



REPUBLIC OF NORTH MACEDONIA
MINISTRY OF FINANCE

„SMART PUBLIC FINANCES“

**Semi-Annual Monitoring Report on
Implementation of 2022 Action Plan for Public
Financial Management Reform Programme**

for the period January - June 2022

September 2022, Skopje

Abbreviations and Acronyms

CA	Customs Administration
CARNM	Customs Administration of the Republic of North Macedonia
CEF	Center of Excellence in Finance
CIPFA	Chartered Institute of Public Finance and Accountancy
CHU	Central Harmonisation Unit
DBRNM	Development Bank of the Republic of North Macedonia
ERP	Economic Reform Programme
EC	European Commission
EEPSP	Single Electronic System for Public Private Partnership
ENER	Unique National Electronic Register of Regulations
ESRRL	Electronic System for Reporting and Recording of Liabilities
EU	European Union
GAP	Growth Acceleration Plan
GGICR	Good Governance and Investment Climate Reforms
HR	Human Resource
IPA	Instrument for Pre-Accession Assistance
IFMIS	integrated financial management information system
IFIs	International Financial Institution
IMF	International Monetary Fund
IT	Information Technology
ICT	Internal Customers Technology
IFMIS	International Financial Management Information System
ISSAIs	International Standards of Supreme Audit Institutions
LGUs	Local Government Units
KPIs	Key Performance Indicator
MoF	Ministry of Finance
ME	Ministry of Economy
MJ	Ministry of Justice
MASP	Multi-Annual Strategic Plan
NPAA	National Programme for Adoption of the Acquis
OECD	Organisation for Economic Cooperation and Development
OBL	Organic Budget Law
PFM	Public Finance Management
PRO	Public Revenue Office
PPB	Public Procurement Bureau
PFA	Public Finance Academy
PPP	Public-Private Partnership
PAR	Public Administration Reform
PEFA	Public Expenditure Financial Accountability
PIM	Public Investment Management

RIA	Regulatory Impact Assessment
SPF	SMART PUBLIC FINANCES
SWG	Sector Working Group
SAO	State Audit Office
SACPP	State Appeal Commission for Public Procurement
SMART	Specific Measurable Achievable Relevant Time-Based
SIGMA	Support for Improvement in Governance and Management
SEA	Secretariat for European Affairs
SECO	Swiss State Secretariat for Economic Affairs
SAA	Stabilisation and Association Agreement
TA	Tax Administration
TSRS	Tax System Reform Strategy
TFMA	Task Force on Municipality Audit
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
VAT	Value Added Tax
WB	World Bank
WFD	Westminster Foundation for Democracy

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Introduction

Monitoring Report on implementation of 2022 Action Plan for Implementation of the PFM Reform Programme for the period January-June 2022 was prepared by the Ministry of Finance (MoF) of the Republic of North Macedonia, with other line ministries represented on the Sector Working Group actively participating: Ministry of Economy, State Audit Office (SAO), Customs Administration of the Republic of North Macedonia (CARNM), Public Revenue Office (PRO), Public Procurement Bureau (PPB), State Appeal Commission for Public Procurement (SACPP). Process of Report preparation was initiated in July 2022, and finalised by end-August 2022. The Report was prepared on the basis of an instruction for reporting, including deadlines and reporting templates, prepared by the IPA and NPAA Unit at the Ministry of Finance (Coordination Unit), facilitating the consolidation and the presentation of PFM reform reporting information.

It provides information on the progress achieved in implementing the reform activities in the first half of 2022.

1. Background

On 21st June 2022, Government of the Republic of North Macedonia adopted the 2022-2025 PFM Reform Programme and the 2022 Action Programme for Implementation of PFM Reform Programme.

2022-2025 PFRM Reform Programme (hereinafter referred to as: Programme) highlights the credibility of the 2018-2021 Programme and the need to proceed with the reforms in this area. It is an ambitious effort covering all aspects of PFM: economic analysis, macroeconomic and fiscal framework, revenue mobilisation and collection, budget planning, public investment management, effective instruments under the Growth Acceleration Plan, public procurement, including PPP, establishment of integrated financial management information system (IFMIS), Public Finance Academy, budget accounting, public internal financial control, external control and parliamentary oversight and PFM at local level.

Key goals of the Programme are improved fiscal framework, strengthened process of public finance planning, execution and reporting, increased revenue collection, strengthened public procurement system and improved internal and external control by increasing transparency and accountability in operations, which are to ensure accelerated and sustainable economic growth, higher living standard and better quality of life for the citizens. All this encompasses maintaining stable budget in the long run, thereby continuing the rendering of quality and prompt services to the citizens and the businesses through a modern and efficient public

administration based on digitalisation. Further improvement of public financial management is necessary not only to underpin the measures aimed at fiscal consolidation and structural reforms, but also as a process which improves the quality of the public administration and ensures an attractive and desired environment for the investors. Moreover, the Government has developed sub-system reform strategies in the areas of public internal financial control and tax system.

The Programme is based on the SMART public finance concept, as one of the priorities of the Government, or literally translated “smart” finances based on clear strategy, which will be maintainable, accountable, reform-oriented and transparent, under which public finance reforms will be implemented in terms of longer-term and better quality planning of the budget programmes and the budgets, it will be continuous, i.e. maintainable, and will be continuously aimed at improving the transparency. This will mean aiming at more just model of public finances from the point of view of revenues, expenditures and the manner of financing, i.e. in other words, how the funds are collected in the Budget and how citizens’ money is spent, putting the focus on re-orienting the traditional budgeting to performance-based budgeting and introducing multi-annual budget framework.

One of the main pillars of the SMART system has to be transparency and accountability of public finances, considering that transparency has been the “key word” in the politics in recent years. Its real value for public finances is that it is the highest level of fiscal control, when you provide information to the public in a simple and understandable manner and the public judges and decides whether it is a right or justified or legal decision.

Ministry of Finance of the Republic of North Macedonia prepared the 2022-2025 PFM Reform Programme and the 2022 Action Plan for Implementation of the PFM Reform Programme in close cooperation with the following institutions: Ministry of Economy, State Audit Office, Customs Administration, Public Revenue Office, Public Procurement Bureau, State Appeal Commission for Public Procurement.

Both the Programme and the 2022 Action Plan were published on the Ministry of Finance website on 15th April 2022 in Macedonian and English language. Public consultations took place in the form of a policy dialogue on 13th May 2022, with the relevant stakeholders taking part (development partners, civil society organisations, IFIs, local authorities and other stakeholders), all to the end of actively contributing to the process of identifying and implementing the reform priorities.

What is important for the accession process is that PFM Reform Programme will support the EU dialogue and help in more efficient use of EU funds through the institutions of North Macedonia, on the road to EU accession. Sound public financial management is a key precondition in the process of EU integration and is linked to many negotiation chapters (Chapter 5 - Public Procurement, Chapter 16 - Taxation, Chapter 17 - Economic and Monetary

Policy, Chapter 18 - Statistics, Chapter 29 - Customs Union, Chapter 32 - Financial Control and Chapter 33 - Financial and Budgetary Provisions).

Implementation of structural reforms through quality and sound economic policies in all spheres, above all fiscal policy with moderate fiscal deficit, but sustainable public debt for efficient, transparent and modern public financial management, is essential for a stable, sustainable development, boosted competitiveness of the Macedonian economy and achieving better economic results in future, as well as wellbeing of the citizens of the Republic of North Macedonia.

PFM Reform Programme envisages 8 pillars with 22 priorities:

Pillar I - Economic Analysis, Macroeconomic and Fiscal Framework

- Priority 1. Revenue Forecasting and Reporting
- Priority 2. Economic Analysis and Macroeconomic Forecasting
- Priority 3. Strengthening Debt Management

Pillar II - Revenue Mobilisation

- Priority 1. Tax and Customs Policy
- Priority 2. Tax Administration
- Priority 3. Customs

Pillar III - Planning and Budget

- Priority 1. Budget Planning
- Priority 2. Strengthened Public Investment Management
- Priority 3. Effective Instruments under the Growth Acceleration Plan

Pillar IV - Public Procurement

- Priority 1. Public Procurement Policy
- Priority 2. Public Private Partnerships (PPPs)
- Priority 3. Appeal Mechanism

Pillar V - Integrated Public Finances

- Priority 1. Implementation of an Integrated Financial Management Information System (IFMIS) to Support the Implementation of Public Financial Management Reforms and Organic Budget Law
- Priority 2. Strengthen the Accounting of Budgets and Budget Users
- Priority 3. Public Finance Academy

Pillar VI - Public Internal Financial Control

- Priority 1. Financial Management and Control
- Priority 2. Internal Audit
- Priority 3. Financial Inspection

Pillar VII - External Control and Parliamentary Oversight

- Priority 1. External Audit
- Priority 2. Parliamentary Oversight

Pillar VIII - PFM at Local Level

- Priority 1. Fiscal Decentralisation
- Priority 2: Financial Discipline, Transparency and Accountability at Local Level

2022 Action Plan elaborates in details the measures and the activities under the PFM Reform Programme to be implemented in 2022, defines the specific indicator targets to be reached, also presenting cost estimates and the sources of financing needed for implementing such activities.

[2. Links to Strategic Documents](#)

National authorities continue to maintain close co-ordination of all PFM sub-systems' strategies and policies, as well as with other relevant national strategies.

[2.1. Policies, Strategies and Programmes Linked to PFM](#)

2022-2025 PFM Reform Programme takes into account all the relevant documents in the field of European integration, such as the Stabilisation and Association Agreement (SAA) between the European Communities and their Member States, on the one hand, and the Republic of North Macedonia, on the other hand, as well as all relevant national strategic documents in this area.

IPA III Strategic Response

Priorities set out in the PFM Reform Programme are in line with the priorities for EU financial assistance to support the Republic of North Macedonia on its path to EU accession for the period 2021 - 2027 set out in the IPA III Strategic Response.

In order to strengthen public finance system, promote transparency, accountability, fiscal discipline and efficiency when collecting, managing and using public resources, IPA plans to invest in implementing and upgrading the reform strategies to ensure fiscal sustainability and sound management of public finances as applicable in the EU, improving the capacity for domestic revenue mobilisation and effective management of public funds, through improving stability, efficiency, and quality of revenue collection system (tax system and policy and customs system), including introduction of green taxation, improving budget planning reliability, further supporting of the implementation of integrated information system for public financial management, public investment planning and management; strengthening the management of assets and liabilities; enhancing the policy-based fiscal strategy and budgeting, strengthening the public procurement through support in implementing an overall strategy for the development of the public procurement system, including aspects of innovative, green and social procurement, improving public private partnership for concessions, enhancing internal control, strengthening decentralised managerial accountability, strengthening the accounting and reporting, enhancing the external audit.

