

THE ROLE OF THE STATE AUDIT IN THE PUBLIC PROCUREMENT PROCESS - CASE OF THE REPUBLIC OF NORTH MACEDONIA

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Abstract

Public procurement is of great importance in the development of the economy, especially in developing countries. In order to reduce corruption in the implementation of public procurement, this paper contributes to understanding the role of the Supreme Audit Institutions, in our country - the State Audit Office, in determining irregularities in the field of public procurement. The aim is to prove that if a larger number of audit engagements are carried out and a larger number of audit reports are issued, then a larger number of findings related to irregularities in the area of public procurement will be revealed. Also, the paper reviews the most important categories of identified sub-findings by state auditors for a period of 9 years, from 2011 to 2019. Processing of paper used data analysis, statistical calculations, and similar methods for data analyzing. Used methods are qualitatively and quantitatively supporting the thesis of this paper.

Keywords: public procurement, state audit, audit reports, findings

JEL classification: M42, H57, H83

1. INTRODUCTION

Public procurements in the Republic of North Macedonia participate with a high percentage in GDP and therefore has an important role in the proper development of the economy and market competition. Significant amounts of public funds are spent through public procurement, and at the same time, financial interests and close cooperation between public and private participants are established. Public procurement in the Republic of North Macedonia is regulated by the Law on Public Procurement, adopted in 2019 and it is harmonized with Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014, Directive 2014/25/EU of the European Parliament and of the Council of 26 February 2014 and Directive 2007/66/EC of the European Parliament and of the Council of 11 December 2007 (Law on Public Procurement, 2019). In addition to the established legal framework, the establishment of an effective institutional framework for preventing possible abuses in the field of public procurement is of particular importance. Key institutions in our country that need to ensure efficient and consistent implementation of the Law are Public Procurement Bureau, State Appeals Commission for Public Procurement, State Commission for Prevention of Corruption, State Audit Office, and Administrative Court (Gjoshevska Stanislava, 2016).

In this paper, the role of the state audit in the public procurement process in the Republic of North Macedonia will be considered. Namely, the state audit is crucial in controlling the

spending of public money, hence the synonym for the state audit is "guardian of public money". The Lima Declaration, and later the Mexico Declaration, began to regulate state auditing as a profession. The standards of INTOSAI indicate that the state audit is regulated by the highest legal act of a country, and that is the constitution. In the Republic of North Macedonia, the state audit is regulated by the Law on State Audit, which regulates its competencies and its mandate for auditing public sector entities. The activities related to the state audit in the Republic of North Macedonia are performed by the State Audit Office, as the Supreme Audit Institution. One of the most important aspects covered by the state audit is the public procurement process, in which the auditors publish their findings in the audit report's part of using the funds following the legal regulations.

2. LITERATURE REVIEW

2.1. Significance of Public Procurement

The role of the state audit in improving the public procurement process has been researched on several occasions. Public service agencies strive to maximize overall 'value for money' for citizens. This requires consideration of issues such as client satisfaction, public interest, fair play, honesty, justice, and equity. (Korosec, L.R. and Bartle, R.J., 2003). The importance of public procurement in the public sector is indicated by a study from the World Bank in 2012 (World Bank, 2012) that emphasizes public procurement as major economic activities of governments, as it constitutes about 15% - 20% of national revenues globally (World Bank, 2012). However, these figures range from 20% to -70% among developing economies (World Bank, 2012). The significance of public procurement is far-reaching and affects many different areas of an economy. (Wittig W.A., 2003). Public procurement is also a key instrument through which governments can directly or indirectly influence all aspects of public and economic life and through which they can pursue strategic national objectives, including economic development. (INTOSAI Task Force on Public Procurement Audit, 2016). The Public Procurement area is generally susceptible to fraud and corruption, and as such, it is often the focus of attention from the general public. (European Court of Auditors, 2018). Performed correctly, public procurement can contribute to achieving smart, sustainable and inclusive economic growth by increasing the efficiency of public spending, facilitating the participation of small and medium-sized enterprises, and enabling purchasers to make better use of procurement in support of common societal goals. (European Court of Auditors, 2018)

