I. INTRODUCTION

The budget and finance Study was undertaken over a four week period in May and June 2008 as part of the United States Agency for International Development (USAID) Judicial Reform Implementation Project (JRIP). The JRIP is being carried out under contract by DPK Consulting, Inc. The JRIP Budget and Finance Study was completed with assistance from the Macedonia JRIP staff and in cooperation with the judges and staff of the courts of the Macedonia Judiciary, the Republic Judicial Council, the Court Budget Council and its Administrative Office and the Academy for the Training of Judges and Public Prosecutors. The study is part of the overall USAID JRIP which currently is providing technical assistance to the Ministry of Justice, the Administrative Office of the Court Budget Council, the Academy for Training Judges and Public Prosecutors, the Supreme Court and the subordinate courts to support the development of a stronger, more independent and more effective judiciary in the Republic of Macedonia.

Study Purpose and Objectives

The aim of this study is to evaluate the current budgeting and fiscal management processes within the Republic of Macedonia (ROM) Judiciary and make recommendations for improvements to ensure that stable, sufficient and well managed resources are provided to the courts and other judicial programs to meet the needs of the citizens for timely and fair justice services. This study also seeks ways to support judicial branch independence and effectiveness and build public trust and confidence in the judiciary of the ROM. The study examined the effectiveness of budgeting and financial management process in the following key areas:

1. The Judiciary’s budget request planning and adoption processes and relationships with other government institutions in budget request preparation, formulation and adoption
2. Methods and procedures of the Judiciary’s Administrative Office (AO) and the court budget users for developing, analyzing, and explaining budget requests
3. Methods and procedures of the Judiciary for budget execution and financial management
4. Budget and Financial management accountability systems and methods to support court efficiency and the effective use of assets, and
5. Current methods of strategic planning and how they are used to guide administrative management and budget processes.
Study Method

The Budget and Finance study expert, with assistance from the JRIP team, collected information through interviews, a workshop/focus group meeting and review of key laws, budget preparation and execution policy circulars, budget planning guidelines, budget requests and other relevant reports and documents.

The bulk of study data came from a series of meetings and interviews conducted in May and June 2008 with representatives of the Republic of Macedonia Judiciary and Ministry of Finance (MOF) and other organizations involved in budget process. Judiciary interviewees included the President of the Supreme Court and Court Budget Council (CBC), the Director of the Administrative Office (AO) of the CBC and representatives from the Republic Judicial Council and the Academy for the Training of Judges and Public Prosecutors. In addition, meetings were held with President Judges and Staffs from the courts including, Appellate Courts in Skopje and Bitola and Basic Courts Skopje 1, Skopje 2, Bitola, Veles and Gevgelija.

Interviews also were conducted with the MOF State Advisor who is a member of the CBC, the MOF analyst for review of the Judiciary Budget and the MOF Treasury system official responsible for execution of the government budget. Also representatives from the Ministry of Justice, and the International Monetary Fund (IMF) also were consulted for this study. In addition, a workshop and focus group session for budget user fiscal staff members was conducted to obtain their views about current conditions and opportunities for improving the budget and financial management.

II. ASSESSMENT

A. The ROM State and Judiciary Budget Process

The State budget of the Republic of Macedonia is the annual plan for financing state and local government obligations and functions of the legislative, executive and judicial branches of government. The budget and financial management cycle of the Republic of Macedonia Judiciary is governed by numerous laws including these key laws:

- Law on Budgets
- Law on Court Budget
- Law on Enforcement of the Budget
- Law on State Audit
- Law on Internal Audit of the Public Sector

The Republic of Macedonia Ministry of Finance (MOF) administers the Law on Budgets and oversees the government budget process based on the requirements of this and other relevant laws and economic conditions. This MOF begins the budget process with an examination of government expenditures and revenues as well as economic conditions expected over the next three years. This examination results in budget expenditure and revenue forecasts and macro-economic guidelines important for drawing up the annual state budget. Guidelines for budget preparation are issued to
each government ministry, including the Judiciary, in an annual Budget Circular memo of the MOF. The Circular contains parameters reflecting the state’s macroeconomic policy forecasts and criteria for budget request expenditure and revenue estimates for the next three year period. The circular is accompanied by a set of forms and instructions for completion of proposed budget requests forms by all budget users including the Macedonia Judiciary. The Judiciary’s proposed budget request reflects the macro-budget requirements and guidelines issued by the MOF. Strategic priorities and initiatives and budget user strategic plans and budget requests that incorporate strategic initiatives also are required by the Law on Budgets. The Judiciary develops strategic priorities for the courts and other programs that make up the judicial branch budget. It prepares its budget with these priorities in mind.

A capital budget process, known as the annual capital investment program also is required under the Law on Budgets. Capital investment programs for all government ministries and the Judiciary are prepared in accordance with MOF guidelines and submitted and approved by the government in July of each year. The approved capital investment programs are incorporated into the annual proposed budget requests, which under the Law on Budgets must be submitted to the MOF by August 31st each year.

For the Judiciary, the Court Budget Council (CBC), with support from the AO regulates and coordinates the internal operating and capital investment budget process. The CBC/AO establishes budget priorities and oversees preparation of the Court Budget request for three-year operating budget estimates and capital investment program and is responsible for submission of the Judiciary’s required budget documents to the Ministry of Finance. The MOF reviews and modifies the Judiciary Budget and presents this budget to the government for approval. The Judiciary, through the CBC is permitted to have input in this adoption of the Draft Budget of the Republic of Macedonia.

The approved draft Government Budget is submitted to the Parliament of Republic of Macedonia. Parliamentary committees review the proposed budget and members offer amendments to the budget. The Judiciary, through its CBC is permitted to have input in Parliament’s budget review and modification process. The budget, as approved by Parliament, is the legally authorized State Budget. After approval, execution of the State Budget is regulated by the MOF in accordance with the Law on Execution of the Budget. Budget execution procedures and guidelines are set forth annually in the MOF Circular on Budget Execution. For the Judiciary budget users, the CBC allocates the assets of the Court Budget to the courts and other units of the Judiciary in conformance with the strategic priorities of the Judiciary within the parameters and requirements of the MOF Circular on Budget Execution.

Budget and internal controls accountability are regulated through the procedures set forth in the state’s Law on State Audit and Law on Internal Audit of the Public Sector. Financial audits of the Judiciary’s court units and programs are conducted annually by the Department of External Audit. Internal audits are conducted by internal auditors assigned by the Department of Internal Audit to work by the client agencies. Internal audits are based on professional EU standards and are conducted in accordance with an annual plan. For the Judiciary the annual internal audit plan is approved by head of the Court Budget Council. Within the Judiciary internal control audits follow procedures established by the CBC Internal Act for Controls in the Enforcement of the Court Budget. The internal control audits, along with results of external audits of financial records, are used to report on the enforcement of the Court Budget. An enforcement report is
prepared annually by the Court Budget Council and is submitted to the Ministry of Finance.

**B. Positive ROM Judiciary Legal Reforms and Economic Conditions**

The Macedonia Judiciary has made progress toward achieving independence and effectiveness through legal, policy and operational reforms. Key reforms accomplished include new laws establishing a streamlined and restructured court system and independent budget for the Macedonia Judiciary. The landmark new Law on Courts streamlined the framework for court jurisdiction and judicial administration. Under the new Law on Courts effective January 1, 2007, the Judiciary consists of a Supreme Court, four Appellate Courts, an Administrative Court and 27 Basic Courts (first instance courts). Changes to the Law on Courts are now being considered that would further streamline and regionalize the structure of the courts. If these organizational changes are adopted the Judiciary will be able to implement a more cost effective management structure that reduces duplication of administrative services including budget and fiscal management.

Improvements in Judiciary independence and effectiveness also have been realized through passage in 2003 of the Law on Court Budget. This law, with revisions adopted in 2006, recognizes the importance of an independent Judiciary by designating the Judicial Branch as a separate part of the Budget of the Republic of Macedonia. It also accorded the Judiciary considerable authority and responsibility for regulation of budget and financial management activities for the courts and related programs through the Court Budget Council (CBC), and it’s Administrative Office (AO). The CBC and AO are responsible for preparing and implementing the annual judicial branch budget and for assuring the financial security of the Judiciary. This responsibility is carried out in accordance with the Republic of Macedonia (ROM) Law on Budgets and in cooperation with the government Ministry of Finance (MOF), which regulates economic and budget policy and establishes procedures for the preparation, adoption and execution of the government budget.

The study also determined that the overall economic performance for the ROM economy and budget for the ROM is currently quite positive. The 2008 government budget reports that prudent public sector fiscal policy helped produce strong economic growth in the ROM and a 2007 government budget deficit below the 1.5% of GDP maximum level projected in the approved ROM budget. This overall positive budget situation continues in 2008. During an interview with the IMF Resident Representative, the JRIP study team was advised that a maximum deficit target of 1.5% was set for 2008, and that the ROM budget, so far, is well within this target. In fact, the ROM Budget is in surplus. Revenues currently are ahead of expenditures for several reasons, including higher than expected collections in VAT revenues and positive changes in public revenue enforcements.

This study found noteworthy positive developments in policies and procedures established to implement the Court Budget Law and other key laws that impact budgeting and financial management processes within the Judiciary. These positive developments include:

- Development of routine Judiciary budget process guided by the annual CBC Budget Circular that includes standard budget formats within the Judiciary that
are used to present the budget needs of the courts and programs and meet the regulations and requirements of the MOF.

