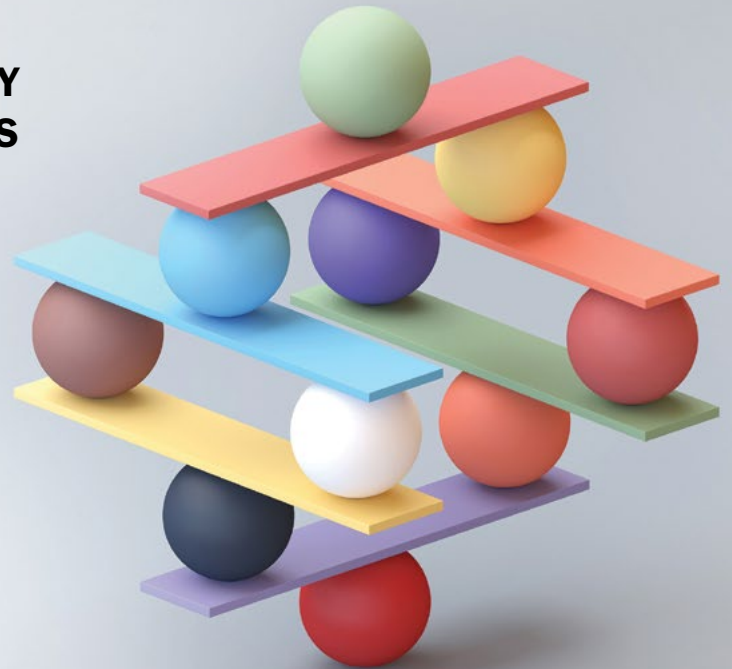


# Public Sector Asset Management in the Republic of North Macedonia

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## THE STATE OF PLAY AND PERSPECTIVES

DISCUSSION PAPER



Center  
of Excellence  
in Finance



20 YEARS OF  
MAKING THINGS  
HAPPEN



SLOVENIAN  
AID

JEL classification: M480, H700

Keywords: public sector, asset management, accounting, state audit, North Macedonia

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This paper is a result of the project Public Accountants Certification Training in North Macedonia (PACT NMAC 3), financially supported by the Ministry of Foreign Affairs of Slovenia. This research is also the result of the international scientific project titled “Challenges of financial and non-financial reporting by public sector entities in the changing user needs environment”, under the classification HRZZ – PZS – 2019 – 02 – 5372. Any opinions, findings, and conclusions or recommendations expressed here are those of the authors and do not necessarily reflect the views of authors’ institutions, the Center of Excellence in Finance or third parties.

# Public Sector Asset Management in the Republic of North Macedonia

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## **THE STATE OF PLAY AND PERSPECTIVES** DISCUSSION PAPER

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FEBRUARY 2021






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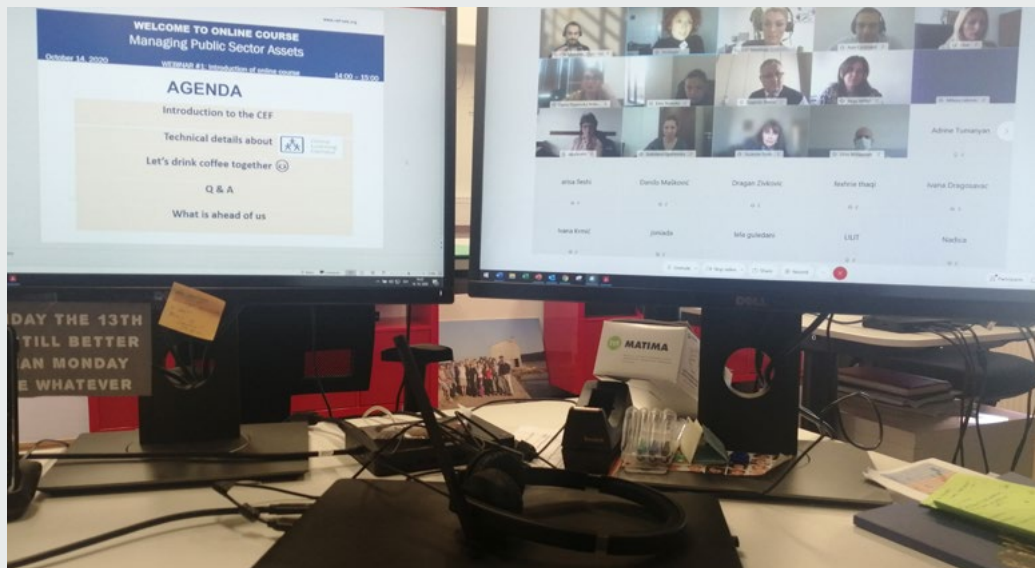
# Abstract

The successful development of economies depends on effective and efficient public administration. For an effective and efficient public administration, the assets available are of great importance, as governments are responsible for providing high-quality public services to citizens and thus also for managing public sector assets. A clear range of strategic policies set by the government in the process of managing public sector assets leads to efficient and effective public management, which in turn increases the quality of services and improves the lives of citizens.

This paper examines how public sector assets are managed in the Republic of North Macedonia, by focusing on both the institutional and organizational aspect and the accounting and financial reporting aspect of public asset management reforms. Both aspects are examined using the qualitative research method (reviewing relevant institutional and non-institutional documents) and supported by survey-based empirical data. The paper also addresses Public Sector Asset Management (PSAM) perspectives and challenges ahead of the Republic of North Macedonia and a clear need to maintain the momentum for continuous improvement (i.e. capacity development efforts) in this area.

# Impact

The results of this study have relevance to all officials (policymakers) responsible for and engaged in public sector asset management and to those engaged in activities related to public sector accounting and financial reporting systems in North Macedonia and in the region, in their effort to improve the existing regulatory frameworks of public sector asset management, and to foster and advance PSAM reforms with a purpose of enabling sound public sector financial management. Given the harmonization and convergence trends on the international level, this paper is of value to national and international standard setters as well as political and professional bodies in Europe.





# Introduction

Public sector asset management (PSAM) is of a great importance to a country and it represents a systematic combination of many components, such as policy setting, determining the cost, the benefit and the risk of asset ownership, information systems development, centralization and decentralization of management responsibilities and authorities, management accountability, and privatization processes (Conway, et al., 2006). In addition, there are more specific components that include laws and regulations drafting, inventories, data information systems, asset acquisition, recognition and disposal, financial reporting, organizational and strategic policy and accountability (Fernholz & Fernholz, 2007).

Australia, Canada, New Zealand, and France represent significant examples of conducting long-term public sector reforms successfully, especially those in the area of public asset management (Armstrong, 1997). Moreover, these countries are excellent examples of countries that have effectively implemented supportive asset management systems (Muhammad Hasbi, et al., 2010).

