



Government of the Republic of North Macedonia

***PUBLIC INTERNAL FINANCIAL CONTROL POLICY PAPER
WITH ACTION PLAN 2019 - 2021***

Skopje, March 2019

ABBREVIATIONS

PIFC - Public Internal Financial Control

CHU - Central Unit for Harmonization of the Public Internal Financial Control System

FMC - Financial Management and Control

IA - Internal Audit

PAR - Public Administration Reform

PFM - Public Finance Management

NPAA - National Programme for the Adoption of the Acquis Communautaire

SIGMA - Support for Improvement in Governance and Management

EC - European Commission

EU - European Union

MTBF - Medium-Term Budgetary Framework

INTRODUCTION

"Public Internal Financial Control Policy Paper with Action Plan 2019-2021" (PIFC Policy Paper) is a strategic document for further development of internal control system in the public sector in the Republic of North Macedonia. The purpose of this document is to define the framework of the contemporary, adequate and effective system on PIFC, including the financial management and control, internal audit, central coordination and harmonization and the public financial inspection as well as to cooperate for sound financial management of the public funds in the Republic of North Macedonia.

PIFC as a whole is an integral element of the national public finance management. It presents a comprehensive concept relating to the entire public sector, in particular central government income and expenditure, including foreign funds. By implementing this Policy Paper, the Government of the Republic of North Macedonia, envisions to implement PIFC across the entire public sector and cover the three core principles of PIFC: 1) decentralized managerial accountability underpinned by financial management and control (FMC) systems, 2) functionally independent internal audit and 3) centralized harmonization of methodologies and standards relating to FMC and internal audit.

Existing PIFC Legislation regulates the internal control system relatively well. However, the Government as a whole, faces numerous issues while practicing internal control. Despite clear procedures, existing mechanisms and harmonization institutions for planning and coordination system, state institutions struggle to link sectoral policies with medium-term budget planning, have difficulties to prepare evidence-based policies, comply with legislative procedure and provide consistent implementation of GRNM's Rules of Procedure. Moreover, when establishing institutions under special laws, attention is not paid to the hierarchical set up, bodies' subordination, overlapping authorities, strict authority of departments and adequate assignment of institutions' functions, which in practice results in serious problems related to performing basic functions.

The level of maturity of strategic/annual planning and managerial accountability is low. Additionally, the risk management is considered as a bureaucratic burden and is not an integral part of everyday decision-making processes. This combined with lack of adopted procedures for key business processes and quality management, has resulted in lower quality of delivered public services, arrears and occurrence of fraud and corruption.

The Central Harmonization Unit has an active coordinating role in implementing PIFC. In order to achieve the standards required by the EU, the Ministry of Finance, among other measures, shall increase the capacity of the CHU.

Although CHU is the key implementing body of this strategic document, the whole public sector is the main beneficiary of this reform. The implementation of this Policy Paper will enhance public sector managers on all levels. By providing reasonable assurance mechanisms for achieving organization's objectives, they are going to be given the opportunity to develop adequate and effective systems for financial management and control. Their managerial accountability will be strengthened through ensuring that strategic and operational decisions are decentralized. The internal auditors will be able to support the managers in the process of identifying, assessing and managing risks, which threaten the achievement of objectives. Additionally, they will be able to effectively assess the FMC systems and give adequate recommendations for the improvement of their organizations' activities. Finally, by establishing functional public financial inspection, the Government will have an additional guarantee for legitimate and transparent spending of public funds.

The sequencing of activities is planned as such to present the dynamics of implementation in three time segments: short term, medium term and long term. Short term reflects the period of one year, meaning measures that will be taken during 2019. Medium term is referred to the period between 2020-21. Finally, long term covers the period beyond 2021. The Policy Paper costs € 1,411,579.00 in total. It includes EU IPA funding, National Budget funding and bilateral donor support.