- Development of a routine Judiciary budget allocation and execution process implemented by the AO in accordance with the annual CBC Budget Circular on Budget Execution.
- Development of an effective annual process for preparing and submitting an annual program for capital investments in the courts and setting investment priorities.
- Establishment of the Administrative Office (AO) and capacity building of the AO toward functioning as a full service central administrative support unit to provide staff support to the CBC for budget preparation and execution and for oversight of financial management and internal auditing within the Judiciary.
- Design and successful implementation of the Automated Budget Management System (ABMS), a full featured administrative management information system that contains detailed and summary budget, accounting, personnel, payroll and asset inventory information.
- Advances toward effective Judiciary internal controls through cooperation between the AO and Internal Audit staff assigned to conduct independent assessments of Judiciary operations consistent with professional standards and through adoption by the CBC of an Internal Act for Controls in the Enforcement of the Court Budget.
- Delivery by the AO of training to court secretaries and fiscal staff on budget policies and procedures to enhance budget planning and financial management skills and abilities within the courts.

C. Improving the Macedonia Judiciary Budget Process

Despite sound laws to support judicial independence and positive developments in implementing provisions of the Court Budget Act and building capacity for effective budgeting and financial management, progress toward improvements in court operations and effectiveness have been seriously hampered by chronic underfunding and limited latitude in the allocation and management of fiscal and human resources. Most judges and court fiscal staff interviewed in this study complained about the failure of the independent budget of the Judiciary to produce funds needed to meet minimum legal and operational obligations. Because the MOF has strong powers in the ROM budget process, the Judiciary must cooperate closely with the executive branch to ensure successful outcomes in the budget process. It also must exercise strong leadership through budget advocacy to ensure the priorities and needs of the Judiciary are respected and understood by the other branches of government and it must demonstrate professional capacity by presenting convincing evidence to the other government institutions that shows budget requests are prudent, accurate and consistent with strategic priorities. Cooperation, leadership and professional credibility are the three essential pillars necessary for successful judicial branch budget process outcomes.

This assessment finds a need for improvement in all three of these areas. Weak leadership and limited cooperation is present in the Judiciary budget process. Also the judicial branch does not have the professional administrative systems necessary to assure budget reviewers that its budget estimates are realistic and based on sound analysis.
The study also concludes that after budget adoption, the Judiciary has not been granted the flexibility it needs from the MOF to effectively manage its resources and meet the changing financial needs of the courts.

In this situation, the budget process does not supply the financial resources necessary for courts to meet minimum operating requirements. The problem of insufficient funding is confirmed by a declining level of budget resources in the judicial branch relative to the total government budget that has been the trend ever since the Judiciary became a separate part of the ROM budget. Overall the Judiciary Budget declined between 2004 and 2008 as a portion of the national from 1.99 to 1.23 percent. The funding problems of the Judiciary also are confirmed by current year budget process results. This study found severe and worrisome current fiscal year (2008) budget shortfalls in every goods and services expenditure category and rapidly rising rates of unpaid obligations. Although the approved current year budget, is slightly higher than in the previous year, (+.08%), the 2008 approved budget reflects excessive cuts of -34% in the goods and services budget categories and fails to allocate funds for new legally mandated courts.

Chronic underfunding, exacerbated by severe budget reductions in the 2008 fiscal year, have resulted in serious day to day operational difficulties in the courts that are hindering the delivery of timely and effective justice services to the public. As reported by judges and court staff budget shortfalls, caused by insufficient annual budget appropriations for court operations and unpaid old debt carried over from fiscal years prior to establishment of the Court Budget, have reduced the effectiveness of court operations and slowed progress toward implementing reforms and improvements. Budget shortfalls have contributed to operational problems such as case processing delays, untimely notifications to parties involved in legal proceedings, high levels of arrears and late payment of obligations for goods and services and an inability to fill necessary court support positions, such as legal assistants, court clerks and typists, and generally poor courthouse conditions for the public, judges and staff.

A variety reasons were provided by study participants to explain poor budget process outcomes and the current fiscal crisis in the Macedonia Judiciary. For example, interviewees from the MOF indicated budget cuts reflected weaknesses in analysis and elaborations presented to support budget requests. Unspent funds within the courts also contributed to budget cuts, and the Judiciary’s lack of participation in the ROM Strategic Planning Process were other factors mentions by MOF representatives for limited support by other government institutions of Court Budget Requests. Poor staff level communications between the AO and MOF were also identified as an issue. For example, MOF representatives reported they were unaware of the serious fiscal problems facing the courts due to cutbacks in goods and services funding in the current year budget process.

The CBC and AO expressed concerns about a lack of understanding of the other branches about the real needs of the courts, most especially about the fiscal impact of new laws on court operations and excessive controls of the MOF in areas such as budget reallocations and filling of vacant positions. Also the CBC and AO indicated that the Judiciary is at a disadvantage in the budget process due to the highly political nature of government budget decision-making.

Within the Judiciary, frustrations were expressed about severe current year underfunding for essential court operations and poor internal communications. The
Courts and other court budget users indicated they received about one-half of what is needed to pay for goods and services in 2008 and that no feedback was provided from the CBC and AO on why budgets were cut so severely in the current year. Also, budget users said they had no opportunity to explain and defend their budgets to decision makers in the CBC and AO. One President Judge interviewed in the study reported that no response was received to written concerns sent to the CBC and AO about allocations being insufficient to maintain essential operations. Another President Judge expressed concern over the loss of revenues for court operations from personal accounts and objected to the way the court was informed about the cancellation of personal accounts, through a terse, one page memo from the CBC. Several study interviewees discussed concerns about a lack of effective formal and informal advocacy for the Judiciary’s Budget by the CBC leadership with the other institutions of government.

Because this study uncovered a severe 2008 budget crisis, the first section of this report describes the serious impact of budget cuts on Judiciary and court functions and recommends strategies and immediate actions necessary to address the funding crisis. The remainder of the report presents a series of short-term and long-range recommendations to address problems and weaknesses found in the Judiciary’s budget and financial management processes that have contributed to the current crisis. Recommendations for improvement of these processes are made to:

- Strengthen the leadership capacity within the CBC and AO to increase the understanding of the other branches and the public about the importance of the judiciary and its mission through improved communications and increased professional development.
- Expand guidance and instructions to the courts on the preparation of budget estimates through a more detailed annual budget instruction package and creation and dissemination by the AO of a Budget Planning and Control Manual
- Improve the efficiency and effectiveness of the budget request analysis to ensure that budget information is accurate, comprehensive, and useful through development of budget review methods involving fiscal and workload trend analysis, performance targets and efficiency measures.
- Incorporate more elaborate narratives and workload information in the budget documents to explain budget needs, show budget savings and facilitate informed budgetary decisions.
- Build up professional capacity within the AO to develop cost models to be used to justify budget changes and estimate the impact of proposed laws.
- Build up professional capacity within the courts in the areas of budget planning and fiscal management.
- Improve CBC and AO internal communications within the Judiciary to assure that all budget process stakeholders have an opportunity to explain their issues and budget plans through regular annual budget hearings with the CBC and regular meetings with AO staff.
- Improve CBC and AO formal and informal communications with the other institutions of government through formal presentations by the President of the CBC on the Judiciary’s Budget and regular and ongoing discussions on budget issues and requirements between the staffs of the AO and MOF.
- Gain an agreement with the MOF for greater flexibility and more latitude in budget reallocation and job filling processes to allow for better management of resources.
Implement a Judiciary strategic planning process to assure Judiciary budget plans are aligned with strategic priorities and meet the requirements of the ROM Law on Budgets for strategic planning, including preparation of medium-range (3year) strategic plans as part of the annual ROM budget process.

D. The 2008 Budget Crisis in the Macedonia Judiciary

Before this report discusses recommendations to improve the budget and financial management processes of the Macedonia Judiciary, the current year budget crisis will be addressed. The problem of insufficient budget resources for operation of the courts is both a historical and current problem. Thus most courts still have old debts to pay carried over from previous years. Along with the problem of old debts, several other factors have compounded and already difficult budget situation for the Macedonia Judiciary in the 2008 fiscal year.

In 2008, a total budget of 1.596 Billion Denar was approved for the judicial branch. The approved budget was an increase of less than 1% over the 2007 rebalanced budget for the Judiciary and its programs. Review of annual plans for total incomes and expenditures of the Judiciary and various budget reports of the CBC confirm the serious nature of current year budget problems. They show that, although the Judiciary Budget increased slightly in 2008, based on a comparison to the 2007 rebalanced budget, funding growth was entirely for mandated changes in salaries and benefits. These increases were necessitated by mandated changes in law and policy, including the new Law on Judges Salaries which authorizes a 38% increase in judicial compensation. Salary and benefit increases also were required to implement a decision by the government to adjust and correct employee salaries.