Managing public assets has been a topic of academic debate and research for over 30 years. It is generally accepted that managing public assets for current and future generations requires good information and systems (Roje & Botica, 2020). Furthermore, the importance of public asset management was highlighted in the European Commission's study "An Analysis of Public Assets and their Management in the European Union" (2018), which was the first comprehensive overview of financial and non-financial assets in the EU and relied on very rich and extensive firm-level data.

Summerell (2005) discusses the full accounting for assets and their use by focusing on fixed assets, such as real property assets. The paper evidences that if asset management is implemented, most organizations will gain some opportunities, such as





1. real property operations, in reduced and fully auditable operating costs;
2. real property use optimization, in reduced vacancy rates and improved fulfillment lead time;
3. portfolio management, in managed value, auditable benefits, and costs; and
4. demography, in better balance, reduced churn, and lower costs.

Following the international trends in public sector reforms worldwide, and the need for the Republic of North Macedonia (hereinafter referred to as North Macedonia) to move closer to the requirements of the European Union in terms of accession to the Union, the Public Sector Financial Management (PSFM) reform is deemed crucial, as it directly affects the management of public sector assets. For that purpose, the government of North Macedonia has adopted the Public Financial Management Reform Program (2018–2021) that defines the key priorities, outcomes, measures, and activities in the public sector in North Macedonia (Ministry of Finance, 2017). The Program envisages a new integrated financial management information system, including a module for fixed assets.

Reviewing the progress made in the field of PSAM in North Macedonia and then placing the country within global trends in public asset management and related PSFM reforms, leads the audience to the conclusion that in North Macedonia there is still no specific, unique government entity responsible for managing the government's asset portfolio as a whole.

To our knowledge, research outputs on the topic of PSAM (both qualitative and quantitative) in North Macedonia are rather scarce, and this paper thus contributes to closing the gap in the existing PSFM literature. By analyzing the institutional and organizational aspects of asset management, as well as accounting and financial reporting aspects, the authors of this paper seek to examine the regulatory framework and strategic policy documents, analyze the role of the state audit in public asset management, provide an overview of the regulatory framework and practices of public sector accounting and financial reporting, and explore the role of the public sector accounting and financial reporting reform and standard-setting in PSAM and PSFM reforms. Following the qualitative analysis of legislative frameworks, a quantitative (survey) research is carried out, exploring the interface between the findings of the two PSAM aspects.

# Institutional and organizational aspects

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## 2.1 Overview of the regulatory framework of public sector asset management, strategic policy documents and key asset stakeholders (custodians)

For a process of managing public assets to be successfully established, the existence of a good institutional and legal framework is of great importance. Unclear regulation and working systems lead to multiple problems, i.e. cross-competencies, jurisdictions in the management of public assets, driven by unclear regulations (Muhammad Hasbi, et al., 2010). The management of public assets in developing countries is typically carried out under different jurisdictions depending on who owns, manages or uses the assets. In many cases, local authorities in North Macedonia have had difficulties identifying which assets fall under their jurisdiction, whether the assets relate to central government jurisdiction or other local government territories' jurisdiction (State Audit Office, 2019). This situation is mainly caused by a lack of horizontal institutional coordination and years of disorder in the documentation related to the assets.

In North Macedonia, the general government comprises of central and local government. In 2004, the Parliament adopted the new Law on the Territorial Organization of Local Self-Government (Official Gazette no. 55, 2004), resulting in 80 municipalities, 33 of which are considered cities with more than 3,000 citizens. The City of Skopje is considered an additional and separate unit of local self-government and a county per se, with the Law on the City of Skopje defining its separate competencies and powers. Public sector entities are divided into two groups: central government entities and local government entities.

Currently, the regulation on the management of public assets in North Macedonia draws primarily on the Law on Usage and Management of Assets Owned by the Central Government and Assets Owned by the Local Government. This law regulates the rights and duties of state bodies<sup>1</sup> concerning the procurement, use, and disposal of state-owned assets and records of assets used by state bodies as long-term assets to perform activities in the country and abroad. Excepted from that are the assets used by the diplomatic and consular missions of North Macedonia, as well as the rights and duties of the legal entities established by the state<sup>2</sup> regarding the procurement, exchange, use of real and movable assets and sale of movable assets. The law also regulates the procedure for granting the use of assets in municipal ownership to state bodies and legal entities established by the state, as well as the procedure for the sale and leasing of assets owned by municipalities, municipalities in the city of Skopje, and the city of Skopje as well as state bodies' leasing. However, this law cannot be regarded as being the only component of PSAM legislation. There are other special laws which set out the management of the various types of public sector assets (laws on railway system, aviation, mineral resources, concessions and public-private partnerships, etc.)

The state-owned assets used by the state bodies and legal entities founded by the state are at the disposal of the government of North Macedonia on behalf of North Macedonia. The assets of the municipalities, the municipalities in the city of Skopje and the city of Skopje are at the disposal of the mayor. State bodies and legal entities established by the state use real estate in accordance with the purpose of assets and the works and tasks that these bodies and entities perform, all in accordance to what is determined by the government of North Macedonia. In addition, the government may also designate a state body that will use the assets for the purpose of exercising the competencies of several bodies, and it is the government who regulates the manner of use, storage, maintenance, and records of immovable property (Official Gazette no. 78/15, 2015)<sup>3</sup>.

The government has proceeded with drafting the new organic Budget Law that will (as of 2023) regulate a special part of public asset management, namely the right to manage and dispose of the assets, the restriction on the acquisition of assets, a separate chapter on managing non-financial assets and a separate chapter on managing financial assets. The law will also regulate the sale of state and municipal financial and non-financial assets.

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1 In this paper, the term state bodies refers to bodies of the state administration and the bodies of the legislative, executive and judicial power.

2 In this paper, the term legal entities established by the state refers to public institutions in the fields of health, education and science, culture, child protection, social protection, agencies, directorates, public enterprises established by the state, independent regulatory bodies established by the state, fully state-owned companies and other state-established institutions.

3 For example, the Ministry of Culture may provide books for the permanent use of public municipal institutions – cultural centers or libraries; the Ministry of Defense may give permanent use of beds and mattresses to state dormitories, etc.

Among other things, this organic law will regulate the preparation of a consolidated balance sheet of the state and the municipalities, which will be prepared by the Ministry of Finance and which will be an integral part of the Annual Report on the execution of the state budget.

The extent and value of central government and local government non-financial assets in North Macedonia is yet to be determined. Financial reports for state-owned enterprises, including full balance sheets, are produced in accordance with the International Financial Reporting Standards, and this enables to estimate the value of the national road network, railway infrastructure, utilities, and cultivated biological assets. However, the value of government buildings (including schools, hospitals, government offices) and government owned land, for both central government agencies and ministries, and municipalities is currently not accounted for and thus not reported (International Monetary Fund, 2018).