Economic Reform Programme (ERP)

Economic Reform Programme (ERP) 2022-2024 was submitted to the European Commission (EC) on 31st January 2022¹, in line with the EC Guidance for ERP 2022-2024. EC assessment of the Programme was published on 20th April 2022², following the EC assessment mission in the period 17th - 18th February 2022. Commission assessment noted partial implementation of the policy guidance jointly adopted at the Economic and Financial Dialogue of 12th July 2021 with 43.1%, while with respect to the progress in implementing the reform measures from the last year's Programme, EC noted an average score of 2.6 out of 5.

Economic and Financial Dialogue is part of the pre-accession economic and fiscal surveillance of the Western Balkans and Turkey, following the example of the European Semester for EU Member States. Economic and Financial Dialogue for ERP 2022-2024 took place in the period April - May, wrapping up with the Ministerial Meeting held on 24th May 2022 in Brussels, when the joint conclusions for the upcoming ERP 2022 - 2025 were adopted.

Recommendations of the Joint Conclusions, the implementation of which is to be reported in ERP 2023 - 2025, refer, among other things, to setting up a central public investment

¹<https://ec.europa.eu/neighbourhood-enlargement/system/files/2022-05/North%20Macedonia%20ERP%202022-2024.pdf>

²https://ec.europa.eu/neighbourhood-enlargement/system/files/2022-05/North%20Macedonia%202022%20ERP%20assessment%20SWD_2022_123.pdf

management unit in the Ministry of Finance, enhancing revenues in line with the Tax System Reform Strategy and accelerating the digital transformation of the Public Revenue Office; adopting the new Public-Private Partnership (PPP) Law, including by setting up a fully functioning PPP registry; ensuring central monitoring of all fiscal risks related to state-owned enterprises, PPPs, and local government units by the Ministry of Finance; implementing the new organic Budget law as soon as it is passed by the Parliament and taking all steps to enable the new Fiscal Council to take up operations.

ERP 2023 - 2025 is to be submitted to EC by 31st January 2023 at the latest, in line with the submitted EC Guidance for ERP 2023-2025.

National Programme for Prevention of Corruption and Conflict of Interests 2021 - 2025

Achieving the objectives and implementing the measures under the Strategy should ensure increased confidence in the institutions of the system, efficient use of public resources and strengthening the democracy, social values and exercising of human rights.

The Strategy detects and selects priority issues that generate high risk of corruption and identifies measures to overcome them. Issues and measures envisaged by this Strategy systematised in the following areas: public procurement, public sector employment, political system, judiciary, law enforcement authorities, health, labour and social policy, urban and spatial planning, environment, agriculture, sports, economy and business, public enterprises, media and civil society.

Public Administration Reform (PAR) Strategy

Public financial management reform is one of the key pillars of the public administration reform (PAR), accordingly being incorporated in the PAR Strategy and the Action Plan for Implementation of PAR Strategy. Given that modern public administration is basis for efficient and effective public financial management, when preparing the PFM Reform Programme and the PAR Strategy, full coherence and harmonisation of both strategic documents is ensured. Particular attention has been paid to the human resources capacity, policy planning capacity, e-services, provision of services and orientation towards results coordination as regards enhancing managerial accountability, internal control environment and improving transparency. Moreover, link between these two strategic document has been further strengthened with the Minister of Information Society and Administration participating in the process of managing and coordinating the PFM Reform Programme, as a member of the PFM Council, and its representatives in the PFM Sector Working Group, thus ensuring consistency and complementarity in the implementation of both documents. Furthermore, PFM reforms are put on the agenda of the SAA monitoring process, in particular, the progress in implementation of the reforms is discussed during the meetings of the Special Group for Public Administration

Reform. In addition, agendas of the PFM policy dialogue and the Special Group for Public Administration Reform are harmonised.

Under IPA Project "Support to State Reorganisation", implemented by the Ministry of Information Society and Administration, new Law on Organisational Setup and Operations of State Administration Bodies has been prepared, aimed at streamlining the institutional framework, eliminating the overlapping competencies and improving the efficiency of the administration, strengthening the public services, as well as the ethics, integrity, transparency and accountability of the public administration.

Organisational setup of the new Departments has been defined with a functional analysis made by the Ministry of Finance. In order to commence performing the new functions related to public investment management, concession registry, carrying out training in the area of public finances, etc., Ministry of Finance is to amend the organisation and systematisation acts by establishing and staffing new organisational units.

2.2. PFM Sub-Areas Strategies

Strategies developed under different PFM sub-systems are coordinated and consistent with the PFM Reform Programme.

Tax System Reform Strategy covers a 5-year period (2021 - 2025), adhering to the deadlines set in the other strategic documents of the Ministry and its bodies. The Strategy outlines five priorities (1 - Increased Fairness of Taxation, 2 – Improved Efficiency and Productivity of the Tax System, 3 – Increased Tax Transparency, 4 – Improved Quality of Services, 5 – Introduction of Green Taxation) for tax policy creators and tax authorities administering the tax revenues in the period 2021-2025, with associated key activities, deliverables, responsible entities and KPIs.

Strategy for Strengthening the Public Procurement System in the Republic of North Macedonia 2022 -2026

Government of the Republic of North Macedonia adopted the Strategy for Strengthening the Public Procurement System in the Republic of North Macedonia 2022 -2026, with 2022 Action Plan for its implementation, in the first quarter of 2022. Moreover, the Government adopted a conclusion for establishment of a coordinating body for monitoring the implementation of the Strategy for Strengthening the Public Procurement System in the Republic of North Macedonia 2022 -2026.

The coordinating body for monitoring the implementation of the Strategy for Strengthening the Public Procurement System in the Republic of North Macedonia 2022 -2026 was established on 13th April 2022. Chairman of the coordinating body is the Director of the Public Procurement Bureau, with its members being the employees in the PPB and representatives

from the State Commission for Prevention of Corruption, State Appeal Commission for Public Procurement, State Audit Office, Commission for Protection of Competition, employees from the Cabinet of the Deputy Prime Minister in charge of Good Governance Policies, Ministry of Finance, Ministry of Justice and Secretariat for European Affairs.

The coordinating body will monitor the effects/results of the strategic and operational goals while implementing the Strategy, will prepare an annual report on monitoring the implementation of the Strategy and the Action Plan for the current year to serve to assess the effects/the results of the strategic and the operational goals annually.

The Strategic plan of the PRO for the period 2022-2024 is fully complementary to the Program. Within the framework of Program 3. Public finance management - revenue mobilization, subprogram 3.1. Improved stability, efficiency and quality of the revenue collection system (tax system and policy) 3.2 Improved debt administration and management sub-program, 3.3 Compliance risk management and sub-program 3.4. Establishing a Disaster Recovery Center. The plan contains activities that are in full consistency with the planned activities within Priority 2 – Tax Administration from the Program.

The IT strategy of the PRO for the period from 2019 to 2022 is in accordance with the Program for the reform of the PRO and the Tax System Reform Strategy. The key objective of the IT strategy of the PRO is to define the overall development strategy for the information and communication systems of the PRO in accordance with the development strategy of the PRO as a whole. The strategy defines the future development of IT systems, infrastructure and technical environment and the directions for the development of the Information Technology Sector and its employees, the mandatory application of IT standards and methodologies. With technical assistance from the IMF, the new IT strategy of the PRO for the period 2023-2026 is being developed.

The strategy for the development of the Customs Administration of the Republic of North Macedonia for the period 2022-2024;

The strategy has been drafted in accordance with the strategic determinations and priorities presented in the Work Program of the Government of the Republic of North Macedonia in the period 2020-2024 and the corresponding national strategies and programs in areas that have an impact on customs operations. When defining the strategic goals, the commitment of the European Union with tax and customs policies to provide support for economic recovery from the crisis with COVID-19, to raise customs administrations to a higher level of modernization, with advanced staffing that enables better protection, was also taken into account citizens and society through efficient and proactive action of the customs services. The vision of the Customs Administration is to be a leading Customs Administration in the region, recognized as a protector of borders and society and a strong supporter of the legal economy, as well as a modern and innovative customs service with fully applied European Union standards, through

the four strategic priorities: 1) collection of income and protection of financial interests, 2) facilitation of trade, 3) protection of society and 4) organizational and infrastructure development. The strategy is fully in accordance with the Program through the objectives: 6.2.1 Harmonization of the national customs legislation with the legislation and best practices of the European Union; 6.2.2 Digitization of customs and excise procedures; 6.2.3 Modernization of the customs ICT infrastructure to support operations; 6.2.4 Trade facilitation through regional economic integration; 6.3.1 Suppression of illegal trade and organized crime; 6.3.3 Strengthening the area of "bans and restrictions"; 6.4.1 Strengthening the human resources management system; 6.4.2 Implementation of measures to prevent inappropriate and corrupt behavior and development of rules and control systems.

ICT development strategy in the Customs Administration for the period 2021 - 2025;

In the period 2021 - 2025, the CA plans to implement several projects from all areas of customs operations, which should be supported by IT. Most of these projects are part of the preparation process for the accession of the Republic of North Macedonia to the European Union (EU). In the foundations of this strategy are the user requirements and goals that arise from the business strategy of the CA, and are aligned with the priorities and plans at the national and European level.

The goals that are expected to be achieved through the implementation of the Strategy are related to the digitization of customs operations through: 1. Interconnectivity and interoperability with EU ICT systems, 2. Implementation of integration standards with the National Platform for Interoperability, 3. Improvement of the ICT environment, 4. Application of modern technologies and practices for the implementation of business claims and 5. Promotion of the use of the Internet, intranet and social networks in customs operations

Risk management strategy for customs matters 2018-2022;

The need for efficient risk management in the international supply chain is of crucial importance for ensuring the safety and security of the population, protecting the financial and economic interests of the country, and at the same time facilitating legal trade. With this strategy, the Customs Administration defines the goals through which the risk management process will be constantly improved, namely: 1. Increasing the capacity of the Risk Management Department, 2. Improving the quality of data and information support for efficient risk management, 3. Provision, availability and sharing of risk management data, cooperation between institutions, multi-layered approach, 4. Effective control system based on risk management, pre-assessment, control where necessary.

