the entire tendering process from publication of tender notices, to bid submission, evaluation, and contract award. The contracting authorities, as defined by the PPL, are obliged to apply the PPL and conduct public procurement through the ESPP. As soon as the contracting authorities' annual budget is approved, they have to prepare their procurement plans and publish them not later than 31 January each year, as well as all the subsequent updates, on the ESPP. The information on the entire procurement process, including procurement notices, tender documents, contract award information, actual contract document, etc. is easily accessible on the ESPP. Information on all awarded contracts must be published on the portal. There is also a dedicated

[82] http://www.bjn.gov.mk/category/zakon-za-avni-nabavki/
[83] http://www.bjn.gov.mk/en/espp/

location where the small value contracts are published. The PPL defines what information must be published with regard to contract award and implementation.

The functionality of electronic record of procedures/E-Archive in the ESPP has been active in the last couple of years. A separate record book is kept for public procurement procedures on the ESPP, thus public procurement documents are no longer printed and archived. This solution resolves the need of printing electronic documents and electronic signature that are not valid in printed form. This ensures greater security, integrity of the data and provides an audit trail on the manner of spending public funds and implementation of public procurement procedures.

In recent years, the system was enhanced to include new functionalities providing more opportunities to EOs to access procurement notices of international donors, to pre-view tender documents without subscription to the ESPP system and to make e-payments for the annual subscription to the ESPP. Additional upgrades of the e-procurement portal include sections on e-appeals, e-market for small value procurements and e-catalogues. Within its new prerogatives in the framework of the COVID-19 crisis, the PPB issued a notification on its website that in need for urgent procurement procedures contracting bodies may use negotiated procedure without publication and without requesting prior opinion from the Public Procurement Bureau in accordance with the existing Article 55 (b) from the Law on Public Procurement. In addition, an e-procurement tool with data on public procurement contracts connected with the COVID-19 crisis was established which helped increasing transparency and accessibility.

As a result of the built confidence, through the new public procurement legislation adopted in January 2019 the PPB was assigned with a new role in the public procurement system – administrative control in public procurement procedures. It is mandatory for the procurement of contracts estimated to cost more than EUR 500,000 for goods and services and above EUR 2 million for works. Other procedures that might be subject to control are selected randomly and on the basis of the implemented indicators for potential risks and sources of corruption (red flags).

The ESPP includes a functionality on public performance indicators and the governance (anti-corruption) red flags allow the identification of flaws in the procurement process. It is directly linked with the new public procurement legislation and will be used in selecting potential contracts subject to ex-ante control, a new function assigned to the PPB through the PPL.

Complete and accurate records for contracts under all types of procurement procedures are maintained in the ESPP, including procurement notices, tender documents, contract award information, actual contract document, resulting in dimension score A.

24.2. Procurement methods

This dimension measures the percentage of the total value of contracts awarded with and without competition.

Based on the data from the ESPP, 32,253 public procurement contracts of total value of MKD 56.072.187.702 (about EUR 911 million) were concluded in 2020. The total value of public procurement for 2020 represents 8 percent of GDP and 23 percent of the budget of the Republic of North Macedonia. According to the information from the ESPP, the value of concluded public procurement contracts increased by 0.46 percent and the number of concluded public procurement contracts by 0.5 percent compared to 2019 (when the number was 32,065). The procurement thresholds are defined in Article 40 of the PPL. In addition, Article 47 defines the types of public procurement procedures allowed by the PPL, which are aligned with the ones in the most recent EU Procurement Directive. In 2020 the total value of all awarded contracts, including small value procurement was MKD 56,072,187,702 of which the total value of contracts, including small value procurement, awarded through competitive methods was MKD 53,627,981,315 (95.64 percent).

The most commonly used procurement method according to the value of contracts was open procedure through which 5,400 contracts were awarded in the amount of MKD 36,315,737,005, or 65 percent of the total public procurement in North Macedonia. Some 10,706 contracts with a total value of MKD 13,018,215,416 (or 23 percent of the total value of public procurement) were awarded following simplified open procedures according to the thresholds stipulated in the PPL. Details on the number and value of contracts per procurement procedure are provided in the table below, based on the information of the 2020 Annual Report of the PPB.[84]

Table 24.2: Types of procedure, number and value of awarded contracts

Type of procedure	Competitive procedures	Number of awarded contracts	Value of awarded contracts in MKD	Percentage of the total
Small value procurement	Yes	10,701	2,461,376,611	4.39
Simplified open procedure	Yes	10,706	13,018,215,417	23.22
Open procedure	Yes	5,400	36,315,737,005	64.77
Qualifications system	Yes	35	1,035,564,617	1.85
SUB-TOTAL (Competitive procedures)		26,842	52,830,893,650	94.22
Negotiated procedure with prior publication	No	1	574,754,400	1.03
Negotiated procedure without prior publication	No	792	2,444,206,387	4.36
Special services up to 10,000/20,000 EUR	No	4,538	71,974,617	0.13
Special services	No	80	150,358,649	0.27
TOTAL		32,253	56,072,187,702	100.00

Source: PPB

Based on the dominant share of open procurement methods in use, the score on this dimension is A.

24.3. Public access to procurement information

This dimension reviews the level of public access to complete, reliable and timely procurement information.

The PPL and the respective by-laws, regulations (including on use of the ESPP, preparation of annual procurement plans, etc.), manuals (updated manual for use of ESPP by EOs and the same for contracting authorities, etc.), guides (including on negative reference, brochures (including. on standard procurement documents and technical specifications, on evaluation of tenders, procurement planning, etc.) are posted on the website of the PPB and all are easily accessible. The PPL defines which information has to be published, which is practically all information related to procurement procedures, except the ones indicated in their tender documents as confidential by the EO. The public procurement portal was upgraded and adjusted to the new legal framework. Improving the efficiency and transparency of public procurement system in North Macedonia, all these improvements permit a better collaboration with other countries in the region and with international organizations such as the European Union and the World Bank.

[84] https://www.bjn.gov.mk/wp-content/uploads/2021/07/Godisen-izvestaj-2020_Final.pdf

The contracting authorities, as defined by the PPL are obliged to apply the PPL and conduct public procurement through the ESPP. As soon as contracting authorities' annual budget are approved, they have to prepare their procurement plans and publish them not later than 31 January each year, as well as all the subsequent updates, on the ESPP. In the assessment period, more public procurement plans are published by contracting authorities, which increases transparency and reduces the risk of deviation in the post-contracting phase.

To increase the awareness of the business community and the entire public in North Macedonia of public procurement contracts' opportunities, a new module - "Loans / donations / grants" was implemented in the ESPP, allowing free of charge publication of procurement notices under projects financed from international financial institutions. All EOs are timely informed about such procurement opportunities, which would allow enhancement of transparency and competition. With the publication of procurement notices and the tender documentation in ESPP, all interested parties are given access to the tender documents directly through the search engine, without registering and logging in to the system. This way, they have the opportunity to preview and comment on the technical specifications and terms of the tender documents at the beginning of the public procurement process. This is a good corrective tool in case there are elements of restriction of competition, unequal, or selective approach. Also, EOs who are not registered at the ESPP, after gaining insight into the tender document can decide whether they fulfill the conditions for participation and register in the system and submit a bid. Electronic payment for subscription to the ESPP is enabled, thus reducing the transaction costs for foreign EOs and enabling faster and automatic activation of the EOs of the ESPP immediately after the payment is processed.

All tenderers who participated in the procedure have access to the complete tender documentation, including submitted tenders or requests to participate, in the stand still period, except for the documents, marked as a business secret. A review of bids from competitors increases bidders' trust in the public procurement system and assist in the preparation of an appeal.

Within 10 days of the decision to award, the contracting authorities are also required by the PPL to publish on ESPP, notifications for contract awards, as well as their relevant contract amendments and contract completion. The required data which has to be published is defined in the PPL. Awarded contracts, linked to contract notices, are now electronically available.

An e-Appeal module was implemented in the ESPP, and the EOs, participating in a public procurement procedure are able to file electronically an appeal to the State Appeals Commission (SAC). At the same time, the contracting authority would be informed of the specific procedure subject to the appeal. The entire documentation of the public procurement procedure is made available to the SAC electronically. In addition, the contracting authority submits the reply to the EO electronically in the determined legal deadline. The SAC submits the final decision electronically through the ESPP.

The PPB prepares and publishes on its website annual reports on its work. For it, the PPB used the data from the ESPP. The tool used to analyze and extract data from the ESPP was the Business Intelligence Semantic Model (BISM).

The key procurement information to be made available to the public is summarized in the table below:

Table 24.3: Requirements met on availability of key procurement information

Element/ Requirements	Met (Y/N)	Evidence used/Comments
(1) legal and regulatory framework for procurement	Y	All legal acts and bylaws are available from the ESPP website free of charge.
(2) government procurement plans	Y	It is mandatory to publish, and all procurement plans are published in the ESPP portal.

Element/ Requirements	Met (Y/N)	Evidence used/Comments
(3) bidding opportunities	Y	Procurement notices are published in the ESPP portal.
(4) contract awards (purpose, contractor and value)	Y	Information on all awarded contracts are published in the ESPP.
(5) data on resolution of procurement complaints	Y	All information is published on the SAC's website.
(6) annual procurement statistics	Y	These are published in the PPB portal.

As every key procurement information element is complete and reliable for all public procurement operations and available to the public in a timely manner, the score for this dimension is A.

24.4. Procurement complaints management

This dimension assesses the existence and effectiveness of an independent, administrative complaint resolution mechanism.

The State Appeals Commission (SAC) was established by special law in 2008 with a mandate to decide on appeals on public procurement contracts, including concessions and PPP contracts. It is a legal independent body, reporting to the Parliament of the Republic of North Macedonia which also approves its strategic plans and annual program. There are no external experts. The decision making is done by the 5 members, appointed by the Parliament. According to the PPL, appeals must be submitted electronically. There is an option to submit appeals on paper with regard to concessions and PPP contracts, as well as for contracts awarded according to negotiated procedure without prior publication. Complaints are submitted with regard to tender documents, evaluation and decision to award a contract. The time for lodging a complaint, as regulated by the PPL is 5 or 10 days depending on the type of procedure, and the contracting authority should make all documents available within 5 working days. The fee for lodging a complaint is between EUR 50 and 200, depending on the value of the contract. The decisions of the SAC are final and binding. All decisions are automatically published on the SAC's website and publicly available. One of the improvements of the new PPL is the introduction of e-Appeals. A comparative analysis conducted by the Commission of data from the last 4 years concluded that there is an increase of complaints (in 2018 – 561 complaints, in 2019 – 737, in 2020 – 1076 complaints, and in the first quarter of 2021 – 550 complaints were submitted). The low fees and the simplification of the process by introducing e-Appeals eased the process of submission of complaints.

Table 24.3: Requirements met on availability of key procurement information

Element/ Requirements	Met (Y/N)
(1) is not involved in any capacity in procurement transactions or in the process leading to contract award decisions	Y
(2) does not charge fees that prohibit access by concerned parties	Y
(3) follows processes for submission and resolution of complaints that are clearly defined and publicly available	Y
(4) exercises the authority to suspend the procurement process	Y
(5) issues decisions within the timeframe specified in the rules/ regulations	Y
(6) issues decisions that are binding on every party (without precluding subsequent access to an external higher authority)	Y

All the PEFA Framework criteria with respect to procurement complaints management are met, and the score on this dimension is A.

PI-25. Internal controls on non-salary expenditure

This indicator measures the effectiveness of general internal controls for non - salary expenditures. Specific expenditure controls on public service salaries are considered in PI-23. The indicator coverage is CG and the scope is at the time of assessment.

Indicator/Dimension	Score
PI-25. Internal controls on non-salary expenditure (M2)	**B+**
25.1. Segregation of duties	B
25.2. Effectiveness of expenditure commitment controls	B
25.3. Compliance with payment rules and procedures	A

Internal controls in budget execution are developed and implemented within the broader concept of financial management and control, coded in the Law on Public Internal Financial Control (PIFC). PIFC approach, organized along the COSO Framework,[85] is applicable for the entire public sector and the rules apply to all public entities. Progress in strengthening PIFC is one of the benchmarks in the country's EU accession process. The requirements of the PIFC Law apply to the entire public sector.

For the budgetary units, in the key steps of the expenditure management processes (commitment and payment), including segregation of duties, responsibilities are shared between:

i. each BU, where decentralized ex-ante commitment controls are exercised over assuming and registering commitments, their verification and filing of payment orders; and
ii. the MoF Treasury Department, which exercises centralized controls over compliance of payment orders against the appropriations, financial plans, and registered commitments.

On the level of each BU, SSF and EBU, the adequacy and effectiveness of the internal control system is monitored through the annual self-assessment questionnaires. Self-assessment process is carried out at least annually, in line with regulations that cover the issuance of Statement of Quality and Status of Internal Control, signed by the head of each institution. Institutions manage risk registers in line with individual risk management strategies. Internal audit is in place to provide independent assurance of the adequacy and effectiveness of internal control (see PI-26).

In terms of centralized controls, the procedures and stakeholders are described in the Treasury Operations Manual. The document also defines standardized templates for reporting of commitments and payment orders. Most of the controls in the TrIS (including e-Commitment module) are automated but several information flows in the process remain outside of the digital environment (for example, BUs provide paper-based payment orders) as efforts are finalized to make the e-Payments module of the TrIS operational.

25.1. Segregation of duties

This dimension assesses the existence of segregation of duties, a fundamental element of internal control to prevent an employee or group of employees from being in a position to both perpetrate and conceal errors or fraud in the course of their duties. The division of authorizations and responsibilities in spending the approved budget funds is secured by adopting a decision on internal

[85] Committee of the Sponsoring Organisations of the Treadway Commission (COSO) 2013 Framework and its elements (control environment, risk assessment, control activities, reporting and communications, and monitoring) constitute the theoretical underpinning of the PIFC approach.

allocation of the total approved budget and decisions on giving general authorizations for assuming liabilities and general authorization for payments to the head of the financial affairs unit. While an increasing number of institutions have adopted these rules, the MoF Central Harmonization Department reported that progress is “insufficient for determining clear lines of accountability and greater responsibility and accountability of the respective heads.” (2019 Annual PIFC Report)

Specific rules on segregation of duties are coded in the primary legislation, in terms of “the segregation of duties in a manner not allowing to an official to be at the same time responsible for authorization, execution, accounting and control.” (PIFC Law, Article 16) The provisions cover the main incompatible responsibilities to be segregated (namely, authorization, recording, custody of assets and reconciliation).

Responsibility for authorizing payments is with heads of the individual BUs and SSFs and should normally be delegated to the designated Financial Management and Control Officers. The latest self-reported information suggests 80 percent of central level institutions (BCG and SSFs) have secured the implementation of the segregation of duties requirements. (2020 Annual PIFC Report) The Treasury Operations Manual foresees segregation of duties in the payment execution process and these are enforced through different level of access rights and privileges of the staff in the Treasury Department, Budget Execution Unit and the regional treasury offices (see also PI-27.4).

There is appropriate segregation of duties with clear responsibilities in payment processing, but a number of institutions have yet to operationalize segregation of duties throughout the other steps in the expenditure process, so the score for this dimension is B.

25.2 Effectiveness of expenditure commitment controls

For annual commitments, amounts committed and expected payment dates are reported ex-post in the Treasury Department’s E-Commitment module of the TrIS. BUs attach the respective contract and other documentation. Information on commitments is registered by administrative, program and economic classification and for all sources of funds. At the time of the registration, the amounts are controlled against the annual appropriation with those exceeding the appropriation automatically rejected. The E-commitment module issues a registration number, which is later referenced when checking the payment order. Payment orders for unregistered commitments are automatically rejected, a control intended to incentivize timely registration. In terms of timeliness, all BUs are required to register the contracts received within 15 days and any exceptions must be approved by MoF Treasury Department. At the time of the assessment, the Treasury Department reported not more than 5-6 such requests for exception on a monthly basis. BUs are exempt from the obligation to report commitments which are under MKD 300,000 in value. Likewise, recurrent cost (e.g., salaries and social benefits) are exempt from this procedure. In addition, as discussed in PI-21, financial plans for BUs for three months are updated and approved on a rolling basis each month. BUs are required to manage commitments for the period so that the resulting payments do not exceed the limits of the financial plan.

BUs are under the same requirement to report multi-annual commitments in the E-commitment module and data is available for commitments over the coming three years from the system. Data is shared with the MoF Budget and Funds Department at the time of the preparation of the medium-term outlook and negotiations with BUs. At the same time, since the execution is controlled against the annual budget there are currently no means to control commitments over the medium-term horizon.

For the expenditure executed for healthcare institutions from the HIF controlled TSA, the HIF confirms budgets with all of the public healthcare institutions at the beginning of the year, subdivided in 12 equal installments. To smooth annual operations, the healthcare institutions can file supplementary requests for additional money for the month (to be subtracted from the next month’s allocation).

There is no requirements for healthcare institutions to register commitments and their payment orders are controlled against the annual budget for the year and the remaining account balance.

Considering the comprehensiveness of annual commitment controls against projections of available cash and the annual appropriation, but gaps in controlling alignment of multi-annual commitments with medium-term indicative ceilings, the score for this dimension is B.

25.3. Compliance with payment rules and procedures

This dimension assesses the extent of compliance with payment control rules and procedures based on available evidence. In the decentralized part of the expenditure process, roughly 80 percent of respondents in the 2020 financial management and control self-assessment reported that authority and responsibility for managing budget funds was clarified through internal rules and procedures. Findings from the last PEFA assessment on a high degree of concentration of responsibilities at the level of the head of the institution (and possible resulting overrides of payment controls in terms of prioritization) are mitigated with the requirement to register the date of the payment in the E-Commitment module.

The MoF Treasury Department, Budget Execution Unit through the TrIS checks whether the payment order is in line with the annual appropriation, financial plan, executions to date (reduced for annual commitments registered in the system) and the available account balance, as per procedures in the Treasury Operations Manual (item 78). The MoF Treasury Department may reject payment orders which do not satisfy these criteria as well as in case of inconsistencies on the purpose and the basis of the payment. Exceptions from the regular procedure are defined in the Treasury Operations Manual (Chapter IX) and these have not been singled out as a pervasive issue in the audit reports reviewed for the PEFA assessment.

Currently, all payment orders are submitted on paper with supporting documentation to the Treasury Department regional offices which input the data in the TrIS. Once approved and executed, all transaction details are posted in the Treasury Main Ledger. While no statistics are maintained on the number of transactions compliant/non-compliant with regular payment procedures and use of exceptions, these are reportedly low which is reinforced by the absence of major audit and inspection findings on this topic.

In the SSFs sub-sector of the central government, the HIF controls and approves all of the invoices submitted by the 108 healthcare institutions. The heads of 30 HIF branch offices sign off on the substantive controls carried out at the branch offices and liquidate the invoices (e.g. prescriptions issued, number of referrals). Based on these controls, the HIF central office executes the payments.

Budget inspection and external audit findings did not document non-compliance with regular payment procedures or unauthorized use of exceptions, resulting in dimension score A.

PI-26. Internal audit

This indicator assesses the standards and procedures applied in internal audit. Indicator coverage is CG. The scope is at the time of assessment in 26.1 and 26.2, last completed year (2020) in 26.3 and the audit reports issued in the last three years (2018-2020) in 26.4.

Indicator/Dimension	Score
PI-26. Internal audit (M1)	**C+**
26.1. Coverage of internal audit	A
26.2. Nature of audits and standards applied	B
26.3. Implementation of internal audits and reporting	C
26.4. Response to internal audits	C

Functionally independent internal audit (IA) is a requirement under the Law on PIFC. IA is developed as an integral part of the COSO framework that underpins financial control and management with an extensive remit to audit internal controls, risk management and governance in the respective organizations. Internal audit is established as a decentralized function.

While the MoF CHD proposes the legislative and methodological framework, monitors, and prepares a consolidated report on the work of the IA function in the public sector, the heads of individual spending units (BUs, SSFs and EBUs) are required to establish the internal audit unit (IAU) provided they meet the MoF-specified criteria. Under the Law on PIFC in force at the time of the assessment, internal audit can be established as IAU (at least two internal auditors) and Internal Audit Department (IAD, at least five internal auditors), depending primarily on the average size of the budget in the past three years. Institutions mandated to establish the IA function[86] include all the BCG ministries and SSFs. Other institutions are required to establish the function, provided their average budgets in the last three years exceeded the threshold of MKD 50 million.

All public sector internal auditors are trained and certified under an annual, Government-approved program coordinated by the Central Harmonization Department. Available information suggests 86 internal auditors across the public sector are holders of certificates of certified public sector internal auditor.

26.1. Coverage of internal audit

This dimension assesses the extent to which government entities are subject to internal audit.

The MoF CHD reported 91 established internal audit units, staffed with over 130 internal auditors as of May 2021, for all public sector institutions at the central government level. Excluding central level PCs and EBUs from the totals, there are 13 internal audit units (IAU) in BCG entities and SFFs which are covering 91.75 percent and 91.61 percent of revenue and expenditure of the Budget of the Republic of North Macedonia, respectively. Largest EBUs, such as the PESR, Civil Aviation Agency and Central Registry of the RNM also have established IA units.