The key institution responsible for managing state financial assets is the Ministry of Finance, whilst the main body in charge of keeping records of state-owned real estate assets used by state bodies is the Agency for Real Estate Cadastre. The latter is responsible for keeping an Evidence Book for the real estate used by the state bodies (Official Gazette no. 78/15, 2015). The Evidence Book comprises data on the real estate (e.g. place, street, number, cadastral municipality, cadastral parcel, property certificate number, land area, building area); the basis for acquiring the right of ownership; obligations and real rights related to the real estate (lease, use, encumbrances, restrictions, etc.) and the book value amount (at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses) of the real estate at the moment of recording the assets. In addition, the records of state-owned real estate are established and maintained by every state body that uses state-owned real estate.

Furthermore, in North Macedonia there is no unique document outlining the investment strategy for all state assets and no unique document outlining investment strategies for all non-financial assets. However, sector-specific strategic documents (plans and programs) for some clusters of non-financial assets do exist and are drafted individually, e.g. the National Transport Strategy 2018–2030, annual programs for construction, reconstruction, maintenance and protection of state roads, and the Strategic Work Plan of the Agency for Real Estate Cadastre 2020–2022. The latter document provides that the property register of North Macedonia and state bodies as users of the property is set to be implemented in a period between January 2020 to December 2022 (Agency for Real Estate Cadastre, 2020).

The role of the State Audit Office (SAO) in controlling and assessing whether public asset management is efficient and effective is elaborated in Section 2.2.

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## 2.2 The role of the State Audit Office (SAO) in public sector asset management in North Macedonia

The state audit is a crucial mechanism in auditing the spending of public money on behalf of the Parliament; hence, the synonym for state audit is “guardian of public money”. State audit differs from other types of government controls by emphasizing its independence and authorized access for examination, audit, and control of budget development by central and local governments and ex-post audit activities.

In North Macedonia, the state audit is regulated by the Law on State Audit (Official Gazette no.66, 2010). The activities related to the state audit in North Macedonia are performed by the SAO, as the Supreme Audit Institution (SAI). The SAO started operating in early 1999, first audits were conducted in 1998/99, and the first Annual Report on the operation of the SAO and the performed audits was submitted to the Parliament in 2000. In addition to the regularity audit (financial audit and compliance audit), since 2005 the SAO has been conducting performance audits. More recently, the SAO started performing audits as follow-ups of given recommendations and thematic audits (SAO, 2020).

Regarding the control of public assets, the regularity audit is deemed crucial. It includes the audit of financial statements, the audit of compliance, and the performance audit. The role of financial audit is that the auditors test the validity of the account balance assertions, related to the balance sheet (i.e. the completeness, the identified weaknesses, the existence and the valuation of assets, as well as the rights and obligations related to assets). The goal of the performance audit is to determine whether government institutions, systems, processes, programs, activities, or organizations are operating in accordance with the principles of cost-effectiveness, efficiency, and effectiveness in the use of public assets, and whether there is room to improve the performance. The role of the compliance audit is to see if the management of public assets is in accordance with the applicable legal and regulatory provisions.

In all audit types, the auditor provides clear and concise recommendations for improving asset management and then monitors their implementation. According to the Law on State Audit, state auditors are obliged to monitor the implementation of those recommendations, and the audited entities are obliged to submit a form describing

the measures taken to address the recommendations to the SAO within 90 days from receiving the final audit report. To assess whether the measures have been effectively implemented, state auditors perform follow-up checks on the findings of regularity audits. In the case of performance audit, the SAO has not yet performed any follow-up checks of the recommendations made in the final reports.

From 2005 until today, a total of 21 performance audits related to the management of public assets in North Macedonia have been performed, with the most significant being the performance audit on “Efficiency in the management of business property owned by the Republic of Macedonia”<sup>4</sup>. This audit was performed in 2015, with a final report issued by the state auditors in 2016 with concise, clear recommendations for overcoming audit findings. To date, no follow-up has been performed by the state auditors on their recommendations. The main findings determined in the report referred to the non-existence of the obligation to prepare the consolidated balance sheet on the state level; the Cadastre Agency having incomplete records of the real estate used by various state bodies; 23% of the state administration bodies<sup>5</sup> having no established accounting records for the assets recognized in the financial statements; and 30% not undertaking any activities regarding the determination of the value of the real estate they use nor having reported those assets in their accounting records and balance sheet statements.

However, the obligation to prepare the consolidated balance sheet on the state level is to be regulated by the new organic Budget Law as of 2023. More precisely, according to the new law the Ministry of Finance will prepare the consolidated balance sheet of the state and the municipalities, which will be an integral part of the Annual Report on the execution of the state budget. In addition, the Ministry of Finance is to submit the consolidated balance sheet to the Central Register within 15 days from the adoption of the Annual Report on the execution of the state budget by the Assembly.

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4 Audit reports are publicly available at [Audit reports | State audit office \(dzt.mk\)](#).

5 In this paper, the term *state administration bodies* refer to bodies established as ministries, other state administration bodies and as administrative organizations. Other state administration bodies according to the type of the organization and the level of independency can be established as independent state administration bodies (i.e. directorates, archive, agencies and commissions) or as bodies within the ministries (i.e. bureaus, services, inspectorates, etc.).

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## 2.3 Empirical evidence

The empirical research was conducted based on the data collected by means of a self-administered questionnaire comprising 39 questions that addressed strategic policy and organizational/institutional aspects of PSAM, related to both the regulation and practice.

The survey sample comprised of 10 targeted respondents, employed in the SAO (7) and other institutions acting as asset management custodians (i.e. North Macedonian Ministry of Defense, Institute for Accreditation of the Republic of North Macedonia).

The questionnaire was designed to address the following topics: asset management policies, strategic policy documents, the role of central government asset management, asset management policy setting models, the role of asset registry, ownership issues, and the role of the SAI and control systems. Some of the questions included in the questionnaire were multiple choices; some included a five-point Likert scale ranging from 1 to 5, while some questions required answers of descriptive nature. A few questions focused on the perception of the respondents (e.g. the respondents were asked to rank the benefits that they consider important in having a (long-term) strategic policy document on public sector asset management as well as to rate the asset management policy issues that they considered important).

Our approach to presenting the findings was to explore the interface between selected questions, as shown in Table 2.3.1 in Appendix.