Strategy for integrity and fight against corruption in the Customs Administration of the Republic of North Macedonia 2019-2022;

The strategy for integrity and fight against corruption of the Customs Administration aims to strengthen the systems of prevention and repression of corruption and conflict of interests,

defining the directions for strengthening the capacities and independence of the institution in the implementation of legal powers through the development of the concept of integrity. This document is based on the following principles, which at the same time represent leading activities, essential for integrity and the suppression of corruption, such as: leadership, rule of law, publicity and transparency in operations, automation of work processes, ethical behavior of employees, strengthening the integrity of the employees, strengthening the efficiency and effectiveness in the work of the organizational units in the Customs Administration, training and professional development, strengthening the inter-institutional cooperation in the fight against corruption and crime, implementation of the National Strategies for the prevention and repression of corruption and the occurrence of conflict of interests and more.

Strategy for training and development of competencies in the Customs Administration of the Republic of North Macedonia 2021-2023;

The Strategy for Training and Development of Competencies in the Customs Administration of the Republic of North Macedonia 2021-2023 (hereinafter: Training Strategy) determines the development of employees based on competencies, priorities, roles, rights and responsibilities of the participants in the competence development process in the Customs Administration of the Republic of North Macedonia (hereinafter: CARNM). The continuous development of the competencies of human resources is aimed at supporting the implementation of the strategic goals foreseen in the Strategic Plan of the Customs Administration of the Republic of North Macedonia 2020-2022.

The intention of the strategy is in the period 2020-2023 to: 1. Improve the system for internal redeployment and the system for training and professional development, 2. To introduce customs competences in the processes of Human Resource Management, 3. To improve the knowledge and skills of customs officers, 4. To strengthen performance management mechanisms and reward and career systems and to increase awareness and commitment of employees.

SAO Development Strategy 2018-2022

Priorities and Measures within Pillar 7: External control and parliamentary oversight of 2022-2025 PFM Reform Program are closely related to the strategic objectives contained in SAO Development Strategy for 2018-2022 as follows:

Priority 1: External audit, Measure 1: *Strengthening external audit legal framework* is related to Strategic Objective 2: Further improvement of the quality of audits and Strategic Objective 3 - Further development of SAO institutional capacity;

Priority 1: External Audit, Measure 2: *Strengthening SAO institutional and HR capacities* and Priority 2: Parliamentary oversight, Measure 1: *Establishing mechanism for reviewing audit reports and measures taken upon audit recommendations by the Assembly of RNM* and Measure 2: *Strengthening the institutional capacities for reviewing audit reports in the*

Assembly of RNM are related to Strategic Objective 5: Improving communication and exchange of information with national and international entities and informing the public.

With the aim to update SAO strategic objectives and adapt SAO operation to the current state of affairs and challenges in the society, SAO is taking on activities for drafting new Development Strategy for the period 2023 - 2027 to be adopted no later than September 2022.

SAO Communication Strategy 2020-2023

SAO Communication Strategy 2020-2023 is in line with PFM Reform Program and SAO Development Strategy 2018-2022. The key objective of the Communication Strategy is to increase the level of awareness of the wider public about SAO function and task and to strengthen SAO role as an institution serving the public. The Strategy defines specific objectives aimed at achieving specific results, which are directly related to SAO strategic activities as follows:

- to encourage SAO role as promoter of the principle of transparency and accountability of public funds;
- to develop and strengthen cooperation and coordination with all interest groups;
- to set up public support for SAO work and to ensure public participation;
- to encourage institutions to act upon SAO reports through greater engagement of the public.

Aimed at increasing transparency and accountability in SAO operations and making available information on SAO operations and shortcomings contained in final audit reports, SAO compiled a register of stakeholders, which currently contains 930 stakeholders. For this purpose, SAO created an audit abstract and press release that contain key shortcomings / information from final audit reports presented in a comprehensible way. When final audit report is published, the information is shared with all stakeholders. Information about SAO operation and final audit reports is published on SAO website (www.dzr.mk) and FB page (<https://www.facebook.com/DrzavenZavodzaRevizija>).

SAO Strategic Audit Plan 2021-2023

The Strategic Audit Plan of the State Audit Office for 2021-2023 is corresponding with the PFM Reform Program 2022-2025. Measures within Priority 1: External audit, are in full compliance with point 2, strategic objectives and priorities of SAO audit departments, which include supervision over the spending of public funds, quality financial reporting, fight against corruption, continuous increase of responsibility and accountability and transparency etc.

Human Resource Management Strategy 2020 – 2023

The Strategy for Human Resources Management 2020-2023 is in line with SAO Development Strategy 2018-2022 and the PFM Reform Program 2022-2025. Namely, strategic objective 2 – Motivation and training of SAO employees and strategic objective 7 – communication, are closely related to priority 1: External audit, measures 1: Strengthening legal framework for external audit and measure 2: Strengthening SAO institutional and HR capacities. Increasing knowledge and skills of SAO employees is one of the main commitments of the institution, and these commitments are translated into the Annual Plan for continuous professional development for 2022.

IT Strategy 2019-2023

SAO IT strategy for the period 2019 - 2023 is the basis for implementation and development of SAO IT systems. The IT Strategy is in line with SAO Development Strategy 2018-2022 and with Priority 1: External Audit, Measure 1: Strengthening legal framework for external audit and Measure 2: Strengthening SAO institutional and HR capacities from the PFM Reform Program 2022-2025, given that they are closely related to strategic objective 1: providing and maintaining necessary resources for continuous development of SAO IT systems and strategic objective 4: presenting results of SAO operation of SAO from the IT strategy.

3. Links to External Assessments

This Programme is based on a thorough analysis of the circumstances through internal analyses by the relevant national institutions, as well as PEFA mission findings and assessments, which took place in the period April-May 2021, recommendations given by experts from both the IMF - Fiscal Affairs Department and the World Bank on prioritisation of future reforms, assessment of OECD - SIGMA on the basis of the Principles of Public Administration, which took place in March 2021, as well as other specific external diagnostic assessments. On 1st June 2022, IMF - FAD and World Bank submitted the final PEFA Assessment Report, including 2020 data, and it was published on the websites of the IMF, the World Bank and the PEFA Secretariat.

UNDP technical assistance was extended by engaging an external expert to prepare new formula and excel tool for distribution of VAT grant funds, in particular VAT grant intended for Equalisation Fund and Performance Fund, as well as technical assistance for drafting the wording of the new Decree on Distribution of VAT Revenues.

Support will be extended through USAID funded project in the form of preparation of an expert analysis of the existing system for support of local and regional development in the country and

preparation of general guidelines and recommendations for its improvement based on evidence and successfully established international practice, to help in defining the most adequate model for transformation of the Regional Development Bureau into Regional and Local Development Agency.

Under the "Management of Municipal Councils" UNDP Project, municipalities are being prepared a dashboard showing data from the periodic reports and a separate link Financial Indicators is created, available on the websites of the Ministry of Finance and the municipalities.

Support is also extended under USAID Project for preparation of Financial Instability Manual and its presentation to the municipalities.

In 2022, World Bank and Global Initiative for Fiscal Transparency carried out an assessment mission, with the support of the Good Governance and Investment Climate Reforms (GGICR) Trust Fund, reviewing the transparency and the reporting about public expenditures in times of COVID-19, public procurement at national level, inclusiveness of undertaken measures and access to information amid COVID-19 induced pandemic. The experts submitted a series of recommendations for improvement of fiscal transparency in case of future crisis emergency. The Report assesses the State Audit Office as an example regional institution, with a proactive role in auditing the measures for managing the COVID-19 induced crisis, as well as constant publishing of the audit reports.

4. Development Partners Coordination

Development partners remain committed to supporting PFM reforms and maintain policy dialogues in the country with the the new PFM Reform Programme 2022 -2025 as well. Therefore, in order to ensure good planning and complementarity of external technical support, proper sequencing and successful implementation of the reforms, the MoF will continue coordinating the development partners' assistance by conducting an open and inclusive PFM policy dialogue with all relevant institutions.

Monitoring the new PFM Reform Programme 2022 -2025 is based on sectoral dialogue, introduced with the previous PFM Reform Programme, with all stakeholders - external partners. PFM policy dialogue was held on 13th May 2022. Draft PFM Reform Programme and draft 2022 Action Plan, as well as draft Report on Monitoring the Implementation of 2021 Action Plan for PFM Reform Programme for the period January - December 2021, were subject of public consultations with the members and the observers from civil society organisations and development partners, who are members/observers of the PFM Sector Working Group, as well as other stakeholders.

PFM development partners coordination is carried out on the following two levels:

Policy level - PFM Council and PAR Council. One of the main tasks of the PFM Council is to facilitate the policy dialogue with the relevant institutions and development partners. PFM Council members participate in the PFM Policy Dialogues with all relevant stakeholders.

Technical level - PFM Sector Working Group - directly related to the working groups established for development and monitoring of the PFM sub-system strategies and policy papers. Also, separate development partners coordination meetings on operational level are organised with regard to the implementation of specific PFM sub-area measures.

Starting 2020 by 2023, Ministry of Finance, in cooperation with other institutions (PRO, Customs Administration, PPB, State Appeal Commission for Public Procurement and Ministry of Economy) implement two major twinning projects financed under EU - IPA 2018, which are to provide support to MoF's functions in the field of budget

planning and execution, internal control, public procurement, as well as tax and customs policy and system and revenue collection:

1. **Strengthening budget planning, execution and internal control functions** , with the following EU Member States as twinning partner: the Netherlands (National Academy of Economics and Finance of the Ministry of Finance), Croatia (Ministry of Finance), Latvia (Ministry of Finance) and Bulgaria (Ministry of Finance). The Project commenced in February 2020, with a planned duration of 36 months.
2. **Improving revenue collection and tax and customs policy**, with the following EU Member States as twinning partner: Austria (Agency for European Integration and Economic Development together with the Federal Ministry of Finance) and Croatia (Ministry of Finance - Customs and Tax Administration). The Project commenced in January 2020, with a planned duration of 36 months.

IMF FAD technical assistance for the tax administration of North Macedonia is crucial for successful implementation of the foreseen strategic priorities, measures and activities. Furthermore, IMF's continuous support to the long-term modernisation processes and the already developed reform programmes will greatly contribute to ensuring smooth change management to the end of establishing electronic tax administration and improving the public finance management – revenue mobilisation.