It is important to recognize that the overall approved 2008 Judiciary Budget did not provide new funds to implement changes in law, policy and court structure but rather, met new costs through reductions in funding for goods and services, which were cut by 34.07% compared to the rebalanced 2007 budget. As a result, severe cuts are reflected in the budget allocations for 2008, as shown in the Annual Plan for Total Income and Expenditures. The severity of these reductions was confirmed through a comparison of budget 2007 and 2008 budget allocations for key line items in the Judiciary as follows:

<table>
<thead>
<tr>
<th>Expense Category</th>
<th>2007 (Billion Denar)</th>
<th>2008 (Billion Denar)</th>
<th>% Ch</th>
</tr>
</thead>
<tbody>
<tr>
<td>420 Travel and daily expenses</td>
<td>2.967</td>
<td>2.252</td>
<td>-24.1</td>
</tr>
<tr>
<td>421 Utilities, heating, communication &amp; trans</td>
<td>102.284</td>
<td>66.885</td>
<td>-34.6</td>
</tr>
<tr>
<td>423 Small inventory, tools &amp; other materials</td>
<td>21.932</td>
<td>14.365</td>
<td>-34.5</td>
</tr>
<tr>
<td>424 Repairs and current maintenance</td>
<td>11.160</td>
<td>7.430</td>
<td>-33.4</td>
</tr>
<tr>
<td>425 Contractual services</td>
<td>98.260</td>
<td>62.636</td>
<td>-36.2</td>
</tr>
</tbody>
</table>

In all interviews with Court Presidents and staff, and representatives of the Republic Judicial Council and the Academy for Training of Judges and Public Prosecutors, critical current year budget problems were raised. These problems included an inability of the courts to meet the costs for daily operations. While less than six months of the fiscal year have elapsed, some courts reported they already have fully spent all funds allocated from the budget for utilities and heating. Others told stories of not having funds

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to buy paper to record court proceedings or to issue decisions. Delays exceeding 60 days also were noted in payments to service providers, such as expert witnesses, the Forensic Institute and ex-officio attorneys. Concern was also expressed that funds may soon not be available to afford travel to crime investigation scenes. The Academy for Training of Judges and Prosecutors had a different but serious set of budget problems, and reported that education and training programs envisioned in the annual plan established by its managing board had to be significantly curtailed.

The current year budget problems are so drastic that, if supplemental funding is not received in 2008, serious difficulties are likely later in the fiscal year. It is possible that courts will need to reduce hours of operations, suspend legal proceedings and trials, and in some locations, that courts could even temporarily close. Quite obviously, if no supplemental funds are obtained and these conditions come about, they will reduce public access to justice and timeliness in case processing will be compromised. Such conditions also would create the appearance to the EU that the government does not consider judicial sector operations and reforms to be an important priority.

The severity of the current budget crisis has not been met with strong action on the part of Judiciary’s CBC or AO. No directives have been issued by the CBC or AO on controlling costs, improving efficiency or reallocating funds and resources from less essential to more essential services within the Judiciary. In the face of crisis it would be expected that the central administrative authority would call for spending restrictions on travel, training or purchases of equipment and take other actions to assure that funds are available for the most critical services of the court.

The courts have been left on their own to deal with their fiscal problems. Silence from those responsible for central administration has produced confusion and inconsistency in the courts regarding fiscal matters and President Judges being overburdened with trivial administrative decisions, such as borrowing paper from donors and other courts, that take their attention away from primary responsibilities of assuring legal, fair and timely court decisions. This is not to say that each court is not doing a good job of controlling its expenditures and managing operations, but court by court efforts without guidance and oversight from the CBC is not an ideal approach for dealing with this serious budget crisis.

While a June 2008 AO newsletter article highlight the serious current year budget problems and describes reallocations and other steps taken to address funding shortages, stronger and more detailed directives are needed for the courts to take consistent and timely action. A memo should be issued from the CBC directed to the courts and other budget users requiring specific spending control and efficiency improvement actions. The memo also should direct the courts and other budget users to submit contingency plans on actions that will be taken should a Government budget rebalance not take place.

Although Judiciary officials hope that the current year budget crisis will be addressed in a budget rebalance, the MOF reported there is considerable uncertainty as to whether the Government will authorized a 2008 budget rebalance. In addition, there are technical concerns that it may not be practical to complete a rebalance by the August 31 legal deadline, especially given that the new government will not be formed until after the elections are finalized in mid-June.
To address the urgent budget problems facing the Judiciary, immediate action is needed. The CBC and AO should, even in the absence of a formal government rebalance process, prepare a report on 2008 Court Budget conditions detailing budget shortfalls and the consequences of insufficient funding in the goods and services budget categories. The report should include a full year comparison of current year to last year budget allocations and year to date expenditure levels. This report should be sent to key budget decision makers in the MOF, the MOJ and to all Court Budget stakeholders.

The report should contain specific line item budget shortfalls amounts at the court/program and global level with an elaboration for shortfalls in each category. In addition, problems in timely payments for services, growing arrears and drastic problems facing the courts should be documented in the report. Information showing efforts to improve court efficiency and generate cost savings should also be included in the report. Finally, to address the critical funding current year budget problems, Judiciary officials should consider implementing a campaign to inform key leaders and budget decision makers in the other branches about the budget problems caused by underfunding of the courts in the current year. Release of information on the problems and funding crisis in the courts to the press and public may also be a necessary step to ensure continuation of critical justice services through the end of the year. The CBC and its AO also needs to provide specific direction to the courts on what action should be taken to address budget shortfalls and to develop a contingency plan for controlling expenditures and maintaining essential operations in the event that no supplemental funding is forthcoming in the 2008 fiscal year.

This report must acknowledge that the problem of inadequate judicial branch funding is not unique to the Republic of Macedonia. However, severe funding crises of the magnitude found in this study generally are not present in other judiciaries in the absence of severe economic problems. It is important to recognize that the Macedonia Judiciary’s budget crisis is not the result of poor budget or economic conditions in the ROM. As noted, the IMF Resident Representative reported in an interview with the JRIP study team that the 2008 ROM Budget currently is running a surplus.

III. RECOMMENDATIONS

A. Addressing the 2008 Budget Crisis

In summary, the Macedonia Judiciary is facing a severe budget crisis that is not the result of national economic or ROM government budget conditions. Rather than being caused by general ROM budget or economic problems, the Judiciary’s severe budget crisis has come about due to a convergence of factors including concerns in the MOF about the reliability of Judiciary budget projections and analysis methods, old unpaid debts carried over from fiscal years prior to establishment of the Court Budget, unfunded new laws and the cancellation of personal accounts.

Whatever the causes of severe current year budget shortfalls, there is a need for an immediate response from the Macedonia Judiciary to address the budget crisis. This response must include strong leadership and the following actions by the CBC and AO:

- Directives and guidelines should be issued for immediately controlling costs, improving efficiency and reallocating funds and resources from less
essential to more essential services within the courts and an action plan for implementing directives should be required from each Court Budget unit.

- A budget shortfall report should be prepared and provided to the MOF and MOJ, that details the current year budget funding shortfalls by expense category and explains the reasons why funding is insufficient and the consequences, including the potential for severe curtailment of court operations and public access to the courts, should supplemental funds not be provided to the Judiciary in 2008.

- If a decision is made by the government for a 2008 budget rebalance, the Judiciary should seek supplemental funding consistence with budget funding needs detailed and explained in the budget shortfall report and it should also include a request for funds to pay off all past unpaid debts. Old debts are still being carried by the courts from periods prior to the establishment of a separate Court Budget. Most of these arrearages in the courts are for uncontrollable costs not under their direct control. The request for funding of old debts should be a separate part of the rebalance request and specific explanations for each category of old debt expense should be provided to the MOF to support this part of the request.

- A contingency plan should be formulated, in consultation with other stakeholders in the Court Budget process, to ensure that the most critical court services can be continued through the end of the fiscal year in the absence of a budget rebalance.

B. Improving Macedonia Judiciary Budget and Financial Management Processes

The Macedonia Judiciary budget process, as presently structured and carried out by the CBC and AO does not supply the funding or resources necessary for essential mandated operations of courts and the educational programs of the Academy for Training of Judges and Prosecutors. During this study shortcomings were found in the budget planning and execution and financial management processes of the Macedonia Judiciary. This report makes 29 recommendations for improving the Judiciary’s budget planning, adoption, execution and financial management processes and provides action plans with specific timeframes for implementing each of these recommendations.

Recommendations for improvements in Judiciary Budget and Financial Management process are made in five categories, including ten related to support budget request preparation, analysis and adoption, six to improve budget execution and financial management, five related to improving communications and relationships with external government institutions, five associated with the adopting and implementing strategic planning within the Judiciary, and three are associated with education, training and professional development of budget and fiscal staff. The recommendations are as follows:
1. The CBC/AO should issue budget preparation guidelines and formats that incorporate criteria on data sources and methods to be used by court and program financial staff to develop budget request estimates for ongoing operations, new legal mandates and initiatives. Specialized guidelines for estimating costs related to future capital investments also be developed and provided to the courts to guide preparation of the annual plan for investments in the courts.

2. The CBC should officially adopt and issue an annual planning budget calendar and schedule for the judicial branch. The purpose of the schedule and the related procedures established by the AO should be to ensure that the budget development review and adoption process is consistent and objective and provides opportunities for discussion and feedback with court budget users.

3. All modules of the Automated Budget Management System (ABMS) should be completed in all courts and instructions should be developed by the AO on use of data and summary reports derived from ABMS for budget planning and analysis.