Given the size of the sample, the findings do not impose or lay down all the possible issues of strategic policy and organizational/institutional aspects of PSAM in North Macedonia. However, we find empirical findings to be consistent with the current lack of horizontal institutional coordination and harmonization of legislation as well as with the years of disorder in the documentation related to the assets and the need to develop a comprehensive ownership policy, establish ownership rights and better planning for the future of state assets based on long-term strategic documents. The authors have attempted to give the readers the opportunity to

▶ study the state of play and national peculiarities that must be taken into account, for otherwise internationally recommended reforms may end up being formally adopted, but not implemented in practice, and to

▶ draw their own conclusions, form judgements and deepen their insights in the search for new solutions and possible directions for further development of PSAM in North Macedonia. Further reflections of the authors are provided in Chapter 4.



# Accounting and financial reporting aspects

## 3.1 Overview of the regulatory framework and practices of public sector accounting and financial reporting

Public sector accounting can be described as a system that gathers, records, classifies, and summarizes as reports the financial events existing in the public sector and, as required by accountability and financial transparency, provides information to information users associated with public institutions (Ekrem, 2012).

The national legal framework for public sector accounting and preparation of financial statements for public sector entities in North Macedonia comprises of the Law on Accounting of Budgets and Budget Users (Official Gazette no. 61/02, 2002) and a related set of subordinated regulations, as well as accepted accounting principles and standards. The Law regulates the keeping of accounting records, business books, documents and data processing, recognition of revenues and expenditures, assessment of balance sheets, revaluation, financial statements, submission of financial statements, and other issues related to budgetary accounting in North Macedonia, the budgets of the municipalities and cities, the central state budget and the funds, the beneficiaries of funds from the budgets, as well as other legal entities for which the funds for performing the basic activities are mostly provided from the state budget.

Based on the regulatory framework, the International Public Sector Accounting Standards (IPSAS) are applicable for the public sector for budgets and budget users in North Macedonia. This has been established in the Law on Accounting of Budgets and Budget Users, and the standards are published in the “Official Gazette of the Republic

of N. Macedonia”<sup>6</sup>, but so far, only the Cash Basis IPSAS has been translated and used in practice<sup>7</sup>. The accounting for the budget users in North Macedonia is based on the system of double entry accounting, according to the schedule of the accounts from the prescribed chart of accounts for budgets and budget users.

Budgets and budget users provide uniform records and other forms with insights into the existing state and changes in assets, liabilities, sources of assets, revenues and other inflows, expenditures and other outflows, and the operating results.

Budgets and budget users produce the accounting journal (for recording all financial transactions), general ledger, cashbook (cash report), fixed assets ledger, and analytical records, which are kept for the fiscal year starting on January 1 and ending on December 31.

The general features of the public sector accounting and financial reporting system in North Macedonia are as follows (Official Gazette no. 61/02, 2002):

▶ Cash basis is used for recognizing revenues and expenses in the general ledger, which means that revenues and expenses are recognized in the period when the corresponding cash is received or payments are made.

▶ The following items are not recognized as revenues:

1. received gifts in the form of material and non-material assets,
2. surpluses during inventory counts, and
3. any other material assets received for which payments have not been made.

▶ The following items are not recognized as expenses:

1. material and non-material assets that are disposed of without consideration,
2. shortages of inventory counts, and
3. write-offs of assets and receivables.

▶ Loans taken are recognized as revenues, while payments regarding installments of loans and borrowings in total are recognized as expenses.

<sup>6</sup> The main activity of the Public Enterprise “Official Gazette of the Republic of N. Macedonia” is publishing laws, other regulations and acts as well as issuing the official newspaper “The Official Gazette of the Republic of N. Macedonia”, as an activity of public interest. The publishing of the laws, other regulations and acts is conducted in written and electronic form, available at: <http://www.slvesnik.com.mk/doma.nsp>.

<sup>7</sup> The Minister has adopted a Rulebook for the application of international public sector accounting standards, which however covers only the standard for financial reporting on the cash basis.

The estimation of balance sheet items refers to confirming the value of each balance sheet item separately. Budgets and budget users are obliged to estimate balance sheet items contained in the General Ledger according to the monetary unit principle. Reporting of long-term and short-term assets is based on their purchase cost, which consists of the purchase price increased by import duties, value-added tax, transport costs, and all other direct costs. Long-term assets are written off using the straight-line method and applying annual rates prescribed by the Minister of Finance. The basis for writing off long-term assets is the purchase cost value. Long-term assets with an individual value at the moment of procurement lower than EUR 100 in MKD counter value (the capitalization threshold) are classified as expenses that are written off at once, regardless of their useful life. Payments made during the year from the funds planned in the state budget of North Macedonia for long-term and short-term investments are recorded as expenses, except when a joint venture obligation has been undertaken (Official Gazette no. 61/02, 2002).

In terms of the annual financial reporting responsibility, the Law on Accounting of Budgets and Budget Users obliges to prepare the following basic financial statements: the balance sheet, income statement (statement on revenues and expenses), and consolidated statement. These financial statements must give an accurate, truthful, and complete overview of the revenues and other inflows, expenditures and other outflows, as well as the condition of the assets, liabilities, and sources of funds, and they must be kept permanently and in the original form. Financial statements are prepared for the period of a fiscal year as at 31 December, in a format prescribed by the Ministry of Finance, and are to be maintained as a permanent document. Together with explanatory commentaries by the management, financial statements represent the Annual Account (Annual Report) document.

The government is responsible for reviewing and submitting the Annual Account (Annual Report) on the execution of the budget of North Macedonia (the execution of the planned revenues and expenditures), funds' annual reports and local government annual reports to the Parliament by 30 June. The Annual Account is prepared in accordance with the classification of revenues and expenditures adopted by the Minister of Finance. However, there is no consolidation of the abovementioned reports. Budget users must submit their Annual Reports to the Central Registry and the SAO by the end of February the following year. Audited statements are thereafter sent to the Parliament.

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## 3.2 The role of the public sector accounting and financial reporting reform and standard-setting in the public sector asset management and public sector financial management reforms