All in all, this document combines and upgrades PIFC related measures with activities contained in the 2018 - 2022 Public Administration Reform Strategy and the 2018 - 2021 Public Finance Management Reform Program¹. It focuses on practical implementation of the chosen PIFC elements, defined as critical for efficient and effective management of the public funds². The paper is divided in nine chapters. First it addresses 8 priorities: Improving the relationship between strategic planning and planning of resources, Strengthening the decentralized managerial accountability, Efficient risk management, Control activities in financial management, Information, communication and monitoring, Internal audit, Financial inspection, Ensuring continuous monitoring of the system of internal financial controls. The Priorities are followed by a chapter on the monitoring and evaluation structure for the Policy Paper. The action document and the logical frame are attached to the Paper's annexes.

PRIORITIES

PRIORITY 1: IMPROVING THE RELATIONSHIP BETWEEN STRATEGIC PLANNING AND PLANNING OF RESOURCES

Basic prerequisite for the existence of effective internal control systems is to establish a strong relationship between available resources and proper planning of goals. Government of the Republic of North Macedonia is committed to ensuring appropriate planning at strategic and operational level, with mid-term and annual perspective, not only to strengthen the policy making, but also to increase accountability and transparency of the undertaken activities as regards the use of public funds.

Despite the clear procedures and the existence of mechanisms and institutions that are to ensure horizontal coordination of the planning and coordination system, problems³ have been identified pertaining to the following:

- linking sectoral policies and the Budget with medium-term budget planning and designing;
- preparation of evidence-based policies, compliance with the legislative procedure and consistent implementation of the Rules of Procedure of the GRNM and
- expert and analytical capacities of the administrative officers.⁴

The Government has also recognized the need to improve the process of budget planning by using multi-annual budget, reflecting programs and performance objectives.⁵

¹Adopted by the Government of the Republic of Macedonia in February 2018 and December 2017

²Pursuant to the PFM reform Program, further improvement of PIFC legislation and methodological framework is planned (by adopting a new Law on Public Internal Financial Control System and respective bylaws),

³Noted in the following documents: Status of the Legislation in NPAA (2006 – 2016) (SEA, 2016); SIGMA Evaluation Report (2015), EC Reports; Annual Reports on LIA; Report by the Inter-Departmental Working Group on Legislative Procedure and Quality Monitoring (SEA)

⁴See: 2018 - 2022 PAR Strategy, Policy Making and Coordination

⁵See: 2018 - 2022 PFM Reform Program, Main Priorities, Outcomes, Measures and Activities of PFM Reform Program

These weaknesses, problems and aspirations have been reflected in Priority Area 1 (Policy Creation And Coordination) of PAR Strategy and Priority 1 (Improved Fiscal Framework) and Priority 3 (Planning and Budgeting) of PFM Reform Programme.

In addition to the measures and actions envisaged in the PAR Strategy and the PFM Reform Programme, the Government, in order to ensure that well-coordinated planning of objectives and resources supports accountability and transparency, has recognized the need to:

- harmonise strategic and financial planning timeframes;
- include clearly defined limits for each sector with the MTBFs for the Ministries;
- ensure that strategic and annual plans are in line with sectoral strategies and limits drawn up on the basis of the total limit set up in the Fiscal Strategy and
- establish a cascade model of objectives in the annual work plans, clearly aligned with both the strategies and the available resources.

In order to achieve the envisaged model of fully aligned strategic and resources planning the measures presented already in the PAR Strategy and PFM Reform Programme will be undertaken:

PAR Strategy

Objective 1.1: Strengthened mid-term and sectoral planning in order to achieve Government's priorities.

M1.1.2. Improving the processes and capacities for mid-term, sectoral and annual planning in the Ministries and other state administration bodies.

Objective 1.2: Enhanced quality of policies and laws and ensuring transparency and involvement of stakeholders.

M1.2.2. Introducing mechanisms for development of analytical basis.