4. Case-based Cost Estimation Models should be developed to support budget preparation and analysis. Cost Models should be developed for civil and criminal cases and for major special types of court proceedings and cases. Models should reflect regional variations in costs as appropriate.

5. The Judiciary Budget should contain specific lump sum items to meet the costs for implementation of major new laws and variable cost items, such as Forensic Institution services, that have a significant impact on operations.

6. The CBC and AO should provide Court Budget Users with an opportunity to explain and make a case for their budget request at annual internal budget meetings. Once decisions are made on the Court Budget request, budget users should be informed about reasons for changes and adjustments to original requests.

7. The Judiciary should revise its budget program structure for summarizing and presenting its budget requirements in the State Budget to reflect different court levels (appellate and basic) and the different missions of special programs.

8. The AO should assign staff regional responsibilities for budget preparation, review and budget execution, based on the Appellate Division structure. Regional assignments will allow the AO to better assist the courts with budget, finance and administrative duties and facilitate greater understanding of how regional conditions impact on court operations and budget needs.

9. A report containing detailed narrative descriptions and caseload information should be prepared by the CBC/AO to supplement information in the budget request to better explain the strategic priorities and funding needs of the Judiciary.

10. The MOF and Judiciary should work together to electronically link ABMS and the e-budget software used to prepare and submit the Judiciary Budget Request to the government.
(2) Budget Execution and Financial Management

11. The AO should develop a framework, provide technical assistance and regularly issue guidance to the courts and the Academy on budget planning, implementation and financial activities through a Financial Planning and Control Manual that documents best practices and standardizes and regulates financial activities within the courts.

12. All modules of the ABMS should be completed in all courts and instructions should be developed by the AO for courts on use of fiscal data and summary reports derived from ABMS for budget execution & control.

13. The AO should develop and implement a quarterly budget management reporting system to be used by the courts to explain reasons for significant variations from quarterly budget execution plans.

14. The AO should develop a systematic approach to monitoring the potential for lapsed or unspent funds and a plan for the annual reallocation of these funds to address budget shortfalls in essential functions and high priority projects that were underfunded in the approved budget.

15. A program should be implemented within the AO for centralized and regionalized procurement of goods and services regularly purchased by the Judiciary.

16. The Judiciary should seek greater latitude in budget execution through relaxation of MOF budget reallocations controls and through less cumbersome procedures for refilling of vacant positions critical for court operations.

(3) Communications and Relationships with External Government Institutions

17. Formal and informal cooperation between the CBC and MOF and MOJ, should be improved through regularly scheduled high-level meetings to discuss issues involving strategic priorities, budget issues and requirements and the potential impact of proposed legislation on court operations and budgets.

18. An annual spring budget orientation workshop should be conducted by the CBC and AO, in cooperation with the MOF and MOJ, for the President Judges and court management staff who are responsible budget and fiscal management in the Judiciary.

19. Regular meetings and briefings should take place between the AO and staff of the MOF throughout the budget cycle to update them on operations developments, expected impacts of changes in the law and Judiciary budget conditions and concerns.

20. The CBC President should take advantage of all opportunities to make formal presentations to the government and Parliament to gain support the Judiciary’s budget request. Articles 8 and 15 of the Law on Court Budget authorize the President of the CBC to make formal presentations to support the Judiciary’s budget at working sessions of the ROM Government and Parliament. Formal written and oral presentations should be made by President of the CBC explaining judicial branch and Academy strategic priorities, accomplishments and budget requirements to these working sessions. If agreement is not reached between the President of the CBC and the MOF regarding adjustments made to the Judiciary’s proposed budget, the CBC President’s formal presentation before Parliament should seek restoration of funds cut by the MOF.

21. Separate meetings to brief representatives of the MOF and MOJ about the plans and budget needs of the Academy for Training of Judges of Public Prosecutors
should be held annually in conjunction with the government budget formulation process. Such meetings should include representatives from the CBC, AO, the Academy Director and its Managing Board.

(4) Adopting and Implementing Strategic Planning

22. The Judiciary should adopt and implement a strategic planning process that is separate from but integrated with the budget process to ensure that budget requests are aligned with strategic priorities and consistent with the requirements of the ROM Law on Budgets which requires that strategic plans for the medium-term (3 year) period be provided with budget requests to the MOF.

23. The Strategic Plan mission and vision statement, goals and priority initiatives should be developed by high level officials and leaders from major courts and programs throughout the Judiciary. A working group should be formed within the Judiciary to design a standard process for courts and programs to follow to develop annual strategic plans and work programs to implement priority initiatives. Due to the complexity and resources required to initiate a strategic planning process, a consultant should be used to assist with design and implementation of the strategic planning process during the first year. In future years, the strategic planning process should be coordinated by an AO unit.

24. The Strategic Plan format, data and explanations should be compatible with the strategic planning system used by the Government Ministries and presented to the MOF to assure greater understanding of the Judiciary’s priority initiatives and budget plans by external budget reviewers and decision-makers.

25. In developing a strategic planning process, the Judiciary should consider using the guidelines provided to the Government of Macedonia by the General Secretariat Sector for Strategy, Planning and Monitoring in the Manual for Strategic Planning and adopt a process that is consistent with the ROM General Secretariat’s Methodology for Strategic Planning.

26. The CBC should issue instructions, formats and timetables to court and program level budget users for preparation of standardized medium term (3 year) strategic plan updates and guidelines that explain how plan resource estimates should be linked to budget requests.

(5) Education, Training and Professional Development

27. The AO should prepare specific and detailed duties descriptions to ensure that budget and financial functions are being properly carried out by staff with the necessary knowledge, skills and abilities and oversight to effectively perform their jobs.

28. The AO should coordinate with the Academy for Training of Judges and Public Prosecutors to provide annual training to court administrators and budget and financial staff within the courts to improve budgeting and financial management skills and knowledge.

29. The AO should form a Financial Management Advisory Group of budget users to regularly share ideas on improving budgeting and financial management practices.
IV. ACTION PLAN FOR IMPROVING BUDGET AND FINANCIAL MANAGEMENT PROCESSES IN THE MACEDONIA JUDICIARY

Introduction

The Law on Court Budgets, with revisions adopted in 2006, was enacted to recognize the importance of an independent Judiciary by designating the Judicial Branch as a separate part of the Budget of the Republic of Macedonia. While the new law accorded the Judiciary authority and responsibility for regulation of budget and financial management activities for the judicial branch through the Court Budget Council (CBC), and its Administrative Office (AO), the more independent budget has not produced sufficient funding for even minimum operating requirements of the courts and judicial branch processes.

Poor outcomes have occurred due to a lack of understanding of external institution decision makers about the mandates and functions of the courts and inadequacies in judicial branch budget and financial management systems and information. Inadequate information to facilitate informed budget decision making has fueled conflict within the Judiciary and with the other branches of government limiting the effectiveness of this Law on Court Budget. This report makes numerous recommendations to improve budgeting and financial management through adoption of a new system and method for budgeting and more open and regular communications. These recommendations are intended to move the Judiciary closer to the goal of achieving independence and effectiveness as envisioned by the new Law on Court Budget. A total of 29 Recommendations are presented in five key areas as follows:

(1) Budget Request Preparation, Analysis and Adoption
(2) Budget Execution and Financial Management
(3) Communications and Relationships with External Government Institutions
(4) Adopting and Implementing Strategic Planning
(5) Education, Training and Professional Development

The next section of this report presents recommendations in each key area with a commentary explaining the need for each change and the next steps necessary to implement proposed changes. Recommendations are categorized as high, medium or low priority and advice is offered on a completion timelines.

Recommendations and Next Steps

(1) Budget Request Preparation, Analysis and Adoption

1. The CBC/AO should issue budget preparation guidelines and formats that incorporate criteria on data sources and methods to be used by court and program financial staff to develop budget request estimates for ongoing operations, new legal mandates and priority initiatives. Specialized guidelines for estimating costs related to future capital investments also be developed and provided to the courts to guide preparation of the annual plan for investments in the courts.
One of the positive features of budget preparation in the Macedonia Judiciary is the involvement of the courts and programs of the judicial branch in developing budget requests. While courts and programs play an important role in preparing annual requests, budget preparation is not guided by adequate instructions to ensure projected costs are accurate and complete and reflect changes in caseloads and the impacts of changes in law.

Problems with the current budget process begin with weak instructions issued to the courts and programs by the CBC and AO to guide preparation of budget estimates and proposals. Court budget requests tend to rely solely on historic spending patterns as a basis for estimating future budget needs. They lack a detailed analysis or justification. The initial budget requests submitted to the CBC and AO also lack specific proposals and work programs to implement judiciary priority initiatives. Because modern government budgeting is complex and court preparers are not expected to have professional public budgeting expertise, the AO needs to develop specialized forms and instructions to overcome weaknesses in court budget preparation.

A comprehensive set of instructions and guidelines should be developed and supplied to the courts and programs. The CBC and AO in the annual instruction package should include cost projection methods, standards and formats for classifying budget increase request and guidelines for explaining and justifying budget increase or decrease amounts. Instructions also should be provided for inclusion of requests associated with the proposed project to implement strategic plan high priority initiatives of the Judiciary. In addition, special guidelines should be developed to guide the courts and programs for determining capital project feasibility and priorities and for estimating costs associated with capital investment programs.