Table 26.1: Overview of CG institutions with established internal audit function, by materiality (MKD)

<table>
<tr><th>Institution</th><th>2020 Expenditure*</th><th>2020 Revenue**</th><th>IAU established</th><th>Internal audit staff</th></tr>
<tr><td>Budgetary central government</td><td>174,936,364</td><td>186,585,409</td><td></td><td></td></tr>
<tr><td>1. MoF - State Functions and MoF proper</td><td>16,790,074</td><td></td><td>Y</td><td>6</td></tr>
<tr><td>1.1 PRO (actual expenditure), total taxes and contributions administered by the PRO</td><td>1,120,133</td><td rowspan="2">170,942,000</td><td>Y</td><td>3</td></tr>
<tr><td>1.1 CA (actual expenditure), total taxes and contributions administered by the PRO</td><td>1,267,914</td><td>Y</td><td>3</td></tr>
<tr><td>2. Ministry of Agriculture, Forestry and Water Management</td><td>1,243,673</td><td></td><td>Y</td><td>4</td></tr>
<tr><td>3. Ministry of Labor and Social Policy</td><td>50,423,644</td><td></td><td>Y</td><td>4</td></tr>
<tr><td>4. Ministry of Defense</td><td>7,209,513</td><td></td><td>Y</td><td>4</td></tr>
</table>

[86] As required under Article 30 of the PIFC Law.

5. Ministry of Internal Affairs	10,458,090		Y	2
6. Ministry of Health	8,796,213		Y	1
7. Ministry of Justice	365,437		Y	1
8. Ministry of Culture (including financing of culture activities)	18,760,819		Y	1
9. Ministry of Foreign Affairs	1,092,189		Y	2
10. Ministry of Environment	844,216		Y	3
11. Ministry of Transport and Communications	2,693,065		Y	2
12. Ministry of Education and Science	24,841,812		Y	2
13. Ministry of Local Self-Government	181,504		Y	1
Budgetary central government coverage	83.51%			2.6 (on average)
Social insurance funds	115,714,000			
1. Pension and Disability Insurance Fund	77,682,638		Y	3
2. Health Insurance Fund	35,842,102		Y	4
3. Employment Agency	3,834,421		Y	2
Social security funds coverage	100.00%			3 (on average)
Average (BCG and SSF) coverage	91.75%	91.62%		

Source: assessment team, based on MoF and SSF publicly available data.

** expenditure reported in the consolidated BCG and SSF final accounts.*

*** see PI-19 for details on revenue administration.*

Based on the reported internal audit coverage of CG revenue and expenditure of just above 90 percent of revenues and expenditures, the score assigned to this dimension is A.

26.2. Nature of audits and standards applied

This dimension assesses the nature of audits performed and the extent of adherence to professional standards.

Legal requirements prescribe the application of the Institute of Internal Auditor's International Professional Practices Framework, and the applicable IA manual reflects the requirements of the audit standards that are integral to this framework. Internal Audit Charters, signed on the level of each institution, further define the IA function, its objectives, independence, competencies and responsibilities in line with the applicable international standards.[87] Internal auditors are required to uphold the prescribed Code of Ethics. In executing their duties, internal auditors have the legal mandate to interview any manager and staff and access all the required documentation (in line with regulations on classified information and personal data).

[87] All signed IA Charters are filed with the MoF CHD.

In line with the legal provisions, internal auditors may carry out financial audit, compliance audit (regularity), audit of the internal control systems, performance audit, and IT audit. Internal auditors engage in both assurance and consulting arrangements. In 2020, internal auditors reported the following breakdown of types of audit carried out: system-based audits (39 audits, or 27.5 percent), regularity audits (56 audits, or 39.43 percent), financial audits (one audit, or 0.7 percent), performance audits (two audits, or 1.4 percent), IT audits (one audit, or 0.7 percent), combined audits (29 audits, or 20.4 percent), with 14 audits, or 9.9 percent being the audits for monitoring the recommendations. The majority of audits focused on adequacy and effectiveness of internal controls with emphasis on controls intended to ensure regularity (compliance). With only two performance audits carried out in the period, there is a notable lack of focus on value for money considerations (see also PI-8.4) where capacity of internal auditors remains a substantial constraint.

At the same time, further development is needed in terms of quality assurance procedures. The low current staffing level implies that many IAUs are not in position to meet the quality assurance requirements, especially in terms of ongoing supervision and ex-post review of audit files. An interview with the SAO indicated that the internal audit function is unevenly developed across institutions.

Considering that the focus of the internal audit is on adequacy and effectiveness of internal control with limited gains to date in implementing full scale quality assurance improvement programs in line with the applicable standards, the score for this dimension is B.

26.3. Implementation of internal audits and reporting

This dimension assesses specific evidence of an effective internal audit (or systems monitoring) function as shown by the preparation of annual audit programs and their actual implementation including the availability of internal audit reports.

Being organizationally and functionally independent and solely responsible to the head of the entity, internal auditors plan, execute and report on audit results directly to the head. Current legislation requires the IAUs to develop risk-based strategic and annual plans that are likewise approved by the head of the audited entity. Plans are developed for each individual engagement, accompanied with the audit programs which outline the audit procedures to be carried out.

Available data on the number of IA reports issued (2020: 142, 2019: 180, 2018: 214), suggest a decreasing number of audits carried out. CHD reported that central level entities which submitted an annual report have completed around 64.3 percent of the planned audits in 2020 which represents a decrease relative to preceding years (2020: 221/142, 2019: 221/180, 2018: 225/214).

According to the legal provisions and applicable IA procedures, IA reports are submitted to the head of the audited entity. MoF CHD collects the data on the rates of management responses annually, through the Reports on Performed Audits and Internal Audit Activities submitted by individual IAUs by 10 May each year. Individual audit reports are available to the SAO as it carries out its audit plan and programs in individual institution but are not automatically distributed to the external auditor.

Considering that less than 75 percent of planned internal audits in 2020 were executed, the score for the dimension is C.

26.4. Response to internal audits

This dimension assesses the extent to which action is taken by management on internal audit findings.

Based on each IA report, the head and staff of the audited entity are required to prepare an action plan to implement the recommendations, including deadlines and responsible parties. Registers of recommendations are maintained on the level of the individual IAUs. Information on the status of recommendations are reported to and monitored by the head of the institution and the head of the IAU. Self-reported information from IAUs indicate that management is taking partial action on internal audit recommendations that is under the threshold of 75 percent that would qualify as “most” under the PEFA framework.

Table 26.4. Management response to internal audit recommendations

	2017	2018	2019	2020
All central-level entities	34.2 percent	52 percent	66.1 percent	60.1 percent

Source: MoF, Central Harmonization Department

Note: All the information pertains to the reporting period of 12 calendar months

Considering that management response came within 12 months of the report being produced for under 75 percent of issued recommendations, the dimension score is C.

PILLAR SIX: ACCOUNTING AND REPORTING

What does this pillar cover? Whether accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management and reporting needs.

Overall performance: key strengths and weaknesses

Timely bank account reconciliation is facilitated by a comprehensive coverage of the STA in both MKD and foreign currency. Suspense and advance accounts are cleared on time.

TrIS is used to produce periodic fiscal reports that provide a consolidated picture of all revenues and expenditures and progress against the approved budget. Being cash-based, the reports cover payments but not commitments or payables. Information on all revenue and expenditure transactions executed through the TrIS is posted in the Treasury Main Ledger in line with the prevailing chart of accounts and the accuracy of this information is considered sound. While timely, in-year budget execution reporting is largely aggregated on economic and administrative classifications. The narrative analysis of budget execution lacks updates of projected revenues and expenditures for the remainder of the budget year which limits their usefulness in analyzing forward-looking budget trends. Since 2018, the MoF also publishes quarterly reports on registered liabilities (see PI-22), and the transparency of in-year budget execution has been enhanced through the Open Finance Portal.

For year-end reporting, each BU is required to present a set of core financial statements including the statement of revenue and expenditure and the balance sheet. Separate statements of revenue and expenditure are produced for the four sources of funding. The Final Account, produced by the MoF as a consolidated report on budget execution of BCG revenues and expenditures for the fiscal year with a narrative section, is presented for external audit within 3 months from year end and normally reaches the Parliament with the auditor's opinion within 7 months. While individual CG entities produce a balance sheet annually, the legislation does not require a consolidated annual balance sheet, limiting the opportunities to scrutinize the full picture of government's performance in managing assets and liabilities.

The national legal framework for accounting and financial reporting has remained stable since the last PEFA assessment which has ensured consistency and comparability of reported information over time. At the same time, this stability has precluded improvements to financial disclosures: accounting standards used are not disclosed in the Final Account and there are no notes on accounting policies used.

PI-27. Financial data integrity

This indicator assesses the extent to which treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled and how the processes in place support the integrity of financial data. The coverage is CG and the time period assessed is at time of assessment, or covering the preceding fiscal year for 27.1-27.3.

Indicator/Dimension	Score
PI-27. Financial data integrity (M2)	**B+**
27.1. Bank account reconciliation	A
27.2. Suspense accounts	A
27.3. Advance accounts	B
27.4. Financial data integrity processes	B

As noted in PI-21, all government accounts (domestic and foreign currency) are held with the NBRNM and form a part of a comprehensive STA at the MoF and the HIF encompassing over 90 percent of CG revenue and expenditure. Other EBUs manage their accounts separately, but are not considered material for scoring in relation to their share of the total CG revenue and expenditure (9.5 percent and 6 percent, respectively).

27.1. Bank account reconciliation

This dimension assesses the regularity of bank reconciliation.

The MoF Treasury Department carries out the reconciliation of records on inflows and outflows in domestic currency from the Treasury Main Ledger in the TrIS against the NBRNM statements. NBRNM likewise provides statements for the foreign currency accounts, for government foreign debt operations and for specific projects as shown in Table 27.1. The reconciliation practices for the accounts in the HIF STA follow the same timelines (daily basis) and are carried out at detailed level.

Table 27.1. BCG bank account reconciliation

Category of bank accounts	Covers	Frequency of reconciliation	Aggregate or detailed level	Timeline for reconciliation
All domestic currency STA accounts (by all sources of funds)	6935 active STA accounts	Daily	Detailed level	Daily (real time)
Foreign currency account for government foreign debt operations (inflows and outflows) on STA	1	Monthly	Detailed level	Within ten working days after end of the month
Foreign currency accounts (opened in NBRNM) managed by separate budget users for projects in their jurisdiction.		Daily	Detailed level	Reconciled on a daily basis**

Source: Assessment team, based on information from the MoF

** budget users can hold bank accounts only within the STA*

*** through a so called mirror accounts which correspond to its specific counterparts - domestic currency accounts - opened within the STA*

Since all central government bank accounts (90 percent by materiality) are part of the STA and are reconciled with the NBRNM daily, the score for the dimension is A.

27.2 Suspense accounts

This dimension assesses the extent to which suspense accounts are reconciled on a regular basis and cleared in a timely way. Failure to clear suspense accounts can distort financial reports and provide an opportunity for fraudulent or corrupt behaviors.

The previous PEFA report did not identify any accounts classified as "suspense" accounts. However, the MoF Treasury Department is using "transitional" accounts which are used to temporarily hold revenue and some expenditure payments before their allocation to the final account.[88] If any issues are registered with identification, the funds are nominally held in the transitional accounts until they are matched, classified and transferred to the core budget account. The same requirements are in place for inflows and outflows that cannot be immediately cleared. Both the revenue and expenditure "transitional" accounts are reconciled on a daily basis, aiming for the zero balance at the end of the day. Any remaining balances would be immaterial and usually closed the next business day.

[88] Which is the definition that the 2018 PEFA Fieldguide uses to describe "suspense accounts."

Table 27.2. Suspense accounts reconciliation and clearance

<table>
<tr><th>Type of suspense account</th><th>Frequency of reconciliation</th><th>Timeline for reconciliation</th><th>Timeline for clearance</th></tr>
<tr><td>Revenue transitional accounts (associated with each type of revenue)</td><td rowspan="2">Daily</td><td rowspan="2">Daily</td><td rowspan="2">Daily. If not, on the next business day</td></tr>
<tr><td>Expenditure transitional account</td></tr>
</table>

Source: MoF, Treasury Department

Transitional accounts, operated by the MoF Treasury Department, are reconciled and cleared the day after which merits score A on this dimension.

27.3. Advance accounts

This dimension assesses the extent to which advance accounts are reconciled and cleared.

Advances to individuals (e.g., for travelling expenses) are cleared at least monthly, when information is available to enter definitive expenditure in the Treasury Main Ledger. Advances to contractors are limited to 10 per cent of the contract value, and further advances are not paid until the contracting authority is satisfied that work to the value of the initial allowance has been completed. The position in relation to each advance is reconciled at least quarterly within one month.

Available information suggests quarterly reconciliation on advance accounts resulting in dimension score B.

27.4. Financial data integrity processes

This dimension assesses the extent to which processes support the delivery of financial information and focuses on data integrity defined as accuracy and completeness of data.

Access to the TrIS is password protected and restricted to the staff at the MoF Treasury Department and its branch offices. Activity logs (audit trails) on transaction level are maintained. External parties access only some of the treasury-operated information systems (such as e-commitment module) and do so based on MoF-assigned access credentials with restricted users' rights.

Regarding data integrity, the SAO audits the data in the TrIS on an annual basis. All recommendations issued as part of these regular annual audits in the past have been implemented and none are outstanding. The MoF IA Department and FID have the mandate to audit and carry out inspection, respectively, of the Treasury Department information systems. There is, however, no other committed team or unit within the MoF charged specifically with verifying data integrity.

Integrity of financial data is assured through restricted and recorded access to the TrIS which results in audit trail but there is no dedicated unit or team in charge of verifying financial data integrity, so the score per PEFA criteria is B.

PI-28. In-year budget reports

This indicator assesses the comprehensiveness, accuracy and timeliness of information on budget execution. In-year budget reports must be consistent with budget coverage and classifications to allow monitoring of budget performance and, if necessary, timely use of corrective measures. Assessment coverage is the BCG and the scope is 2020, the last completed FY.

Indicator/Dimension	Score
PI-28. In-year budget reports (M1)	**C+**
28.1. Coverage and comparability of reports	C
28.2. Timing of in-year budget reports	B
28.3. Accuracy of in-year budget reports	B

The Budget Law (Article 53) spells out the requirements for monthly and semi-annual reporting on budget execution. An IMF Fiscal Transparency Evaluation (FTE) (2018) notes that extensive and timely in-year reports on budget execution are published for central and local budgetary units, on an economic and administrative basis, as well as for the three SSFs.

An overview of in-year reports produced by the MoF that are assessed under this indicator is presented below. All the reports are produced using the cash basis of accounting and follow the national classification requirements (as assessed in PI-4). All cover revenue, expenditure and financing operations for the period, with the underlying transaction data on revenue and expenditure drawn from the TrIS (see PI-27) while the information on financing information is from the DMIS (see PI-13).

Table 28.1. Types, coverage and frequency of in-year reporting on budget execution

Report	Coverage	Classification	Narrative analysis	Author	Frequency	Lag
Monthly Budget Execution Tables	BCG, SSF	Economic	N	Treasury	Monthly	25-day
Monthly Budget Execution by BU	BCG, SSF	Administrative Economic (3 digit)	Y	Treasury	Monthly	2-month
Quarterly Budget Execution Tables	GG	Economic	N	Treasury	Quarterly	1-month
Short-Term Economic Trends	BCG, SFF	Administrative Economic (3 digit)	Y	Macro	Monthly	2-month
Quarterly Economic Report	BCG, SFF	Administrative Economic (3 digit)	Y	Macro	Quarterly	3-month
Semi-annual Budget Execution Report	BCG, SSF	Administrative Economic (3 digit)	Y	Macro, Treasury, Debt	Semi-annual	1-month
Quarterly Report on Local Governments	SNG	Administrative Economic (3 digit)	N	Budget, Treasury	Quarterly	1-month
Quarterly Debt Statistics	GG	In accordance with Public Debt Law	Y	Debt	Quarterly	1-month

Source: 2018 FTE, adapted for the PEFA 2021 assessment

In addition to the reporting practices described above, on a monthly basis the MoF reports on realization of capital expenditure by BU. Also, since 2018, the Open Finance Portal allows for real time monitoring of Treasury Department-executed transactions, including by administrative, economic and program classification. In addition to transaction level, it is possible to extract aggregates by different classification. Data is machine readable, covering the past 10 years. The portal has been upgraded twice: (i) to extend beyond transactions of CG first and second-line BUs to all transactions executed by the Treasury Department; and (ii) to include data for public debt and all transactions for LGUs (2020). Finally, since 2018, the MoF publishes monthly reports on registered liabilities from the ESPEO (as described in PI-22). Information in ESPEO is drawn from the auxiliary records of the reporting entities and is not externally verified.

28.1. Coverage and comparability of reports

This dimension assesses the extent to which information is presented in in-year reports and in a form that is easily comparable to the original budget (i.e., with the same coverage, basis of accounting, and presentation).

Coverage and classification of data in the published in-year reports is directly comparable to the approved budget in terms of administrative and economic classification. Information on execution by program classification is available to the interested parties from the Open Finance portal. There are no in-year reports by functional (COFOG) classification. Data by economic classification in monthly execution reports is highly aggregated data on execution for the core budget. A parallel set of monthly reports provides a more detailed revenue and expenditure overview by each budget beneficiary and the social insurance funds by 3-digit economic classification. Expenditures made from transfers to second-line BUs are not captured in detail but it is noted that interested parties can access this data using the Open Finance portal.

Since coverage and classification of data in reports allows for direct comparison on administrative and highly aggregated level of economic classification with the budget, without details on expenditures from transfers to second-line budget users, the score on this dimension is C.

28.2. Timing of in-year budget reports

This dimension assesses whether in-year budget reports are submitted in a timely manner and accompanied by an analysis and commentary on budget execution.

As evidenced in Table 28.1 above, most up-to-date information on budget execution is reported monthly, within 4 weeks from the end of the reporting period. The most recent Open Budget Survey (2019) noted that the reporting deadlines have been respected. No evidence has been found in 2020 of the existence of systematic or recurring delays in the presentation of the in-year reports against the deadlines.

In-year budget execution reports are prepared and published monthly, within four weeks from the end of period, which merits score B for this dimension.

28.3. Accuracy of in-year budget reports

This dimension assesses the accuracy of the information submitted in in-year budget reports, including whether expenditure for both the commitment and the payment stage is provided.

There are no reported material concerns with the underlying transaction data from the TrIS (see PI-27) used for in-year reporting. All the data in TrIS is on a cash-basis and all in-year reports described in Table 28.1 capture expenditure at payment stage and none contain information on commitments of BCG entities. The Treasury Department’s data set is audited annually by the SAO and no findings on accuracy have been reported. At the time of the assessment, data is currently exported from TrIS and manually consolidated to produce the reports.

Narrative analysis of budget execution is provided alongside monthly reports for budget execution and the semi-annual budget execution report. Whereas the Budget Law[89] requires a semi-annual update on the macroeconomic indicators and projected revenues, commitments and expenditures for the budget year, it is noted that for 2020 the semi-annual report does not include updated information on macroeconomic indicators nor updates on projected revenues, commitments, and expenditures for the remainder of the budget year.[90]

Despite no concerns with data accuracy and monthly narrative update on budget execution, the reported expenditure is captured at the payment stage only which per PEFA criteria qualifies for score B.

PI-29. Annual financial reports

This indicator assesses the extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards. This is crucial for accountability and transparency in the PFM system. Assessment coverage is the BCG and the scope is 2020, the last completed FY for dimension 29.1, last annual financial report submitted for audit for dimension 29.2 and the last three completed FYs for dimension 29.3.

Indicator/Dimension	Score
PI-29. Annual financial reports (M1)	**D+**
29.1. Completeness of annual financial reports	C
29.2. Submission of reports for external audit	A
29.3. Accounting standards	D

In line with the Article 22 of the Law on Accountancy of the Budget and Budget Beneficiaries (last amended 2017), core financial statements of the BUs include the statement of revenue and expenditure and the balance sheet. In line with Article 23, core financial statements with the accompanying explanation represent the Final Account of the budget beneficiary.

MoF by-laws define the form and content of the core financial statements[91] and the entries are to be aligned with the chart of accounts by-laws.[92] Internal controls over accounting and financial reporting are decentralized to the head of each reporting entity who is accountable for designing, implementing and maintaining controls.

MoF Treasury Department maintains the Treasury Main Ledger which captures budget accounting records related to the receipts and expenses from the Budget in line with Article 14 of the Law. No data on assets and liabilities is held by the MoF Treasury Department systems. Data on assets and liabilities used to prepare the Balance Sheet are held in the auxiliary ledgers of the individual BUs. The Law specifies details on auxiliary ledgers to be maintained for the purposes of accounting and financial reporting (Article 8) and the required attributes for the source accounting documents (Articles 12-13).