5. Human, IT and Financial Resources - Administrative Capacities

The issue of strengthening administrative capacities in relation to the implementation of the PFM Reform Programme is addressed at 3 levels:

1. PAR Strategy and Action Plan give particular attention to human resources capacity, policy planning capacities, e-services, service delivery and orientation to results coordination as regards enhancing managerial accountability, internal control environment and improving transparency across the public administration.
2. PFM Reform Programme envisages numerous measures and activities related to the development of administrative capacities and IT systems of all PFM institutions. Measures and activities under each priority are defined taking into consideration current HR capacities of the PFM institutions, but also separate activities for further capacity building based on future recruitment plans are proposed, as part of the reform process. Significant number of results in the Programme is related to capacity building of the PFM institutions through new employment, knowledge enhancement and skills development and upgrading, which will be achieved through various forms of technical support and trainings. This has the potential to attract, regenerate and develop motivated and engaged employees. Improvements in the business processes (in the area of taxation, customs, internal control, public procurement and other areas) will create space for professional development of the public servants, while the new integrated IT systems (for PRO and IFMIS for the MoF) are oriented towards a more prudent, sustainable and cost-effective management of the public administration and the public resources.
3. Also, strategic plans at institutional level are developed on 3-year basis and they provide overview of the objectives and the tasks of each separate institution, the activities for achieving the respective goals, the effects and the expected results and the human and financial resources for their implementation. In addition, pursuant to the Law on Administrative Servants, all public institutions prepare annual training plans.

All gaps identified are tackled by the relevant existing training bodies established in the respective sector, as well as within the framework of the various donor projects currently implemented and planned.

PFM Reform Programme envisages that all priorities, measures and activities are be funded through two main sources: the state budget and the development partners' funded capacity development projects or technical assistance. The Programme provides a synopsis of the known estimated costs at the time of preparing the document. In addition, each annual Action

Plan presents an estimation of the costs implications and sources of funds needed to implement the planned activities.

The analysis of costs and benefits and the regulatory impact assessment (RIA), carried out within each strategic document, envisages relevant financial resources.

Progress in capacity building of PFM institutions is further elaborated under the status of implementation of specific activities planned in the Programme (Part 4. Assessment of 2022 Action Plan Implementation).

In addition to regular budget funding, significant support during the preparation and implementation of the Programme was provided by the European Commission (IPA projects, TAIEX, SIGMA). Support was also provided by the World Bank, IMF, OECD, as well as by various bilateral programmes.

6. Summary of the Progress Achieved in the Implementation of the Programme during the Reporting Period

Pillar I - Economic Analysis, Macroeconomic and Fiscal Framework

Priority 1. Revenue Forecasting and Reporting

Measure 1: Improving tax and customs reporting in accordance with the EU best practices

Within IPA 2018 Twinning Project "Improving Revenue Collection and Tax and Customs Policy", 2 workshops were held, aimed at analyzing the current state-of-play related to the availability of the data necessary for forecasting the tax revenues, and preparation of Action Plan for submission of the required data to MoF.

At the same time, workshop was held, and Report on Assessed Tax Expenditures and Report on Vat Gap were also prepared.

The following activities remain to be implemented in the upcoming period:

- Preparing a review of the current state-of-play related to the availability of data necessary for analysis, and preparing an Action Plan for submitting the required data to MoF;
- Drafting a protocol for submitting the required data to MoF for the purpose of projecting the public revenues.

- Calculation of coefficients for tax buoyancy and tax elasticity,
- Income Inequality and C-Efficiency Report.

Measure 2: Enhanced tax and customs modelling capacity

In cooperation with the World Bank, updating of the data as regards the PIT and VAT models is in progress, as well as installation of the profit tax model and updating of the data therein

As regards the coming period, new trainings for programming languages with open sources (Python and R), TSQL, Power Bi, R Markdown and Shiny, remain to be organised, covering the employees in the Public Revenues, Tax and Customs Policy Department, in addition to those being held over the past years.

Priority 2. Economic Analysis and Macroeconomic Forecasting

Measure 1: Capacity building for economic analyses

In cooperation with the Swiss State Secretariat for Economic Affairs (SECO), as part of the Macroeconomic Planning and Management Project, the first part of the financial programming training was carried out, being aimed at increasing the capacity and the scope of economic analyses, improving the skills of employees and introducing additional toolkit for macroeconomic forecasting.

During the period 16th May - 23rd May 2022, online workshop was held, being organised by SECO, covering the fundamentals of the first part of the financial programming training, whereby training of the employees was carried out, pertaining to the following:

- fundamentals of financial programming and presentation of the basic models in excel and data processing;
- deseasoning of data in Jdemetra+ Programme and processing of high-frequency data;
- training for preparing a Screening Report, which is a tool for a comprehensive analysis of the economy.

Key challenges/factors impacting the achievement of the results are insufficient human capacity and change of staff, availability of appropriate data, as well as a need for additional training in the field of econometrics.

Further steps/actions that need to be undertaken in the upcoming period: As for the upcoming period, the following activities are planned:

Filling in the database as regards the Screening Report and consultations with the experts;

In the course of October/November, the second part of the onsite financial programming training will be carried out, i.e. mission with SECO experts will be held.

Measure 2: Developing new macroeconomic models

Developing inflation forecasting model

In cooperation with the World Bank, inflation forecasting model is being developed for the needs of the Macroeconomic Policy Department, taking into account the growing inflationary pressures caused by the global developments and the increase in food and energy prices.

During the period 6th June - 9th June 2022, online workshop was held, being organised by the World Bank, wherein the short-term and medium-term inflation forecasting model was presented, and training of the employees was also carried out, for the purpose of its usage and getting familiar therewith. Inflation model developed by the World Bank experts covers the following:

Using time series model for short-term inflation projections (three main sub-components: energy, food and core inflation) by using E-views Programme.

Forecasting good and fuel prices for the current month (nowcasting) by using web scraping with Python and R studio

Longer-term projections in E-views by using linear ARIMA model to be based upon nowcasting and short-term projections.

On 24th June 2022, additional online workshop was held for training of the employees, accompanied by a discussion about the issues related to the model functioning.

Key challenges/factors impacting the achievement of the results are insufficient human capacity and change of staff, as well as a need for additional trainings for using programming languages and trainings in the field of econometrics, issues of technical nature related to using the model (licenses and programmes), data availability.

Further steps/actions that need to be undertaken in the upcoming period: As for the upcoming period, the following activities are planned:

Additional online meetings with World Bank experts for the purpose of improving the skills for using the model.

Filling in the database as regards the model and considering options for using available data.

Updating the model and consultations with experts for the purpose of overcoming the potential difficulties.

Ensuring the functioning of the model from technical aspect (IT infrastructure)

There are ongoing negotiations about organising training of employees aimed at applying the econometric models.

Measure 4: Establishment of a Fiscal Council

New Organic Budget Law, incorporating the provisions for establishing the Fiscal Council, is in a parliamentary procedure. Over the past period, additional consultations were held with the international financial institutions (IMF and European Commission), to the end of further improvement of the provisions pertaining to the fiscal rules and the Fiscal Council, followed by additional consultations with representatives of the political parties in the Parliament, whose proposals and amendments are incorporated during the amendment debate under the second reading of the respective Law within the Financing and Budget Commission and the Legislative Committee, at the end of July and the beginning of August 2022.

During the past period, contacts were made and discussions were held with the representatives of the international organisations (IMF and World Bank) as regards the support they would provide throughout the analysis of the best practices from the EU countries and the region in terms of the regulations related to the operations of the Fiscal Council, for the purpose of preparing the bylaws that will provide for full establishment and operationalisation of the Fiscal Council, as well as support for building the administrative capacity of the Fiscal Council operations and the body for expert and administrative support.

Key factors/challenges affecting the achievement of the results, are further unforeseen delay of the adoption of the Organic Budget Law, as well as the election of Fiscal Council members.

Further steps/actions that need to be undertaken in the upcoming period: As for the upcoming period, the following activities are planned:

Organic Budget Law is expected to be adopted in the course of September 2022, thus creating conditions for commencing procedures for election of Fiscal Council members, and accordingly preparation of bylaws aimed at establishment and operationalisation of the Fiscal Council.

Providing support by international institutions (World Bank and IMF) for capacity building for the purpose of performing the functions and completing the tasks, the Fiscal Council should perform as per the experience of the Fiscal Councils in the EU.

Trainings of the employees in the Ministry of Finance, pertaining to integration of the fiscal rules in the strategic documents, as well as their implementation.

Priority 3. Strengthening Debt Management

Measures 1: Reducing Operational Risks at Public Debt Management

For the purpose of reducing the operational risks, and by following the digitalisation trends of foreign payment operations, digitalised payments towards foreign creditors have started to be introduced, by introducing electronic banking with NBRNM, through which repayments to foreign creditors are being made. As regards activity "Number of external debt orders paid electronically", the target has been achieved, envisaging 50% of the external debt orders to be paid electronically.

To the end of achieving the priority pertaining to strengthening public debt management capacities, Ministry of Finance needs to strengthen the public debt management capacities by employing, as well as training the existing staff. Hence, in the course of 2022, 2 persons were engaged through the Temporary Employment Agency, thus the activity "Strengthening Public Debt Management Capacities" has been partially implemented. This activity is expected to be fully implemented by employing full-time employees on the basis of a job announcement and carrying out candidate selection and appointment process.

Measure 3: Introducing New Debt Instruments

For the purpose of more efficient development of the financial markets, with the ultimate goal of advancing the government securities market, new financing instruments are envisaged to be introduced. Under the modifications and amendments to the Law on Financing Local Government Units, structural bonds, stand-by loans, as well as issuance of municipal bonds, are envisaged as instruments to overcome the financial instability. Draft Law on Financing Local Government Units is in parliamentary procedure, pending its adoption. Following the adoption of the respective Law, Ministry of Finance should start preparing for the issuance of the structural bond, which will be issued should a need arise at certain municipalities facing financial instability.

Pillar II - Revenue Mobilisation

Priority 1: Tax and Customs Policy

Measure 1: Improved Revenue Legislation Framework, Harmonised with the EU Acquis

These measures are implemented with a twinning support under EU-IPA 2018 "Improving Revenue Collection and Tax and Customs Policy" Twinning Project. In particular, Twinning Project Component 1 is related to harmonisation of legislation in the area of taxation and customs with EU acquis, EU standards and best practices. In the period January - June 2022, 6 workshops were organised under Component 1.

As regards the gap analysis of national legislative provisions (laws and bylaws and methodology) compared to the latest EU legislation and best practices, in the area of tax and customs legislation, following activities were implemented:

- reviewing the results from the carried out gap analysis of PIT Law and preparation of recommendations for its improvement;
- reviewing the results from the carried out gap analysis of Customs Administration Law and preparation of recommendations for its improvement;
- reviewing the results from the carried out gap analysis of Law on Property Taxes and preparation of recommendations for its improvement;
- With respect to preparation of new legal acts and/or amendments to the existing national tax and customs legislation (laws and bylaws) prepared on the basis of the existing EU acquis, following activities were implemented:
 - preparatory activities for draft new Customs Law commenced;
 - preparatory activities for draft amendments to VAT Law commenced; and
 - preparatory activities for draft amendments to the Profit Tax Law commenced.