**Priority:** High

**Next Steps:** The AO should design budget worksheets and provide specific instructions for data to be used for estimating and explaining each significant expense category within each goods and services line item, especially in contractual services categories, such as expert witnesses, language interpreters, lay jurors, and Forensic Institute services, where expenses are highly variable. A budget form also should be developed for use with each budget line item category that requires budget preparers to explain increases (or decreases) in terms of major change factors such as, inflation, workload, specialized proceedings, new legal mandates, and new or enhanced activities related to strategic priorities. To ensure that all necessary worksheets and forms are supplied to the AO by to courts to support proposed budget requests, a budget submission checklist should be included with the instruction package to the courts and the checklist should be submitted with court and program budget requests.

**Timeline:** Spring 2009

A sample court budget request summary and justification format and worksheet are provided in Appendix A of this report.
2. The CBC should officially adopt and issue an annual planning and budgeting calendar and schedule for the judicial branch.

A comprehensive schedule for strategic planning and budget request preparation, review and adoption should be issued by the CBC and AO to all Court Budget Users in early spring each year. The purpose of the schedule and the related procedures is to ensure that the budget development, review and adoption process is accurate, consistent, fair and objective. The budget process calendar likewise should provide adequate time and opportunity for discussion and feedback with court budget users. The annual schedule should contain planned dates for issuance of CBC/AO operating and capital budget instructions and forms, court user budget submission deadlines and dates for expected CBC/AO and court and program budget review meetings. Once strategic planning is established within the Judiciary, the schedule should also contain information on the timing of completed priority initiatives and annual work programs that assure planning information is available for inclusion in budget requests.

**Priority:** High

**Next Steps:** An annual planning and budgeting schedule should be prepared by the AO and issued by the CBC (See Appendix B, Example of a typical Planning and Budgeting Calendar).

**Timeline:** Spring 2009

3. All modules of the Automate Budget Management System (ABMS) should be completed in all courts and instructions should be developed by the AO on use of data and summary reports derived from ABMS for budget planning and analysis.

The automated budget management system (ABMS), developed in cooperation with USAID, is a full featured electronic administrative management system designed to support court budgeting, financial management and administration. This system consists of six modules. ABMS has modules for budget planning and accounting and it provides summary and detail information and reports on personnel qualifications and employment history, salary, benefits and payroll amounts and expenditures, supplies and materials inventories and costs and equipment and other asset inventories for all budget users and each court and program. The ABMS became operational in the Supreme Court in 2007 and is in the process of being implemented in all the courts in 2008.

ABMS detail and summary reports offer an excellent resource for budget and fiscal analysis as well as financial administration. As Judiciary officials and court managers become more familiar with the capabilities of the ABMS applications and obtain needed modern computer equipment to access and share application information, they should generate standard reports to support better financial administration and accurate budget planning. The study determined that some court locations were not implementing the ABMS as planned due to lack of training and time for data entry. ABMS court level training should be completed as soon as possible and the AO should work with court fiscal staff members to address other problems to ensure the system is fully operational in all courts by the end of 2008.
Priority: High

Next Steps: Complete ABMS training and data entry for all courts and programs. AO staff should closely monitor implementation data entry compliance of all system users and address any compliance problems detected. The AO should advise and train courts on use of ABMS reports for budget planning and analysis.


4. Case-based and Judge-based cost estimation models should be developed to support budget preparation and analysis. Cost models should be developed for civil and criminal cases and for major special types of court proceedings and cases. Models should reflect regional variations in costs as appropriate.

One approach to making court budget estimates more accurate and effective is to relate budget requirements and resource allocation to case management. Court operations make up vast a majority of judicial branch budget requests. Until recent years, judicial budgets, in general, have relied on budget estimates based on inputs, using only historic line item expenditure trends to project costs. Increasingly, however, more sophisticated methods of judicial budgeting are being developed that rely on case-based cost allocation models.

Case-based and judge-based cost models allocate resources for court operations based on specific types of cases and judicial positions. These models typically assign costs to each major type of case (civil, criminal, etc.) from which average costs per case disposed and judge assigned are calculated. These cost models allow for budget estimates to be developed not only through historical expenditure analysis but also through caseload volume projections and judicial assignments. When determining average costs per case disposed it is important that analysis go beyond simple cost averages to include timeframes and regional cost variations to ensure that estimates reflect the importance of full and fair adjudication. To do this standard cost per case and judge estimates should be developed that assume adequate staffing levels. Norms also should be set for standard caseloads per judgeship as a tool for assessing budgetary needs, especially for estimating cost associated with changes in law and policy.

Until recently it was not possible for the Macedonia Judiciary to develop case-based and judge-based budgeting models because caseload volumes and judicial assignments have fluctuated from year to year due to major changes in court structure and jurisdiction, and the transfer of functions, most notably, enforcement of civil case decisions to private enforcement agents. Now that court workload and judicial assignments have become more predictable and stable, the AO should start developing case-based cost estimates to support budget requests and to assist with evaluating the impact of changes in law and procedures.

Beginning with 2008 data, it is recommended that the AO staff calculate average costs per case by major case type (civil and criminal) for all basic courts with extended and limited jurisdiction. In addition, the cost per judgeship models, which assume adequate staffing levels also, should be estimated using current salaries and actual average cost of goods and services to support each judgeship. In future years changes in costs per
case and cost per judgeship should be monitored from year to year to identify opportunities for improving the efficiency of case processing.

**Priority:** Medium

**Next Steps:** A working group should be formed by the AO Director to provide oversight and guidance on development of case-based and judicial assignment related resource allocation models. This complex work should initially be undertaken with the assistance of a consultant experienced in cost per case and judgeship cost allocation methods. Once case-based models are designed for each major case type, maintaining cost per case and judge estimates should be the assigned to an AO staff member.

**Timeline:** 1-3 years

5. The Judiciary Budget should contain specific lump sum items to meet the costs for implementation of major new laws and variable cost items that have a significant impact on operations.

Basic court budget requirements are not always easy to predict due to variations in the annual volume of cases and the complexity and duration of court proceedings and trials. Criminal cases are especially subject to cost variations in contractual services, especially for ex-officio attorneys, expert witnesses, language interpreters and Forensic Institute services. To ensure that courts have sufficient funds for specialized contractual services costs, it is recommended that, along with funds provided to courts for these services, a central fund be established and managed by the AO to address variable costs associated with criminal cases. The proportion and amount of centralized funding for these services should be determined by the AO through analysis of caseload trends and average cost data for each type of service and the AO should establish a procedure for allocating these funds to courts that experience protracted and complex trials and proceedings.

**Priority:** Medium

**Next Steps:** Develop projections for lump sum budget expenses associated with implementation of major new laws and variable cost items, such as Forensic Institution services, that have a significant impact on operations.

**Timeline:** 1-3 years

6. The CBC and AO should provide court budget users with an opportunity to explain and make a case for their budget request at annual internal budget meetings. Once decisions are made on the Court Budget request, budget users should be informed about reasons for changes and adjustments to original requests.

This study found court presidents and administrative staff were frustrated by a lack of communications about reasons for reductions to budget requests and allocations. Those interviewed did not understand if budgets were reduced because of macro-economic factors, insufficient justifications or because requests were not aligned with strategic priorities. To ensure the court budget users view the budget process as fair and
worthwhile, and that they increase their understanding about the importance of
demonstrating efficiency and effectiveness in resource utilization, more openness and
feedback is needed in budget decision making.

To ensure better communications and better budget justifications the CBC should hold
annual budget review meetings with major court budget users. These meetings will
provide an opportunity for the CBC/AO to ask questions and seek additional information
on budgets and provide users an opportunity to make a case for their resource requests.
A schedule of budget meetings should be included in the annual CBC planning and
budgeting calendar and schedule. A memo of invitation that includes a format for the
budget hearing presentations and discussions should be sent to court budget users in
July of each year. Once final decisions are made on the Court Budget request by the
CBC, and the Government, budget users should be informed about reasons for budget
changes and adjustments.

**Priority:** High

**Next Steps:** Set dates for budget meetings to review the requests of important and
representative budget users and include dates in the CBC comprehensive budget
schedule. AO should prepare a format for budget meeting presentations and CBC
should send a memo of invitation to courts regarding participation in budget meetings.
After meetings and approval of the CBC of the Court Budget Request in August, Court
Presidents and Program Directors should be informed about reasons for changes and
adjustments to their budgets.

**Timeline:** Summer 2009

7. The Judiciary should revise its budget program structure for summarizing and
presenting its requests in the State Budget to reflect different court levels
(appellate and basic) and the different missions of special programs.

This Judiciary requires the development of a more suitable program structure for
presentation of Judicial branch goals, objective, activities and funding requirements. The
current budget program structure, which consists of court operations and the Academy
for Training of Judges and Public Prosecutors, does not adequately distinguish between
different levels of courts, different types of case jurisdiction and different types of judicial
services. A revised program structure should be adopted that reflects differences in
court levels and different missions of programs. The new program structure should
consist of separate program budgets for the Supreme Court and Appellate Divisions, the
Administrative Court, the Basic Courts, Court Administration (including the CBC and
AO), the Republic Judicial Council (RJC) and the Academy for Training of Judges and
Public Prosecutors. The Judiciary may also want to consider a basic court program
structure that includes sub-programs grouped by regions.