Expected results

- Compliant med-term and sectoral planning.
- Policies and laws adopted in a transparent manner with the involvement of stakeholders, which will enhance external accountability and ensure greater visibility of policies for beneficiaries.
- Policies and laws adopted on an analytical basis, which will provide a great foundation for better planning.

Timeframe: *short term*

PFM Reform Program

P1M1: Formulation, adoption and implementation of fiscal rules

P3M2: Improving the medium-term budget planning

Expected results

- Adopted legislation on fiscal rules, which will create a stronger connection between planning of resources and execution of budgets.
- Enhanced Fiscal Strategy Document, which will support the implementation of the sectoral approach planning and
- Program and organizational classification that will provide a detailed cost framework for each program and organization, based on which it will be easy to determine what and who exactly will conduct, at what cost and with what expected results.

Timeframe: *medium term*

To meet the objectives set for this Priority, as defined in this PIFC Policy Paper and to ensure the synergy and proper implementation of the measures envisaged by the PAR Strategy and PFM Reform Programme, the Government sees the need for the additional measures and activities to be undertaken:

Measure 1.1:Harmonization of timeframes for strategic and financial planning

Activity 1.1.1: Modification and amendment to the Strategic Planning Methodology in accordance with the new Organic Budget Law in order to harmonize the timeframes.

Owner: GS of the Government

Timeframe: *medium term*

Measure 1.2:Including clearly defined limits for each sector in the Fiscal Strategy and the Medium-Term Budgetary Framework for the Ministries within their overall competence

Activity 1.2.1: Development of sectoral limits for the overall competence of the Ministries.

Owner: Ministry of Finance – Budget Department

Timeframe: *medium term*

Measure 1.3:Establishing / improving the cascading model of goals in strategic and annual plans

Activity 1.3.1:Establishing the cascading model of goals in strategic and annual plans in four pilot institutions.

Activity 1.3.2: Preparing report with recommendations for establishing the cascading model of goals in strategic and annual plans and preparing new goals in the whole public sector, as well as a plan for their implementation.

Owner: CHU supported by GS

Timeframe: *medium term*

Expected results

- Adjusted timeframes for strategic and financial planning.
- Developed Fiscal Strategy and MTBF for the Ministries.
- Established cascading model for goals in strategic and annual plans.

PRIORITY 2: STRENGTHENING THE DECENTRALIZED MANAGERIAL ACCOUNTABILITY

The existing PIFC Law regulates, relatively well, the delegation and sub-delegation of responsibilities and accountability for achieving the goals at the public sector entity, there is still enormous room for progress and improvement as regards implementation and fulfilment of this goal. It is determined that, at 60% of the organisations, heads of organisational units are authorised to manage the approved budget funds so as to realise the activities under their competence, however, reporting lines for realisation of the financial plan/budget execution are determined in only 70% of these institutions.⁶ Data shows that as few as 50% the institutions adopted decisions on general authorisation (delegation of authority), which is the starting point to enable the managers to undertake responsibilities and be accountable for the actions.

Additionally, when establishing bodies/institutions under special laws, attention was not paid to the hierarchical set up, bodies' subordination, overlapping authorities, strict authority of departments and/or adequate assignment of bodies/institutions' functions, which in practice results in serious problems related to performing the bodies and institutions' basic functions. In addition, lines of responsibilities of the officials in the institutions they work for (e.g., inspectorates, with a status of bodies within ministries) have not been clearly determined.⁷ Large number of first-line budget users also undermines the managerial accountability, allowing the implementing agencies to sidestep the Minister responsible for the policy area during the budget negotiations⁸.

Legislation in Macedonia makes no clear distinction between political and professional level, i.e. scope of senior civil service⁹ is not clearly defined and merit – based recruitment for these working positions has to be strengthened.¹⁰

Government recognizes the need to strengthen the decentralised managerial accountability and its positive effect for managing public funds in a legal, cost-effective and efficient manner. Envisaged model of managerial accountability will be based on the following principles:

- tasks and responsibilities delegated at the lowest competent level;
- clear hierarchical structures and reporting lines inside the institutions and between them;
- professional managers are assigned tasks/objectives clearly linked with strategic and annual objectives of the institutions and
- managers are accountable for results arising from assigned decision making authorisation, autonomy and funds to achieve the results.