Priority 2: Tax Administration

Measure 1: Strengthen administrative capacity for better revenue collection and tax compliance

In the part of Measure 1: Strengthen administrative capacity for better revenue collection and tax compliance following progress was achieved:

A working group composed of tax officials with specialized knowledge and professional experience in the scope of collection of arrears, in the period January-June 2022, prepared a Proposal-Instruction for the procedure and methodology for determining a tax guarantee. The same is now in the discussion phase with other functions in the PRO that are affected and through their competent organizational units are involved in this procedure.

The tax guarantee measure for the founders and the manager of the trading company - the main debtor should result in a more efficient collection of the outstanding tax debts by increasing the awareness of these persons about their responsibility for the payment of the debt of the main debtor and that the obligation to pay the outstanding tax debt is also transferred to them. It is expected that the regular application of this measure after the adoption of the new Guidelines will cause reactions in the public by the persons who will be "personally" affected by the imposed obligation to pay the tax debts of the companies where they appear as founders and managers. The PRO will be up against the challenge of successfully managing this process.

After the adoption of the new Guidelines, there will be training of tax officials and communication with interested external parties, especially with the courts.

In the period January-June 2022, the discussions in the PRO continued on new processes that should be regulated by the amendments to the Law on tax procedure. First of all, it is about harmonizing with the Ministry of Finance, the banks and the clearing house for a service from the PRO with the delivery of a payment order to a bank at the request of a taxpayer (tax order) and for introducing a prescribed order of settlement when paying tax. Several working meetings were held on these issues.

Implementation of some of the proposed legal changes related to the collection of tax debt is related to ensured institutional capacity: software solutions that should enable simplification and automation (tax order, order of settlement, simplified procedure for reprogramming, changes in the procedures for public sales, etc.), trained officials (for forced collection upon seizure of a share in a trading company), etc.

There are more activities to complete compliance for the processes that should be regulated by the legal amendments.

A draft Compliance Plan for personal services for companies that offer personal services, such as hairdressers, beauty salons, car washes and car mechanics, is being drafted in order to combat the gray economy.

A key challenge for successful implementation of the activity is the staffing of the Compliance Risk Management Unit.

In the next period a Draft Register of Risks 2023-2025 will be prepared and other compliance plans will be prepared.

In the part of **Measure 2: Digital transformation of the PRO with the establishment of an Integrated Tax Information System (ITIS)** following progress was achieved:

Within the framework of Component 2: Support of the tax reforms of the IT strategy of the PRO and promotion of the integrated tax information system (or ITIS), from the project with the World Bank, a working meeting was held in June 2022 with the experts from the World Bank regarding the definition of the remaining projects / modules to complete the IT system, as well as the overall project management. Part of this project is the establishment of a data warehouse and tools for business intelligence - Data Warehouse and BI and the establishment of a Disaster Recovery Center, which are part of this Program.

In the period January-June 2022, the PRO continued with the activities to complete the remaining modules from IDIS. A technical specification for the development of new modules for the integrated tax information system is under preparation: for e-commerce and e-invoice.

In the area of development and restructuring of the IT subsystems of the PRO, they are currently being adjusted depending on the requirements and legal changes.

Future steps to be taken in the next period to improve the implementation of the activities and achieve the planned result is further coordination of all relevant parties to start the project with the World Bank, timely adoption of legal amendments and improvement of the tender specifications.

Priority 3: Customs

Measure 2: Modernization of customs services and their digitalization

By implementing the measure for the modernization of customs services and their further digitalization, and by following the recommendations for harmonization and connection with the EU, the system of public finances, fiscal discipline and efficiency in the management and

use of public resources will be strengthened, but transparency will also be promoted and efficient services and economic development will be ensured. This goal contributes to the provisions of the Program for the Reform of the Fiscal Fund, which supports the dialogue with the EU and helps in more efficient use of EU funds through the institutions of North Macedonia, on the way to accession to the EU.

Within the framework of this measure is planned *"Implementation of modern systems in the direction of compliance with the Multi-Annual Strategic Plan of the EU (MASP), integration with European systems and procurement of appropriate hardware."* Namely, the Customs Administration strives to be *"SMART"* which is in accordance with the policy of the World Customs Organization, which means: secure borders, automation, traceability and measurability, improvement of risk management and above all monitoring and application of the latest technology.

In the context of the implementation of the measure and the planned activities in the reporting period, activities are currently being carried out through which modern standards and practices are applied in the definition and realization of the business requirements of CARNM, using an appropriate project methodology for the implementation of new concepts and IT solutions, proven in the IT market. Also, continuous work is being done to improve the flow of information between all stakeholders in the activities related to the Customs Administration. In the reporting period, activities for the development of the external and governmental domain and increasing transparency and timely information of all participants in customs procedures, as well as users of IT systems, are also continuously implemented, through increased use of the Internet, intranet and modern social networks.

The Customs Administration is also working on the introduction of a complete paperless environment in the customs procedure, through the implementation of electronic systems from the e-Customs program, i.e. the Multi-Annual Strategic Plan of the EU (MASP), which are compatible with the systems and procedures in the European Union. Currently, technical specifications are being prepared for the systems that will be developed in the coming period, and the funds for financing the implementation are expected to be provided by the IPA 3 funds. In connection with the preparations for interconnection and interoperability with the EU systems in the reporting period, funds were provided from the national budget funds for the implementation of the first phase of implementation (until 2023) refer to the development of the NKTS phase 5 transit system, which has overcome the risk from the delay in the implementation of the IPA 3 program for 2021, for which the signing of the Framework Agreement and the Financial Agreement is still delayed.

In the reporting period, trainings were carried out to further promote the benefits for small and medium-sized enterprises for the application of e-commerce.

Activities were also carried out for regular maintenance of the existing systems and hardware infrastructure for the operation of the ICT systems of the Customs Administration took place.

Also, consideration of the needs and possibilities for further improvement of the services of the Customs Administration to the users is underway.

In connection with the development and implementation of a data warehouse (Data Warehouse), in the part that refers to the National Single Window System, implementation has begun and the selection of a consulting firm is underway, which, based on the identified concept, will develop the software solution.

The establishment of a data center at a remote location (Disaster Recovery) is in an advanced stage, the equipment for the needs of this center has been delivered by the supplier and it is currently being tested.

Pillar III - Planning and Budget

Priority 1: Budget Planning

Measure 1: Improving Medium-Term Planning

Key elements of the medium-term fiscal policy 2022-2026 are redesigned and improved public finance structure, through increased share of capital expenditures, as well as gradual fiscal consolidation, by reducing the budget deficit as percentage share of GDP, as follows: 5.3% in 2022, 4.2% in 2023, 3.6% in 2024, 3.2% in 2025, 3% in 2026 and 2.8% in 2027.

In the past period, Ministry of Finance focused most of its activities, as contained in the new Organic Budget Law, on improving the budget planning process, as an obligation arising from the PFM Reform Programme 2018 - 2021.

Among the more important activities contributing to improvement of the medium-term planning are the following:

- additional quality data and analyses to the end of improved and more credible planning;
- wider range of data in the narrative part, based on sectoral approach with new tables and charts for the Central Budget and the local government budget, as well as data for projects financed with IPA funds;
- comparative analysis of the projections with data from the previous Fiscal Strategy, as well as comparison with the projections of other domestic and international institutions;
- medium-term fiscal projections are based upon medium-term baseline scenario and new initiatives in the Fiscal Strategy and the budget circular;

- consolidated and medium-term approach when presenting data on state-owned companies is a solid basis for improving the medium-term planning.

Measure 2: Improved Budget Planning and Developing Measurable Performance Indicators

Improved budget planning and developing measurable performance indicators are included in the new Organic Budget Law, pending adoption in the Parliament. At the same time, additional indicators for monitoring the results are introduced in the 2022 Budget, in particular input and output indicators at budget user level with multi-year data.

Training for preparation of bylaws aimed at enforcing the new Organic Budget Law are being organised under the EU IPA Twinning Project "Strengthening Budget Planning, Execution and Internal Control Functions".

Measure 3: Fiscal Consolidation for Phased and Sustainable Budget Deficit Reduction

Initial activities aimed at fiscal consolidation and strengthened budget planning require analysis and control over certain expenditures of the budget users, above all:

- current expenditures and introduction of spending standards,
- undertaking activities geared towards enhanced expenditure structure,
- budget users to project the capital expenditures in a more realistic manner,
- continuing the application of the CAPEF mechanism.

Priority 2: Strengthened Public Investment Management

Measure 1: Planning Sustainable Levels of Investment

For the purpose of strengthening the role, the supporting legal framework and the institutional setup of MoF in the PIM system, draft internal acts on MoF organisational setup and systematisation have been prepared, aimed at establishing a new Public Investment Management Department which is to perform duties pertaining to public infrastructure project appraisal, primarily from the point of view of the fiscal impact, the risks and the sustainability, giving opinions and recommendations on the projects, preparing a summary list of proposed, assessed and appraised new public infrastructure projects, consolidating the priority list of public infrastructure projects, monitoring the respective projects, as well as developing and updating the methodologies on project preparation and appraisal.

Following the adoption of MoF's organisational setup and systematisation acts, activities will commence aimed at equipping the Public Investment Management Department, developing methodological acts and training for MoF professionals on project appraisal and review of preinvestment studies.

New acts on organizational set-up and systematization of the MoF are expected to be adopted by the end of October or beginning of November 2022.

Priority 3: Effective Instruments under the Growth Acceleration Plan

Measure 1: Establishment of Different Funds in the State Institutions and Development of Different Financial Instruments

This measure envisages establishment of 6 different Funds the objective of which, under this Priority, is to provide easier access to financial resources for companies, financing investments in the field of energy efficiency, supporting export-oriented companies, encouraging innovative activities. So far, two out of six of the envisaged Funds have been established under this measure: Guarantee Fund and Research and Development Fund, established and operating within the Development Bank of the Republic of North Macedonia. External experts are engaged at the moment, with the task of offering several alternatives for the establishment of the Energy Efficiency Fund within the DBRNM. Options regarding the establishment of the respective Fund have been presented to the employees with the DBRNM and the MoF. Final option regarding the Fund establishment will be offered in the course of the second half of 2022. Other Funds envisaged under this measure are to be established in the coming period.

Measure 2: Strengthening the Capacities of Various Institution

The measure objective is to ensure effective implementation of the Growth Acceleration Plan, by establishing a management structure which will cover the entire project management process, including feedback to accelerate effectiveness over the years. It envisages 3 activities - establishment of a Delivery Unit for infrastructure project coordination, establishment of a Project Monitoring Unit and establishment of a Capacity Building and Training Unit. All three Units are to be established in the coming period.