**Priority:** High

**Next Steps:** Judiciary and CBC should revise its budget program structure to more
appropriately present the budgets of courts based on level and function and programs
based mission and legal mandates. Funding allocations based on the new program
structure should be determined by the AO in the current year and budget requests for the new fiscal year should be shown in comparison to the revised allocation information.

**Timeline:** Spring 2009

8. The AO should assign staff regional responsibilities for budget preparation, review and budget execution, based on the Appellate Division structure. Regional assignments will allow the AO to better assist the courts with budget, finance and administrative duties and facilitate greater understanding of how regional conditions impact on court operations and budget needs.

The AO should consider assigning staff by region to better assist courts with budget preparation and execution and other administrative duties. Assignment by region also should produce a more in-depth understanding in the AO of judicial branch costs associated with variations in regional conditions and increase staff ability to explain and advocate for the court operations budget requirements. Staff assignments should include responsibility for all basic courts and Appellate Courts in a region based on the Appellate Division structure. Also budget preparation and execution duties for The Supreme Court, CBC and AO, and the Academy for Training of Judges and Public Prosecutors should be assigned to a single AO staff member.

**Priority:** Low

**Timeline:** AO Director should determine timing.

9. A report containing detailed narrative descriptions and caseload information should be prepared by the CBC/AO to supplement information in the budget request to better explain the operations of courts and programs, strategic priorities and funding needs of the Judiciary.

The narrative presentation and justification of the Macedonia Judiciary Budget Request should be expanded considerably beyond the approximately seven pages of information provided to the MOF in the General Data by Budget User Report. This more elaborate narrative should consist of an executive summary and regional court operations and program narratives. The executive summary should describe and visually present through tables and graphs a discussion of mandated functions and priority initiatives. It also should present caseload information trends and other statistical indicators to support budget proposals and information on impacts of major new laws and planned projects and programs to improve the delivery of justice to the public and make justice administration more efficient and effective.

Along with the executive summary narrative, separate budget narratives for the courts, grouped by Appellate Court region, and narratives for the Academy and other programs should be provided. These narratives should discuss functions, goals and accomplishments, workload trends, strategic priority projects and annual work plans. This elaborated Judiciary budget document should be prepared annually and provided to the MOF to support Judiciary budget analysis and government budget formulation. It also should be made available to the press, public and stakeholder organizations as a printed document and through the CBC/AO web site to enhance transparency in the budget process and improve trust and confidence in the judicial branch.
Priority: High

Next Steps: A working group of Judiciary leaders and support staff should be formed and charged with to development of a new more elaborate narrative format for the Judiciary Budget. Guidance on the report content and format should be obtained from a public information specialist who is a technical expert on preparing reports to the public. A staff member of the AO should be assigned to oversee and coordinate preparation of the new, more elaborate, budget narrative.

Timeline: September 2009

10. The MOF and Judiciary should work together to electronically link the Judiciary’s ABMS and the MOF e-budget software used to prepare and submit the Judiciary Budget Request to the Government.

The Judiciary’s ABMS currently contains an extensive array of financial data and summary reports to support budget preparation. The ABMS system, however, is not currently compatible with the MOF e-budget preparation and a submission system must be used for budget request preparation and submission to the Government. To reduce redundant budget preparation work and make better use of budget and financial management data available through the ABMS, the Judiciary should seek technical support from the MOF to link and integrate the ABMS with the e-budget budget system.

Priority: Low

Timeline: 1-3 years

(2) Budget Execution and Financial Management

11. The CBC and AO should provide directives and guidance to the courts and the Academy on budget planning, implementation and financial activities through a Budgeting and Financial Management Planning and Control Manual that documents best practices and standardizes and regulates budgeting and financial activities within the courts and programs.

The administrators of the courts and programs of the Judiciary need systematic and detailed guidance to ensure budget preparation, execution and financial management is carried out in a legal, professional and accountable manner. As the independent court budget system in the Macedonia Judiciary matures, budgeting and financial management legal requirements and best practices should be assured through dissemination of directives, including rules, policies, procedures and guidelines. These directives should be prepared by the AO and formerly issued by the CBC in an orderly manner and updated regularly using a budgeting and financial planning and control manual. This manual should contain the following sections:

- Budget Planning, Preparation and Submission and Approval
- Budget Execution, Monitoring and Control
- Accounting Procedures
• External and Internal Auditing Rules and Standards

Appendix C provides a sample list of types of policies and procedures expected to be included in the Budgeting and Financial Management Planning and Control Manual.

**Priority:** High

**Next Steps:** A working group consisting of the AO Director, AO staff and representative members of court fiscal offices should be formed and charged with development of a Budgeting and Financial Planning Control format and a system for disseminating and maintaining updated versions of directives to be contained in the manual. A process for approval of manual directives by the CBC president should be adopted by the CBC. The preparation and updating of the manual should be assigned as a function to a specific member of the AO staff. Because the manual will take considerable time and effort to prepare, the AO Director should determine the order in which the sections of the manual will be prepared and issued.

**Timeline:** January-December 2009

12. All modules of the ABMS should be completed in all courts and instructions should be developed by the AO on use of fiscal data and summary reports derived from ABMS for budget execution & control. (See recommendation 3)

The automated budget management system (ABMS), developed in cooperation with USAID, is a full featured electronic administrative and financial management information system designed to support court budgeting, financial management and court system administration. This system consists of six modules. ABMS has modules for budget execution, accounting and financial management. It provides summary and detail information and reports on budget execution plans and expenditures, supplies and materials inventories and costs and equipment and other asset inventories for all budget users and each court and program.

**Priority:** High

**Next Steps:** Complete ABMS training and data entry for all courts and programs. AO staff should closely monitor implementation data entry compliance of all system users and address any compliance problems detected.

**Timeline:** March 2009

13. The AO should develop and implement a quarterly budget management reporting system to be used by the courts to explain reasons for significant variations from quarterly budget execution plans.

Drawing on reporting capabilities of the ABMS, the AO should develop a budget management reporting process that requires Court Budget users to explain line item expense variations of more than 5% from quarterly budget execution plans. Quarterly budget management reports also should address arrearages, explaining reasons for unpaid obligations that exceed 30 days. Reports also should indicate plans for prompt
payment of obligations and steps that will be taken to address overspending in specific line items through reallocation requests or the institution of cost control measures.

**Priority:** High

**Next Steps:** AO should develop format for quarterly budget management reports and issue formats and instructions for preparing reports to all court and program budget users. The AO also should train court and program fiscal staff on preparation of quarterly budget management reports and how to use of ABMS data and reports as a tool for budget management reporting and control.

**Timeline:** The reporting system should be completed by January 2009 and used by the AO and Court Budget users in the 2009 fiscal year

14. The AO should develop a systematic process for monitoring the potential for lapsed or unspent funds and for reallocation of these funds to address budget shortfalls in essential functions and high priority projects that were underfunded in the approved state budget.

Drawing on quarterly budget management reporting information, the AO should work with the courts to identify funds likely to be unspent or lapsed as early in the fiscal year as possible. Funds likely to be unspent should be reallocated to areas where budget shortfalls are expected based on information obtained through quarterly budget management reports and through AO staff monitoring of expenditures and unspent obligations. This reporting system should also be used to supply information to the Government on supplemental funding needs in the budget rebalance.

**Priority:** High

**Next Steps:** The AO should develop a report format and instructions for courts and programs to use in estimating expected unspent funds and for proposing reallocations of funds to address potential budget shortfalls in essential operations. The report should be prepared annually as a component of Budget Management Report system.

**Timeline:** June 2009

15. The Judiciary should seek greater latitude in budget execution through relaxation of MOF budget reallocation controls and less cumbersome procedures for refilling of vacant positions critical for court operations, such as court secretaries, legal assistants, court clerks and typists.

Currently the MOF places strict controls and must authorize reallocation of funds from one line item to another in the Court Budget. Strict MOF budget execution and reallocation controls, while important to assuring sound fiscal management throughout the government, are hampering the ability of the Judiciary to effectively meet legal mandates and efficiently manage court operations. More flexibility is needed to address unexpected variations in spending caused by caseload variations. Flexibility in reallocation of funds also is necessary to support the achievement of Judiciary strategic priorities. The MOF also controls the refilling of all judicial branch non-judge positions.
when they become vacant. Greater latitude in refilling of positions as they become vacant will improve the ability of the courts to resolve cases in a timely and fair manner.

The Judiciary should petition the Government for greater latitude in reallocation of funds between line items and court budget programs and in the refilling of positions that become vacant during the fiscal year. The Judiciary also should work with the Ministry of Justice to develop proposed revisions to the Law on Court Budget that will provide the CBC authority to approve budget reallocations and the refilling of positions as they become vacant with notification to the MOF.

**Priority:** High

**Next Steps:** The President of the CBC should send letter to the Minister of Finance requesting greater latitude in the budget execution process in the reallocation of funds and the refilling of positions as they become vacant. Judiciary officials also should cooperate with the MOJ in drafting a proposed change in the Court Budget Law that would give greater authority to the CBC for approving budget reallocations and the refilling of funded positions as they become vacant.

**Timeline:** January 2009

16. A program should be developed within the Judiciary for centralized and regionalized procurement of goods and services regularly purchased for operation of the courts.