2.2. Public Procurement Audit

Effective public procurement audit ensures that public entities achieve the best value for money and probity, and by so doing secure public confidence (SIGMA, 2016). The audit of procurement procedures involves both a compliance audit and a performance audit in most cases. Compliance criteria, against which the process is to be assessed, are based on the legal framework applicable in the particular context of the country. (SIGMA, 2016). Public procurement audit is conducted on the transactions involving procurement of goods; works such as infrastructure and any civil works; services; and consultancy and management services (ASEANSAI, 2016). The depth of the

audit depends on the SAI's mandate and emphasis and the SAI must have sufficient authority to carry out the public procurement audit (ASEANSAI, 2016). It is observed that the audit on public procurement conforms with the respective provisions of the SAI's Constitution and Audit Act/Law which give the Auditor General a wide discretionary power in deciding what, how, and when to audit and to report (ASEANSAI, 2016). The Law on Public Procurement in the Republic of North Macedonia stipulates that the audit of the use and spending of public procurement funds by the contracting authorities is performed by the State Audit Office (Law on Public Procurement, 2019). Regarding the type of audits, the public procurement process is covered by regularity audits in the audited entities (Law on State Audit, 2010). The State Audit Office has also conducted several performance audits in the field of public procurement, the most important of which is the parallel audit with the Western Balkan countries in 2018. This parallel audit has contributed to improvements in the way public procurement is audited and has enhanced the participants' professional knowledge of performance auditing (European Court of Auditors, 2018). Our research covers only the data from the regularity audits, specifically from the financial audits performed by the State Audit Office.

3. METHODOLOGY

To study the role of the state audit in the public procurement process in our country, a study and analysis were conducted on the annual reports on performed audits and operation of the State Audit Office, as well as the individual audit reports on performed regularity audits. Data analysis, statistical calculations, and similar methods for data analysis are used for the research.

3.1. Sample presentation

For analysis of the situation in the Republic of North Macedonia, 9 annual reports on performed audits and operation of the State Audit Office (2011-2019) and audit reports for financial audit in the given period were selected.