The current Law (Article 25) requires the MoF to present the Final Account in the form of a consolidated report on budget execution of BCG and SSF revenues and expenditures for the fiscal year, presented to the Government by 31 May.[93] In line with the Law on Budgets (Article 52), the report is presented to the Parliament in the form of Proposal of the Final Account along with a narrative section on budget execution for the year and the SAO's audit opinion on the core budget.[94] The deadline for submission of the Final Account to the Parliament is by 30 June of the current year for the previous

[89] produced in line with the Article 53 of the Budget Law
[90] Same observations hold with respect to 2018 semi-annual budget execution report as assessed for the Open Budget Survey (2019)
[91] Rulebook on the Form and Content of the Balance Sheet and Revenue and Expenditure Statement (last amended 2011)
[92] Rulebook on the Chart of Accounts and Rulebook on the Content of Individual Accounts in the Chart of Accounts.
[93] i.e. "Annual report on Budget" as referred to in IMF FTE (2018)
[94] Constitutes a regularity audit, includes compliance and audit of financial statements.

FY. The Law does not require preparation of the government's consolidated balance sheet for the period.

All first-line BUs prepare and publish their core financial statements, including consolidated statements of their second-line BUs. Individual statements for all BCG entities are to be produced annually, by 1 March of the current year for the last FY. An additional month is provided for consolidated final accounts of individual BCG entities by first-line BUs which are due by 31 March of the current year for the previous FY (Article 24). Core financial statements are available in machine readable format and submitted (unaudited) to the Central Registry. Each BU presents the statements of revenue and expenditure for the four sources of funding separately, i.e., for the four types of accounts they use within the STA (see PI-21).

Use of the Cash-basis IPSAS standard is prescribed by Law on Accounting (Article 2, para. 3), but the last translation of the Standard published in the Official Gazette dates back to 2005. According to the MoF, the primary source of reference for BCG entities in preparing their own financial statements and for the MoF in preparing the government's consolidated revenue and expenditure statements is the national legislative framework. According to the MoF, the published standard is used mainly to inform specific accounting policies and procedures carried out by the individual entities in preparation of their individual statements.

29.1. Completeness of annual financial reports

This dimension assesses the completeness of financial reports.

The consolidated budget execution report presented as a part of the Final Account is reported in a consistent format over time which is directly comparable to the approved budget by economic (3 digit), administrative, functional (4 digit) and program (2 digit) classifications. Information presented is from the TrIS and includes aggregate and detailed information on all sources of revenue and expenditures of the budget and the individual BUs (core budget, OSR, loans and donations). The narrative part of the Final Account presents the summary of execution against the initial and supplementary budgets and against the last FY execution figures, as well as figures on the cash balance at year end (Table 2). Some information on liabilities is included in the form of liabilities for the current FY, including arrears, (Table 3, see also PI-22) and the aggregate figures on budgeted and executed financing operations (Table 4, see also PI-13). MoF does not hold centrally any accounting data on assets and liabilities.

As the information in the government's consolidated Final Account is limited to revenue, expenditure and cash balance for the year, the dimension score is C.

29.2. Submission of reports for external audit

This dimension assesses the timeliness of submission of reconciled year-end financial reports for external audit as a key indicator of the effectiveness of the accounting and financial reporting system.

The Budget Law specifies that the Final Account is to be presented to the Parliament by 30 June each year for the previous year. The actual dates for submission of the Final Account for FYs 2017-2019 consistently followed the requirements and reports were submitted for audit within the legally prescribed deadlines across the three past years. Submission of the FY 2020 report was delayed due to COVID-19.

Table 29.1. Dates of submission of consolidated Final Account for audit

Fiscal year	Actual date Final Account available for external audit	Timeline
2017	6 March 2018	Within 3 months
2018	1 March 2019	Within 3 months
2019	3 February 2020	Within 3 months
2020	Delayed due to COVID (assessment cut-off date June)	beyond cut-off date

Source: MoF, Budget Department

Based on the date of the last submitted annual financial report for audit (FY 2019), the score for this dimension is A.[95]

29.3. Accounting standards

This dimension assesses the extent to which annual financial reports are understandable to the intended users and contribute to accountability and transparency.

Accounting policies used to prepare the government's Final Account are those incorporated in the national legislative framework, implying indirect application of the proclaimed Cash-basis IPSAS standard. General accounting policies are provided in the Law on Accounting of Budget and BUs and the Rulebook on Accounting of Budget and BUs (last amended 2013), with specifics contained in the Rulebook on Contents of Individual Accounts in the Chart of Accounts for the Budgets and the Rulebook on Contents of Individual Accounts in the Chart of Accounts for BUs. In practice the accounting policies are not consistent with cash-basis IPSAS.

SAO Audit Opinion accompanying the FY 2019 Final Account (latest available) was qualified on both the financial statements (for FY 2019) and the compliance (for FY 2019). In adhering to the national framework, neither the consolidated Final Account nor the financial statements of individual BUs disclose the accounting standards used as the prescribed templates do not foresee such disclosures. There are no notes to the government financial statements that would disclose the commentary on the impact of specific accounting policies used.

While the national framework ensures consistent reporting over time, the accounting standards are not formally disclosed and the dimension score is D.

[95] Score assigned in line with clarification 29.2:9 of the PEFA Fieldguide.

PILLAR SEVEN: EXTERNAL SCRUTINY AND AUDIT

What does this pillar cover? Whether public finances are independently reviewed and there is external follow-up on the implementation of recommendations for improvement by the executive.

Overall performance: key strengths and weaknesses

External audit and scrutiny in the Republic of North Macedonia are discharged by the SAO and the Parliament. The SAO performs financial, compliance and performance audits. Due to resource constraints, the SAO is not able to audit all entities mandated by the law annually, and it applies rotation principle in preparing its risk-based annual audit plan. However, in line with the legislation, the SAO audits the government's budget execution report each year. The report covers all revenue and expenditures, but it does not include data on assets and liabilities, which form part of individual financial statements only of BUs and are not consolidated. Balance sheets are audited for individual institutions in individual audit engagements. The SAO performs audits diligently and submits the audit reports within 3-4 months after receiving the subject financial statements. An effective system for follow-up of audit recommendations by the auditees is foreseen in the legislation and followed in practice. A financially and organizationally independent SAI that is accountable to the parliament is operational and has the necessary rights to fully discharge its constitutional and legal remit.

There is a dedicated parliamentary committee (Budget and Finance Committee) assigned with scrutiny of audit reports, which performs this task diligently within three months after receiving the audit report. Wherever weaknesses have been reported, the Parliament provides comments and further guidance to the SAO for follow up; however, the Parliament does not issue a separate set of recommendations, nor does it follow up on the SAO recommendations. Audit hearings could be more systematic and used to strengthen accountability on systemic issues identified in the SAO reports. While there are hearings related to the audit of the government's annual budget execution report which are transparent and public, hearings related to individual audit reports are rare.

PI-30. External audit

This indicator examines the characteristics of external audit. The coverage for this indicator is the CG, while the scope is the last three completed years for dimensions 30.1, 30.2 and 30.3 while dimension 30.4 is assessed at the time of the assessment.

Indicator/Dimension	Score
PI-30. External audit (M1)	**C+**
30.1. Audit coverage and standards	B
30.2. Submission of audit reports to the legislature	C
30.3. External audit follow-up	A
30.4. Supreme Audit Institution independence	A

Public external audit in North Macedonia is the responsibility of the State Audit Office (SAO) which operates under the 2010 State Audit Law (amended in 2014, 2015, 2016, 2018, 2020 and 2021). SAO's audit remit covers all central government bodies, including the SSFs and Regulatory Agencies, all local government units (LGUs) and institutions dependent on them, all enterprises owned by government, and political parties. The law gives SAO appropriate operational independence as well as the powers necessary for the conduct of audits; it is financed from the annual budget, but its expenditure is separately voted by the Parliament. The Auditor General is appointed for a term of 9 years by the Parliament.

The SAO has 183 approved staff positions but only 105 have been filled. Almost all staff have a master's degree in law, economics, IT or other fields. SAO provides them with in-house training and certification on international auditing standards as established by the International Organization of Supreme Audit Institutions (INTOSAI). Multiple training for staff were organized in 2019 to improve their knowledge, skill, and capacity with the assistance of donor funded projects.

At the time of the assessment, development of the SAO was guided by its Strategic Development Plan 2018-2022 which includes efforts to promote and improve the implementation of International Standards of Supreme Audit Institutions (ISSAIs) to strengthen independence and integrity as preconditions for achieving professionalism and credibility in the operation, as well as for continuous monitoring of the effects of performed audits and the degree of fulfillment of audit recommendations by the audited entities.

According to the State Audit Law, only the Auditor General (AG) or Deputy Auditor General (DAG) can lead the SAO. When the former AG's term ended in December 2017, the SAO was headed by the Deputy AG until the end of his term in October 2019. After two years, the new Auditor General was appointed by the Parliament in December 2019 and the Deputy AG was appointed in February 2020. During the period October 4 to December 12, 2019, in absence of AG/Deputy AG, nobody was formally leading the SAO.

SAO has an upgraded Audit Management System. The auditors have all the necessary IT equipment and tools to access the system remotely and carry out the audits. The auditors deploy computer assisted audit techniques (CAATs) and IDEA software to analyze financial data. The SAO has partnered with EU member states for technical assistance to improve administrative capacities, external audit efficiency and increase accountability and transparency.

30.1. Audit coverage and standards

This dimension assesses key elements of external audit in terms of the scope and coverage of audit, as well as adherence to auditing standards.

SAO does not have the resources needed to carry out a full financial and compliance audit of all its auditees every year, and therefore aims to cover most of them in detail over a period of several years. A consolidated annual report of all SAO's activities during the previous year is sent to the Parliament in June each year. In addition to this, SAO is required to make an annual audit of the execution of the core Budget. SSFs are also audited annually. A sample of EBUs is audited in line with the SAO's risk-based annual plans. In line with the applicable manuals and underlying standards, the audits focus on material issues and identify systemic and control risks.

Financial statements of the execution of the Core Budget do not include assets and liabilities and the SAO is only able to audit assets and liabilities reported in the balance sheets of individual institutions. Also, the Core Budget includes revenue and expenditure related to own sources, i.e., it does not include financing from borrowing, donations etc. The level of revenue and expenditure from these other sources which is not covered by the SAO's audit of the Core Budget stayed below 10 percent of total BCG revenue and expenditure in all three years during the assessed period. SAO also produces an annual report on each of the three social insurance funds. The disclosed auditing standards are the ISSAIs.

Coverage of revenue and expenditure of the main CG entities (BCG budget units and SSFs) with auditor's opinion on the financial statements (financial audit) in the three years is presented in the table below.

Table 30.1. Audit coverage of the Budget of the RNM financial reports

Year	Financial reports for FY	Coverage of the Final Account of the BCG	Coverage of the Final Accounts of the SSFs
		Revenue and Expenditure	Revenue and Expenditure
2018	FY 2017	>90 percent	100 percent
2019	FY 2018	>90 percent	100 percent
2020	FY 2019	>90 percent	100 percent

Source: the SAO

Considering the reported coverage excludes consolidated information on assets and liabilities, the score for the dimension is B.

30.2. Submission of audit reports to the legislature

This dimension assesses the timeliness of submission of the audit report(s) on budget execution to the legislature as a key element in ensuring timely accountability of the executive to the legislature and the public.

As per Article 33 (1) of the State Audit Law, the SAO shall prepare an annual report about the conducted audits and the operation of the State Audit Office and per Article 33 (2) shall submit the report to the Parliament of the Republic of North Macedonia for consideration by 30 June in the current year for the previous year at the latest.

Individual financial audit reports are sent to the Parliament and published on the SAO website (www.dzr.gov.mk) as soon as they are approved. The annual audit of the Core Budget is sent to the Parliament in June each year, within four months of the receipt of the revenue and expenditure out-turn statements from MoF. In line with the PEFA Handbook, delays are considered only for the annual budget execution report, not for any other audits performed and submitted to the legislature by the SAI.

Table 30.2: Timing of audit reports submission to the legislature for Final Account

Fiscal years	Dates of receipt of the Final Account by the SAO	Dates of submission of the Final Account	Months from receipt to submission
2017	23 February 2018	28 May 2018	3 months
2018	26 February 2019	31 May 2019	3 months
2019	27 February 2020	18 September 2020[96]	7 months

Due to the Coronavirus Pandemic, the President of the Republic of North Macedonia commenced with periodically establishing states of emergency in the country by enforcing several decisions. Consistent with Article 2 of the Decree with a force of law on the application of the Law on Budgets during a state of emergency, the deadlines for submitting the Final Account of the Budget of the Republic of North Macedonia and the Final Report of the Authorized State Auditor on the performed audit of the Core Budget for 2019 were extended.

[96] Due to the announcement of the early parliamentary elections that were held on July 15, 2020, the Parliament was discharged from the period of February 16 2020 until the constitution of the new composition on August 4, 2020. Committee on Finance and Budget in the Parliament which is responsible for reviewing the Final Account of the Budget of RNM and the Final Report of the SAO was established on September 14, 2020. Final Report of the SAO was submitted to the Parliament, ie the competent Committee shortly after on September 18, 2020.

The dimension is scored C as the submission of the report to the legislature for FY 2019 is over six months after the end of the fiscal year, notwithstanding that the submission was in line with the state of emergency decision.

30.3. External audit follow-up

This dimension assesses the extent to which effective and timely follow-up on external audit recommendations or observations is undertaken by the executive or audited entity.

As per Article 32 of Law on State Audit, the legal representative of the entity subject to audit shall be obliged to notify the SAO and the body competent for supervision and control of the measures taken in relation to the findings and the recommendations contained in the audit reports within a period of 90 days as of the day of receipt of the final report.

The 2019 Annual Report shows that 70 per cent of the recommendations where the 90-day deadline had passed were in process of implementation; 16 per cent were not implemented because of changes in circumstances or disagreements by auditees, while no response had been received from auditees in respect of 14 per cent of the recommendations.

Table 30.2: Status of implementation of recommendations

Recommendation status	2017	2018	2019
Implemented	479	596	352
Not implemented	161	136	73
Cannot be implemented	4	23	4
Status not determined	145	42	69
Total recommendations	789	799	498

Source: State Audit Office

The status of the audit recommendations is reviewed during regular audits, follow up reviews or dedicated audits. The 2019 Annual Report states that SAO conducted 38 follow up reviews to determine the status and degree of implementation of recommendations given in final audit reports of 2018 and 2019 and issued 71 reports. The SAO uses a dedicated application (SAPRI) to monitor the status of audit recommendations by audited entities. The application is not only used to track audit recommendations but also tracks the results of ongoing audits. The audit recommendations database is only accessible by SAO staff.

Based on clear evidence of timely and effective follow-up by the executive, the score for the dimension is A.

30.4. Supreme Audit Institution independence

This dimension assesses the independence of the SAI from the executive. Overview of the SAO independence requirements met is presented in the table below.

Table 30.3: Overview of independence requirements met

Element/ Requirements	Met (Y/N)	Evidence used/Comments
1.The SAO operates independently from the executive with respect to:		
- procedures for appointment and removal of the head of the SAO	Y	As per the Law on State Audit Article 4(3), the General State Auditor and the deputy shall be appointed and dismissed by the Assembly of the Republic of Macedonia, Article 4(4) The term of office of the General State Auditor and the deputy shall be nine years without the right of re-election. The SAO was headed by the deputy AG in 2017 and 2018. On December 12, 2019, the Parliamentary Committee on Elections and Appointments of the NA elected the new AG in accordance with laws and regulations.
- the planning of audit engagements	Y	The Annual Audit Program is independently prepared and approved by the SAO and the plan is published on the SAO website as well.
- arrangements for publicizing reports	Y	All audit reports are published immediately upon completion of the audit and are readily available from the SAO website.
- the approval and execution of the SAO's budget.	Y	The budget is proposed by SAO and approved by the NA. In 2019, MKD 99,757,000 were proposed, MKD 86,633,000 (86%) were approved and the expenditure was MKD 85,960,000 (99%).
2. This independence is assured by law.	Y	Constitution, Law on State Audit
3. The SAO has unrestricted and timely access to all records, documentation and information for all audited entities.	Y	As per Article 25(1) of the Law on State Audit, the auditors have free access to the official premises and the property of the entity subject to audit, right to inspect the books, forms and other documents, electronic data and information systems, as well as right to request explanation from the representatives of the entity subject to audit about all issues of importance for the audit.

Source: PEFA assessment team

Based on the requirements met to ensure that the SAO operates independently from the executive, the score for the dimension is A.

PI-31. Legislative scrutiny of audit reports

This indicator focuses on legislative scrutiny of the audited financial reports of the central government, including institutional units, to the extent that either (i) they are required by law to submit audit reports to the legislature or (ii) their parent or controlling unit must answer questions and take action on their behalf. The coverage is CG and the scope includes the last three completed fiscal years

Indicator/Dimension	**Score**
PI-31. Legislative scrutiny of audit reports (M2)	**C+**
31.1. Timing of audit report scrutiny	A
31.2. Hearings on audit findings	D
31.3. Recommendations on audit by legislature	D
30.4. Transparency of legislative scrutiny of audit reports	A

In 2019, as part of a twinning project, activities were carried out to strengthen the cooperation between SAO and the Parliament. Recommendations for developing quality parliamentary discussions on the audit reports, assessment of needs for raising awareness of the members of parliament (MPs) on audit reports, internship and study visits for MPs were part of the twining project. As a result, a

Memorandum of Understanding was signed in May 2021 between SAO and the Parliament to review the audit report and prepare joint action plans. The Strategic Plan 2021-2023 for the Parliament has "strengthening of oversight role of parliament and capacity building of the Budget and Finance Committee staff" as one of its objectives.

31.1. Timing of audit report scrutiny

This dimension assesses the timeliness of the legislature's scrutiny, which is a key factor in the effectiveness of the accountability function.

In accordance with Article 52 of the Budget Law, the Government is required to submit to the Parliament the annual budget execution report (i.e., the Final Account) together with the audit report of the core budget for discussion and adoption by June 30. As regards the other audit reports made by SAO, there is no legal obligation for the Assembly to examine any reports other than the consolidated Annual Report on the previous year's audits and operations of SAO. According to the 2019 Annual Report of SAO, 90 audit reports were submitted to the Parliament but not further examined.

The audit reports were submitted by SAO to the Parliament by June 30 in 2018 and 2019 and by October in 2020. For all three years, the audit report was deliberated for discussion under 3 months. The minutes of the review and adoption meeting are available on the Parliament website.

Table 31.1: Timing of audit report scrutiny

Fiscal years	Dates of receipt of the Audit Report of the Final Account	Dates audit reports tabled (deliberated) in the plenary	Deliberated from receipt	Deliberated from end of period
2017	19 June 2018	Reviewed in July 2018	Under 3 months	8 months
2018	25 June 2019	Reviewed in July 2019	Under 3 months	7 months
2019	13 October 2020*	Reviewed on 26 January 2021	Under 3 months	13 months

Source: SAO and Parliament

** see explanation under PI-30*

Considering the Parliamentary reviews of the audit reports of the Final Account were completed in under 3 months from its receipt, the score for the dimension is A.

31.2 Hearings on audit findings

This dimension assesses the extent to which hearings on key findings of the SAI take place.

As discussed in dimension 31.1, there is no legal obligation for the Parliament to examine the audit reports on individual BUs. No in-depth hearings with auditees subject to criticism were conducted by the Parliament in the 2017-2019 period. The number of audit reports submitted to the Parliament were: 89 in 2017, 117 in 2018, and 90 in 2019.

It is noted that hearings held on SAO's Annual Report have taken place (as assessed in PI-31.4). Given that the SAO's Annual Report presents the SAO's activities for the year, it cannot be stated that any individual audited entities are subject to hearings.

As only the SAO's Annual Report is subject to hearing, while there are no hearings by the Parliament related to individual audit reports of budget users, the score for the dimension is D.

31.3. Recommendations on audit by legislature

This dimension assesses the extent to which the legislature issues recommendations and follows up on their implementation.

The annual report findings are discussed during its review. Wherever weaknesses have been reported, the Parliament provides comments and further guidance to the SAO for follow up; however, the Parliament does not issue a separate set of recommendations, nor does it follow up on the SAO recommendations.

Considering that the requirements have not been met in terms of providing recommendations and appropriate follow-up for all three years in the sample, the score for the dimension is D.

31.4. Transparency of legislative scrutiny of audit reports

This dimension assesses the transparency of the scrutiny function in terms of public access.

All Committee hearings on the SAO's Annual Report have been broadcast live on TV. The proceedings are documented, and minutes of the meetings are available from the web page of the Parliament.

Given that all hearings are publicly available, the score for the dimension is A.

3.Overall analysis of PFM systems

3.1. PFM strengths and weaknesses

Aggregate fiscal discipline

Aggregate fiscal discipline aims to align the levels of revenue and expenditures without creating significant fiscal deficits which could jeopardize fiscal sustainability and manage spending within the available fiscal space.