Pillar IV - Public Procurement

Priority 1: Public Procurement Policy

Measure 1: Strengthening institutional capacities

In order to introduce a new system for education of PPB an analysis of the education system of the Public Procurement Bureau, is in progress, which is expected to be completed by Q4 2022 at the latest. A key challenge is the adoption of legal changes regarding the education system. The next steps are to review the concept of certification and recertification of public procurement officers by rationalizing the training program and creating an improved, expanded and more flexible program. The conducted analysis should help increasing continuously the knowledge, skills and good practices of the persons who carry out public procurements.

In order to improve the cooperation of the key institutions in the Public Procurement System, cooperation between the key institutions in the public procurement system has been established and draft memorandum of cooperation have been sent to the relevant institutions. In the next period, until the end of 2022 an advisory group composed of experts and/or officials from key institutions regarding the public procurements should be established, which will maintain regular communication in accordance with the established framework.

The Strategy for improvement of the public procurement system in the Republic of North Macedonia for the period 2022-2026 has been adopted and thus the activity has been fully realized and the target for 2022 has been achieved. In the first quarter of 2022, the Strategy and Action Plan for 2022 were adopted by the Government of RNM. In addition, a coordinating body has been established to monitor the impact/results of the strategic and operational goals on the implementation of the strategy and it will prepare an annual report for monitoring the implementation of the strategy and the action plan for the past year where the impact/results of the strategic and operational goals will be evaluated annually.

Measure 2: Improvements in statistical data and analysis of open data

The activities related to improvement of the statistical data base has been completed and the target has been achieved. The tool for downloading published data from notices of concluded contracts has been installed on the ESPP application, which ensures more transparency and opening of data for further processing by all interested groups such as, participants in public procurement, relevant institutions and the general public.

Priority 2: Public Private Partnerships (PPPs)

Measure 1: Starting the procedures necessary to establish the Single Electronic System for Public-Private Partnership (EESP) as a basic database for all public-private partnership projects, which will generate a Register of awarded contracts for the establishment of public-private partnership.

The Draft Law on Public Private Partnership is in the final stage of coordination with the relevant institutions (Secretariat for Legislation), before its submission to the Government procedure, after which it will be adopted by the Parliament. Given that the effective implementation of the law is closely related to the establishment of the EESJPP, i.e. the entire process is digitized, it is necessary to provide financial resources for the procurement of the Single Electronic System for Public Private Partnership and the Register of Awarded Contracts for the Establishment of Public Private Partnership . The success of the implementation of the measure depends on the provision of financial resources for that purpose and the completion of the process of passing the law on PPP.

Measure 2: Completion of the legal and regulatory framework in the area of public private partnership.

After the adoption of the Law on Public Private Partnership, 12 by-laws will be adopted by the Minister of Economy and they will be published in the Official Gazette of the Republic of North Macedonia. The by-laws will prescribe in more detail the rules for: the Register of awarded contracts for the establishment of public-private partnerships, the EESJPP, the criteria for the preparation of PPP projects, the feasibility study, the PPP contract, planning, reports, etc. The success of the implementation of this measure it depends on the completion of the process of bringing the law.

A key challenge is the still open issue of providing financial resources for the establishment of the Single Electronic System for Public Private Partnership and the Register of Awarded Contracts for the Establishment of Public Private Partnership (donors/budget), as an important factor on which the success of the implementation of the measure depends .

After the adoption of the Law on Public Private Partnership, future steps/actions that should be taken in the next period is the preparation and adoption of by-laws that will result from the Law on Public Private Partnership, which will regulate certain issues in the law in more detail.

Priority 3: Appeal Mechanism

Measure 2: Strengthening the administrative capacity of the SAC

The activity of developing a new WEB page of the State Commission for Public Procurement Complaints was implemented at the beginning of the month of February 2022 and with it the transparency, efficiency and effectiveness of the State Commission for Public Procurement have been increased. By preparing the new WEB page and introducing an internal information system for document management that is interoperable with the ESJN, it is possible to pull all relevant data from the ESJN multiple times, especially data related to the public procurement procedure (contracting authority, applicant, subject of procurement, etc.), as well as all the data and statistics needed for the preparation of annual reports. Specifically, with the new WEB site, economic operators and contracting authorities are enabled to search for decisions of the State Commission for Public Procurement Complaints through a keyword, in order to more easily follow the views of the Commission when making decisions. On the other hand, this process is expected to achieve a greater optimization of time and become more efficient in the resolution of complaints and the preparation of annual reports. By enabling the search through a keyword, the transparency, efficiency and effectiveness of the work of the SAC has increased and the access to information for all interested parties has increased.

Pillar V - Integrated Public Finances

Priority 1. Implementation of an Integrated Financial Management Information System (IFMIS) to Support the Implementation of PFM Reforms and Organic Budget Law

Measure 1: IFMIS is fully operational to support the implementation of OBL reforms

This measure includes 3 activities: (1) development of IFMIS as an integrated centralised web-based system supporting decentralised operations, (2) expansion of MoF ICT infrastructure (in line with whole-of-government approach) to host new IFMIS and (3) capacity strengthening (OBL Working Group), training and change management to support OBL reforms and countrywide IFMIS operations. In line with the Action Plan, all activities commence once the Law on Borrowing by RNM at the World Bank under Loan Agreement for the Building Effective, Transparent and Accountable PFM Institutions Project for financing IFMIS is adopted, which is expected to take place in the second half of 2022. A pre-condition for adoption of the respective Law is adoption of the new Organic Budget Law, pending parliamentary procedure.

In order to strengthen human resources dedicated to implementation of this measure, in June 2022, for the purpose of undertaking preparatory activities for establishment of IFMIS, the Working Group was additionally staffed with two members.

Furthermore, in the period 14th - 17th June 2022, WG members had meetings with WB representatives at which project components and documentation were discussed, as well as the

progress regarding the conclusion of the agreement with the EU for provision of IPA 2018 funds for Project co-financing. Agreement between the World Bank and the EU is expected to be concluded in July 2022.

Following the adoption of the Organic Budget Law by the Parliament, the Ministry of Finance should commence finalising the law with the World Bank, establishing working body for implementation of IFMIS and expert working groups/commissions for the needs of the working body, establishing Project Implementation Unit, finalising the technical specification for IFMIS and commencing the process for announcing a tender.

Priority 2: Strengthen the Accounting of Budgets and Budget Users

Measure 1: Strengthening the Accounting System by Applying New Accounting Practices

Preparatory activities for the Strategy for Improvement of Budget Institutions' Accounting have not been commenced yet, due to which UNDP technical assistance has not been approved yet, with CEF Ljubljana expected to also participate. Under the Strategy, gap analysis should be conducted to identify the non-compliance of public sector accounting with the international practice, followed by determining the priorities and the objectives for introduction of the modified cash accounting principle, and preparing an action plan for gradual transition from the cash accounting to the so-called modified cash accounting. In order to speed up the procedure for approval of funds for this activity, communication with the institutions providing the grants for these activities needs to be intensified. Following the adoption of the Strategy, new regulatory framework will be prepared for implementing reforms in the field of budget accounting in order to replace cash accounting with the so-called modified cash accounting and adoption of new accounting standards for financial reporting in the public sector.

Priority 3: Public Finance Academy

Measure 1: Establishing a Public Finance Academy

Draft internal acts on MoF organisational setup and systematisation have been prepared to the end of establishing the new organisational unit Public Finance Academy.

Following the adoption of MoF organisational setup and systematisation acts, activities for Academy staffing, training and equipping will commence.

Measure 2: Preparing and Implementing a Curriculum

Draft version of Manual for Training Organising and Developing has been prepared Within the IPA Twinning Project "Strengthening Budget Planning, Execution and Internal Control Functions".

Pillar VI - Public Internal Financial Control

Priority 1. Financial Management and Control

Measure 1: Establishment of a Comprehensive System of Financial Management Controls based on Risk Management

Draft Financial Management and Control Manual and draft Guidelines on the Manner of Checking the Quality of Financial Management and Control have been prepared.

Following the adoption of the Law on Public Internal Financial Control System, final versions of these draft documents will be prepared/harmonised and published on MoF's website.

As regards strengthening the capacities of the Central Harmonisation Unit (CHU) to check the quality of financial management and control, CHU has prepared draft text for the new acts for MoF organisational setup and systematisation, all to the end of establishing Unit for Quality Check of Financial Management and Control and the Operations of Internal Audit. Once these acts are adopted, staffing of the new Unit will commence.

Priority 2. Internal Audit

Measure 1: Strengthening the Quality of Work of the Internal Audit Units at the Ministries

Activities pertaining to preparation and approval of "Internal Audit Organisation Plan" for all Ministries by the Government, as well as modifications and amendments to the Ministries' internal acts for organisational setup and systematisation in accordance with the "Internal Audit Organisation Plan", will commence in the second half of 2022, i.e. following the adoption of the Law on Public Internal Financial Control System.

As regards strengthening the capacities of the Central Harmonisation Unit (CHU) to check the quality of operations of the internal audit units, CHU has prepared draft text for the new acts for MoF organisational setup and systematisation, all to the end of establishing Unit for Quality

Check of Financial Management and Control and the Operations of Internal Audit. Once these acts are adopted, staffing of the new Unit will commence.

Priority 3. Financial Inspection

Measure 1: Strengthening the Institutional Basis of the Financial Inspection Function

Following the public consultations and its publication on ENER and wording harmonisation with DG Budget, SEA, LS and MISA, the Government adopted draft Law on Financial Inspection in the Public Sector and it is pending parliamentary procedure. Methodological tools for application of analytical and inspection techniques and techniques for financial inspection in the public sector have been prepared. New systematisation of MoF is underway, incorporating the proposed amendments aimed at increasing the staffing in the Department for Public Sector Financial Inspection and Coordination of Combating Fraud against EU Funds.

Future steps/actions to be undertaken in the coming period, aimed at intensifying the implementation of the activities and achieving the planned results, include adoption of the new Law on Financial Inspection in the Public Sector, adoption of modified and amended Rulebook on Organisational Setup and Rulebook on Systematisation of Work Posts in the Ministry of Finance, promotion/new employments in the public sector financial inspection, adoption of methodological tools for application of analytical and inspection techniques and techniques for financial inspection in the public sector, adoption of methodology for gathering and processing statistical data with indicators for monitoring, measuring and evaluating the effectiveness of the financial inspection in the public sector, introducing a system of performance-based annual remuneration for financial inspectors, adoption of Programme for Theoretical Training and Practical Work and adoption of Programme for Taking and Conducting the Exam for Obtaining a Financial Inspector License.