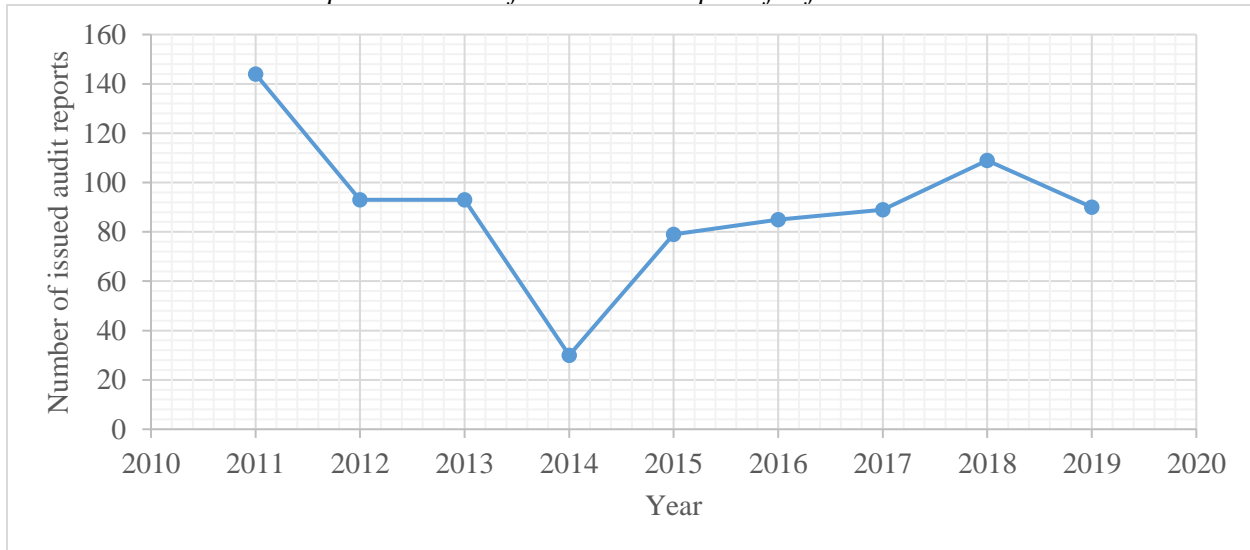
3.2. Data analysis

In the analysis of the annual reports, data were used on the total number of audit engagements during the years (2011-2019), the number of issued audit reports, and the number of identified findings related to public procurement. The analysis should confirm the **hypothesis** that the number of conducted audit engagements i.e. number of issued audit reports affects the number of identified findings related to public procurement in the Republic of North Macedonia. A qualitative study has identified the most important conditions and irregularities in the field of public procurement, in terms of weaknesses in the phase of public procurement planning, tender documentation, bid evaluation, the phase of concluding contracts, and the phase of realization of concluded contracts.

4. ANALYSIS

4.1. Issued Audit Reports (Financial Audits) and identified findings related to public procurement (2011-2019)

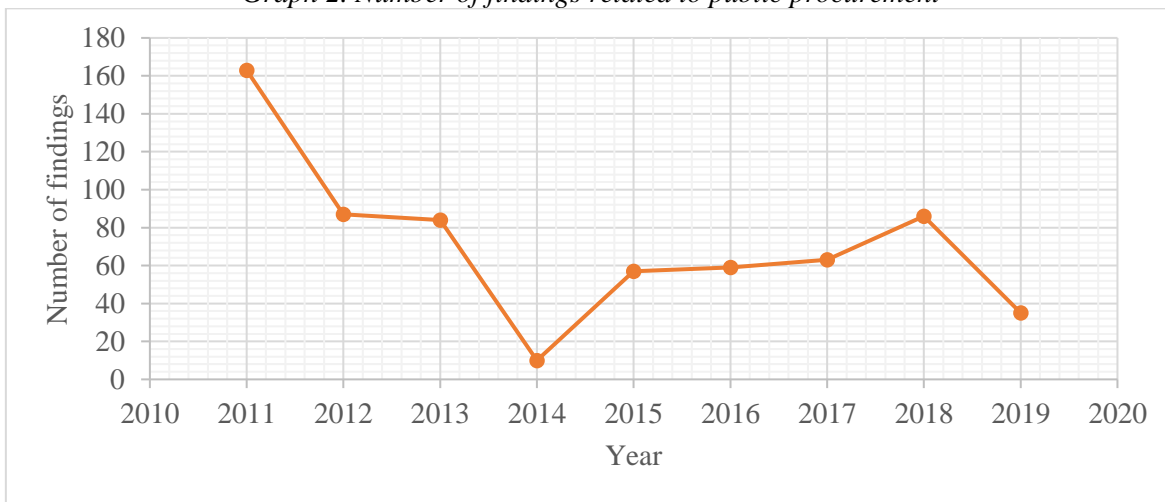
Graph 1. Number of issued audit reports for financial audit



Source: Adapted according to the data from the annual reports on performed audits and operation of the State Audit Office (2011-2019)

Graph 1 shows the curve that refers to the total number of issued audit reports for **financial audit** by year. The data show that there is a deviation in the number of audit reports issued each year, from 2011 to 2019. It can be noticed that in 2011 the largest number of audit reports was issued, while in 2014 the number of issued audit reports is the lowest (below 40). Of course, the number of issued audit reports is influenced by many factors, such as the type of audits performed that year, the size of the entities covered by the annual program of the State Audit Office, the number of the employees etc.