The Fiscal Strategy is prepared based upon macroeconomic and fiscal projections; however forecasts of interest rates are not explicitly revealed, and there is no independent review of the forecasts. The independent review of the forecasts is addressed in the new draft organic budget law. The fiscal strategy provides forecasts and targets for the budget and two outer years as a basis for the medium term and annual budget, however any deviations from the original forecasts provided in the previous year's fiscal strategy are not explained and published, nor are explanations provided of deviations from the forecasts - potentially undermining fiscal discipline. The introduction of a fiscal rule, fiscal council and supporting changes to fiscal reporting, as proposed in the draft Organic Budget Law, should contribute significantly to enhanced fiscal discipline.

Regarding expenditure management, budget execution is performing well which contributes to overall fiscal discipline. Deviations between the executed budget and the approved budget on the expenditure side are low to moderate reaching up to eight percent in the assessed period, which enables adequate control and management of the budget and contributes to fiscal discipline. There are hard controls embedded in the budget execution system at the payments stage, which allows spending by budget users only within approved budget allocations. However there is no established mechanism which prevents the budget users from entering into contractual commitments which may exceed annual and medium-term allocations and estimates. Commitment control is decentralized to the level of individual budget users and relies on their own systems of financial management and control, which are still underdeveloped and thus susceptible to indiscipline and incurring commitments which exceed budget allocations.

Fiscal information is transparent and publicly accessible and all relevant budget classifications are in place, which should provide for a reporting environment for accountability in the use of funds and appropriate monitoring of the budget, although not all classifications are used for in-year and year end reporting. The budget documentation is not comprehensive enough, since it does not include items such as current year's budget, aggregated budget data for revenue and expenditures, macroeconomic assumptions, comprehensive information on financial assets, budget impact of new policy proposals and assessments of fiscal risks and tax expenditures. There is a material amount of government operations which remain outside of the financial reports likewise undermining fiscal discipline. Transfers to lower levels of government are transparent, equitable and follow a rule-based system.

The extent to which revenue management contributes to fiscal discipline varies. While there is comprehensive and up-to-date information on revenue rights and obligations, revenue risk management, audits and investigations and level of tax arrears lag behind and register weak performance. As far as the accounting for revenue is concerned, timeliness of information and transfer related to revenue collections is adequate, while reconciliation of tax assessments could be improved. Deviation of executed versus budgeted revenue registered a moderate seven percent in 2018 and 2019, with a more significant deviation of 16 percent in 2020 as a consequence of the pandemic.

The medium-term perspective in budgeting contributes less to overall fiscal discipline compared with annual budget planning and execution. While budget documentation includes expenditure estimates and ceilings for two years following the budget year, analysis of deviations from such estimates and ceilings in the next budget cycle, and related explanations are not provided, thus medium-term targets remain flexible.

Fiscal risk monitoring is quite basic and in need for further development in order to contribute to enhanced expenditure management and thus fiscal discipline. The absence of a fully functioning system for monitoring and management of fiscal risks may result in additional unplanned demands for budget expenditures which poses a risk to efficient fiscal management.

Finally, there is no effective system for management of public investments, which can lead to selecting projects which face implementation delays and result in underspending of the capital budget, or projects which are poorly budgeted and experience cost overruns.

Strategic allocation of resources

Allocating resources in line with strategic priorities contributes to maximizing the impact of public spending for an efficient public sector and economic growth.

Sectoral strategies and medium-term plans are adopted for most ministries and appropriately costed. There is a visible link between those documents and budget allocations which enables implementation of strategic and medium-term priorities, thus positively contributing to strategic allocation of resources. The budget users are required to prepare three-year strategic plans and to reflect their strategic priorities in the budget through formulation of programs and sub-programs and associated objectives and expected results. The budget circular requires that the strategic plan, with quantified programs, activities, goals, and priorities, is an integral part of the budget request.

Against these requirements, performance management and measurement of results are basic, which hinders budgeting based on performance and maximizing the positive long-term impact. This is largely because program budgeting has not been formally introduced, although some of its elements are in place. Budget users provide information on programs and expected performance, however there is no established system for measuring achieved results against the plan, and the quality of information provided is uncertain. Strategic and annual plans include information on program objectives, costs, expected results and performance indicators. In terms of monitoring implementation, the budget users prepare semi-annual and annual reports on the implementation of programs and progress towards achieving objectives. However, this information is not presented in a format that would allow comparison of results achieved against the performance indicators set in the plans.

A fairly credible annual budget enables reliable planning of strategic allocations for expenditures, as well as sufficient revenue levels, although the accumulation of tax arrears can pose a risk and should be monitored. The relatively high deviation in composition of expenditures can pose a risk of reallocating funds from strategic to ad-hoc priorities.

Accurate reporting of revenue and expenditures through in-year and annual reports provides reliable information on the execution of strategically important activities, although not information on programs or performance. While reports are provided on receipts and payments, there is no consolidated balance sheet of the government, hindering its ability to manage public finances strategically. Procurement management is scored at the higher end, which supports the execution of strategic allocations. Payroll controls are adequate, which enables managing the payroll cost within allocated amounts and safeguarding available funds for strategic activities.

The weak public investment management system negatively influences the strategic allocation of resources, given that selecting quality capital projects is essential for sustainable and equitable economic growth. Given the long-term perspective of achieving strategic objectives, the underdeveloped medium-term budgetary framework is detrimental for proper strategic planning of activities. Furthermore, the lack of an effective system for management of fiscal risks can result in unplanned expenditures based on materialized fiscal risks, which would inevitably shrink the fiscal space for strategic allocations.

Efficient service delivery

The way funds for service delivery are prioritized, budgeted, spent and evaluated, is a key success factor for efficiency of the public services which the government provides to citizens and society.

A fairly credible budget ensures implementation of service delivery expenditures, although variances in composition of expenditures can pose risks of reallocation of service delivery allocations to other expenditure categories. While information on revenue collections is timely and accurate, accumulation of tax arrears carries the risk of insufficient revenue levels to execute service delivery programs.

Transparent fiscal information and reliable budget execution reports facilitate appropriate monitoring of the financial aspects of service delivery programs' spending. Predictability of available in-year resources and cash and liquidity management practices enables timely execution by service delivery units in line with annual plans. A sound budget execution system and controls ensure that budget allocations intended for service delivery are executed in an orderly manner. Reliable reporting on arrears and relatively low levels of stock of arrears ensure that allocated funds for service delivery will not be subject to reallocations on an ad-hoc basis to settle overdue payments from previous years.

Weak program budgeting and performance management prevent meaningful analysis of efficiency of service delivery. Appropriate measurement of achieved results, key performance indicators, outputs and outcomes for each budget program would be highly beneficial for more efficient service delivery in the medium to long term. Such performance information and analysis would enable corrective actions for future budget cycles and provide valuable information for further improvements. While budget users provide information on programs, objectives and performance indicators, there is no established system for measuring achieved results against the plan.

The lack of effective systems of managing public investments and public assets can be detrimental to ensuring adequate infrastructure for various service delivery sectors, such as health, education, transport, electricity, and water supply.

A well performing external audit by the SAO and parliamentary oversight provide additional scrutiny over expenditures related to service delivery, however not all entities are audited each year. The gradually developing internal audit function can contribute to improving systems and governance in service delivery units. Transparent, equitable and rule-based transfers from the central government to lower levels of government also contribute to efficient service delivery at the sub-national level.

3.2. Effectiveness of the internal control framework

The effectiveness of the internal control framework in North Macedonia presents a mixed picture based on PEFA findings, with some improvements in centralized core PFM processes. While internal controls in some centralized PFM functions have improved (see section on performance changes below), there has been less success with translating the concept of decentralized managerial accountability into practice across public sector institutions. The 2021 EC Progress Report places North Macedonia as "moderately prepared" in the area of financial control (covering internal control, external audit, and safeguarding of EU financial interests) with limited progress year-on-year in improving internal controls. The information on progress with strengthening internal controls across public sector organizations is summarized in Annex 2 and is analyzed in more detail in MoF and development partners' reports.[97]

[97] Also available from the annual PIFC report and the OECD SIGMA 2021 Principles of Public Administration assessment report.

In terms of the control environment, the basic building blocks for internal control effectiveness are in place. Civil service integrity is coded in the Civil Servants' Code of Ethics. In anticipation of establishing the Public Finance Academy, the MoF's Central Harmonization Department (CHD) is the main point of reference for training in financial management and control (i.e., internal control). Human resource policies and practices are being reformed within the parallel public administration reforms.

Risk management practices to support decision-making could be strengthened. While a best practice methodology for risk management is in place and formally many CG organizations have risk registers, audit findings suggest that a number of risks have materialized into weaknesses (see for example, audit findings on HRMIS, asset recording and management, and other cross-cutting topics) leading to missed opportunities to better manage public finance. Dimensions that concern risk identification and assessment in horizontal PFM processes assessed in section 3 of the PEFA report, scored well on Debt Management Strategy (A in 13.3), Macrofiscal sensitivity analysis (A in 14.3), and Cash Flow Forecasting and Monitoring (A in 21.2). Whereas there is room for improvement in Economic Analysis of Investment Proposals (C in 11.1), Revenue Risk Management (C in 19.2), and central oversight of PCs and LSGs (both C).

Control activities in horizontal PFM processes are executed as regulated. This is true for authorization and approval procedures, as assessed for core payment processes in PI-25, which scored in the higher range of PEFA scores. For BCG entities and SFFs, segregation of duties (B in 25.1) is operationalized in the budget execution system and supported through internal enactments in other processes. Key controls, including access to resources and records (Financial data integrity processes, B in PI-27.4), verifications (Effectiveness of controls over data used to verify payroll payments, B in PI-23.3), and reconciliations (bank account reconciliation practices, A in PI-27.1) are executed according to regulations.

The information and communication component of the internal control framework performs well but there is room for improvement of budget documents. In the MoF managed processes, access to fiscal information was rated well (A in PI-9) while the substance of budget documentation (D in PI-5) could be improved. Accuracy of in-year budget reports is rated B in PI-28.3. The timing of in-year budget reports (B in PI-28.2) and timeliness of submission of the Final Account for external audit (A in PI-29.2) both scored high. Non-financial reporting, i.e., reporting on outputs and outcomes achieved, scored on the basic level of performance (C in 8.2).

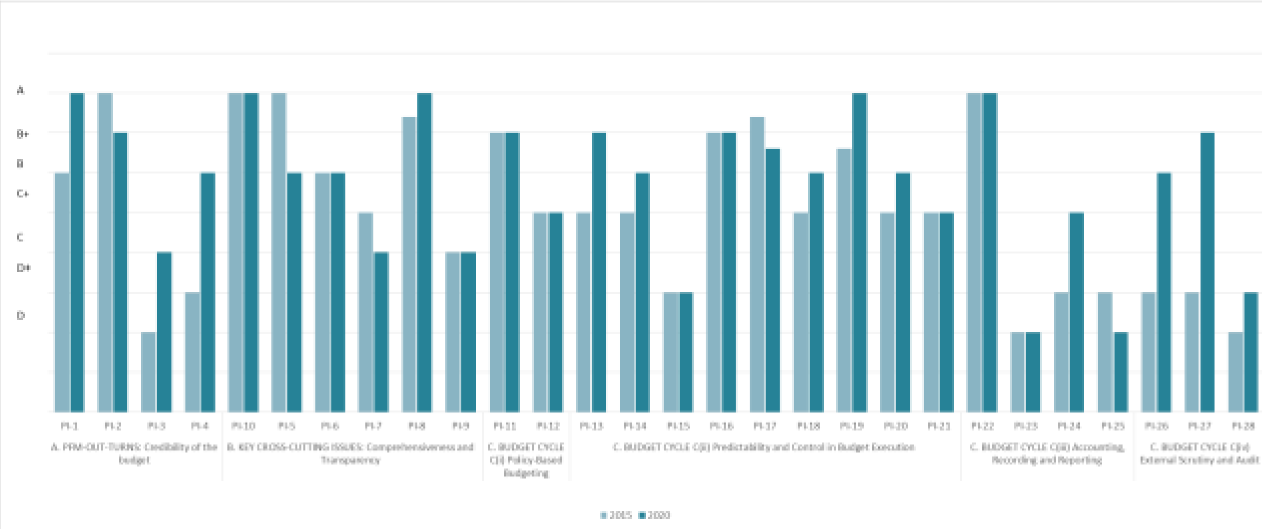
Performance of the internal control framework in the ongoing monitoring activities by the MoF and top management in institutions is again mixed. With the exception of monitoring of public corporations (D in PI-10.1), monitoring of resources received by service delivery units in (C in PI-8.3), monitoring of SNGs (C in PI-10.2), as well as asset (C in PI-12) and investment monitoring (C in PI-11.4) all scored on the basic levels of performance. Monitoring of expenditure arrears (B in PI-22.2) and procurement monitoring (A in 24.1) scored in the upper range of PEFA performance benchmarks. As effective monitoring also entails follow-up of audit recommendations, there is room to improve the response to internal audit recommendations (C in PI-26.4).

3.3. Performance changes since the 2015 assessment

The PEFA report documents and analyzes the performance changes compared to the 2016 assessment. Considering that the 2015 assessment was conducted in line with the 2011 PEFA Framework while the current assessment is using the 2016 PEFA Framework, the analysis of performance changes was done in line with the PEFA Secretariat's guidance: by assessing the evidence collected for the 2020 assessments against the requirements of the 2011 PEFA Framework. Detailed dimension and indicator scores under the 2011 Framework are available in Annex 4.

PFM performance registered an overall improvement compared to 2015. Out of 28 performance indicators reassessed under the 2011 Framework, 11 indicators maintained the same rating, 11 indicators registered improved scores (most due to improved performance), and only six indicators showed deteriorated scores (two on account of reinterpretation of the evidence against the scoring criteria). Of the 11 indicators that retained the same rating as in 2015, three scored A, two scored B/B+, four scored C/C+ and two indicators scored D/D+. Reforms have accordingly resulted in a mix of modest improvements to upstream and downstream PFM practices. The key changes between PEFA assessments in 2015 and 2020 are summarized below

Chart 2. Tracking changes in performance (2015 vs 2020)



The main improvements in performance and score between the successive PEFA assessments relate to:

- monitoring of expenditure arrears: the ESPEO system allows monthly reporting of the stock and structure of arrears. The stock of reported BCG arrears, excluding arrears to other public sector institutions, is low but some institutions are still not reporting through the system.
- assessed aspects of tax administration: transparency and access of tax liabilities have improved and so has the effectiveness of penalties effected through legislative changes. However, management of tax arrears remained an issue and has not registered improvement.
- public procurement: the 2019 PPL is harmonized with the respective EU directives and the current system meets all six of the listed requirements under the 2011 PEFA methodology. In addition, the new public procurement platform (ESPP) now includes procurement plans of the contracting authorities.
- compliance with rules on processing and recording transactions: Low reported level of BCG arrears reinforce the conclusion that compliance is fairly high. Within the BUs, limited progress has been achieved in strengthening internal controls and managerial accountability.
- in-year budget reporting: Transparency has been progressively increasing. The Open Finance Portal now provides real time insight into treasury executed transactions.
- external audit: CG entities representing at least 75 percent of total expenditures are audited annually, covering at least revenue and expenditure. Audits carried out generally adhere to auditing standards, focusing on significant and systemic issues.
- legislative scrutiny of the budget proposal: Parliament’s review of the budget proposal now covers fiscal policies, medium term fiscal framework and medium-term priorities as well as details of expenditure and revenue.

Scores on indicators on payroll control have improved nominally only, as the underlying practices remained largely unchanged compared to 2015 but the SAO progressively audits more entities, including payroll audits. Improvement in legislative scrutiny of the audit report was noted on the basis of reinterpretation of available evidence. The other underlying practices (dimensions) on both indicators have remained largely unchanged compared to 2015.

Performance and scores deterioration have been limited and some relate to consequences of the pandemic and reassessment of performance against the PEFA criteria. Score has deteriorated in terms of performance on the extent of the variance in expenditure composition during the last three years as well as on the comprehensiveness of information included in budget documentation (on account of higher portion of directly managed EU funds). Scores have nominally deteriorated on budget classifications and guidance for preparing budget submissions. Scores have also nominally deteriorated on debt management indicator as a result of reassessment of evidence available against PEFA criteria, while the underlying performance has remained stable and even improved in some aspects. On the annual financial statements, the change on timeliness dimension was caused by COVID-related disruptions while the dimension on accounting standards was scored lower due to reinterpretation of available evidence while performance has not changed.

Despite positive overall trends, there is room for further improvement in PFM processes to ensure integrity of fiscal aggregates. The overall upward tendency of performance changes did not necessarily translate into more reliable budget outturns. Budget credibility was maintained in terms of a transparent, rules-based system for reallocation and inter-governmental fiscal transfers and a sound system of payment controls. Modest progress has been made in terms of fiscal risk management, notably improved reporting on arrears and municipal debt and mechanisms are now in place to assess risk exposures from guarantees, but even with these improvements most practices continue to meet only basic international benchmarks under the 2011 PEFA Framework. Without a consolidated overview on fiscal risks, it is less likely their their impact on aggregate discipline can be anticipated and managed. A large information gap on the effectiveness of fiscal policies persists as the budget documents do not explain changes between vintages of fiscal forecasts. Still, expanding the scope of parliamentary scrutiny over medium-term priorities provides for a better fiscal overview and an opportunity to flag fiscal issues early. Coupling these gains with more effective oversight of audit reports (hearings and additional recommendations, as needed) would place the Parliament in a better position to hold the executive to account.

The basis for strategic allocation of resources remains largely unchanged. Planning focusses on 3-year ministry work plans, not sector strategies. Some investment decisions can be linked to the strategies but overall linkage between investment budgets and forward expenditure estimates is basic. More information is available on performance of government programs, including from SAO's audits, but it remains to be seen how it will inform allocative decisions.

Performance changes are conducive to improved efficiency in service delivery but information to evidence these improvements is scarce. Orderly cash releases for spending means that funding is available on time to support service delivery. Advances in transparency and competitiveness of the procurement system likewise helped prevent leakage of resources dedicated to service delivery. While overall transparency of financial information has improved, further gains could be made from making more information available on resources received by service delivery units (some improvements have been registered for the health sector). An increased number and coverage of performance audits by the SAO is opening new insights on efficiency and effectiveness of government programs.

Annex 1: 2021 Performance indicator summary

North Macedonia			Current assessment	
	2021			
Pillar	Indicator/Dimension		Score	Description of requirements met
Budget Reliability	PI-1	Aggregate expenditure outturn	B	Since the variations in two of the three years covered by the assessment are between 90 and 110 percent.
	PI-2	Expenditure composition outturn	D+	Scoring method M1 (WL).
		(i) Expenditure composition outturn by function	B	Since the variations in expenditure composition were less than 10 percent in two of the past three years. 2020 outturns deviated strongly in response to the pandemic.
		(ii) Expenditure composition outturn by economic type	D	As the variations in expenditure composition by economic classification in two of the past three years exceeded 15 percent.
		(iii) Expenditure from contingency reserves	A	Since the level of actual expenditure charged to a contingency was less than 5 percent in the past three years.
	PI-3	Revenue outturn	C	Scoring method M2 (AV).
		(i) Aggregate revenue outturn	C	Since the actual revenue deviation in two out of the three past financial years was under 8 percent of total revenue.
		(ii) Revenue composition outturn	C	Since the variance in revenue composition in two of the past three years was lower than 15 percent.
Transparency of Public Finances	PI-4	Budget Classification	B	The budget is classified by administrative, economic, program, and the functional classification is derived from the program and organizational classifications by bridge table. Budget formulation is based only on the “Group” level of the GFS standard.
	PI-5	Budget Documentation	D	Budget documentation fulfils two of four basic elements and three of the eight additional elements.
	PI-6	Central government operations outside financial reports	D+	Scoring method M2 (AV).
		(i) Expenditure outside financial reports	C	Extra-budgetary expenditure not included in ex-ante and ex post financial reports amounted to less than 10 percent of budgetary central government expenditure in 2020.
		(ii) Revenue outside financial reports	D	Extra-budgetary revenue not included in ex-ante and ex-post financial reports amounted to more than 10 percent of budgetary central government revenue in 2020.
		(iii) Financial reports of extra-budgetary units	C	The majority of extrabudgetary units submit financial reports within 9 months of the end of the fiscal year.
	PI-7	Transfers to SNGs	A	Scoring method M2 (AV).
		(i) System for allocating Transfers	A	The allocation of over 90 percent on average of central government grants to LGUs is based on transparent and rules based systems.