The CBC and AO, in cooperation with MOF Public Procurement Bureau, should develop policies and procedures for the central and regional procurement of frequently used items and contractual services with the goal of assuring efficient court operations through purchase of high quality goods and services at the lowest price. To facilitate centralized procurement and assistance to court budget users in obtaining high quality goods and services the AO should create a unit and assign staff to coordinate procurement policy development and implementation for the Judiciary.

The guiding principles for development of the Judiciary’s procurement program should be:

- Using the “Best Value” purchasing concept, defined as obtaining goods and services from the vendor that best optimizes quality, cost and efficiency, as the basis for awarding contracts,
- Establishing procedures that guard against fraud, waste and collusion, and
- Allowing all qualified vendors an equal opportunity to obtain business from the courts and court programs through and fair and open process.

**Priority:** Medium

**Next Steps:** Establish working group within Judiciary, under the direction of the AO, to develop centralized and regionalized procurement policies and procedures based on “Best Value” purchasing concept

**Timeline:** 1-3 years
(3) Communications and Relationships with External Government Institutions

This study found poor communications and conflict between the Judiciary and the Government contributed to poor outcomes for the Judiciary in the annual budget process. Study participants indicated that the budget process has been contentious and frustrating both for Judiciary and for the Government Ministries of Finance and Justice. These Ministries play a crucial role in determining the annual budget allocations for the courts and court programs. Since the Judiciary became a separate and more independent part of the State Budget, there has been a perception in the judicial branch that the MOF has a limited understanding of legal mandates and procedural standards for case processing and that political considerations in decision-making on the Government Budget have hampered the ability of the courts to obtain sufficient funding for essential operations. The MOF and MOJ were found to view the Judiciary as being unwilling to take actions to become more efficient and lacking the administrative systems and professional competence to efficiently and effectively manage its own budget and fiscal affairs.

Because the budget process in the Republic of Macedonia requires close cooperation between the government and the Judiciary, effective communications and working relationships are essential for better outcomes in the budget process. Accordingly, recommendations are made to enhance inter-branch formal and informal communications and collaboration between officials and staff members involved in budget decision making.

Recommendations number 17 through 20 are proposed to improve understanding in the Government of the Judiciary's goals, mandates, funding requirements and management practices to improve operational efficiency. Recommendation 21 is made to assure that the unique mandates and budget requirements of the Academy for Training of Judges and Public Prosecutors are fully explained to Government during negotiations to formulate of the Draft ROM Budget.

17. The CBC and MOF and MOJ, should hold high-level meetings to discuss issues involving strategic priorities, budget issues and requirements, and the impact of new legislation on court operations and budgets.

18. An annual spring budget orientation workshop should be conducted by the CBC and AO, in cooperation with the MOF and MOJ, for the President Judges and court management staff who are responsible budget and fiscal management in the Judiciary.

19. Regular meetings and briefings, at least monthly, should take place between the AO and staff of the MOF to provide updates on operational developments, expected impacts of changes in the law and Judiciary budget conditions and concerns.
20. Articles 8 and 15 of the Law on Court Budget authorize the President of the CBC to make formal presentations to support the Judiciary’s budget at working sessions of the Government and Parliament. Pursuant to Article 8, the President of the CBC should make a formal presentation during the draft ROM Budget formulation session of the Government to explain and highlight key strategic priorities, accomplishments, cost efficiency efforts and budget requirements of the judicial branch. Additionally, if agreement has not been reached between the President of the CBC and the MOF regarding adjustments made to the Judiciary’s proposed budget, the President should make a presentation before Parliament, in accordance with Article 15, to seek and explain the need for restoration of any funding cuts contained in the draft ROM Budget.

21. Separate meetings to brief representatives of the MOF and MOJ about the plans and budget request of the Academy for Training of Judges of Public Prosecutors should be held annually in conjunction with the government budget formulation process. These meetings should include representatives from the Republic Judicial Council, the CBC and AO, and the Academy Director and head of its Managing Board.

Priority: High

Timeline:
Recommendation 17 - September 2008
Recommendation 18 - March 2009
Recommendation 19 - September 2008
Recommendation 20 & 21 - Fall 2008

(4) Adopting and Implementing Strategic Planning

The Republic of Macedonia has established a Strategic Planning Process that is carried out under the direction of the General Secretariat of the Government – the Sector for Strategy, Planning and Monitoring and the Ministry of Finance. This process, which involves all Ministries, is intended to provide a mechanism for the Government to identify policy priorities and strategic initiatives and ensure that adequate resources are allocated to important priorities through the budget process. The ROM Law on Budgets requires that each Ministry prepare a medium-term (3 years) Strategic Plan and that Ministry-level plans be incorporated into annual operating and capital budget requests. Ministry Strategic Plans are used by the MOF for analysis and decision-making on budget requests.

This study found that the Macedonia Judiciary does not participate in the Government Strategic Planning Process nor does the judicial branch have its own strategic planning process to guide capital and operating budget development. This deficiency is a serious cause for concern because strategic planning provides a powerful means for strengthening independent and effective justice services through allocating of limited budget resources to Judiciary high-priority initiatives.

Like its executive branch counterparts, effective strategic planning, which is integrated with budget development, is crucial for the courts and programs of the judicial branch as a means for determining priorities and successfully obtaining necessary resources to achieve priorities. The ROM Ministries follow an integrated planning and budgeting
model in which budget request are supplemented by strategic plans. Ministry plans contain detailed work programs, projects, performance measures and funding estimates. In view of the integrated planning and budgeting model being used by Government Ministries and the ROM Law on Budget requirement for submission of strategic plans to support budget requests, the Judiciary should adopt and implement a strategic planning process as soon as possible. Another reason for immediate action to establish a strategic planning process is that the MOF could decide in the future that without submission of a strategic plan, in conjunction with its budget request, the Judiciary’s Budget Request does not fully meet legal budget submission requirements. Accordingly, the following recommendations are made for the Judiciary to initiate and implement a strategic planning process.

22. The Judiciary should adopt and implement a strategic planning process that is separate from but integrated with the budget process to ensure that budget requests are aligned with strategic priorities and consistent with the requirements of the ROM Law on Budgets which requires that strategic plans for the medium-term (3 year) period be provided with budget requests to the MOF.

23. The Strategic Plan mission and vision statement, goals and priority initiatives should be developed by high level officials and leaders from major courts and programs throughout the Judiciary. A working group should be formed within the Judiciary to design a standard process for courts and programs to follow to develop annual strategic plans and work programs to implement priority initiatives. Due to the complexity and resources required to initiate a strategic planning process, a consultant should be used to assist with design and implementation of the strategic planning process during the first year. In future year’s, the strategic planning process should be coordinated by an AO unit.

24. The Strategic Plan format, data and explanations should be compatible with the strategic planning system used by the Government Ministries to assure greater understanding of the Judiciary’s priority initiatives and budget plans by external budget reviewers and decision-makers.

25. In developing a strategic planning process, the Judiciary should consider using the guidelines provided to the Government of Macedonia by the General Secretariat Sector for Strategy, Planning and Monitoring in the Manual for Strategic Planning.

26. The CBC should issue instructions, formats and timetables to court and program level budget users for preparation of standardized medium term (3 year) strategic plan updates and guidelines that explain how plan work program resource estimates should be linked to budget requests.

**Priority:** High

**Timeline:**
September 2008 - March 2009
(5) Education, Training and Professional Development

27. The AO should prepare detailed duties descriptions to ensure that budget and financial functions are being properly carried out by staff with the necessary knowledge, skills and abilities and oversight to effectively perform their jobs.

This study found the budget and fiscal duties of each position in the AO could be more clearly delineated to ensure that all the highly specialized budget and financial management functions of the AO are carried out by individuals with appropriate knowledge, skills and abilities. Detailed job and duty descriptions also would be useful for evaluating AO employee performance and preparing of annual employee development and training plans.

Priority Low

Timeline: At discretion of AO Director

28. The AO should coordinate with the Academy for Training Judges and Public Prosecutors to provide annual training to court administrators and budget and financial staff within the courts to improve budgeting and financial management skills and knowledge.

Ongoing education, training and development of budget and financial staff members in the courts and programs of the Judiciary is essential for assuring high quality and professional approaches to budgeting and financial management. To assure effective training and development of budget and fiscal staff, the AO should work with the Academy for Training Judges and Public Prosecutors to design and deliver an annual training program for judicial branch budget and fiscal administrators. The program should address the legal and procedural requirements of the budget request and budget execution processes, provide training on Judiciary and MOF budgeting policies, practices and automated systems and acquaint staff with modern public and judicial budgeting methods and professional standards.

Priority: Medium

Next Steps: AO and Academy Director form working group to develop training plan and curriculum for budget and finance staff training. Training program designed, faculty selected and courses delivered.

Timeline: 1-3 years

29. The AO should form a Budget and Financial Management Advisory Group of budget users to regularly share ideas on improving budgeting and financial management practices.