Graph 2. Number of findings related to public procurement



Source: Adapted according to the data from the annual reports on performed audits and operation of the State Audit Office (2011-2019)

Graph 2 shows the curve that refers to the number of identified findings in the audit reports related to public procurement, for the period from 2011 to 2019.

4.2. Sub-finding categories related to Public Procurement

The identified findings related to public procurement refer to several categories of sub-findings, but with the analysis are found the 5 most important categories of sub-finding that are covered by the audit reports, and relate to public procurement, as follows:

Category 1: Weaknesses in the public procurement planning phase;

Category 2: Tender documentation that has not been prepared following the Law on Public Procurement;

Category 3: Weaknesses in the evaluation of the bids and giving a proposal for selection of the most favorable bidder;

Category 4: Weaknesses in the phase of concluding contracts with the selected bidders;

Category 5: Weaknesses in the phase of realization of the concluded contracts after the public procurements.

5. RESULTS AND DISCUSSION

5.1. Correlation relationship between the number of audit reports issued and the number of identified public procurement findings

By applying a statistical survey of the data provided in Graphs above, performed a calculation of the correlation between the number of issued audit reports and the number of identified findings related to public procurement. Specifically, the data in Graph 1 and Graph 2 provides inputs for calculating the correlation relationship. Correlation relationship between the number of issued financial audit reports and the number of identified public procurement findings is calculated based on a series of nine observations and that for 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, and 2019. By calculating the simple linear correlation, in which the number of issued audit reports is variable x, and the number of confirmed findings relating to public procurement are variable y, we got a result that the coefficient of determination is 0.83 (R Square).

<i>Regression Statistics</i>	
Multiple R	0.911533
R Square	0.830893
Adjusted R Square	0.806735
Standard Error	18.73692
Observations	9

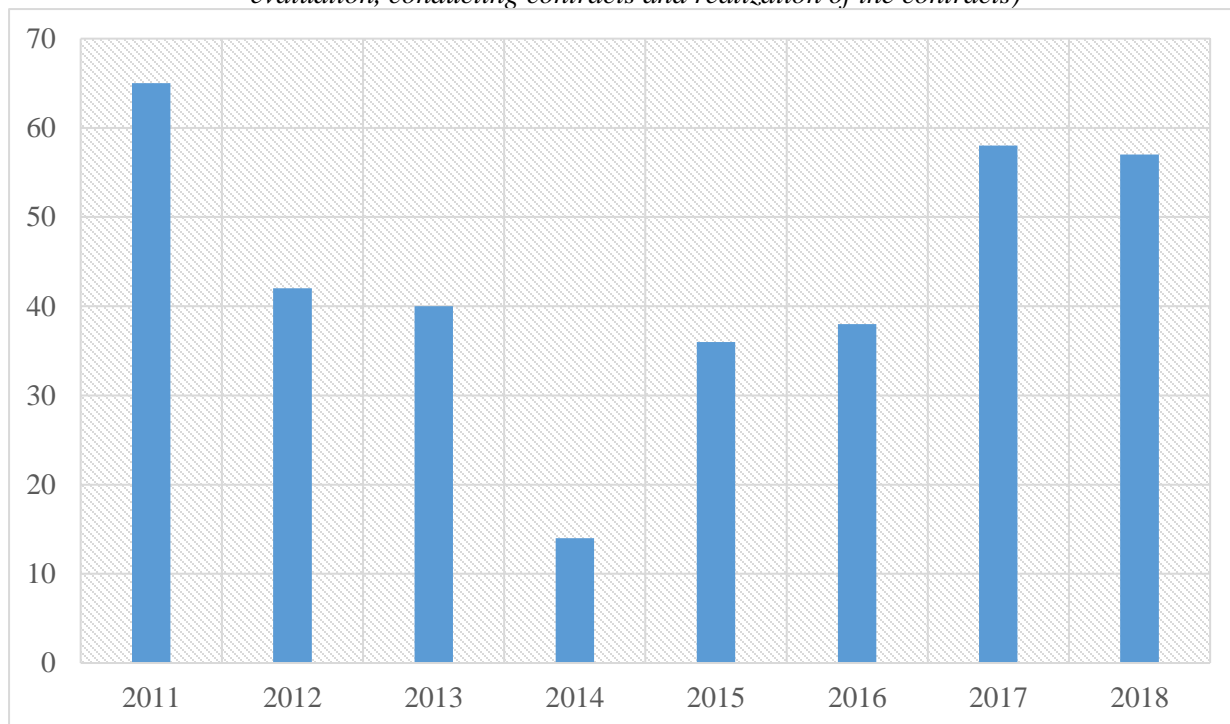
ANOVA					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	12074.72	12074.72	34.39383	0.000621315
Residual	7	2457.505	351.0721		
Total	8	14532.22			