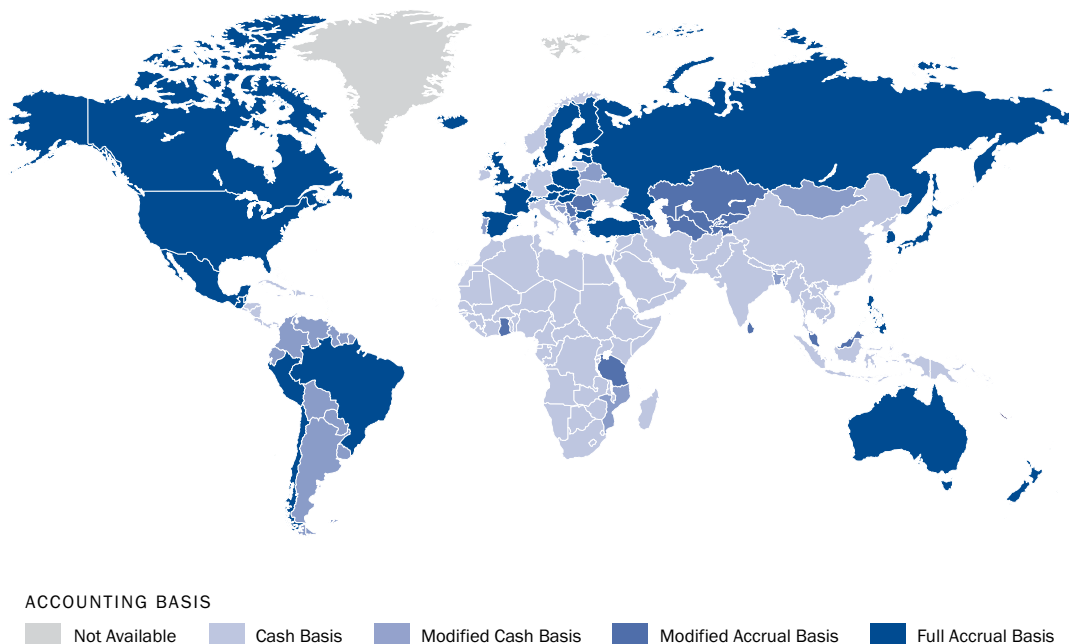
Since the 1980s, there has been a radical wave of organizational, managerial, and accounting reforms in the public sector in many countries and jurisdictions, with the New Public Management concept playing a dominant role.

According to the International Monetary Fund (2016), pure cash accounting has several weaknesses from the point of view of government financial transparency, integrity, and accountability. Governments have been tempted to exploit those weaknesses by deferring cash disbursements or bringing forward cash receipts as a means of artificially inflating their financial balance. Moreover, governments applying cash accounting typically do not hold detailed and up-to-date record of the values of their assets and liabilities. This allows them to transfer assets to or incur the assets from third parties without disclosing their financial implications for the government and taxpayers.

Transition to accrual accounting and budgeting is viewed as an important component of the wider set of public sector reforms (Jovanovic, 2013). The term *accrual accounting* has been associated with four related innovations in government accounting over the last several decades (Cavanagh, et al., 2016), as follows:

- ▶ The recognition of economic events in flow reports at the time at which they occur, as well as when the related cash receipts and payments change hands;
- ▶ The recording of all stocks of assets and liabilities, in balance sheets;
- ▶ Enhanced monitoring of liabilities and contingent liabilities;
- ▶ The consolidation of all entities under government control.

**Figure 1: Map of countries' accounting bases for annual financial statements in 2015**



Source: Joe Cavanagh, Suzanne Flynn and Delphine Moretti, *Implementing Accrual Accounting in the Public Sector*, IMF, 2016

North Macedonia has not remained immune to the prior mentioned processes. Specifically, the government of North Macedonia with financial support from the World Bank in September 2014 launched a CIPFA-based training program for public sector accountants, implemented by Center of Excellence in Finance and assisted by experienced Slovenian public sector consultants. The goal was to build the initial capacity of trained accountants that can apply IPSAS requirements within public sector institutions and develop a localized certification program that adheres to CIPFA standards in order to increase the overall technical capacity in the public sector.

The adoption of the PFM Reform Program (2018–2021) by the government of North Macedonia, as part of its public sector reforms, is of great importance. The North Macedonian PFM system has been analyzed independently by three partners, as follows:

### 1. SIGMA:

using a series of principles and indicators for paving the way towards the EU accession;

### 2. A PEFA assessment funded by the EU:

the PEFA uses an internationally defined set of benchmarks to test how well the PFM delivers on critical functions;

### 3. WORLD BANK:

carried out a Public Expenditure Review, oriented towards a PFM analysis and the efficiency of government spending to achieve growth. Furthermore, while the Program does not expressly state the intention to move to accrual accounting, it is implied under the priority that talks about receivables, fixed assets module, commitments, etc.<sup>8</sup>

In spite of the progress made in improving the PFM in recent years, resulting from the reforms that paved the way towards the EU accession with the support of the EU, improving human resources and systems, and aligning the legal framework with the EU acquis, there are still many challenges to be addressed in North Macedonia to achieve the PFM objectives of robust economic growth and social inclusiveness (Ministry of Finance, 2017). This certainly requires better and modern PFM tools. In this regard, despite all significant matters specified in the PFM Reform Program, it is of the utmost importance that the program envisages the implementation of a new financial information management system (FMIS).

<sup>8</sup> “The new system should set basis for verifying if budget users adequately allocate commitments on appropriate due dates signifying the impossibility of using commitments for precise financial planning and registering the liabilities in potential (modified) accrual based accounting.”



The whole process of the implementation of the FMIS, as an integrated part of the program, was expected to be completed in 2021 and the implementation process is to cover several modules/activities, of which the following are to affect the asset management processes:

#### **INTRODUCTION OF GENERAL LEDGER**

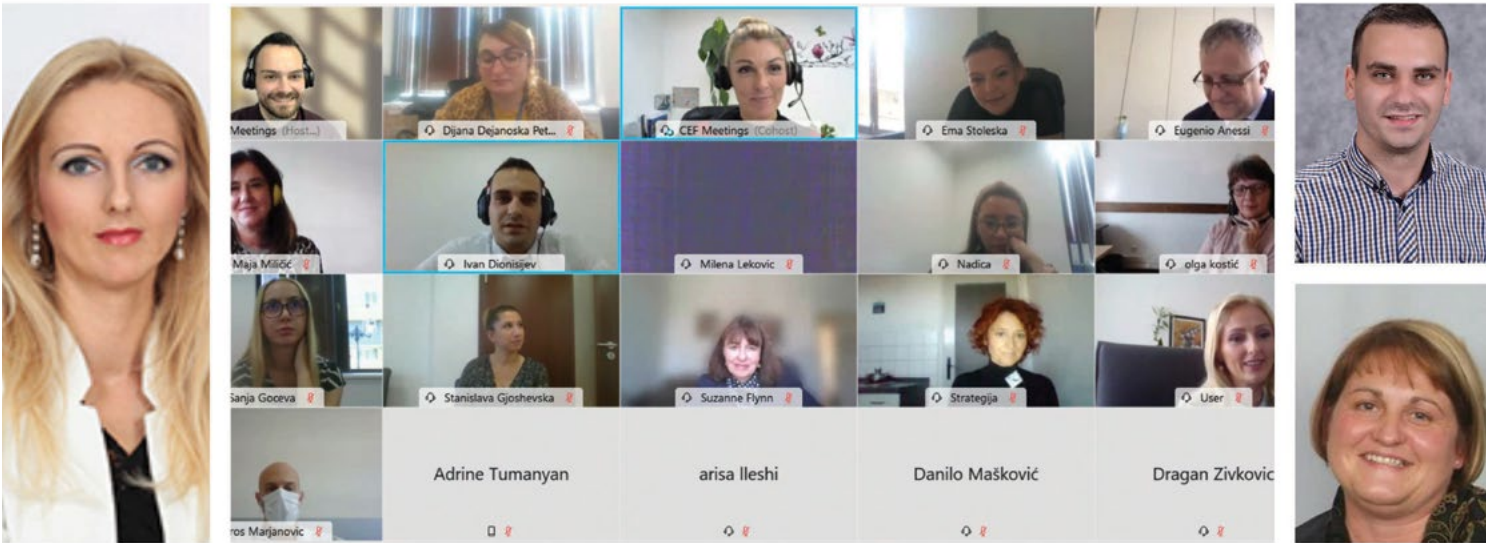
This module will enable registering of accounting transactions of the financial management system (assets, liabilities, receivables, expenditures, revenues, capital and financial incomes and outcomes) and will produce balance sheet, profit and loss report, trial balance, reports on cash based and modifying accrual budget execution.