An advisory group consisting of representatives of courts and court programs with budget and fiscal duties should be formed by the AO. Periodic meetings, at least two per year, should be conducted by the AO with the Budget and Financial Management Advisory Group to provide updates on new laws, policies and procedures and to allow staff time to discuss and exchange ideas about best practices for resource utilization and financial management and control.
**Priority:** High

**Next Steps:** Advisory Group formed by AO Director and date and agenda set for first meeting.

**Timeline:** Spring 2009

A summary of the action plan priorities, next steps and timelines for each of the 29 recommendations made in this report are provided in the Table I: Action Plan Summary Chart which follows.
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<th>Recommendation #</th>
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| 1               | The CBC/AO should issue budget preparation guidelines and formats that incorporate criteria on data sources and methods to be used by court and program financial staff to develop budget request estimates for ongoing operations, new legal mandates and priority initiatives. | Priority: High  
Next Steps: The AO should prepare budget instruction package that includes line item cost estimation worksheets and instructions for data to be used for estimating each significant expense category. A standard format should be included for explaining reasons for budget changes and budget submission checklist should be included with instructions.  
Timeline: Spring 2009 |
| 2               | A comprehensive schedule for strategic planning and budget request preparation, review and adoption should be issued by the CBC and AO to all Court Budget Users in early spring each year. | Priority: High  
Next Steps: An annual planning and budgeting schedule should be prepared by the AO and issued by the CBC.  
Timeline: Spring 2009 |
| 3               | All modules of the Automate Budget Management System (ABMS) should be completed in all courts | Priority: High  
Next Steps: Complete ABMS training and data entry for all courts |
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<th>and programs. The AO should advise and train courts on use of ABMS reports for budget planning and analysis.</th>
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| 4 | Case and Judge based cost estimation models should be developed to support budget preparation and analysis. | **Priority:** Medium  
**Next Steps:** A working group should be formed by the AO Director to provide oversight and guidance on development of case-based and judicial assignment related resource allocation models. This project should initially be undertaken with the assistance of an expert consultant.  
**Timeline:** 1-3 years |
| 5 | The Judiciary Budget should contain specific lump sum amounts, controlled by the AO, to meet the costs for implementation of major new laws and highly variable cost items. | **Priority:** Medium  
**Next Steps:** Develop projections for lump sum budget expenses associated with implementation of major new laws and variable cost items, such as Forensic Institution services, that have a significant impact on operations.  
**Timeline:** 1-3 years |
| 6 | The CBC and AO provide court budget users with an opportunity to explain and make a case for their budget request at annual internal budget meetings. | Priority: High  
**Next Steps:** Set dates for budget meetings to review the requests of important and representative budget users and include dates in the CBC comprehensive budget schedule. AO should provide a format for budget meeting presentations.  
**Timeline:** Summer 2009 |
|---|---|---|
| 7 | Revised budget program structure established for summarizing and presenting its requests in the State Budget to reflect different court levels (appellate and basic) and the different missions of special programs. | Priority: High  
**Next Steps:** Judiciary and CBC revise budget program structure to more appropriately present the budgets of courts based on level and function and programs based mission and legal mandates.  
**Timeline:** Spring 2009 |
| 8 | AO staff assigned regional responsibilities for budget preparation, review and budget execution, based on the Appellate Division structure to better assist the courts with budget, finance and administrative duties. | Priority: Low  
**Timeline:** AO Director to determine method and timing. |
| 9 | Detailed narrative descriptions and caseload and performance information should be prepared by the CBC/AO to supplement information in the budget request to better explain the operations of courts and programs, strategic priorities and the funding needs of the Judiciary. | Priority: High  
**Next Steps:** Working group formed of Judiciary leaders and support staff to develop a new and more elaborate narrative format for the Judiciary Budget.  
Obtain from a public information specialist with knowledge on preparing reports to the public. AO should oversee and coordinate preparation of the new, more elaborate, budget narrative.  
**Timeline:** September 2009 |
| 10 | The MOF and Judiciary should work together to electronically link ABMS and the e-budget software used to prepare and submit the Judiciary Budget Request to the Government | Priority: Low  
**Timeline:** AO Director should determine method and timing. |
## (2) Budget Execution and Financial Management

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| 11               | Develop a framework, provide technical assistance and regularly issue directives to the courts and the Academy on budget planning, implementation and accounting and fiscal management activities through a Budget and Financial Planning and Control Manual. | Priority: High  
**Next Steps:** A working group formed to develop Budgeting and Financial Planning Control format and a system for disseminating and maintaining updated versions of directives.  
**Timeline:** January-December 2009 |
| 12               | All modules of the ABMS should be completed in all courts and instructions should be developed by the AO on use of fiscal data and summary reports derived from ABMS for budget execution & control. | Priority: High  
**Next Steps:** Complete ABMS training and data entry for all courts and programs.  
**Timeline:** March 2009 |
| 13               | Develop and implement a quarterly budget management reporting system to be used by the courts to explain reasons for significant variations from quarterly budget execution plans. | Priority: High  
**Next Steps:** AO should develop format for quarterly budget management reports and issue report formats and instructions for preparing reports to all courts and programs.  
**Timeline:** October 2009 |
| 14               | Provide a systematic process for monitoring the potential for lapsed or unspent funds and plan for an annual reallocation of these funds to address budget shortfalls in essential functions that were under-funded in the approved state budget. | Priority: High  
**Next Steps:** The AO should provide a format and instructions for courts and programs to use in estimating expected unspent funds and reallocation proposals items. |
| 15 | Seek greater latitude in budget execution through relaxation of MOF budget reallocation controls and less cumbersome procedures for refilling of vacant positions critical for court operations. | **Timeline:** June 2009  
**Priority:** High  
**Next Steps:** The President of the CBC should send letter to the Minister of Finance requesting greater latitude in the budget execution process in the reallocation of funds and the refilling of positions as they become vacant. |
| 16 | Establish centralized and regionalized procurement program for goods and services regularly purchased for operation of the courts. | **Priority:** Medium  
**Next Steps:** Establish working group within the Judiciary to develop centralized and regionalized procurement policies and procedures based on “Best Value” purchasing concept  
**Timeline:** 1-3 years |
### (3) Communications and Relationships with External Government Institutions

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| 17-21             | 17. Improve informal cooperation between the CBC and MOF and MOJ, through regularly scheduled high-level meetings to discuss issues involving strategic priorities, budget issues and requirements, and the impact of new legislation. | **Priority:** High  
**Next Steps:** Schedule Meetings of Officials of CBC MOF and MOJ to discuss budget issues and concerns of the Judiciary.  
Schedule Spring Workshop on the Budget  
Schedule monthly meetings of AO and MOF to review budget status and concerns.  
Prepare formal presentation for CBC President to deliver at meeting to formulate Government draft budget.                               |
|                   | 18. Hold annual spring budget orientation workshop involving the CBC and AO, and the MOF and MOJ for the President Judges and court management staff who are responsible budget and fiscal management in the Judiciary. |                                                                                                                                                                                                                                             |
|                   | 19. Hold regular meetings and briefings, at least monthly, between the AO and staff of the MOF throughout the budget cycle.                                                                                   |                                                                                                                                                                                                                                             |
|                   | 20. CBC President presents oral and written information to the government and Parliament to explain the Judiciary’s budget request pursuant to Articles 8 and 15 of the Law on Court Budget. |                                                                                                                                                                                                                                             |
|                   | 21. Meeting held with by CBC and Academy Director and head of Managing Board to brief representatives of the MOF and MOJ about the plans and budget request of the Academy for Training of Judges of Public Prosecutors. |                                                                                                                                                                                                                                             |

### (4) Adopting and Implementing Strategic Planning
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| 22-26            | 22. Judiciary adopts and implements a strategic planning process that is integrated with the budget process to ensure that budget requests are aligned with strategic priorities and consistent with the requirements of the ROM Law on Budgets | Priority: High          
Next Steps: Strategic Plan mission and vision statement, goals and priority initiatives developed.  
Consultant secured to assist with design and implementation of the strategic planning process.  
Unit formed in AO to coordinate strategic plan implementation.  
Timeline: Fall 2008-Spring 2009 |
|                  | 23. The Strategic Plan mission and vision statement, goals and priority initiatives developed by high level officials from major courts and programs throughout the Judiciary and court level planning process developed by working group with assistance of consultant. |                             |
|                  | 24. The Strategic Plan format, data and explanations specified that are compatible with the strategic planning system used by the Government Ministries. |                             |
|                  | 25. In developing a strategic planning process, the Judiciary should consider using the guidelines provided to the Government of Macedonia by the General Secretariat Sector for Strategy, Planning and Monitoring in the Manual for Strategic Planning. |                             |
|                  | 26. The CBC issues instructions, formats and timetables to court and program level budget users for preparation standardized medium term (3 year) strategic plan updates |                             |

(5) Education, Training and Professional Development
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| 27               | AO prepares detailed staff duties descriptions to ensure that budget and financial functions are carried out by staff with the necessary knowledge, skills and abilities | Priority: Low  
Next Steps and Timeline: At the discretion of AO Director |
| 28               | AO coordinates with the Academy for Training Judges and Public Prosecutors to provide annual training to court administrators and budget and financial staff within the courts to improve budgeting and financial management skills and knowledge. | Priority: Medium  
Next Steps: Working group formed to develop training plan.  
Training program designed, faculty selected and courses delivered.  
Timeline: 1-3 years |
| 29               | The AO should form a Budget and Financial Management Advisory Group of budget users to regularly share ideas on improving budgeting and financial management practices. | Priority: High  
Next Steps: Advisory Group formed by AO Director and date and agenda set for first meeting.  
Timeline: Spring 2009 |
Bibliography