This indicates a direct and positive correlation. It is performed linear correlation and the purpose of this test is to show whether the variation between the observed variables exist quantitatively match and if how intensity is. Both observed variables are treated as random, and this does not indicate whether a variable is a function of the other. The paper perceives that between the number of issued financial audit reports and the number of identified public procurement findings there is a linear relationship. If we note the time series for these variables, this is a logical result i.e. their positive correlation is a result that the increase/decrease in the number of issued financial audit reports will lead to increased/decreased number of the number of identified public procurement findings.

5.2. Mapping of the most important public procurement sub-finding

Through the study of data from annual reports can be concluded that there are 5 main categories of sub-findings that state auditors have identified over the years. Graph 3 shows the trend over the years in determining the sub-finding in the defined categories.

Graph 3 - Number of identified sub-findings in 5 categories (planning, tender documentation, bids evaluation, conducting contracts and realization of the contracts)



Source: Adapted according to the data from the annual reports on performed audits and operation of the State Audit Office (2011-2019)

From year to year (2011-2018), a different number of sub-findings in the 5 categories have been identified. From the analysis can be concluded that the determined number of sub-findings in these 5 categories have a presence of about **50%** in the total number of identified data, given that in the annual reports of the State Audit Office in a large part of the remaining percentage belongs to other irregularities.

6. CONCLUSION

From this work, we can draw several conclusions which will significantly contribute towards encouraging the State Audit Office to perform more audits (regularity audits, performance audits, or thematic audits) in order to improve the public procurement process in the country. The conclusions that are cured of the work refer to the following:

1. The more financial audits performed by the State Audit Office, the greater control over the spending of public funds through public procurement procedures;
2. With the determined number of findings related to public procurement through audits, it can be concluded that even greater improvement is needed in the public procurement process, through the given audit recommendations;
3. Audits related to public procurement largely detects weaknesses in the procedures;
4. The audited public entities pay less attention to the mentioned categories of sub-findings determined by the State Audit Office.

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Апстракт

Јавните набавки се од големо значење во развојот на економијата, особено во земјите во развој. Со цел да се намали корупцијата во спроведувањето на јавните набавки, овој труд придонесува за разбирање на улогата на врховните ревизорски институции, кај нас - Државниот завод за ревизија, при утврдувањето на неправилностите во областа на јавните набавки. Целта на трудот е да се докаже дека доколку се извршат поголем број на ревизорски ангажмани и се издадат поголем број на ревизорски извештаи, тогаш ќе се откријат и детектираат поголем број наоди поврзани со неправилности во областа на јавните набавки. Исто така, трудот ги разгледува најважните категории на идентификувани поднаоди од страна на државните ревизори за период од 9 години, од 2011 до 2019 година. Во обработката на трудот се користени анализи на податоци, статистички пресметки и слични методи за анализа на податоците. Користените методи квалитативно и квантитативно ја поддржуваат тезата на овој труд.

Клучни зборови: јавни набавки, државна ревизија, ревизорски извештаи, наоди.

ЈЕЛ-класификација: М42, Н57, Н83.