#### **INTRODUCTION OF FIXED ASSETS MODULE**

This module will be part of the PFM Integrated System with appropriate booking schemes for postings of their financial values to the General Ledger. The system will enable registration of each particular fixed asset to appropriate group of fixed assets and adjustment of their statuses. This module includes the following sub-activities (Ministry of Finance, 2017):

1. creation of booking schemes,
2. measurement and evaluation of fixed assets for each budget beneficiary, and
3. design of a new module for registering fixed assets.

The administrative responsibility for overseeing the implementation of the reform lies with the Ministry of Finance and the State Statistics Office, with the exception of external oversight by the SAO and supervision by the Parliament. However, the PFM spans beyond the Ministry of Finance and involves the entire government sector, including line ministries, public enterprises and local governments. The overarching responsibility for the effective execution of the reform spreads to various public sector stakeholders, requiring high-level monitoring and guidance. Yet, while the PFM Reform Program mentions the FMIS, there is no explicit intention in the PFM Reform Program to move to accrual based international standards.



In the screenshot: an insight into CEF's online course "MANAGING PUBLIC SECTOR ASSETS: CURRENT STATUS, ONGOING REFORMS AND FURTHER CHALLENGES", organized in October/November of 2020.

The course was designed to provide a multidisciplinary view over the institutional/organizational, accounting, and financial reporting aspects for sound and efficient public sector asset management.

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### 3.3 Empirical evidence

The empirical research was conducted based on the data collected by means of a self-administered questionnaire comprising 32 questions that addressed accounting/financial reporting aspects of PSAM, related to both, the regulation and practice.

The survey sample comprised of 10 targeted respondents, employed in the SAO (7) and other institutions acting as asset management custodians (i.e. North Macedonian Ministry of Defense, Institute for Accreditation of the Republic of North Macedonia).

The questionnaire was constructed to address groups of questions related to the bases of accounting, fixed tangible assets recognition and reporting, standards and standard setting (with the emphasis on reasons for and expected benefits of accruals/IPSAS adoption) and the existing state and/or the phase of introducing and applying accrual accounting. Some of the questions included were multiple choices; some included a five-point Likert scale ranging from 1 to 5, while some questions required specifying the answers and were of a rather descriptive nature. A few questions focused on the perception of the respondents (e.g. the respondents were asked to rate the importance of the following expected benefits of accrual based IPSAS adoption as well as to rate the state and/or the phase of introducing and applying accrual accounting).

Our approach to presenting the findings was to explore the interface between/among selected questions, as shown in Table 3.3.1 in Appendix.

Lastly, given the size of the sample, the findings do not impose or lay down all the possible issues of accounting/financial reporting aspects of PSAM in North Macedonia. However, we find empirical findings to be consistent with the ongoing efforts in linking financial reporting with accountability for the management of assets that is beginning to attract attention in North Macedonia. Similarly to the emphasis made in Section 2.3., the authors have attempted to give the readers the opportunity to draw their own conclusions, form judgements and deepen their insights in the search for new solutions and possible directions for further development of PSAM in North Macedonia. Further reflections of the authors are provided in Chapter 4.

# Perspectives and challenges ahead

This paper also presents the challenges, opportunities and obstacles in applying the experiences of other countries or international professional authorities in the further development of PSAM in North Macedonia. Whether or not it is possible to apply any of the developed countries' experiences and wider international trends as an example of good practice in transitioning countries, depends greatly on a variety of factors that have influenced the developments so far.

These factors are country specific, and include the capacity to meet the assumptions for the implementation of asset management reforms, i.e. financial, legal, technical and human resources limitations to potential changes in the governance model, as well as factors affecting the dynamics of the development and hindering the reform processes, mostly due to frequent political structural changes. The variety of factors also encompasses certain external forces. An example of such external forces is known in public administration literature as New Public Management (NPM), which has emerged over the past two decades as the dominant public administration model.

One of the main challenges for further PSAM development in North Macedonia in catching up with global trends is primarily the adoption of the new Budget Law on the path of harmonizing the legislation, covering the PSAM reform features, as well as the existence of stronger political will for a sustained commitment to and consistency of announced reforms, and the creation of an effective PSAM system. Considering the right reform questions at the right time through an adequate and comprehensive reform strategy is to further raise awareness that public sector asset management reforms need to be seen as an integral part of wider public sector financial management reforms, and the provisions of the new organic Budget Law can certainly be regarded as a positive step forward in building strategic assets management in North Macedonia.

Operationalizing a comprehensive state asset register (management information system) and developing a unified public sector asset management strategic policy are deemed crucial too. In addition, the perspectives of PSAM in North Macedonia lie in setting up a unique government entity, responsible for PSAM processes and helping to achieve an overarching public asset management policy which is clearly still missing.

The challenges of the SAI in the PSAM processes remain at conducting a larger number of performance audits, providing more concise and clear recommendations, and monitoring the implementation of recommendations through conducting audit follow-ups.

Linking financial reporting with accountability for the management of assets is gaining more attention in North Macedonia, mostly fostered by the international trends of implementing and adopting accrual accounting and IPSAS. However, the challenges related to state assets accounting and reporting in North Macedonia might not be automatically solved by the adoption of accrual accounting based on international standards, since the regulatory framework of public sector accounting is still intended primarily for monitoring government spending at the macro level. Thus, in addition to observing the effects of the structure of the state, heritage and history of the development of the accounting system, one should also bear in mind the effects of public policy and wider reforms processes that have a direct or indirect impact on public sector accounting (budgetary processes, public sector management processes, etc.).