It is envisaged for strategic decisions to be adopted by the top managerial level and operational decisions to be delegated at least at the level of the heads of departments and, when applicable, to the heads of subordinated bodies. Inclusion of lower-level managers and heads of subordinated bodies in the setting the objectives will be ensured. Necessary communication lines to allow sufficient flow of information will be established. Delegation of authority will be accompanied by adequate control mechanisms (see Priority 4 of this Policy Paper) to minimize the risks of its misuse.

Implementation of envisaged model of managerial accountability requires defining of long-term actions and measures, as well as setting the institutional framework. Pre-condition therefore is existence of

⁶See: 2017 Annual Report on Functioning of Public Financial Internal Control, based on self-assessment of the institutions

⁷See: PAR Strategy

⁸See: 2017 SIGMA Monitoring Report

⁹Category "Senior Administrative Service" includes: secretaries, directors of bodies within the Ministries and other state administration bodies, and heads of departments.

¹⁰See: PAR Strategy

professional top management and adequate management and organisational set up, realised under Priority Area 2 (Public Service And Human Resource Management) and Priority Area 3 (Responsibility, Accountability And Transparency) under the PAR Strategy and Priority 3 (Planning and Budgeting) of the PFM Reform Programme.

According to the PAR Strategy, the Government considers to professionalize senior management structures by providing clear distinction between political and professional management level. This is to be done by regulating transparent and competitive procedures based on merit for the selection and termination of senior public managers.

The proposed new model for Top Management Service (TMS) is based on two core values: 1) professionalism, merit selection to ensure competent professionals; 2) political responsiveness, needed to build a functional and trusting relationship between ministers and top managers.

In that sense, the expectations are that the Minister would assume political responsibility for his/her entity and the TMS would be responsible and accountable for the running of their organization. Namely, the minister will be responsible for the creating policies and of the area of competencies on the ministry, and the TMS for the results and the implemented policies on the level of organization.

Successful implementation of measures and actions envisaged for the PIFC Policy Paper Action Plan especially relies on the results of:

PAR Strategy

Objective 2.1: De-politicisation of the administration through enhanced application of merit principle, equal opportunities and equitable representation and professionalization of senior managerial positions

M2.1.1. Reducing the risks of politicization by introducing clear criteria and transparency in choosing the best candidate for recruitment and promotion

M2.1.2. Professionalization of senior management structures in the administration

Objective 3.1: Developed coherent institutional set up of state administration bodies, agencies and inspection services at central government level with clearly defined accountability structures.

M3.1.2. Reorganization/optimization of state administration bodies, agencies and inspection services at central government level

Expected results

- Established clear criteria and transparency in recruitment and promotion procedures.
- Establishing professional and departed administration.
- Established clear lines of accountability.
- Removed overlapping responsibilities.

Timeframe: *medium term*

PFM Reform Program:

P3M1: Upgraded programme based budget approach and improved project information

P3M3: Revised Organic Budget Law in line with the improvements of the PFM system

Expected results:

- Budget aligned with the institutional and managerial structures (establishment of a system under which all managers will know their budgets or budgets within the area of their responsibility).
- Number of first-line budget users aligned with the institutional framework developed under M 3.1.2 of PAR Strategy.
- Alignment of the budget with the managerial structures.