Measure 2: Strengthening the Capacity of Financial Inspection Human Resources

2021-2022 Training Programme for Financial Inspection has been prepared.

Future steps/actions to be undertaken in the coming period include preparation and adoption of Programme for Theoretical Training and Practical Work and adoption of Programme for Taking and Conducting the Exam for Obtaining a Financial Inspector License.

Pillar VII - External Control and Parliamentary Oversight

Priority 1. External Audit

Measure 1: Strengthening external audit legal framework

Within the Twinning project "Improvement of external audit and parliamentary oversight", an assessment of the state audit legal framework was performed and recommendations were made for strengthening external audit legal framework and achieving SAO constitutional independence as well as for strengthening financial and operational independence in line with international standards and EU best practice.

As a result of these activities and with support of the Twinning project in 2021, SAO prepared:

- Proposals for draft amendments to the Constitution of the Republic of North Macedonia for regulating SAO as a constitutional category;
- Draft new State Audit Law for strengthening SAO financial and operational independence.

The new draft law envisages strengthening financial and operational independence of the State Audit Office and acting upon audit recommendations by the audited entities, and creates opportunities for review of final audit reports by the Assembly of RNM. These are significant improvements to the state audit legislation in line with EU requirements and the International Standards of Supreme Audit Institutions (ISSAIs). Opinion on the draft law was provided from:

- the twinning partner SAIs of the Republic of Croatia and the Republic of Bulgaria;
- DG Budget of the European Commission; and
- INTOSAI Development Initiative (IDI).

In addition, the State Audit Office in cooperation with the Westminster Foundation for Democracy organized event / public hearing for presenting the draft State Audit Law. Representatives of the Government and the Assembly of RNM, representatives of state institutions, EU Delegation in Skopje, professional institutions, academia, civil society organizations and SAO employees attended and actively participated in the event.

Auditor General handed over the draft State Audit Law to the Minister of Finance for further action.

Initiating procedure for adoption of the new State Audit Law as well as for adoption of constitutional amendments is expected in the upcoming period

Measure 2: Strengthening SAO institutional and HR capacities

Activity 1: Preparing new or improved SAO strategic, planning and methodology acts

The annual implementation of SAO Development Strategy 2018-2022 was carried out through the activities contained in SAO Annual Work Program for 2022. To improve SAO strategic and annual planning, proposals for new Development Strategy with action plan for a five-year period have been prepared within the Twinning Project. The Strategy is expected to be adopted in September 2022.

SAO adopted new and improved methodology acts for compliance audit, performance audit, IT audit, guidelines for audit of EU funds, for detecting fraud and irregularities, as well as recommendations for improving monitoring of implementation of audit recommendations. These methodology acts were prepared within the twinning project, as well as new compliance audit manual in line with ISSAIs.

To improve presentation of audit results and recommendations, new structure and contents of audit reports was prepared in line with ISSAI within the Twinning project, which was adopted by the State Audit Office in May 2022.

Transparency, accountability and openness in promoting state audit results are priority of the management and employees and are defined as SAO strategic commitment. In that regard, new policies, procedures and guidelines were adopted in May 2022, with the aim of timely and improved presentation of the audit activities and results of state audit, and improved internal and external communication in the SAO.

In cooperation with experts and logistical support of UN Women, SAO started drafting Guidelines for audit of gender equality (gender audit).

The remaining methodology acts will be prepared in accordance with the planned activities in SAO strategic and planning documents.

Activity 2: Strengthening capacities for conducting audits

The State Audit Office continuously invests in strengthening skills and knowledge of state auditors, which ensures additional quality in work and maintaining professional integrity as an institution-bearer of progress in the public funds management.

Based on the Memorandum of Understanding concluded between UNDP and SAO, and the Annual Plan for continuous professional development for 2022, a workshop on personality types, communication and team cohesion was held in March 2022 with focus on MBTI personality typology. In May-June 2022, a workshop for all SAO employees was held on "Audit of financial statements on accrual basis", financially supported by UNDP.

In May 2022, Certification body performed the recertification review, thus extending the validity of the certificate and confirming that SAO applies the Management System in accordance with the requirements of the ISO standard MKC EN ISO 9001: 2015, valid until 30 May 2024.

The State Audit Office successfully completed the implementation of the Annual Work Program for 2021. All final audit reports have been submitted to the Assembly of RNM and published on SAO website. The Annual Report on performed audits and SAO operation for 2021 has been prepared and will be submitted to the Assembly within the legally prescribed deadline by the end of June 2022, and published on SAO website in three languages - Macedonian, Albanian and English (<http://dzt.mk/sites/default/files/2022-06/2021-godisen-izvestaj-dzt.mk.pdf>).

The State Audit Office implemented SAO Annual Work Program of the State Audit Office for 2022³. The Annual Program contains 183 audits, of which 166 regularity audits, 12 performance audits and 5 compliance audits. Of all planned audits, 45 refer to entities and topics in accordance with the State Audit Law and 138 audits refer to entities that participated in the Local Elections 2021.

SAO held bilateral meetings with several SAIs from EU Member States and EU candidate countries. The Contact Committee Meeting of the Heads of EU Supreme Audit Institutions and the European Court of Auditors held on 3 - 4 May 2022 in Luxembourg was attended by Auditor General, were discussed about the strategic tasks and challenges for EU SAIs in assessing the added value of the Recovery and Resilience Facility (RRF) at national and EU level.

SAO representatives, together with other EUROSAI member SAIs participated in two-day Post-Congress Get-Together in Prague, the objective of this event was to discuss on providing appropriate response to the challenges of modern times by finding new tools, audit methodologies and procedures in order to deliver added value to citizens.

On 30-31 May 2022, SAO hosted two-day bilateral visit of a delegation of the State Audit Institution of the Republic of Montenegro headed by two senators, organized by the Westminster Foundation for Democracy in both countries, which covered various topics in the area of communication and visual presentation of audit results.

As coordinator of the cooperative performance audit on "Municipalities' own revenues for providing quality services to citizens during pandemic", SAO successfully organized the second online working meeting of EUROSAI Task Force on Municipality Audit (TFMA) members. The aim of the meeting attended by representatives of SAO and six other SAIs was to present the

³https://dzt.mk/sites/default/files/2021-12/Godisna_programa_za_rabota_DZR_2022_godina.pdf

results of the audit planning phase, as well as to discuss the course of the audit, joint audit framework as well as the subsequent steps.

As a result of the long-term successful bilateral cooperation, SAO and the State Audit Institution of the Republic of Serbia signed Cooperation Agreement on 25 February 2022, and enabled the cooperation in conducting parallel audit on the topic "Balanced regional development with special emphasis on demography" which is particularly significant in the entire region and beyond.

As part of the activities for implementation of provisions of the signed Memorandum of Understanding with the United Nations Entity for Gender Equality and Empowerment of Women - UN Women, representatives of the State Audit Office of the RSM and Albania SAI, as well as representatives of UN Women in April 2022 attended the workshop on "Gender Responsive Budgeting, Gender Policy and Regulatory Impact Analysis".

US Embassy in North Macedonia organized a roundtable on "Improving Communication and Cooperation between the State Audit Office, the Public Prosecutor's Office of RNM and the State Commission for Prevention of Corruption", at which the experience on the cooperation and communication between the three institutions and pointed out possible ways of improvement and the way forward.

SAO delegation participated in international conference on "Making Government Services Work Better for Citizens" organized by the Center of Excellence in Finance (CEF) Slovenia and the Chartered Institute of Public Finance and Accountancy (CIPFA) in Tirana, Albania. The conference covered several topics related to institutional and accounting/financial aspects of reporting on public asset management, the use of information on public assets when making decisions, as well as topics related to the prevention of corruption in the public sector. A working meeting was also held with the Auditor General of the SAI of Albania, with the aim of intensifying and strengthening bilateral cooperation between the two institutions.

The activities for further strengthening of capacities for conducting audits are expected to ensue in accordance with SAO strategic and planning acts as well as with planned project activities.

Activity 3: Increasing SAO visibility and communication with stakeholders

For strengthening skills on public speaking and media appearance, SAO staff participated in a workshop on public speaking and public relations, organized by the Westminster Foundation for Democracy (WFD), as an activity within the project "Support for implementation of SAO Communication Strategy 2020 – 2023".

To implement the Communication Strategy 2020-2023, SAO created a "Mailing list of stakeholders" which at the beginning of 2022 contained 930 contacts. SAO continuously

informed stakeholders about the results of its operations by submitting final audit reports, press releases and abstracts for each audit report, in order to ensure the greatest coverage of stakeholders and users of the audit reports.

In 2022, the State Audit Office also conducted public survey as a research tool for the opinion on and impact of SAO work among stakeholders. SAO sent a questionnaire/survey on the level of satisfaction with SAO cooperation and information on the work of our institution to all 930 stakeholders - 558 institutions, 322 media and 50 civil society organizations. Concerning the degree of satisfaction with SAO cooperation, 90% of the respondents were satisfied, noting that a great step has been made in terms of openness and cooperation with SAO, in particular through timely information on issued audit reports, SAO activities, and increased openness to the media and civil society organizations. High percentage of confidence was also expressed concerning SAO work, which was assessed as impartial, independent, legal, objective, transparent and professional. There is also high degree of satisfaction with the quality of issued final audit reports, which were assessed, as topical, understandable, accurate and objective.

Further increase of SAO visibility and communication with stakeholders is expected in the upcoming period in accordance with SAO Communication Strategy 2020-2023 and in accordance with planned project activities with the WFD.

Priority 2: Parliamentary Oversight

Measure 1: Setting up mechanism for reviewing audit reports and measures taken upon audit recommendations in RNM Assembly

In the reporting period January-June 2022, within Component 3 of the Twinning project "Improving External Audit and Parliamentary Oversight", the following activities were carried out:

- several written procedures of SAO and RNM Assembly have been developed for preparing, handing over and reviewing audit reports and other documents by the Assembly;
- Report on the analysis of the audit process on the Annual Account of RNM Budget with recommendations for improvement.

The documents prepared within the activities of Component 3 will be final after their approval by the Assembly upon signing the Memorandum of Cooperation and harmonizing the contents of the procedures/reports with the contents of the Memorandum.

In March 2022, high-level SAO delegation held a meeting with the President of the Assembly of the Republic of Bulgaria. The meeting was also attended by high-level delegation of the

National Audit Office of the Republic of Bulgaria and the Subcommittee for Control of Public Assets in the National Assembly. The main topic of the meeting was cooperation between the Parliament and Supreme Audit Institutions, exchange of experiences on the manner of reviewing and discussing final audit reports in the parliamentary commissions for more effective implementation and acting upon audit recommendations.