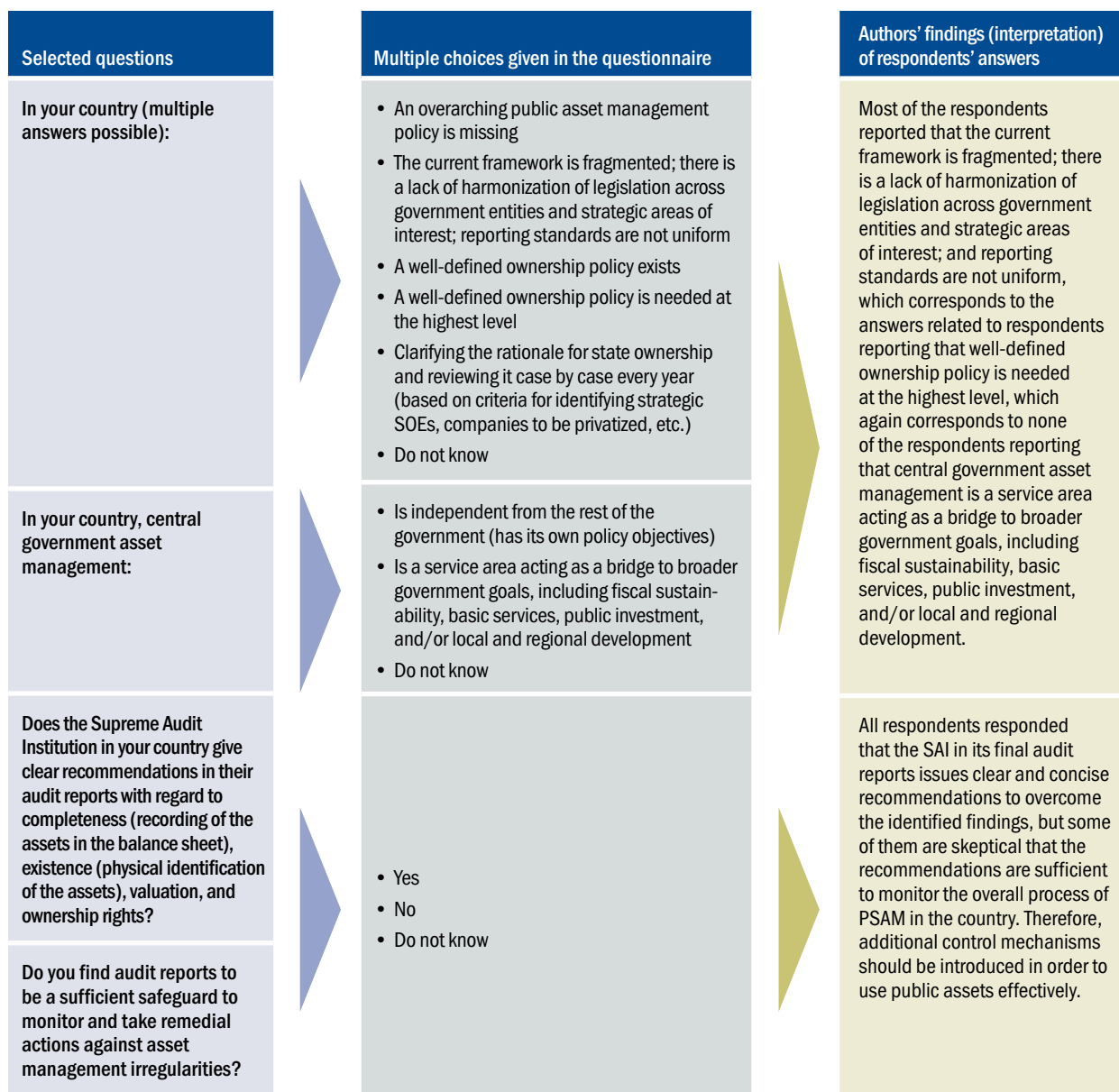
Lastly, dedicating sufficient time and resources to develop political and institutional stability, before addressing more technical developments, presents a huge challenge. The government of North Macedonia needs to think how to create incentives for public sector officials and practitioners to pursue with continuous education/training programs to allow for a more successful reform delivery. Given the current international impetus for public sector financial management set of reforms and the fact that the successful adoption of good international practices in managing public assets is among many other things dependent on the institutional arrangements and available intellectual capital, we find a well-structured system of incentives for government organisations and individuals to be crucial in overcoming the risk that reforms may be formally adopted, but not implemented in practice.

While PSAM reforms may take years to fully implement, further training of officials engaged in and responsible for managing public assets and Community of Practice learning initiatives in this area would benefit not just the North Macedonia but the whole SEE region too. Given the mid- and long-term processes, maintaining the momentum for continuous improvement in this area is essential.