North Macedonia			Current assessment	
	2021			
Pillar	Indicator/Dimension		Score	Description of requirements met
		(ii) Timeliness of information on transfers	A	Local governments receive guidance on prospective allocations and other factors to be taken into account in preparing their budgets by 30 September each year.
	PI-8	Performance information for service delivery	D+	Scoring method M2 (AV).
		(i) Performance plans for service delivery	C	Since information is produced annually on activities to be performed and is published for the majority of ministries.
		(ii) Performance achieved for service delivery	C	Since the information is not presented in a format that would allow for comparing results achieved against the performance indicators of planned programs and allocated funding.
		(iii) Resources received by service delivery units	C	A survey carried out in one of the last three years provides estimates of the resources received by service delivery units for at least one large ministry.
		(iv) Performance evaluation for service delivery	D	The number, institutional coverage and amount of expenditure covered by performance audits is less than required for a B score, the rating for this dimension is therefore C
	PI-9	Public access to information	A	All elements assessed are published within the required timeframe.
Management of assets and liabilities	PI-10	Fiscal risk reporting	C	Scoring method M2 (AV).
		(i) Monitoring of public corporations	D	Most public corporations submit audited financial reports within 9 months of the end of the fiscal year which qualifies for score C. Excluding the institutional units assessed under dimension 6.3, the majority of the remaining PCs report within 9 months.
		(ii) Monitoring of sub-national government (SNG)	C	All subnational governments submit unaudited financial reports annually within 9 months of the close of the fiscal year, published on the individual municipality webpages.
		(iii) Contingent liabilities and other fiscal risks	B	Two of three significant contingent liabilities are reported, but there is no consolidated report including all significant contingent liabilities.
	PI-11	Public investment management	D+	Scoring method M2 (AV).
		(i) Economic analysis of investment proposals	C	Since there are no national guidelines, and appraisals based on economic analysis are conducted for some major projects (funded from external sources).
		(ii) Investment project selection	D	Major projects are prioritized by a central entity but not on the basis of measurable criteria for selection that are rigorous and focus on economic efficiency and productivity.
		(iii) Investment project costing	C	Capital costs of major investment projects are included in each year of the medium-term budget, but recurrent costs of the project are not included in the budget documents.

North Macedonia			Current assessment	
	2021			
Pillar	Indicator/Dimension		Score	Description of requirements met
		(iv) Investment project monitoring	C	The total costs and physical progress of major investment projects are monitored by the implementing government unit, but there are no standard procedures for project implementation and published annual reports address financial implementation only.
	PI-12	Public asset management	D+	Scoring method M2 (AV).
		(i) Financial asset monitoring	C	While records of the major categories of financial assets are maintained, information on their performance is too fragmented to be considered useful for the analysis.
		(ii) Nonfinancial asset monitoring	D	There are issues reported with timeliness of information in cadaster, the only comprehensive centralized registry of immovable property, while other comprehensive asset registries are yet to be established.
		(iii) Transparency of asset disposal	D	Considering that the required information on asset disposal is highly decentralized and the information in the budget execution report limited to aggregate values.
	PI-13	Debt management	A	Scoring method M2 (AV).
		(i) Recording and reporting of debt and guarantees	B	Even though the central records are updated regularly and comprehensive statistical and management reports are publicly available, there is only formal annual reconciliation with creditors.
		(ii) Approval of debt and guarantees	A	The MoF is, de facto, the single responsible debt management entity which undertakes borrowing operations (provides consent for those operations) in line with documented rules and procedures and within the Government- and Parliament-approved limits.
		(iii) Debt management strategy	A	A current, comprehensive three-year DMS is in place and its execution against the debt management objectives publicly reported, including on target ranges for various indicators.
Policy-based fiscal strategy and budgeting	PI-14	Macroeconomic and fiscal forecasting	C+	Scoring method M2 (AV).
		(i) Macroeconomic forecasts	D	The forecast of macroeconomic indicators is included in the fiscal strategy covering the budget year and two following years, but is not reviewed by any other independent entity.
		(ii) Fiscal forecasts	C	The MoF prepares the macroeconomic forecasts, but the differences from the projects provided in the previous year's budget are not explained and published as part of the annual budget process.
		(iii) Macro-fiscal sensitivity analysis	B	Fiscal forecast scenarios based on unexpected changes in macroeconomic conditions or other external risks are being published starting from the Fiscal Strategy 2019-2021..
		Fiscal strategy	C	Scoring method M2 (AV).

North Macedonia			Current assessment	
	2021			
Pillar	Indicator/Dimension		Score	Description of requirements met
	PI-15	(i) Fiscal impact of policy proposals	D	There are brief explanations of the proposed changes in revenues and expenditures, but they are not covering the next two fiscal years, and are not quantified.
		(ii) Fiscal strategy adoption	A	The fiscal strategy that includes quantitative fiscal goals and targets for the budget year and the following two years is duly adopted.
		(iii) Reporting on fiscal outcomes	D	There is no published or internal report that describes the progress made against the fiscal strategy or an explanation of the deviations from the objectives and targets set.
	PI-16	Medium term perspective in expenditure budgeting	C	Scoring method M2 (AV).
		(i) Medium-term expenditure estimates	B	The annual budget presents estimates of expenditure for the budget year and the two following fiscal years allocated by administrative and economic classification.
		(ii) Medium-term expenditure ceilings	D	The aggregate expenditure ceilings for the budget year and the two following fiscal years were not approved by Government before the first budget circular was issued for the 2021-23 budget.
		(iii) Alignment of strategic plans and medium-term budgets	B	Medium-term strategic plans are prepared for the majority of ministries, and include cost information. The majority of expenditure policy proposals in the approved medium-term budget estimates align with the strategic plans.
		(iv) Consistency of budgets with previous year estimates	D	The budget documents do not provide any explanation of changes to expenditure estimates between the second year of the last medium-term budget and the first year of the current medium-term budget at the aggregate level.
	PI-17	Budget preparation process	C+	Scoring method M2 (AV).
		(i) Budget calendar	A	A clear annual budget calendar exists, is generally adhered to, and allows all budgetary units at least six weeks from receipt of the budget circular to meaningfully complete their detailed estimates on time.
		(ii) Guidance on budget preparation	D	The budget circular does not provide expenditure ceilings for total funds.
		(iii) Budget submission to the legislature	C	The executive has submitted the annual budget proposal to the legislature at least one month before the start of the fiscal year in two of the last three years.
	PI-18	Legislative scrutiny of budgets	B+	Scoring method M1 (WL).
		(i) Scope of budget scrutiny	A	The legislature's review covers fiscal policies, medium-term fiscal forecasts, and medium-term priorities as well as details of expenditure and revenue.
		(ii) Legislative procedures for budget scrutiny	B	The legislature's procedures to review budget proposals are approved by the legislature in advance of budget hearings and are adhered to.

North Macedonia			Current assessment	
	2021			
Pillar	Indicator/Dimension		Score	Description of requirements met
				The procedures include internal organizational arrangements such as legislature committees, technical support, and negotiation procedures.
		(iii) Timing of budget approval	A	The legislature has approved the annual budget before the start of the year in each of the last three fiscal years.
		(iv) Rules for budget adjustments by the executive	A	Clear rules exist for in-year budget adjustments by the executive. The rules set strict limits on the extent and nature of amendments and are adhered to in all instances.
Predictability and control in budget execution	PI-19	Revenue administration	C	Scoring method M2 (AV).
		(i) Rights and obligations for revenue measures	A	Revenue collecting agencies provide comprehensive and up-to-date information of revenue rights and obligations, including redress process.
		(ii) Revenue risk management	C	Partly structured and systematic approaches are used for assessing revenue compliance risks.
		(iii) Revenue audit and investigation	D	Neither of the revenue agencies has a compliance improvement plan (PRO has plans only for some sectors). the score for the present dimension is D.
		(iv) Revenue arrears monitoring	D*	Based on the analysis and supporting evidence and given that the PRO is not able to determine the age of tax arrears and accrued interest (except for VAT), the score for the present dimension is D* due to lack of reliable data.
	PI-20	Accounting for revenue	C+	Scoring method M1 (WL).
		(i) Information on revenue collections	A	MoF Treasury Department has daily access to revenue data broken down by type which is reported on a monthly basis.
		(ii) Transfer of revenue collections	A	All revenue payments are collected in the STA controlled by the MoF Treasury Department.
		(iii) Revenue accounts reconciliation	C	Given that revenue agencies are not reconciling data related to assessments.
	PI-21	Predictability of in-year resource allocation	A	Scoring method M2 (AV).
		(i) Consolidation of cash balances	A	Since all BCG bank and cash balances are calculated and consolidated daily.
		(ii) Cash forecasting and monitoring	A	On basis of the frequency of updates to the annual cash forecast and the scope of information used to update it.
		(iii) Information on commitment ceilings	B	Reliable information on commitment ceilings issued to spending units that are updated monthly on a rolling basis for the following quarter.
		(iv) Significance of in-year budget adjustments	A	Despite of the significant volume of in-year adjustments caused by the pandemic, these took place twice in 2020 and have remained transparent and systematic.
		Expenditure arrears	B+	Scoring method M1 (WL).

North Macedonia			Current assessment	
	2021			
Pillar	Indicator/Dimension		Score	Description of requirements met
	PI-22	(i) Stock of expenditure arrears	A	Ratio of reported arrears at the end of the last three fiscal years against the total expenditure of under 1 percent.
		(ii) Expenditure arrears monitoring	B	Information on stock and composition of public sector arrears (including BCG entities) is prepared and published quarterly within 2 weeks from the end of the quarter but does not include age. SAO information suggests data may not be complete.
	PI-23	Payroll controls	B+	Scoring method M1 (WL).
		(i) Integration of payroll and personnel records	B	There is an indirect link between personnel and payroll databases and staff hiring is controlled by approved staff positions and available funding.
		(ii) Management of payroll changes	A	As the changes between personnel records and payroll calculations are updated monthly and in time for the next month's payment with low presumed retroactive adjustments.
		(iii) Internal control of payroll	B	While systemic issues highlighted in SAO findings indicate a number of internal control weaknesses none are related to integrity of data which is considered high.
		(iv) Payroll audit	B	SAO progressively audits more central government institutions but without the complete annual coverage of all CG salary expenditures.
	PI-24	Procurement	A	Scoring method M2 (AV).
		(i) Procurement monitoring	A	The ESPP maintains data for contracts including data on what has been procured, value of procurement and who has been awarded contracts. The data are accurate and complete for *all* procurement methods for goods, services and works.
		(ii) Procurement methods	A	Based on the dominant share of open procurement methods in use, the score on this dimension is A.
		(iii) Public access to procurement information	A	Every key procurement information element is complete and reliable for government units representing all procurement operations and is made available to the public in a timely manner.
		(iv) Procurement complaints management	A	The procurement complaint system meets every criterion.
	PI-25	Internal controls on non-salary expenditure	B+	Scoring method M2 (AV).
		(i) Segregation of duties	B	There is appropriate segregation of duties with clear responsibilities in payment processing, but a number of institutions have yet to operationalize segregation of duties throughout the other steps in the expenditure process.

North Macedonia			Current assessment	
	2021			
Pillar	Indicator/Dimension		Score	Description of requirements met
		(ii) Effectiveness of expenditure commitment controls	B	Considering the comprehensiveness of annual commitment controls against projections of available cash and the annual appropriation, but gaps exist in controlling alignment of multi-annual commitments with medium-term ceilings.
		(iii) Compliance with payment rules and procedures	A	Budget inspection and external audit findings did not document non-compliance with regular payment procedures or unauthorized use of exceptions.
	PI-26	Internal audit	C+	Scoring method M1 (WL).
		(i) Coverage of IA	A	Based on the reported internal audit coverage of CG revenue and expenditure of just above 90 percent of revenues and expenditures, the score assigned to this dimension is A**.**
		(ii) Nature of audits and standards applied	B	Considering that the focus of the internal audit is on adequacy and effectiveness of internal control with limited gains in implementing full scale quality assurance improvement programs in line with the applicable standards.
		(iii) Implementation of IAs and reporting	C	Considering that less than 75 percent of planned internal audits in 2020 were executed, the score for the present dimension is C.
		(iv) Response to IAs	C	Considering that management response came within 12 months of the report being produced for under 75 percent of issued recommendations, the dimension score is C.
Accounting and Reporting	PI-27	Financial data integrity	B+	Scoring method M2 (AV).
		(i) Bank account reconciliation	A	Since all budgetary central government bank accounts (90 percent by materiality) are part of the STA and are reconciled with the NBRNM daily.
		(ii) Suspense accounts	A	Transitional accounts - operated by the MoF Treasury Department - are reconciled and cleared the day after.
		(iii) Advance accounts	B	Available information suggests quarterly reconciliation on advance accounts
		(iv) Financial data integrity processes	B	Integrity of financial data is assured through restricted and recorded access to the TrIS which results in audit trail but there is no dedicated unit or team in charge of verifying financial data integrity.
	PI-28	In-year budget reports	C+	Scoring method M1 (WL).
		(i) Coverage and comparability of reports	C	Since coverage and classification of data in the reports allows for direct comparison on administrative and highly aggregated level of economic classification with the budget, without details on expenditures from transfers to second-line budget users.

North Macedonia			Current assessment	
	2021			
Pillar	Indicator/Dimension		Score	Description of requirements met
		(ii) Timing of in-year budget reports	B	In-year budget execution reports are prepared and published monthly, within four weeks from the end of period.
		(iii) Accuracy of in-year budget reports	B	Despite no concerns with data accuracy and monthly narrative update on budget execution, the reported expenditure is captured at payment stage only.
	PI-29	Annual financial reports	D+	Scoring method M1 (WL).
		(i) Completeness of annual financial reports	C	The information in the government's Final Account is limited to revenue, expenditure and cash balance for the year.
		(ii) Submission of reports for external audit	A	Based on the date of the last submitted annual financial report for audit (FY 2019).
		(iii) Accounting standards	D	While the national framework ensures consistent reporting over time, the accounting standards are not formally disclosed.
External scrutiny and audit	PI-30	External audit	C+	Scoring method M1 (WL).
		(i) Audit coverage and standards	B	Considering the reported coverage which excludes consolidated information on assets and liabilities.
		(ii) Submission of audit reports to the legislature	C	The submission of the report for FY 2019 was more than seven months, notwithstanding that the submission was in line with the state of emergency decision.
		(iii) External audit follow-up	A	Based on clear evidence of timely and effective follow-up by the executive.
		(iv) Supreme Audit Institution (SAI) independence	A	Based on the requirements met to ensure that the SAI operates independently from the executive.
	PI-31	Legislative scrutiny of audit reports	C+	Scoring method M2 (AV).
		(i) Timing of audit report scrutiny	A	Considering the Parliamentary review of the audit report of the Final Account was completed in under 3 months from its receipt.
		(ii) Hearings on audit findings	D	As the individual audit reports are not reviewed by the Parliament.
		(iii) Recommendations on audit by the legislature	D	Considering that the requirements have not been met for all three years in the sample.
		(iv) Transparency of legislative scrutiny of audit reports	A	All hearings are publicly available.

Annex 2: Summary of observations on the internal control framework

Internal control components and elements	Summary of observations[98]
1. Control environment	
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organization	Based on self-reported information for 2020, over 90 percent of public sector organizations reported their staff is familiar with the Civil Servants' Code of Ethics but a small number of organizations have developed their institution-specific codes of ethics. Institutional structures to facilitate prevention and processing of conflict-of-interest situations (ethics committees and/or ethics commissioners) are only starting to be established. (CHD PIFC Report 2020)
1.2 Commitment to competence	For 2020, MoF CHD concluded that additional efforts are needed on preparation of professional development plans and development of specific skills.
1.3 The "tone at the top" (i.e. management's philosophy and operating style)	Self-reported information for 2020 suggests majority of public sector organizations hold regular senior management meetings which are used to discuss realization of objectives and results, budget execution, and key risks. (CHD PIFC Report 2020)
1.4 Organizational structure	Internal organizational structures are prescribed in the regulations, statutes or rulebooks on internal organization, Central ministries are required to coordinate work with subordinate entities in their organizational structure, their second-line budget users and public enterprises within their line of competence. A handful of central level entities (4 percent) reported they are familiar with the status of internal controls in subordinated entities. (CHD PIFC Report 2020)
1.5 Human resource policies and practices	HRM and PFM are concurrent reform streams under the umbrella of Public Administration Reform.
2. Risk assessment	
2.1 Risk identification	Requirements are in place for public sector organizations to identify and document risks in risk management strategies, risk registers or planning documents. Focus is on compliance risks. For 2020, self-reported information identified around 70 percent of central level respondents who fulfilled this requirement,
2.2 Risk assessment (significance and likelihood)	Risks at the level of public sector organizations are assessed on the basis of impact and likelihood in line with the 2015 MoF CHD Guidelines.

98 Observations draw mainly on the Annual Report on PIFC for 2020 produced on the basis of self-reported information from public sector organizations. Observations are further cross referenced to Section 3 scores on core PFM functions.

Internal control components and elements	Summary of observations[98]
2.3 Risk evaluation	Requirements in place to monitor the in-year status and evolution of risks. Risk (re)evaluation should be documented in individual risk registries.
2.4 Risk appetite assessment	Risk appetite assessment is decided upon in individual risk management strategies.
2.5 Responses to risk (transfer, tolerance, treatment or termination)	In principle, all categories or risk responses are available. Where risk treatment is selected, controls foreseen to mitigate them are to be documented in risk registers.
3. Control activities	
3.1 Authorization and approval procedure	Outside of the core MoF processes, about 55 percent of central level institutions reported that they have instituted rules and procedures for undertaking commitments and general payment authorizations to the financial affairs departments (CHD PIFC Report 2020), implying that authorization and approval on institutional level remain fairly centralized.
3.2 Segregation of duties (authorizing, processing, recording, reviewing)	In PI-25.1, segregation of duties is rated B. The latest self-reported information suggests 80 percent of central level institutions (BCG and SSFs) have secured the implementation of the segregation of duties requirements. The regulatory framework together with TrIS procedures ensure segregation of duties in key stages of the payments process.
3.3 Controls over access to resources and records	Financial data integrity processes in PI-27.4 scored B.
3.4 Verifications	Effectiveness of controls over data used to verify payroll payments in PI-23.3 scored B.
3.5 Reconciliations	Among MoF-operated processes, reconciliation of revenue accounts scored C in PI-20.3. while bank account reconciliation practices in PI-27.1 are rated A.
3.6 Reviews of operating performance	Public sector organizations are expected to review operating performance, operations, processes and activities as a part of ongoing monitoring (see item 5.1 below), within the context of applicable strategies and budget programs. Annual plans for financial management and controls and plans for addressing weaknesses and irregularities based on self-assessment of internal control are being developed. Government does not carry out centralized, independent performance reviews (such as e.g., spending reviews).
3.7 Reviews of operations, processes and activities	
3.8 Supervision (assigning, reviewing and approving, guidance and training)	No information on the specific topic was collected in the course of the PEFA assessment.
4. Information and communication	
	Outside of the MoF, MoF CHD Annual Report for 2020 notes that management information systems for financial and non-financial information, across central

Internal control components and elements	Summary of observations[98]
	government organizations, remain underdeveloped. For example, only 71 percent of central government level organizations maintain centralized records of all signed contracts and contractual commitments supported by an information system.
5. Monitoring	
5.1 Ongoing monitoring	Line management is charged with delivering the results and ensuring compliance in line with the managerial accountability concept. As per COSO principles, internal audit is an integral part of the monitoring component of the internal control framework. This function is operational for virtually all central level revenue and expenditure (score A on PI-26.1). Implementation of internal audits and reporting is rated C in PI-26.3.
5.2 Evaluations	Capacity for independent evaluation of government performance is nascent but SAO's performance audits (C on PI-8.4) cover an increasing number of government entities. Internal auditors' work of government efficiency and effectiveness is limited.
5.3 Management responses	Management generally responds to internal and external audit findings, but there is room to improve timeliness and the extent of management response. Internal audit with 60 percent response rate within 12 months (scored C on PI-26.4) and external audit with around 70 percent of recommendations being implemented (scored A on PI-30.3). The process of monitoring progress in implementation of external audit recommendations is supported with a dedicated information system.