In April 2022, high-level delegations of SAO and the National Audit Office of the Republic of Bulgaria met with the President of the Assembly of the RSM. At the meeting participants discussed the cooperation between the Assembly and the State Audit Office, showing support for the important and key role of SAO as an institution that audits all key institutions. It was also emphasized that signing of Memorandum of Cooperation between SAO and the Assembly will ensure, inter alia, reviewing of final audit reports and acting upon audit recommendations.

To support the activities in relation to signing the Memorandum of Cooperation, high-level delegations from SAO and the State Audit Office of the Republic of Croatia, in June 2022, participated in a working meeting with the President of RNM Assembly, where it was discussed how to improve mutual cooperation following positive practice of EU member states.

Signing of the Memorandum of Cooperation is expected to ensue in the coming period, which will improve cooperation and establish professionally sustainable and efficient relations between RNM Assembly and SAO, with the aim of strengthening supervision and increasing efficiency and transparency of public finance.

Measure 2: Strengthening institutional capacities for reviewing audit reports in RNM Assembly

In the reporting period January-June 2022, within Component 3 of the Twinning project "Improving external audit and parliamentary oversight", new Manual titled "The role of the State Audit Office and the Assembly in strengthening efficiency in public finance management" was prepared. It will be final once it is approved by the Assembly after signing the Memorandum of Cooperation and harmonizing the contents of the Manual with the contents of the Memorandum.

In the coming period, within the activities of Component 3, and after signing the Memorandum of Cooperation, the following activities should be carried out:

- preparing Training Plan for the MPs and administration in RNM Assembly to facilitate understanding of audit reports and to prepare for a debate on the audit reports, and
- Based on the Training Plan, preparing and implementing at least 3 training sessions (case studies as a real debate on audit reports, at least one session for each type of audit), for MPs and administration in RNM Assembly,

- as well as finalizing the following activities:
- Preparing Action Plan for improving cooperation between the Assembly and SAO for reviewing audit reports; and
- Preparing proposal for amendments to the internal acts of the Assembly.

In addition, activities for strengthening cooperation with Finances and Budget Committee, the Parliamentary Institute of RNM Assembly and the Parliamentary Budget Office of RNM Assembly are expected in the coming period with the support of the Westminster Foundation for Democracy (WFD).

Pillar VIII - PFM at Local Level

Priority 1. Fiscal Decentralisation

Measure 1: Improving Fiscal Capacity and Increasing Municipal Revenues

Draft Law on Modifications and Amendments to the Law on Financing Local Government Units is in parliamentary procedure, providing for increased municipal revenues by gradually increasing the funds transferred from the Central Budget to the municipalities. Hence, percentage of PIT transferred to the municipalities increases from 3% to 6% and percentage of VAT grants increases from 4.5% to 6%. Thereby, funds provided on the basis of VAT grants will be distributed into basic part - 4.5%, Performance Fund - 0.75% and Equalisation Fund - 0.75%. Formula and excel tool have been prepared on the basis of which allocated funds will be distributed. Activities are ongoing as regards preparation of a new Decree on Distribution of Value Added Tax Revenues. In addition, municipal revenues increased, taking into account the recent amendments to the Law on Property Taxes, pertaining to property tax rates, whereby base property tax rates have not been changed, but rather the property tax rate has been increased for real estate not used or leased for more than six months in the course of the year by its owner, as well as in case the owner fails to declare whether the real estate is used or not. Legal amendments apply from 1st January 2022.

Future steps to be undertaken in the coming period include adoption of the Law on Modifications and Amendments to the Law on Financing Local Government Units and adoption of new Decree on Distribution of Value Added Tax Revenues. To the end of commencing the preparation of a new Law on Financing Local Government Units and bylaws aimed at its enforcing, it is necessary to adopt the new Organic Budget Law. In the coming period, existing Law on Financing Local Government Units will be assessed with UNDP technical assistance. At the same time, in cooperation with the competent Ministries from which block and earmarked

grants are transferred, possibilities to amend the criteria for distribution of these funds by municipality are analysed. Under UNDP technical assistance, comparative analysis will be carried out with some of the neighbouring countries and EU Member States for distribution of capital transfers and Decree on Distribution of Capital Grants will be prepared.

Measure 2: Regional and Local Development

Working Group for preparation of legal solutions for establishment of Agency for Regional and Local Development has been set up, comprising representatives from the Ministry of Local Government, Ministry of Finance, Bureau for Regional Development, Cabinet of the Deputy Prime Minister in charge of Economic Affairs, Ministry of Justice, Ministry of Political System and Community Relations, Ministry of Information Society and Administration and Association of the Local Government Units. To the end of supporting the Working Group, technical assistance from USAID has been requested, with USAID announcing a Call for selection of an expert for technical assistance for the needs of the Ministry of Local Government to prepare models for transformation of the Bureau for Regional Development.

In the coming period, following the selection of the expert, it is expected to analyse the proposed models, hold consultations with all stakeholders as regards the proposed models and select the feasible model.

Priority 2: Financial Discipline, Transparency and Accountability at Local Level

Measure 1: Increasing the Financial Discipline

Draft Law on Modifications and Amendments to the Law on Financing Local Government Units is in parliamentary procedure. It will provide for more realistic planning of the municipal budget, whereby the 30% is again reduced to 10%, however, in case the collection of own revenues of municipalities' core budget, as of the third quarter inclusive, accounts for more than 75%, they are given the opportunity to further increase the projected revenues to a maximum of 20%. During this period, LGUs budgets are regularly monitored and controlled if they are prepared in line with the existing legal regulations. At the same time, budget execution is also monitored, in particular the earmarked spending of funds and reduction of non-productive expenditures. Settlement of arrears reported in the Electronic System for Reporting and Recording of Liabilities - ESRRL are monitored monthly. Revenue performance and expenditure execution of the municipalities, arrears and fulfillment of the requirements for declaring financial instability, as well as borrowing by the municipalities, are monitored quarterly. Financial inspection is informed about the municipalities which, as of the first quarter of 2022, did not declare financial instability, although they fulfilled the requirements for declaring financial instability as

prescribed in the Law on Financing Local Government Units. Under the amendments to the respective draft Law, procedure for declaring financial instability is further regulated, and instruments for overcoming the financial instability are proposed. Until the draft Law is adopted, Manual on Declaring Financial Instability is in the process of preparation with USAID support.

Future steps to be undertaken in the coming period include adoption of the Law on Modifications and Amendments to the Law on Financing Local Government Units, governing the realistic planning of revenues and expenditures, as well as further regulation of the procedure for declaring financial instability and possibility for its overcoming. In the coming period, Manual on Declaring Financial Instability will be prepared and the municipalities will be informed about the possibility to use the instrument to overcome financial instability.

Measure 2: Increasing the Transparency and Accountability Throughout the Operations of the Municipalities

Data on revenue performance and expenditure execution of the municipalities and arrears from the Electronic System for Reporting and Recording Liabilities for Q4 2021 and Q1 2022, draft 2021 Annual Budget Report, including 2021 Annual Municipal Budget Reports, are published on MoF's website. With UNDP support, financial indicators from the periodic financial reports of around 30 municipalities are published on municipalities' and MoF's website. To the end of strengthening the control by the government, in the period January - June 2022, out of total of 179 inspections carried out by the Public Sector Financial Inspection Department, 86 inspections were carried out and 93 inspections are ongoing at local public sector entities.

Future steps to be undertaken in the coming period include timely publication of financial data, monitoring the transparency of the municipalities, in particular publication of financial data, increased number of reports and financial data published on the municipalities' and MoF's websites, adoption of the Law on Public Sector Financial Inspection, adoption of modified and amended Rulebook on Organisational Setup and Rulebook on Systematisation of Work Posts in the Ministry of Finance, carrying out exam for obtaining a financial inspector license and employment of financial inspectors.

7. Monitoring and Coordination

2022 Action Plan sets indicators and targets by year for each planned activity. As regards PFM sub-sector, Performance Assessment Framework integrates the indicators and the targets for

the PRFM Reform Programme, and the responsibilities for data collection and processing are being assigned on the

The monitoring process is based on the PFM reform management and coordination framework, comprising the following structures established at all hierarchical levels of decision-making.

- *PFM Council*
 - *PFM Working Group*
 - *Priority Coordinators*
 - *Coordination Unit within MoF*
-

grounds of the monitoring and reporting system envisaged in the Programme.

Strong political commitment as regards the fulfilment of the reform goals set in PFM Reform Programme 2022 - 2025 is ensured through the PFM Council.

The Government established the PFM Council on 12th February 2018 ("Official Gazette of the Republic of Macedonia", no. 28/2018), as the highest-level coordination body, the primary goal of which is to ensure full political commitment in achieving the reform goals under the PFM Reform Programme 2018-2021.

On 14th June 2022, the Government adopted a new Decision on Establishment of PFM Council, as the key body within the structure for managing, coordinating, monitoring and reporting about the implementation of PFRM reform Programme 2022 - 2025.

PFM Sector Working group is a technical working body established by the Minister of Finance for the purpose of preparing, monitoring and reporting on the PFM Reform Programme. It comprises members and observers nominated by the relevant institutions included in activities related to PFM sector (ministries and other public entities, civil society organisations, development partners). The Working Group was initially established under a Decision adopted by the Minister of Finance on 10th June 2015, and it has been modified and amended several time since, with the recent amendment made on 29th October 2021. New decision on appointment of WG members and observers is in the process of preparation, and it will be adopted in line with the new structure of the PFM Reform Programme 2022-2025.

IPA and NPAA Unit within MoF represents the Coordination Unit, acting as a technical secretariat to support the functioning of the PFM Working Group and the PFM Council. In general, its tasks comprise technical preparation of the meetings of the PFM Council and the PFM Working Group and preparation of compiled reports on the progress as regards the implementation of the reforms under each priority and compiled annual action plans, based on the input provided by the Priority Coordinators.

These working bodies also ensure the necessary coordination among all PFM sub-system strategies and policies (PIFC Policy Paper, Tax System Reform Strategy, PRO and CARM strategies), as well as the other related national strategies, such as the Public Administration Reform Strategy.

Meetings of the PFM SWG are held regularly both at policy and technical level.

PFM Policy Dialogue was held on 13th May 2022, attended by members and observers from the civil society organisations and the development partners, participating in the PFM Sector Working Group, as well as other stakeholders.

Annexes

Annex 1: Monitoring matrix on the 2022 Action Plan