# Appendix

**Table 2.3.1 Empirical findings on the strategic policy and organizational/institutional aspects of PSAM**

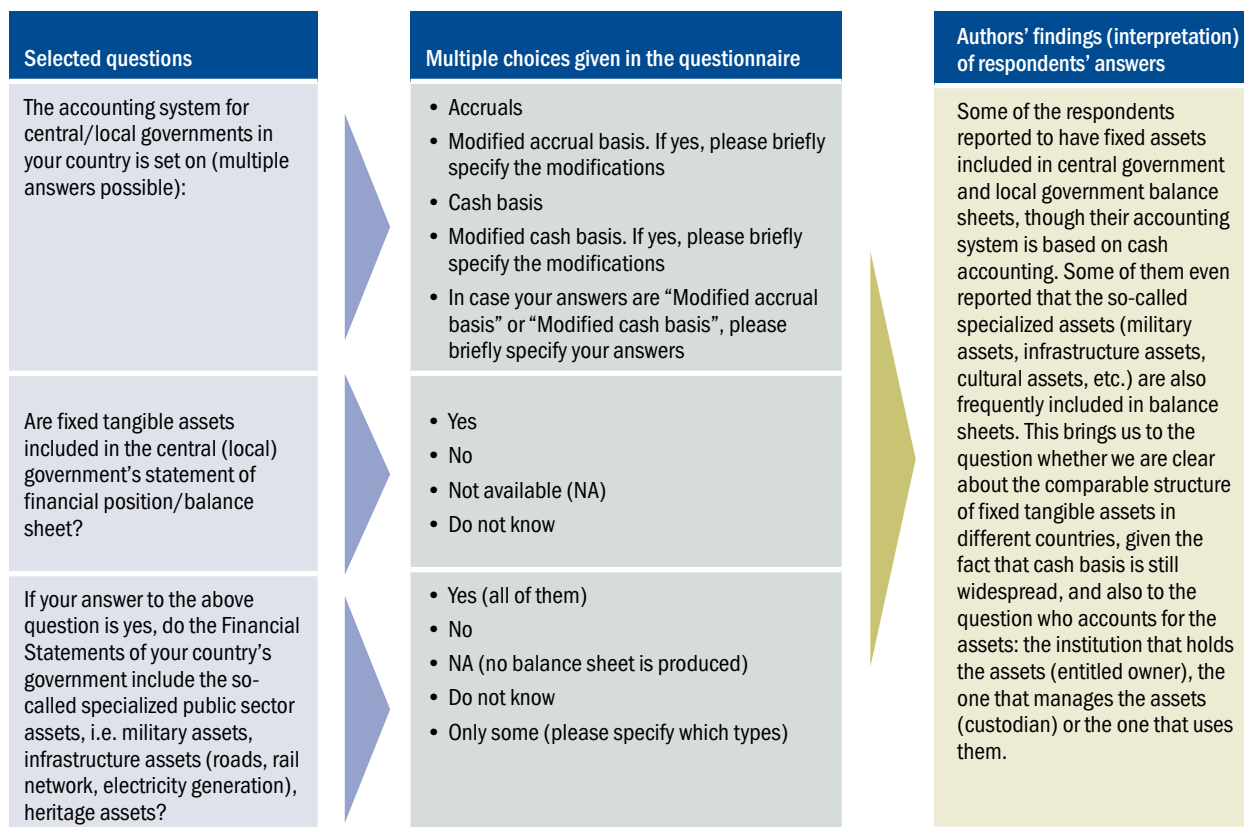
Selected questions	Multiple choices given in the questionnaire	Authors' findings (interpretation) of respondents' answers
<p>Which asset management policy issues do you consider important?</p>	<ul style="list-style-type: none"> <li>• Developing a comprehensive ownership policy with all stakeholders</li> <li>• Reviewing the existing regulatory framework and simplifying and harmonizing legislation</li> <li>• Establishing asset ownership rights</li> <li>• Ensuring the effectiveness and efficiency of institutional arrangements through improved coordination between different asset holders and enforcing horizontal performance management practices under a unified institutional umbrella</li> <li>• Sustained commitment to, and the consistency of, announced reforms</li> <li>• Enforcing mid-term strategic planning and reporting activities</li> <li>• Operationalizing a comprehensive state asset register and management system</li> </ul>	<p>Most of the respondents perceive the importance of asset management policy issues, though features of asset management policy setting are still rather vague to the majority.</p> <p>The most weighted asset management policy issues were sustained commitment to and the consistency of announced reforms and operationalizing a comprehensive state asset register and management system.</p>
<p>Please rank the benefits you consider important in having a (long-term) strategic policy document on public sector asset management.</p>	<ul style="list-style-type: none"> <li>• A more transparent management of the assets</li> <li>• A clear set of government officials' responsibilities</li> <li>• Increased accountability of government administration bodies</li> <li>• Outcome-based decision-making about the use of the assets</li> <li>• Obligatory reporting on the achieved outcomes</li> <li>• Better planning for the future of state assets - responding to citizens' needs</li> </ul>	<p>PSAM strategic policy documents are considered important. The most weighted benefits of having such documents were a more transparent management of the assets; obligatory reporting on the achieved outcomes; outcome-based decision-making about the use of the assets, and increased accountability of government administration bodies.</p>





**Table 3.3.1 Accounting and financial reporting aspects of PSAM – empirical findings**

Selected questions	Multiple choices given in the questionnaire	Authors' findings (interpretation) of respondents' answers
<p>Please rate the state and/or the phase of accrual accounting application in your country's public sector. Please note that application refers to actual practice.</p>	<ul style="list-style-type: none"> <li>• Excellent</li> <li>• Good</li> <li>• Average</li> <li>• Poor</li> <li>• Very poor</li> </ul>	<p>The gap between regulation and practice emerges (inevitably).</p> <p>Most of the respondents assess the introduction of accrual accounting as "poor", although there is a gap between regulation (introduction) and practice (application), where regulation is weighted better compared to practice, being given an average score.</p>
<p>Please rate the state and/or the phase of accrual accounting introduction in your country's public sector. Please note that introduction refers to the existence and quality of a regulatory framework.</p>	<ul style="list-style-type: none"> <li>• Greater accountability and transparency</li> <li>• Comprehensive financial reporting of assets</li> <li>• Better decision-making</li> <li>• Improved efficiency</li> <li>• Data consistency</li> <li>• Sound management of fixed tangible assets</li> <li>• Professionalization of asset custodians</li> <li>• Broader economic and social advantages</li> <li>• Government stability</li> <li>• International comparability</li> </ul>	<p>The respondents rated the choices, having assigned the average score, which brings us to the question whether we should be looking at the benefits of implementing accruals and IPSAS only.</p>
<p>Please rate the following expected benefits of accrual based IPSAS adoption</p>	<ul style="list-style-type: none"> <li>• Engagement of various stakeholders</li> <li>• Legal transformation</li> <li>• Change management</li> <li>• Skills capacity</li> <li>• Cost of implementation</li> <li>• Existing technology and infrastructure to support the implementation</li> <li>• Implementation approach/plans (phased or big bang) should be considered on a countrywide basis</li> <li>• Other (please specify)</li> </ul>	<p>Linking financial reporting with accountability for asset management is certainly beginning to attract attention; however, the challenges in terms of accounting and reporting state assets might not be automatically solved by the adoption of accrual accounting based on international standards.</p>



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Gorana has more than 10 years of experience in public sector accounting and public sector financial management. Her work is focused on international and comparative public sector accounting and financial reporting, international public sector accounting standards setting, and public sector financial management, with a particular focus on public sector asset management reforms domestically, regionally and worldwide.

In a period from 2014 to 2018, she hosted and participated in several workshops and round tables on topic related to public assets management as a part of the research project titled Accounting and financial reporting reform as a means for strengthening the development of efficient public sector financial management in Croatia. She was actively involved in developing a data model for upgrading the Central State Asset Registry. She has participated as a team member of several working groups referring to National development strategy CRO 2030 drafting and has been appointed as the coordinator for strategic planning of the public administration body, involved in preparation of long- and mid-term asset management strategic policy documents.

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Ivan has 6 years of work experience as a state auditor at the State Audit Office of the Republic of North Macedonia. The areas in which he has worked as a state auditor include the following: economy, transport, education, culture, construction, and local self-government.

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Suzanne is technical assistance advisor for public financial management in South East Europe and she has been based at the CEF since November 2016. At the CEF, Suzanne helps deliver learning programs related to her work. She joined the IMF eight years ago after six years working in East Africa with PwC and in the Ugandan treasury. She started her career in the UK public service in 1987, starting in central government, and qualifying as a CIPFA accountant in local government in 1991. Before embarking on her career in Africa, she spent 3 years working for CIPFA in London. She has also worked in a number of Asian and Central Asian countries, and worked with several governments in Europe. Her work is funded by the European Commission.

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