Annex 3: Sources of information

Annex 3A: Related surveys and analytical work

No	Institution	Document title	Date	Link
1	IMF	Fiscal Transparency Evaluation	Oct. 2018	https://www.imf.org/en/Publications/CR/Issues/2018/10/29/Former-Yugoslav-Republic-of-Macedonia-Fiscal-Transparency-Evaluation-46317
2	IMF	Public Investment Management Assessment (PIMA)	Feb. 2020	Not published
3	EC	PEFA 2015	Dec. 2015	Macedonia 2015 | Public Expenditure and Financial Accountability (PEFA)
4	EC	North Macedonia Report 2020	Oct. 2020	https://ec.europa.eu/neighbourhood-enlargement/north-macedonia-report-2020_en
5	EC	Staff Working document ERP 2021-2023 Staff Assessment	Apr. 2021	https://ec.europa.eu/neighbourhood-enlargement/enlargement-policy/policy-highlights/economic-governance_en
6	OECD SIGMA	Baseline measurement reports and monitoring reports	2015-2019	http://www.sigmaweb.org/publications/monitoring-reports.htm
7	International Budget Partnership	Open Budget Survey	2019	https://www.internationalbudget.org/wp-content/uploads/Open-Budget-Survey-Report-2019.pdf
8	World Bank	North Macedonia: Sowing the Seeds of a Sustainable Future	2019	https://documents1.worldbank.org/curated/en/159301557513724528/pdf/North-Macedonia-Public-Finance-Review-Sowing-the-Seeds-of-a-Sustainable-Future.pdf
9	Center of Excellence in Finance	Public Sector Asset Management in the Republic of North Macedonia, Discussion Paper	2021	Public Sector Asset Management MN web pages.pdf (cef-see.org)
10	IMF	Tax Administration Diagnostic Assessment Tool (TADAT) Repeat	2021	Not published
11	World Bank	Tax DIAMOND	2020	Not published

Annex 3B: List of people interviewed

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Annex 3C: Sources of information used to extract evidence for scoring each indicator

Indicator/dimension	Data Sources
Budget reliability	
PI-1. Aggregate expenditure outturn 1.1. Aggregate expenditure outturn	Annual Budget Laws 2018, 2019, 2020 Annual Final Account 2018, 2019, 2020
PI-2. Expenditure composition outturn	Annual Budget Laws 2018, 2019, 2020 Annual Final Account 2018, 2019, 2020 Law on Budgets - consolidated text (Official Gazette 64/05, 4/08, 103/08, 156/09, 95/10, 180/11, 171/12, 192/15, 167/16), Article 11
2.1. Expenditure composition outturn by function	
2.2. Expenditure composition outturn by economic type	
2.3. Expenditure from contingency reserves	
PI-3. Revenue outturn	Annual Budget Laws 2018, 2019, 2020 Annual Final Account 2018, 2019, 2020
3.1. Aggregate revenue outturn	
3.2. Revenue composition outturn	
Transparency of public finances	
PI-4. Budget classification 4.1 Budget classification	Law on Budgets - consolidated text (Official Gazette 64/05, 4/08, 103/08, 156/09, 95/10, 180/11, 171/12, 192/15, 167/16), Article 13 2020 Budget of the Republic of North Macedonia Annual Financial Statement for 2019 Draft (organic) Budget Law (OBL 21) Rulebook on income classification; Rulebook on amending the Rulebook on income classification; Rulebook on classification of expenditures Rulebook on supplementing the Rulebook on expenditure classification Bridge table to GFS COFOG-Functional Classification (Budget) Bridge table to COFOG Rulebook on the Chart of Accounts and Rulebook on the Content of Individual Accounts in the Chart of Accounts.
PI-5. Budget documentation 5.1 Budget documentation	Law on Budgets - consolidated text (Official Gazette 64/05, 4/08, 103/08, 156/09, 95/10, 180/11, 171/12, 192/15, 167/16) Public Debt Law (Official Gazette 62/2005, 88/2008, 35/2011, 139/2014, 98/2019) Fiscal Strategy 2021-2023 (July 2020) Revised Fiscal Strategy 2021-2023 (December 2020) Public Debt Management Strategy 2021-2023 (December 2020) 2021 Budget of the Republic of North Macedonia Annual Financial Statement for 2019
PI-6. Central government operations outside financial reports	Law on Public Enterprises (Official Gazette 38/96, 6/2002, 40/2003, 49/2006, 22/2007, 83/2009, 97/10, 6/12, 119/13, 41/14, 138/14, 25/15, 61/15 and 39/16) Executed revenues and expenditures 2020
6.1. Expenditure outside financial reports	
6.2. Revenue outside financial reports	
6.3. Financial reports of extra-budgetary units	
PI-7. Transfers to subnational governments	Law on Local Self Government (Official Gazette 5/2002) Law on Financing of Local Self-Government Units (Official Gazette 61/2004, 96/2004, 67/2007, 156/2009, 47/2011, 192/2015, 209/2018, 244/2019, 53/2021 and 77/2021) Law on Budgets - Article 19
7.1. System for allocating transfers	
7.2. Timeliness of information on transfers	
PI-8. Performance information for service delivery	Budget circular 2019, 2020, and 2021

8.1. Performance plans for service delivery 8.2. Performance achieved for service delivery 8.3. Resources received by service delivery units 8.4. Performance evaluation for service delivery	Strategic priorities and plans of the Government and ministries Manual for Strategic Planning, Jan 2014 Budget Execution Law for 2021 (Dec 2020) State Audit Law (Official Gazette 66/10, 145/10, 12/14, 43/14, 154/15, 192/15, 27/16, 83/18 and 122/21) 2020 Annual Report on performed audits and operation of the State Audit Office 2019 Annual Report on the Functioning of the Public Internal Financial Control System Annual plans and reports of PESR, HIF and PIDF
PI- 9. Public access to fiscal information 9.1. Public access to fiscal information	Budget Law for 2021 (Official Gazette 307/2020) Budget execution reports link Budget circular link
Management of assets and liabilities	
PI-10. Fiscal risk reporting 10.1. Monitoring of public corporations 10.2. Monitoring of sub-national government 10.3. Contingent liabilities and other fiscal risks	Law on Budgets (Official Gazette 64/05, 4/08, 103/08, 156/09, 95/10, 180/11, 171/12, 192/15, 167/16) Law on Public Enterprises (Official Gazette 38/96, 6/2002, 40/2003, 49/2006, 22/2007, 83/2009, 97/10, 6/12, 119/13, 41/14, 138/14, 25/15, 61/15 and 39/16) Law on Accounting of the Budget and Budget Users (Official Gazette 61/02, 98/02, 81/05, 24/11, 145/15 and 170/17) Law on Local Self Government (Official Gazette 5/2002) Law on Concessions and PPPs (Official Gazette 6/02, 144/14, 33/15, 104/15, and 215/15) Fiscal Strategy 2021-23 initial and revised Law on Public Debt (Official Gazette 62/05, 88/08, 35/11, 139/14 and 98/19) Public Debt Strategy 2021-23 Public Debt Management annual report 2019 Law on Reporting Liabilities (Official Gazette 64/18) Deposit Insurance Fund annual report 2019 Draft (organic) Budget Law (OBL 21) Град Скопје - Официјален портал (skopje.gov.mk)
PI- 11. Public investment management 11.1. Economic analysis of investment proposals 11.2. Investment project selection 11.3. Investment project costing 11.4. Investment project monitoring	Project ranking procedure, MoES Project ranking procedure, MoTC Single Project Pipeline procedures, SEA Budget circular 2019-21, 2020-22, and 2021-23 Manual for Strategic Planning, General Secretariat, January 2014 Annual plans and reports of PESR
PI-12. Public asset management 12.1. Financial asset monitoring 12.2. Nonfinancial asset monitoring 12.3. Transparency of asset disposal.	The Law on Managing State Property The Law on Use and Disposal of State-owned and Municipal-owned Assets (2019) Law on Sale and Disposal of Commercial Property held by the State Law on Concession Law on Agriculture Law on Construction Law on Privatization and Lease of State/owned Construction Land PPP registry link Audit reports link link CEF Discussion Paper: Public Sector Asset Management in the Republic of North Macedonia link Rulebook on the Chart of Accounts Rulebook on Accounting for the Budget and Budget Users Sample of BCG financial statements (incl. SFFs and major line ministries).
PI-13. Debt management 13.1. Recording and reporting of debt and guarantees 13.2. Approval of debt and guarantees	Law on Public Debt ("Official Gazette of the Republic of Macedonia", nos. 62/05, 88/08, 35/11 and 139/14 and "Official Gazette of the Republic of North Macedonia", no. 98/19) link Law on Financing of Local Government Annual Report on Public Debt Management 2019 link 2018 link 2017 link

13.3. Debt management strategy	Quarterly statistical debt reports link 2021-2023 Public Debt Management Strategy link Main secondary legislation (Form M1 for monthly reporting, Manual on the Type and the Contents of the Monthly Information on the Change of the Stock of Each Borrowing by the Public Debt Holders, Manual on the Form and the Contents of the Periodical Financial Reports of the Local Government Units)
Policy-based fiscal strategy and budgeting	
PI-14. Macroeconomic and fiscal forecasting 14.1. Macroeconomic forecasts 14.2. Fiscal forecasts 14.3. Macro-fiscal sensitivity analysis	Fiscal Strategy 2018-2020 through 2021-23 (with outlooks until 2025) Budget 2018 though 2021 Law on Budgets - consolidated text (Official Gazette 64/05, 4/08, 103/08, 156/09, 95/10, 180/11, 171/12, 192/15, 167/16)Draft (organic) Budget Law (OBL 21)Economic Reform Programme 2021 – 2023 Public Debt Management Strategy
PI-15. Fiscal strategy 15.1. Fiscal impact of policy proposals 15.2. Fiscal strategy adoption 15.3. Reporting on fiscal outcomes	Fiscal Strategy 2018-2020 through 2021-23 (with outlooks until 2025) Budget 2018 though 2021 Law on Budgets - consolidated text (Official Gazette 64/05, 4/08, 103/08, 156/09, 95/10, 180/11, 171/12, 192/15, 167/16)Draft (organic) Budget Law (OBL 21)Economic Reform Programme 2021 – 2023 Public Debt Management Strategy
PI-16. Medium-term perspective in expenditure budgeting 16.1. Medium-term expenditure estimates 16.2. Medium-term expenditure ceilings 16.3. Alignment of strategic plans and medium-term budgets 16.4 Consistency of budgets with previous year's estimates	Fiscal Strategy 2017-19, 2018-20, 2019-21, 2020-22 and 2021-23 Budget Circular 2018-20, 2019-21, 2020-22, and 2021-23 Law on Budgets (Official Gazette 64/05, 4/08, 103/08, 156/09, 95/10, 180/11, 171/12, 192/15, 167/16) Draft (organic) Budget Law (OBL 21) Methodology of Strategic Planning, General Secretariat (Official Gazette 124/08) Strategic plan of MoTC 2021-23 PFM Reform Program 2018-21 Manual for Strategic Planning, General Secretariat, January 2014
PI-17. Budget preparation process 17.1. Budget calendar 17.2. Guidance on budget preparation 17.3. Budget submission to the legislature	Law on Budget and Fiscal Responsibility (Official Gazette 4/18) Fiscal Strategy 2017-19, 2018-20, 2019-21, and 2020-22 Guidelines for macroeconomic and fiscal policy for 2018 Budget Circular 2019-21
PI-18. Legislative scrutiny of budgets 18.1. Scope of budget scrutiny 18.2. Legislative procedures for budget scrutiny 18.3. Timing of budget approval 18.4. Rules for budget adjustments by the executive	The Constitution of North Macedonia 1991 with 36 revisions through 2019 Law on the National Assembly (Official Gazette 84/05,17/06, 107/06, 77/08, 80/08, and 161/08) Rules of Procedure of the National Assembly (Official Gazette 60/02, 91/08, 119/10, 23/13) Law on Budgets (Official Gazette 64/05, 4/08, 103/08, 156/09, 95/10, 180/11, 171/12, 192/15, 167/16)
Predictability and control in budget execution	
PI-19. Revenue administration 19.1. Rights and obligations for revenue measures 19.2. Revenue risk management 19.3. Revenue audit and investigation 19.4. Revenue arrears monitoring	PFM Reform Program 2018-21 link Tax System Reform Strategy 2021-2025 Public Revenue Office Strategic Plan 2021-23 link Customs Law (Official Gazette 39/2005, 4/2008, 48/2010, 158/2010, 44/2011, 53/2011, 11/2012, 71/12, 187/2013, 15/2015, 129/2015, 154/2015, 192/2015, 23/2016, 144/2018 и 110/2021) Risk Management Strategy 2018-2022
PI-20. Accounting for revenues 20.1. Information on revenue collections 20.2. Transfer of revenue collections	Budget Law Instruction for the manner of registration, allocation, refund and transfer of public revenues Instruction on the form and content of payment instruments for domestic transactions

20.3. Revenue accounts reconciliation	
PI-21. Predictability of in-year resource allocation 21.1. Consolidation of cash balances 21.2. Cash forecasting and monitoring 21.3. Information on commitment ceilings 21.4. Significance of in-year budget adjustments	Treasury Operations Manual link Rulebook on the Manner of Opening the Foreign Exchange Accounts of Budget Users and Spending Units of the Republic of Macedonia and the Budget of Local Government Units (2005) 2019 Decision on reallocation link 2020 Decision on reallocation link 2020 Decree on amendments link 2020 Law on supplementary budget link
PI-22. Expenditure arrears 22.1. Stock of expenditure arrears 22.2. Expenditure arrears monitoring	Law on Reporting and Recording of Liabilities (2018) link Law on Financial Discipline (2013) Rulebook on the Manner of Reporting of Liabilities and the Form and Contents of Summary Reports link
PI-23. Payroll controls 23.1. Integration of payroll and personnel records 23.2. Management of payroll changes 23.3. Internal control of payroll 23.4. Payroll audit	Law on Administrative Servants (Official Gazette 27/14, 199/14, 48/15, 154/15, 5/16, 142/16, 11/18, 275/19 and 14/20) Law on Public Sector Employees (Official Gazette 27/14, 199/14, 27/16, 35/18, 198/18, 143/19 and 14/20) SAO IT audit: Effectiveness and Efficiency of Measures and Actions Taken by Ministry of Information Society and Administration for Full Implementation of the HRMIS in Public Sector Institutions (2019) SAO 2020 Annual Report link
PI-24. Procurement 24.1. Procurement monitoring 24.2. Procurement methods 24.3. Public access to procurement information 24.4. Procurement complaints management	Public Procurement Law (PPL)(2019) link 2020 Annual Report of the PPB link
PI-25. Internal controls on non-salary expenditure 25.1. Segregation of duties 25.2. Effectiveness of expenditure commitment controls 25.3. Compliance with payment rules and procedures	Treasury Operations Manual (Official Gazette 219/2018) link Annual Report on the Functioning of the 2019 PIFC System link
PI-26. Internal audit 26.1. Coverage of internal audit 26.2. Nature of audits and standards applied 26.3. Implementation of internal audits and reporting 26.4. Response to internal audits	Law on PIFC (last amended 2015) Draft Law on PIFC (2020) Annual Consolidated PIFC Report 2019 and 2020 Sample internal audit reports
Accounting and reporting	
PI-27. Financial data integrity 27.1. Bank account reconciliation 27.2. Suspense accounts 27.3. Advance accounts 27.4. Financial data integrity processes	SAO 2020 Annual Report link
PI-28. In-year budget reports 28.1. Coverage and comparability of reports 28.2. Timing of in-year budget reports 28.3. Accuracy of in-year budget reports	Open Government Portal https://open.finance.gov.mk/en/home Budget Law, Article 53 IMF Fiscal Transparency Evaluation (2018) Open Budget Survey (2019) Monthly execution reports, economic classification link Monthly reports, administrative classification link

	Rulebook on the Manner of Reporting of Liabilities and the Form and Contents of Summary Reports link SAO 2020 Annual Report link
PI-29. Annual financial reports	Law on Accountancy of the Budget and Budget Beneficiaries Rulebook on the Form and Content of the Balance Sheet and Revenue and Expenditure Statement Rulebook on the CoA and Rulebook on the Content of Individual Accounts in the CoA Rulebook on Accountancy of the Budget and Budget Beneficiaries IMF Fiscal Transparency Evaluation (2018) Budget Law
29.1. Completeness of annual financial reports	
29.2. Submission of the reports for external audit	
29.3. Accounting standards	
External scrutiny and audit	
PI-30. External audit	State Audit Law (Official Gazette 66/10, 145/10, 12/14, 43/14, 154/15, 192/15, 27/16, 83/18 and 122/21) SAO Strategic Development Plan 2018-2022 SAO 2019 Annual Report link
30.1. Audit coverage and standards	
30.2. Submission of audit reports to the legislature	
30.3. External audit follow up	
30.4. Supreme Audit Institution independence	
PI-31. Legislative scrutiny of audit reports	Budget Law, Article 52 Decree for State of Emergency, March 18, 2020
31.1. Timing of audit report scrutiny	
31.2. Hearings on audit findings	
31.3. Recommendations on audit by the legislature	
31.4. Transparency of legislative scrutiny of audit reports	

Annex 4: 2021 Performance change summary

Indicator/Dimension	2015 score	2020 score	Trend	Description of requirements met in current assessment	Explanation of change (include comparability issues)
A. PFM-OUT-TURNS: Credibility of the Budget					
PI-1 Aggregate expenditure out-turn compared to original approved budget	B	A	↑	Expenditure Outturn deviated from planned budget by more than 5% for one of the past three fiscal years (2020). See Annex 5b.	Performance improved. Recasting the data, as required by PEFA guidance suggests that removing external financing - grants and loans enhances the score.
PI-2 Composition of expenditure out-turn compared to original approved budget	A	B+	↓	(M1 method)	
(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items	A	B		The variance in expenditure composition by administrative classification was 7% in 2018, 6.3% in 2019 and 17.5% in 2020. See Annex 5b for detailed calculations.	In 2015 assessment, the variance exceeded 5% in only one of the three years. In this assessment the variance exceeds 5% in all three years, and exceeded 10% in one year (2020).
(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.	A	A		Amounts charged to contingency were much less than 3% of total expenditure in previous assessment and remains the same.	Performance remained unchanged.
PI-3 Aggregate revenue out-turn compared to original approved budget	D	C	↑	Actual revenue deviation in two out of the three past financial years was between 92 and 116 percent of revenue.	In 2015 assessment revenue out-turn was below 92 % in all three observed years.
PI-4 Stock and monitoring of expenditure payment arrears	D+	B	↑	(M1 method)	
(iii) Stock of expenditure payment arrears and a recent change in the stock	C	B		The stock of reported BCG arrears, excluding arrears to other public sector institutions is low. It has not been reduced significantly (over 25 percent) in the last two years.	Improvement in score as a result of underlying performance improvements. Some institutions are still not reporting through the ESPEO.
(iv) Availability of data for	D	B		ESPEO system allows monthly reporting over the stock and	Improvement in score due to improvement

monitoring the stock of expenditure payment arrears				structure of arrears, but not their age profile.	of underlying performance. Some institutions are still not reporting through the ESPEO.
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency					
PI-5 Classification of the budget	A	B	↓	Consistent administrative, economic, functional and sub-functional classifications are used in presenting the Budget and reporting the outturn.	Reduction in score since GFS level is now included in the 2016 PEFA Framework.
PI-6 Comprehensiveness of information included in budget documentation	B	B	=	Five of nine benchmarks are satisfied.	No change in performance.
PI-7 Extent of unreported government operations	C+	C	↓	(M1 method)	
(i) Level of unreported government operations	C	C		Extra-budgetary expenditure not included in ex ante and ex post fiscal reports alongside the budget amounted to about 7 per cent of consolidated central government expenditure in 2020.	No change in performance.
(ii) Income/expenditure information on donor-funded projects	A	C		All loan financed projects are fully included in fiscal reports but less than 50% of grant-financed projects.	Deterioration in performance due to higher portion of directly managed EU funds.
PI-8 Transparency of inter-governmental fiscal relations	A	A	=	(M2 method)	
(i) Transparency and objectivity in the horizontal allocation amongst Sub-national Governments	A	A		The allocation of over 90 per cent on average of central government grants to LGUs is based on transparent and rule-based systems.	No change in performance.
(ii) Timeliness and reliable information to SN Governments on their allocations	A	A		LGUs receive guidance on prospective allocations and other factors to be taken into account in budget preparation by 30 September each year.	No change in performance.
(iii) Extent of consolidation of fiscal data for general government according to sectoral categories	B	A		Summary reports of general government revenue and expenditure by economic classification is now published 1 month after the end of the year in question.	The period for publishing summary reports has been shortened from 13 to 1 month.
PI-9 Oversight of aggregate fiscal risk from other public sector entities	C	C	=	(M1 method)	
(i) Extent of central government monitoring of	C	C		Quarterly financial reports are made to MoF by PEs and Regulatory Agencies, but these	No change in performance

autonomous entities and public enterprises				are not consolidated into a report on fiscal risks.	
(ii) Extent of central government monitoring of SN government's fiscal position	C	C		LGUs make quarterly reports to MoF, and all borrowing by them requires MoF consent. But no information is available about LGUs' current financial liabilities.	While there is no change in score (because a consolidated report is not prepared), improved reporting on arrears and municipal debt.
PI-10 Public access to key fiscal information	A	A	=	The government makes available to the public all basic 5 and additional 4 elements within specified time frames.	In previous assessment, 5 of 6 benchmarks were met, no change in performance of the indicator.
C. BUDGET CYCLE					
C(i) Policy-Based Budgeting					
PI-11 Orderliness and participation in the annual budget process	B+	B	↓	(M2 method)	
(i) Existence of, and adherence to, a fixed budget calendar	A	A		A clear budget calendar exists, is generally followed, and provides sufficient time for budget submissions.	No change in Performance
(ii) Guidance on the preparation of budget submissions	C	D		Expenditure ceilings not subject to prior government approval. Since the budget circular does not provide expenditure ceilings for total funds.	Reassessment of available evidence, no performance change.
(iii) Timely budget approval by the legislature	A	A		Budgets are approved before the beginning of each year.	No change in performance.
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	C+	C+	=	(M2 method)	
(i) Multiyear fiscal forecasts and functional allocations	D	C		Forecasts of fiscal aggregates (on the basis of the main categories of economic classification) are prepared for at least two years on a rolling annual basis. The budget documents do not explain changes between vintages.	Score improved since the fiscal strategy provides main categories of economic classification.
(ii) Scope and frequency of debt sustainability analysis	A	A		MoF reported that DSA is carried out annually using the IMF/WB debt sustainability modelling tools.	No change in score and performance.
(iii) Existence of costed sector strategies	C	C		Planning focusses on 3-year ministry strategies, not sector strategies.	No change in performance. Role of sector strategies unchanged.

(iv) Linkages between investment budgets and forward expenditure estimates	C	C		Some investment decisions have a weak link to sector strategies.	No change in performance. Role of sector strategies unchanged. Investment planning focusses on 3-year ministry strategies, not sector strategies.
C(ii) Predictability and Control in Budget Execution					
PI-13 Transparency of taxpayer obligations and liabilities	C+	C+	=	(M2 method)	
(i) Clarity and comprehensiveness of tax liabilities	B	B		Legislation and procedures for most, but not necessarily all, major taxes are comprehensive and clear, with fairly limited discretionary powers of the government entities involved	No change in underlying performance relative to the last assessment.
(ii) Taxpayer access to information on tax liabilities and administrative procedures	B	B		Taxpayers have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for some of the major taxes, while for other taxes the information is limited.	No change in underlying performance relative to the last assessment.
(iii) Existence and functioning of a tax appeal mechanism	D	D		Appeals have to be sent directly to the Administrative Court.	No change in underlying performance of the tax appeals system relative to the last assessment.
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	C+	B	↑	(M2 method)	
(i) Controls in the taxpayer registration system	C	B		Taxpayers are registered in a complete database system with some linkages to other relevant government registration systems and financial sector regulations.	Integrated taxpayer register was introduced with linkages to some relevant government systems.
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	C	B		Penalties for non-compliance exist for most relevant areas but are not always effective due to insufficient scale and/or inconsistent administration	Legal and administrative changes were introduced since last assessment.
(iii) Planning and monitoring of tax audit and fraud investigation programs	B	B		Annual audit plan (PRO) and annual control plan (customs) are formulated based on risk analysis. Neither of the documents qualify as compliance improvement plans.	No change in score and performance.
PI-15 Effectiveness in collection of tax payments	D+	D+	=	(M1 method)	

(i) Collection ratio for gross tax arrears	D	D		The tax debt collection ratio in last two years was below 60% and the total amount of tax arrears was significant (above 2% of total annual collections).	Due to unreliable data, it was not possible to assess the performance.
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	A	A		All tax revenue is paid directly into the STA.	No change in score and performance.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records, and receipts by the Treasury	D	D		Tax assessments are not reconciled between the revenue collecting agencies and the MoF, Treasury Department.	No change in score. In terms of performance, issues related to the use of different IS for different types of taxes persist, in anticipation of a new, integrated information system.
PI-16 Predictability in the availability of funds for commitment of expenditures	B+	B+	=	(M1 method)	
(i) Extent to which cash flows are forecasted and monitored	A	A		A cash flow forecast is prepared for the fiscal year, and updated monthly on the basis of actual cash inflows and outflows. Inputs used for forecast and execution are coordinated between main MoF Departments, revenue agencies and the NBRNM through an informal liquidity committee.	No change in score. Improvements in performance include revised cash planning procedures and tools (Excel format) – developed in 2019 with WB technical assistance – and staff trained to use them.
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure	B	B		Budget users are provided reliable information on commitment ceilings for the next three months, based on financial plans submitted by the budget users that the Treasury Department approves.	No change in score. Performance has improved with respect to reduction of paper-based submissions of financial plans.
(iii) Frequency and transparency of adjustments to budget allocations above the level of management of MDAs	A	A		Despite the volume of adjustments in response to COVID-19 pandemic, documented rules for supplementary budgets have been upheld.	No change in score. Performance was consistent.
PI-17 Recording and management of cash balances, debt and guarantees	A	B+	↓	(M2 method)	

(i) Quality of debt data recording and reporting	A	B		Domestic and foreign debt records are complete, updated and reconciled with the creditors at least quarterly. There are no documented concerns with data accuracy. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced at least annually.	Deterioration in score only due to reinterpretation of available evidence. The previous assessment narrative refers to quarterly reconciliation with the NBRBM (not with creditors) and there has been no change in performance in that regard. Actual performance has improved with respect to DMIS functionalities.
(ii) Extent of consolidation of the government's cash balances	A	A		All BCG cash balances are calculated and consolidated daily. No accounts of other entities (social insurance funds and EBUs) are off the TSA.	No change in score and performance.
(iii) Systems for contracting loans and issuance of guarantees	B	B		Issues of debt and guarantees are all controlled by MoF and made within limits for total debt and guarantees.	No change in score and performance.
PI-18 Effectiveness of payroll controls	C+	B	↑	(M1 method)	
(i) Degree of integration and reconciliation between personnel records and payroll data	B	B		Personnel databases and payroll calculations are still not directly linked. Payroll is supported with full documentation from the underlying decentralized records. Payroll calculations are checked against the previous month's payroll.	No change in score and performance.
(ii) Timeliness of changes to personnel records and the payroll	A	B		Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are reportedly rare but no reliable data exists to evidence corrections under 3% of salary payments.	Score revised to B because of reinterpretation of evidence against the framework requirements. The previous assessment does not evidence reliable data that shows retroactive adjustments have remain within 3% of salary payments. No change evidenced in underlying performance.
(iii) Internal controls of changes to personnel	A	B		Authority to change records and payroll is restricted but does not result in an audit trail.	No change performance. Score

records and the payroll					revised to B due to lack of audit trail.
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	C	B		Payroll is audited by the SAO and internal auditors.	Improvement in score as the SAO progressively audits more entities.
PI-19 Competition, value for money and controls in procurement	B+	A	↑	(M2 method)	
(i) Transparency, comprehensiveness and competition in the legal and regulatory framework	C	A		2019 PPL is harmonized with the respective EU directives and the system meets all six of the listed requirements under the 2011 PEFA methodology.	Improvement in score and performance with the new PPL.
(ii) Use of competitive procurement methods	A	A		Use of competitive procurement methods is the default method for public procurement, at over 80 percent.	No change in score.
(iii) Public access to complete, reliable and timely procurement information	B	A		Key procurement information (government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints) is made available to the public through appropriate means for virtually all procurements.	Improvement in score and performance with the new public procurement platform (ESPP). Procurement plans are now available through the ESPP.
(iv) Existence of an independent administrative procurement complaints system	A	A		SAC meets all seven benchmarks required under the 2011 PEFA methodology.	No change in performance and score.
PI-20 Effectiveness of internal controls for non-salary expenditure	C+	B	↑	(M1 method)	
(i) Effectiveness of expenditure commitment controls	B	B		Low level of reported arrears suggests the commitment controls against the annual budget are effective. Areas of exception include multiannual commitments.	No change in score but it is now possible to verify commitment control effectiveness through arrears reports which constitutes a performance improvement.
(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures.	B	B		Comprehensiveness and relevance of internal controls is improving through improved alignment of control activities with the risks in operations of the government entities. This area is considered a work in progress and it is not possible to ascertain that controls are cost-effective.	No change in score. Performance is progressively improving under coordination of the MoF, but with further room for improvement on how internal controls are operationalized

					through internal procedures on the level of individual CG entities.
(iii) Degree of compliance with rules for processing and recording transactions	C	B		In the absence of audit findings on non-compliance with regular payment procedures or unauthorized use of exceptions. Low reported level of arrears and absence of budget inspection findings on the topic, reinforce the conclusion that compliance is fairly high.	Score improved due to reinterpretation of requirements met (2015 assessment scored C on the basis of centralization of authority with the head of institution and **potential** resulting irregularities).
PI-21 Effectiveness of internal audit	C+	C+	=	(M1 method)	
(i) Coverage and quality of the internal audit function	B	B		The number of IAUs has increased (91 in 2020, 84 in 2015). At the same time, number of auditors dropped from 2015 to 2020 (145 and 133, respectively), deepening the concerns over the staffing of the established units. To evidence that standards are "generally met", a stronger quality assurance system is required (see PI-26.2 in the main body). Revised training and certification framework yet to be operationalized through bylaws.	No change in score. Nominal improvement in underlying performance in terms of number of units and alignment with the standards in terms of methodologies and training.
(ii) Frequency and distribution of reports	A	C		Reports are issued regularly for audits conducted in line with the internal audit units' strategic and annual plans. These are regularly submitted to the management of the audited entity/ organizational unit and available to SAO and MoF as needed. Number of audits planned/carried out has been decreasing.	Lower score due to reinterpretation of available facts. Score B and A requirements require distribution of audit reports "to the audited entity, the ministry of finance and the SAI" which had not been the case either in 2015 or in 2020. In parallel, performance has been deteriorating.
(iii) Extent of management response to internal audit function.	C	C		At 61 percent of implemented internal audit recommendations within 12 months in 2020 (and dropping year-on-year), the management response is considered partial.	No change in score. Positive performance trends registered in the period 2017-2019 have not continued into 2020. The COVID pandemic may have played a role.

PI-22 Timeliness and regularity of accounts reconciliation	A	A	=	(M2 method)	
(i) Regularity of bank reconciliation	A	A		Bank reconciliation for all domestic currency STA accounts take place daily at aggregate and detailed levels, within the next day.	No change in score and performance.
(ii) Regularity and clearance of suspense accounts and advances	A	A		Reconciliation and clearance of suspense accounts takes place daily with few balances (if any) carried forward. Advance accounts to contractors are reconciled at least quarterly.	No change in score and underlying performance.
PI-23 Availability of information on resources received by service delivery units	D	D	=	Information is available on the HIF website for resources received by health care institutions, but not education providers.	Slight improvement, data is publicly available for health institutions.
PI-24 Quality and timeliness of in-year budget reports	D+	C+	↑	(M1 method)	
(i) Scope of reports in terms of coverage and compatibility with budget estimates	D	C		Comparison to budget is possible for main economic items and by administrative classification. Expenditure is captured at payment stage.	Improvement in score resulting from reassessment of available evidence of performance on this dimension. Transparency has been progressively increasing.
(ii) Timeliness of the issue of reports	A	A		Reports are prepared quarterly or more frequently, and issued within 4 weeks of end of period.	No change in score. Open Finance portal (while not assessed) constitutes an improvement in performance in terms of the level of information on in-year execution made publicly available.
(iii) Quality of information	A	A		There are no material concerns regarding data accuracy from TrIS.	No change in score.
PI-25 Quality and timeliness of annual financial statements	D+	D	↓	(M1 method)	
(i) Completeness of the financial statements	D	D		Consolidated government statement is prepared annually, with information on revenue and expenditure.	No change in score, no change in performance.

(ii) Timeliness of submissions of the financial statements	A	D		Due to COVID pandemic, and the resulting proclamation of the state of emergency, the deadlines for preparing and adopting the 2020 Final Account of the Budget of the Republic of North Macedonia have been postponed for the duration of the state of emergency.	Performance and score deterioration due to COVID. Date of submission for external audit was outside the assessment cut-off date. No underlying change in the preceding 3 years (for FY 2017-2019), where the Final Account has been consistently submitted within three months (qualifying for score A).
(iii) Accounting standards used	C	D		While the national framework ensures consistent reporting over time, the accounting standards are not formally disclosed.	Existing evidence reinterpreted. As the standards are not disclosed. No underlying change in performance.
C(iv) External Scrutiny and Audit					
PI-26 Scope, nature and follow-up of external audit	D+	B	↑	(M1 method)	
(i) Scope/nature of audit performed (including adherence to auditing standards)	D	B		CG entities representing at least 75% of total expenditures are audited annually, covering at least revenue and expenditure. Audits carried out generally adhere to auditing standards, focusing on significant and systemic issues	Improvement in score resulting from increased coverage and reinterpretation of the revenue and expenditure covered in the audit of the Final Account of the Core Budget and the social security funds.
(ii) Timeliness of submission of audit reports to the Legislature	A	B		Submission of audit reports in 2018 and 2019 were timely (under 4 months) but took more than 6 months to reach the Parliament in 2020 due to COVID circumstances.	Deterioration in score due to COVID-related delays in 2020.
ii) Evidence of follow up on audit recommendations	B	B		SAO's capability to monitor the recommendations status has improved with a dedicated information system, but the share of recommendations where the 90-day deadline had passed were in process of implementation stood at 70 percent (was 65 percent in 2015).	Score remains unchanged considering that performance improvements (in percentages of recommendations implemented) remain marginal since the last assessment.
PI-27 Legislative scrutiny of the annual budget law	D+	B+	↑	(M1 method)	

(i) Scope of the legislature scrutiny	D	A		The legislature's review covers fiscal policies, medium term fiscal framework and medium term priorities as well as details of expenditure and revenue.	Improvement in performance and score.
(ii) Extent to which the legislature's procedures are well established and respected	A	A		The legislature's procedures for budget review are firmly established and respected, including Finances and Budget Committee and Parliamentary Budget Office.	No change in performance.
(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined)	B	B		The legislature has at least one month to review the budget proposals.	No change in performance.
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature	A	A		Clear rules exist for in-year budget amendments by the executive, set strict limits on extent and nature of amendments and are consistently respected.	No change in performance.
PI-28 Legislative scrutiny of external audit reports	D	D+	↑	(M1 method)	
(i) Timeliness of examination of audit reports by the legislature	D	A		Notwithstanding the COVID-related delay in submission of the audit report, the Parliament completed its review in under 3 months in the period.	Improvement in score relative to the last assessment. The assessment team reinterpreted the requirement for the Parliament to examine "all audit reports" and scored on the basis of the review of the audit report of the Final Account.
(ii) Extent of hearing on key findings undertaken by the legislature	D	D		No in-depth hearings on audit reports are conducted by the Parliament.	No change in score and underlying performance.
(iii) Issuance of recommended actions by the legislature and implementation by the executive	D	D		No recommendations are being issued by the Parliament.	No change in performance. Last PEFA report scores this dimension both C (in the overview

					table) and D (in the assessment narrative. No change in score relative to D presented in the narrative.

Annex 5 - Calculations for PI-1, PI-2 and PI-3 (2016 Framework)

Calculation sheets for PFM Performance Indicators PI-1, PI-2.1 and PI-2.3 (MKD thousands)						
Table 1 - Fiscal years for assessment						
Year 1 =	2018					
Year 2 =	2019					
Year 3 =	2020					
Table 2						
Data for year =	2018					
administrative or functional head	Budget	actual	adjusted budget	deviation	absolute deviation	percent
1	43,602,533	43,543,887	40,034,182	3,509,705	3,509,705	8.8%
2	16,408,410	17,378,863	15,065,576	2,313,288	2,313,288	15.4%
3	25,179,444	22,297,960	23,118,805	(820,845)	820,845	3.6%
4	10,241,000	10,130,382	9,402,895	727,486	727,486	7.7%
5	8,635,600	8,072,519	7,928,878	143,640	143,640	1.8%
6	6,674,765	5,780,154	6,128,514	(348,361)	348,361	5.7%
7	6,500,000	5,972,509	5,968,052	4,457	4,457	0.1%
8	6,071,729	2,714,344	5,574,830	(2,860,486)	2,860,486	51.3%
9	3,746,709	3,422,975	3,440,085	(17,111)	17,111	0.5%
10	2,345,411	1,974,768	2,153,467	(178,699)	178,699	8.3%
11	2,271,161	1,097,951	2,085,293	(987,342)	987,342	47.3%
12	1,936,203	1,838,274	1,777,748	60,526	60,526	3.4%
13	1,472,050	1,398,549	1,351,580	46,969	46,969	3.5%
14	1,271,174	909,136	1,167,143	(258,007)	258,007	22.1%
15	1,181,000	1,062,307	1,084,349	(22,042)	22,042	2.0%
16	1,172,580	620,777	1,076,618	(455,841)	455,841	42.3%
17	1,129,000	896,248	1,036,605	(140,357)	140,357	13.5%
18	1,031,827	950,732	947,384	3,348	3,348	0.4%
19	1,005,700	934,424	923,395	11,029	11,029	1.2%

20	981,126	733,863	900,832	(166,970)	166,970	18.5%
21	11,458,415	9,956,292	10,520,679	(564,387)	564,387	5.4%
allocated expenditure	154,315,837	141,686,912	141,686,912	0	13,640,896	
interest	8,684	7,692				
contingency	200	87				
total expenditure	154,324,721	141,694,691				
aggregate outturn (PI-1)						91.8%
composition (PI-2) variance						9.6%
contingency share of budget						0.00%
Table 3						
Data for year =	2019					
administrative or functional head	Budget	actual	adjusted budget	deviation	absolute deviation	percent
1	44,610,701	43,856,767	41,367,730	2,489,038	2,489,038	6.0%
2	16,941,295	13,948,926	15,709,749	(1,760,823)	1,760,823	11.2%
3	26,096,948	23,395,707	24,199,832	(804,126)	804,126	3.3%
4	10,900,300	10,987,652	10,107,904	879,749	879,749	8.7%
5	8,674,900	8,224,196	8,044,279	179,918	179,918	2.2%
6	8,310,755	7,427,923	7,706,605	(278,682)	278,682	3.6%
7	7,273,985	4,481,094	6,745,203	(2,264,109)	2,264,109	33.6%
8	6,478,053	5,978,520	6,007,131	(28,611)	28,611	0.5%
9	3,937,665	6,055,317	3,651,417	2,403,900	2,403,900	65.8%
10	3,315,904	3,229,190	3,074,855	154,336	154,336	5.0%
11	2,038,141	2,041,969	1,889,979	151,990	151,990	8.0%
12	2,033,025	1,533,570	1,885,234	(351,664)	351,664	18.7%
13	1,570,316	1,454,541	1,456,162	(1,621)	1,621	0.1%
14	1,493,283	1,024,253	1,384,729	(360,476)	360,476	26.0%
15	1,399,400	908,130	1,297,671	(389,541)	389,541	30.0%

16	1,321,600	1,200,188	1,225,526	(25,339)	25,339	2.1%
17	1,101,325	1,021,453	1,021,264	189	189	0.0%
18	1,057,850	887,124	980,950	(93,826)	93,826	9.6%
19	1,046,350	976,794	970,286	6,508	6,508	0.7%
20	1,030,455	752,297	955,546	(203,249)	203,249	21.3%
21	12,754,060	12,123,344	11,826,905	296,439	296,439	2.5%
allocated expenditure	163,386,311	151,508,956	151,508,956	0	13,124,132	
interests	9,180	8,102				
contingency	200	108				
total expenditure	163,395,691	151,517,166				
aggregate outturn (PI-1)						92.7%
composition (PI-2) variance						6.3%
contingency share of budget						0.0%
Table 4						
Data for year =	2020					
administrative or functional head	Budget	actual	adjusted budget	deviation	absolute deviation	percent
1	15,327,117	14,909,866	15,749,854	(839,988)	839,988	5.3%
2	49,051,135	50,423,644	50,404,013	19,631	19,631	0.0%
3	26,787,938	24,841,812	27,526,775	(2,684,963)	2,684,963	9.8%
4	11,588,658	10,458,090	11,908,284	(1,450,194)	1,450,194	12.2%
5	10,133,000	7,892,386	10,412,478	(2,520,092)	2,520,092	24.2%
6	7,448,753	8,796,213	7,654,197	1,142,017	1,142,017	14.9%
7	7,112,872	7,209,513	7,309,052	(99,539)	99,539	1.4%
8	5,827,579	2,693,065	5,988,309	(3,295,244)	3,295,244	55.0%
9	4,369,979	18,473,371	4,490,507	13,982,864	13,982,864	311.4%
10	3,527,658	3,043,368	3,624,954	(581,586)	581,586	16.0%

11	2,163,400	1,880,208	2,223,069	(342,860)	342,860	15.4%
12	1,850,000	2,099,727	1,901,025	198,702	198,702	10.5%
13	1,540,460	1,473,203	1,582,947	(109,744)	109,744	6.9%
14	1,430,000	1,335,479	1,469,441	(133,962)	133,962	9.1%
15	1,398,400	1,092,189	1,436,969	(344,780)	344,780	24.0%
16	1,375,123	1,243,673	1,413,050	(169,377)	169,377	12.0%
17	1,359,500	1,120,133	1,396,996	(276,863)	276,863	19.8%
18	1,215,410	1,267,914	1,248,932	18,982	18,982	1.5%
19	1,192,650	1,459,166	1,225,544	233,622	233,622	19.1%
20	1,180,900	917,486	1,213,470	(295,985)	295,985	24.4%
21	14,352,442	12,297,656	14,748,296	(2,450,640)	2,450,640	16.6%
allocated expenditure	170,232,974	174,928,164	174,928,164	(0)	31,191,635	
Interests	8,273	8,031				
Contingency	200	168				
total expenditure	170,241,447	174,936,364				
aggregate outturn (PI-1)						102.8%
composition (PI-2) variance						17.8%
contingency share of budget						0.0%
Table 5 - Results Matrix						
	for PI-1.1		for PI-2.1		for PI-2.3	
Year	total exp. Outturn		composition variance		contingency share	
2018	91.8%		9.6%		0.0%	
2019	92.7%		8.7%			
2020	102.8%		17.8%			
				-		
Calculation sheets for calculation of expenditure variance by economic classification (PI-2.2) MKD millions						
Table 1 - Fiscal years for assessment						
Year 1 =	2018					
Year 2 =	2019					
Year 3 =	2020					
Table 2						
Data for year =	2018					

Economic head	Budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	26,345	25,610.0	24,188.7	1,421.3	1,421.3	5.9%
Use of goods and services	16,983	14,159.4	15,592.8	-1,433.4	1,433.4	9.2%
Reserves	200	84.5	183.6	-99.1	99.1	54.0%
Interest	8,684	7,692.7	7,973.1	-280.4	280.4	3.5%
Subsidies and transfers (inc. to local budgets)	35,439	38,599.4	32,538.9	6,060.5	6,060.5	18.6%
Current transfers to EBFs	34,550	35,158.6	31,722.0	3,436.6	3,436.6	10.8%
Social benefits	8,050	8,290.5	7,390.9	899.6	899.6	12.2%
Capital Expenditure	24,075	12,099.5	22,104.4	-10,005.0	10,005.0	45.3%
Total expenditure	154,324	141,694.6	141,694.6	0.0	23,635.8	
Debt repayment	22,665	28,140				
composition variance						16.7%
Table 3						
Data for year =	2019					
Economic head	Budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	27,592	26,964	25,586.5	1,377.5	1,377.5	5.4%
Use of goods and services	19,030	15,830	17,646.2	-1,815.8	1,815.8	10.3%
Reserves	200	108	185.5	-77.7	77.7	41.9%
Interest	9,180	8,102	8,513.0	-411.0	411.0	4.8%
Subsidies and transfers (inc. to local budgets)	37,688	39,382	34,948.4	4,433.3	4,433.3	12.7%
Current transfers to EBFs	33,625	33,947	31,180.9	2,765.9	2,765.9	8.9%
Social benefits	10,259	9,416	9,513.2	-97.2	97.2	1.0%
Capital Expenditure	25,821	17,769	23,943.7	-6,175.0	6,175.0	25.8%
Total expenditure	163,396	151,517	151,517.4	0.0	17,153.4	
Debt repayment	16,495	16,068				
composition variance						11.3%
Table 4						
Data for year =	2020					
Economic head	Budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	29,744	28,927	30,564.0	-1,636.6	1,636.6	5.4%
Use of goods and services	19,995	14,969	20,546.6	-5,577.7	5,577.7	27.1%
Reserves	200	168	205.5	-37.1	37.1	18.0%
Interest	8,273	8,030	8,501.4	-471.1	471.1	5.5%

Subsidies and transfers (inc. to local budgets)	40,409	56,277	41,523.7	14,753.3	14,753.3	35.5%
Current transfers to EBFs	37,518	39,194	38,552.8	641.6	641.6	1.7%
Social benefits	10,524	11,348	10,814.2	533.7	533.7	4.9%
Capital Expenditure	23,578	16,022	24,228.0	-8,206.2	8,206.2	33.9%
Total expenditure	170,241	174,936	174,936.4	0.0	31,857.2	
Debt repayment	43,214	41,829				
composition variance						18.2%
Table 5 - Results Matrix						
year	composition variance					
2018	16.7%					
2019	11.3%					
2020	18.2%					
Calculation sheets for calculation revenue composition outturn (PI-3) (in MKD thousands)						
Table 1 - Fiscal years for assessment						
Year 1 =	2018					
Year 2 =	2019					
Year 3 =	2020					
Table 2						
Data for year =	2018					
Economic head	Budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	30,238,000.0	32,304,458.0	28,019,699.1	4,284,758.9	4,284,758.9	15.3%
Taxes on goods and services	77,782,037.0	72,999,154.0	72,075,840.8	923,313.2	923,313.2	1.3%
Taxes on international trade and transactions	5,328,000.0	5,603,709.0	4,937,130.7	666,578.3	666,578.3	13.5%
Other taxes	1,450,700.0	519,801.0	1,344,274.7	-824,473.7	824,473.7	61.3%
Social contributions						
Social security contributions	55,403,000.0	56,538,000.0	51,338,560.4	5,199,439.6	5,199,439.6	10.1%
Grants						
Grants from foreign governments	4,011,216.0	0.0	3,716,947.7	-3,716,947.7	3,716,947.7	100.0%
Other revenue						
Property income	264,238.0	168,356.0	244,853.1	-76,497.1	76,497.1	31.2%
Fines, penalties and forfeits	2,092,182.0	1,795,512.0	1,938,696.7	-143,184.7	143,184.7	7.4%

Fees and charges	4,023,056.0	9,187.0	3,727,919.1	-3,718,732.1	3,718,732.1	99.8%
Other government services	4,241,454.0	2,508,109.0	3,930,295.2	-1,422,186.2	1,422,186.2	36.2%
Sum of rest	8,678,117.0	6,869,410.0	8,041,478.5	-1,172,068.5	1,172,068.5	14.6%
Total revenue	193,512,000.0	179,315,696.0	179,315,696.0	0.0	22,148,180.0	
Overall variance						92.7%
Composition variance						12.4%
Table 3						
Data for year =	2019					
Economic head	Budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	34,539,000.0	30,260,100.5	32,088,567.0	-1,828,466.5	1,828,466.5	5.7%
Taxes on goods and services	80,072,957.0	76,767,565.8	74,392,033.5	2,375,532.3	2,375,532.3	3.2%
Taxes on international trade and transactions	5,816,000.0	6,032,618.5	5,403,373.2	629,245.3	629,245.3	11.6%
Other taxes	1,457,101.0	674,303.7	1,353,724.3	-679,420.6	679,420.6	50.2%
Social contributions						
Social security contributions	62,316,000.0	62,166,000.0	57,894,876.5	4,271,123.5	4,271,123.5	7.4%
Grants						
Grants from foreign governments	5,571,738.0	0	5,176,440.8	-5,176,440.8	5,176,440.8	100.0%
Other revenue						
Property income	255,030.0	35,884.8	236,936.4	-201,051.6	201,051.6	84.9%
Fines, penalties and forfeits	2,092,032.0	1,814,348.8	1,943,608.9	-129,260.2	129,260.2	6.7%
Fees and charges	3,895,144.0	13,225.4	3,618,795.8	-3,605,570.4	3,605,570.4	99.6%
Other government services	4,704,619.0	2,551,958.0	4,370,841.1	-1,818,883.1	1,818,883.1	41.6%
Sum of rest	10,128,379.0	15,572,994.6	9,409,802.5	6,163,192.1	6,163,192.1	65.5%
Total revenue	210,848,000.0	195,889,000.0	195,889,000.0	0.0	26,878,186.4	
Overall variance						92.9%
Composition variance						13.7%

Table 4						
Data for year =	2020					
Economic head	Budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	36,482,000.0	29,121,846.5	30,619,720.8	-1,497,874.4	1,497,874.4	4.9%
Taxes on goods and services	85,349,957.0	69,011,387.2	71,635,103.7	-2,623,716.5	2,623,716.5	3.7%
Taxes on international trade and transactions	6,200,000.0	5,734,334.0	5,203,724.3	530,609.7	530,609.7	10.2%
Other taxes	2,097,700.0	510,106.4	1,760,621.4	-1,250,515.0	1,250,515.0	71.0%
Social contributions						
Social security contributions	67,033,000.0	66,564,000.0	56,261,491.8	10,302,508.2	10,302,508.2	18.3%
Grants						
Grants from foreign governments	5,534,478.0	184,157.5	4,645,144.8	-4,460,987.3	4,460,987.3	96.0%
Other revenue						
Property income	251,700.0	47,286.0	211,254.4	-163,968.4	163,968.4	77.6%
Fines, penalties and forfeits	2,192,032.0	1,361,028.7	1,839,795.2	-478,766.5	478,766.5	26.0%
Fees and charges	3,658,991.0	19,745.3	3,071,029.1	-3,051,283.8	3,051,283.8	99.4%
Other government services	5,376,126.0	2,056,898.0	4,512,238.3	-2,455,340.3	2,455,340.3	54.4%
Sum of rest	8,132,016.0	11,974,619.6	6,825,285.3	5,149,334.3	5,149,334.3	75.4%
Total revenue	222,308,000.0	186,585,409.1	186,585,409.1	0.0	31,964,904.3	
Overall variance						83.9%
Composition variance						17.1%

Table 5 - Results Matrix						
year	total revenue deviation	composition variance				
2018	92.7%	12.4%				
2019	92.9%	13.7%				
2020	83.9%	17.1%				

Annex 5a - Calculations for PI-1, PI-2 and PI-3 (2011 Framework)

Calculation sheets for PFM Performance Indicators PI-1, PI-2.1 and PI-2.3 MKD thousands						
Table 1 - Fiscal years for assessment						
Year 1 =	2018					
Year 2 =	2019					
Year 3 =	2020					
Table 2						
Data for year =	2018					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
1	43,402,913	43,359,421	41,693,498.0	1,665,923.1	1,665,923.1	4.0%
2	12,753,189	14,661,459	12,250,907.2	2,410,551.6	2,410,551.6	19.7%
3	24,507,926	21,887,347	23,542,686.3	-1,655,339.7	1,655,339.7	7.0%
4	10,240,000	10,130,379	9,836,699.7	293,679.4	293,679.4	3.0%
5	8,635,600	8,072,519	8,295,488.6	-222,970.0	222,970.0	2.7%
6	5,431,695	5,607,031	5,217,768.8	389,262.4	389,262.4	7.5%
7	6,490,000	5,954,154	6,234,392.7	-280,238.9	280,238.9	4.5%
8	1,876,147	1,623,735	1,802,255.3	-178,520.3	178,520.3	9.9%
9	3,720,249	3,403,509	3,573,727.7	-170,218.8	170,218.8	4.8%
10	2,083,885	1,929,189	2,001,811.6	-72,622.9	72,622.9	3.6%
11	889,383	707,942	854,354.8	-146,412.6	146,412.6	17.1%
12	1,930,403	1,836,280	1,854,374.5	-18,094.1	18,094.1	1.0%
13	1,463,262	1,384,466	1,405,631.7	-21,165.3	21,165.3	1.5%
14	1,271,174	909,136	1,221,109.1	-311,972.6	311,972.6	25.5%
15	1,181,000	1,061,347	1,134,486.6	-73,139.1	73,139.1	6.4%
16	662,580	620,777	636,484.4	-15,707.5	15,707.5	2.5%
17	1,129,000	896,248	1,084,534.6	-188,287.0	188,287.0	17.4%
18	1,026,800	947,178	986,359.7	-39,181.9	39,181.9	4.0%
19	1,005,700	934,424	966,090.7	-31,666.7	31,666.7	3.3%

20	741,120	666,528	711,931.1	-45,402.7	45,402.7	6.4%
21	11,079,796	9,354,944	10,643,420.5	-1,288,476.5	1,288,476.5	12.1%
allocated expenditure	141,521,822	135,9480,13.5	135,948,013.5	0.0	9,518,833.2	
interest						
contingency	200.0	86.9				
total expenditure	141,522,022	135,948,100.3				
aggregate outturn (PI-1)						3.9%
composition (PI-2) variance						7.0%
contingency share of budget						0.0%
Table 3						
Data for year =	2019					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
1	44,407,186	43,759,889	42,872,217.1	887,671.7	887,671.7	2.1%
2	13,161,601	11,772,084	12,706,660.0	-934,575.5	934,575.5	7.4%
3	25,167,166	22,661,293	24,297,243.3	-1,635,950.5	1,635,950.5	6.7%
4	10,899,300	10,967,645	10,522,557.2	445,088.1	445,088.1	4.2%
5	8,674,900	8,224,197	8,375,045.3	-150,848.8	150,848.8	1.8%
6	8,150,755	7,424,409	7,869,017.8	-444,609.0	444,609.0	5.7%
7	1,689,010	1,879,390	1,630,628.1	248,761.9	248,761.9	15.3%
8	5,891,908	5,940,550	5,688,249.6	252,300.3	252,300.3	4.4%
9	3,264,244	5,773,440	3,151,412.9	2,622,027.2	2,622,027.2	83.2%
10	3,289,070	3,206,475	3,175,380.7	31,094.5	31,094.5	1.0%
11	2,032,341	2,040,934	1,962,091.6	78,842.5	78,842.5	4.0%
12	876,600	708,017	846,299.6	-138,282.9	138,282.9	16.3%
13	1,570,316	1,454,541	1,516,036.8	-61,495.5	61,495.5	4.1%
14	1,025,383	895,998	989,939.8	-93,941.8	93,941.8	9.5%
15	1,399,400	908,130	1,351,028.7	-442,898.7	442,898.7	32.8%
16	1,321,600	1,199,920	1,275,917.9	-75,998.2	75,998.2	6.0%

17	1,101,325	1,021,132	1,063,256.8	-42,125.0	42,125.0	4.0%
18	1,057,850	887,124	1,021,284.6	-134,160.8	134,160.8	13.1%
19	1,030,350	973,090	994,735.2	-21,645.6	21,645.6	2.2%
20	864,455	722,743	834,574.4	-111,831.8	111,831.8	13.4%
21	12,157,150	11,459,507	11,736,928.7	-277,421.9	277,421.9	2.4%
allocated expenditure	149,031,910	143,880,506.1	143,880,506.1	0.0	9,131,572.1	
contingency	200.0	107.8				
total expenditure	149,032,110	143,880,613.9				
aggregate outturn (PI-1)						3.5%
composition (PI-2) variance						6.3%
contingency share of budget						0.0%
Table 4						
Data for year =	2020					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
1	12,097,217	13,601,937	12,721,353.7	880,583.0	880,583.0	6.9%
2	48,591,115	49,192,471	51,098,096.4	-1,905,625.5	1,905,625.5	3.7%
3	25,964,848	24,277,752	27,304,463.1	-3,026,711.3	3,026,711.3	11.1%
4	11,587,658	10,436,590	12,185,504.8	-1,748,914.5	1,748,914.5	14.4%
5	9,927,000	7,886,060	10,439,167.8	-2,553,107.3	2,553,107.3	24.5%
6	7,448,753	8,796,213	7,833,059.6	963,153.8	963,153.8	12.3%
7	6,370,406	7,157,975	6,699,077.0	458,897.7	458,897.7	6.9%
8	1,872,435	1,531,966	1,969,040.3	-437,074.5	437,074.5	22.2%
9	3,702,831	15,693,000	3,893,872.7	11,799,127.4	11,799,127.4	303.0%
10	3,500,824	3,021,350	3,681,443.5	-660,093.7	660,093.7	17.9%
11	2,163,400	1,880,208	2,275,017.2	-394,808.8	394,808.8	17.4%
12	1,845,000	2,098,728	1,940,189.8	158,538.1	158,538.1	8.2%
13	1,532,460	1,459,220	1,611,524.8	-152,304.6	152,304.6	9.5%
14	1,430,000	1,335,479	1,503,778.6	-168,299.8	168,299.8	11.2%

15	1,398,400	1,092,189	1,470,548.2	-378,359.0	378,359.0	25.7%
16	1,017,665	1,144,587	1,070,169.8	74,417.1	74417.08151	7.0%
17	1,359,500	1,120,133	1,429,641.2	-309,507.9	309507.8691	21.6%
18	767,160	592,044	806,740.4	-214,696.0	214695.9711	26.6%
19	1,192,650	1,459,166	1,254,182.9	204,983.3	204983.3085	16.3%
20	980,900	825,084	1,031,508.0	-206,423.8	206,423.8	20.0%
21	13,443,185	11,752,991	14,136,764.8	-2,383,773.8	2,383,773.8	16.9%
allocated expenditure	158,193,407	166,355,144.4	166,355,144.4	0.0	29,079,400.8	
contingency	200.00	168.42				
total expenditure	158,193,607	166,355,312.9				
aggregate outturn (PI-1)						5.2%
composition (PI-2) variance						17.5%
contingency share of budget						0.0%
Table 5 - Results Matrix						

	for PI-1.1	for PI-2.1	for PI-2.3
year	total exp. Outturn	composition variance	contingency share
2018	3.9%	7.0%	0.0%
2019	3.5%	6.3%	0.0%
2020	5.2%	17.5%	0.0%

Calculation sheets for calculation revenue composition outturn (PI-3) MKD thousands						
Table 1 - Fiscal years for assessment						
Year 1 =	2018					
Year 2 =	2019					
Year 3 =	2020					
Table 2						
Data for year =	2018					
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	30,238,000.0	32,304,458.0	28,019,699.1	4,284,758.9	4,284,758.9	15.3%

Taxes on goods and services	77,782,037.0	72,999,154.0	72,075,840.8	923,313.2	923,313.2	1.3%
Taxes on international trade and transactions	5,328,000.0	5,603,709.0	4,937,130.7	666,578.3	666,578.3	13.5%
Other taxes	1,450,700.0	519,801.0	1,344,274.7	-824,473.7	824,473.7	61.3%
Social contributions						
Social security contributions	55,403,000.0	56,538,000.0	51,338,560.4	5,199,439.6	5,199,439.6	10.1%
Grants						
Grants from foreign governments	4,011,216.0	0.0	3,716,947.7	-3,716,947.7	3,716,947.7	100.0%
Other revenue						
Property income	264,238.0	168,356.0	244,853.1	-76,497.1	76,497.1	31.2%
Fines, penalties and forfeits	2,092,182.0	1,795,512.0	1,938,696.7	-143,184.7	143,184.7	7.4%
Fees and charges	4,023,056.0	9,187.0	3,727,919.1	-3,718,732.1	3,718,732.1	99.8%
Other government services	4,241,454.0	2,508,109.0	3,930,295.2	-1,422,186.2	1,422,186.2	36.2%
Sum of rest	8,678,117.0	6,869,410.0	8,041,478.5	-1,172,068.5	1,172,068.5	14.6%
Total revenue	193,512,000.0	179,315,696.0	179,315,696.0	0.0	22,148,180.0	
Overall variance						92.7%
Composition variance						12.4%
Table 3						
Data for year =	2019					
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	34,539,000.0	30,260,100.5	32,088,567.0	-1,828,466.5	1,828,466.5	5.7%
Taxes on goods and services	80,072,957.0	76,767,565.8	74,392,033.5	2,375,532.3	2,375,532.3	3.2%
Taxes on international trade and transactions	5,816,000.0	6,032,618.5	5,403,373.2	629,245.3	629,245.3	11.6%
Other taxes	1,457,101.0	674,303.7	1,353,724.3	-679,420.6	679,420.6	50.2%
Social contributions						
Social security contributions	62,316,000.0	62,166,000.0	57,894,876.5	4,271,123.5	4,271,123.5	7.4%
Grants						

Grants from foreign governments	5,571,738.0	0	5,176,440.8	-5,176,440.8	5,176,440.8	100.0%
Other revenue						
Property income	255,030.0	35,884.8	236,936.4	-201,051.6	201,051.6	84.9%
Fines, penalties and forfeits	2,092,032.0	1,814,348.8	1,943,608.9	-129,260.2	129,260.2	6.7%
Fees and charges	3,895,144.0	13,225.4	3,618,795.8	-3,605,570.4	3,605,570.4	99.6%
Other government services	4,704,619.0	2,551,958.0	4,370,841.1	-1,818,883.1	1,818,883.1	41.6%
Sum of rest	10,128,379.0	15,572,994.6	9,409,802.5	6,163,192.1	6,163,192.1	65.5%
Total revenue	210,848,000.0	195,889,000.0	195,889,000.0	0.0	26,878,186.4	
Overall variance						92.9%
Composition variance						13.7%
Table 4						
Data for year =	2020					
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Tax revenues						
Taxes on income, profit and capital gains	36,482,000.0	29,121,846.5	30,619,720.8	-1,497,874.4	1,497,874.4	4.9%
Taxes on goods and services	85,349,957.0	69,011,387.2	71,635,103.7	-2,623,716.5	2,623,716.5	3.7%
Taxes on international trade and transactions	6,200,000.0	5,734,334.0	5,203,724.3	530,609.7	530,609.7	10.2%
Other taxes	2,097,700.0	510,106.4	1,760,621.4	-1,250,515.0	1,250,515.0	71.0%
Social contributions						
Social security contributions	67,033,000.0	66,564,000.0	56,261,491.8	10,302,508.2	10,302,508.2	18.3%
Grants						
Grants from foreign governments	5,534,478.0	184,157.5	4,645,144.8	-4,460,987.3	4,460,987.3	96.0%
Other revenue						
Property income	251,700.0	47,286.0	211,254.4	-163,968.4	163,968.4	77.6%
Fines, penalties and forfeits	2,192,032.0	1,361,028.7	1,839,795.2	-478,766.5	478,766.5	26.0%
Fees and charges	3,658,991.0	19,745.3	3,071,029.1	-3,051,283.8	3,051,283.8	99.4%

Other government services	5,376,126.0	2,056,898.0	4,512,238.3	-2,455,340.3	2,455,340.3	54.4%
Sum of rest	8,132,016.0	11,974,619.6	6,825,285.3	5,149,334.3	5,149,334.3	75.4%
Total revenue	222,308,000.0	186,585,409.1	186,585,409.1	0.0	31,964,904.3	
Overall variance						83.9%
Composition variance						17.1%
Table 5 - Results Matrix						
year	total revenue deviation	composition variance				
2018	92.7%	12.4%				
2019	92.9%	13.7%				
2020	83.9%	17.1%				