Timeframe: *medium term*

To meet the objectives set for this Priority, as defined in this PIFC Policy Paper and to ensure the synergy and proper implementation of the measures envisaged by the PAR Strategy and PFM Reform Programme, the Government sees the need for the additional measures and activities to be undertaken:

Measure 2.1: Strengthening accountability and reporting lines, providing recommendations and their implementation in four pilot institutions

Activity 2.1.1: Assisting the four pilot institutions in establishing:

- The institutional setup in terms of overlapping of competences, accountability and reporting lines;
- Connection of the strategic and annual goals with the assigned tasks of the managers;
- Respecting the hierarchical structure in the formal delegation of the competencies of the managers by giving mandates and sub mandates and respecting the principle for the top managers (ministers and their deputies, directors and their deputies and secretaries) to be responsible for making strategic decisions, and the managers from the lower levels for making operational decisions in four pilot institutions;
- The degree of autonomy and provided resources to achieve the expected results in accordance with the granted decision-making authorisations, and
- The degree of delegation of tasks and responsibilities to/ the lowest management level.

Activity 2.1.2: Preparing a report with recommendations for strengthening managerial accountability and their implementation, on the basis of which will be prepared information with draft conclusions what will be submit to the Government of the Republic of North Macedonia for adoption.

Owner: CHU

Timeframe: *medium term*

Measure 2.2: Promotion the results from the enhanced accountability at the four pilot institutions

Activity 2.2.1: Organizing a public event for senior management structures for presenting the results.

Owner: CHU

Timeframe: *medium term*

Expected results

- Removed overlapping of competences and enhanced accountability and reporting lines within and outside the institutions.
- Linking between the strategic and the annual goals with the tasks assigned to the managers.
- Ensured compliance with the principle for top managers to be responsible for making strategic decisions, while managers at lower levels to be in charge of making operational decisions.
- Provided sufficient autonomy and resources for managers to achieve the expected results in accordance with the granted authorisations.
- Delegated tasks and responsibilities.

PRIORITY 3: EFFICIENT RISK MANAGEMENT

Public sectors entities in the process of assessment of risks to which they are exposed, most often focus on the risk assessment associated with compliance of the operations with the regulations, and to a lesser extent assess the risks that affect the achieved results of their operations¹¹. Additionally, due to the low level of maturity of strategic/annual planning and managerial responsibility (managers are not well informed, do not have well-defined goals, known resources and do not take responsibility for financial and budgetary control), risk management is considered as a bureaucratic burden. Therefore, the risk management in the institutions is not an integral part of everyday decision-making processes, not being used as a basis for establishment of control activities, and it is most often practiced only to fulfil the legal obligation.

In the forthcoming period, appropriately established management structures, defined objectives and available management information (Priority 1 and 2), will lead to further development of managerial accountability, which will provide for wider practical application of the risk management.

Managers who are responsible for timely achievement of their goals within the budget, legal obligations and the working standard will need to clearly review the risks at all levels of the organization, separating the risks associated with strategic and operational objectives.

It is expected for the managers to undertake the necessary activities in order to respond to the risks by applying estimates based on risk assumptions and reasonable cost analysis related to reduction of the risk level, taking into account that risk responses fall into the following categories: acceptance, avoidance, mitigation or sharing.

Relevant information and reporting structures will be used for timely sharing of incidents and progress, delays or obstacles they face while accomplishing the objectives. Necessary guidelines will be provided so as to facilitate this process.

In order to meet the objectives set for this Priority, as defined in this PIFC policy document, the Government considers it necessary to undertake the following additional measures and activities:

Measure 3.1: Updated and applied guidelines for managing with key risks in achieving objectives, preventing fraud and corruption in public procurement, and preventing further areas creation from public sector entities.

Activity 3.1.1: Developing a simplified guide to ease the process of risk management.

Activity 3.1.2: Maintaining workshops to raise awareness of the usefulness of risk management

Owner: CHU

¹¹ See: Annual report on the functioning of the Public Internal Financial Control for 2017

Time frame:short term

Measure 3.2: Practical application of key risk management and providing a timely response to risks in four pilot institutions

Activity 3.2.1: Providing support in the practical application of key risk management and providing timely response to risks

Owner: CHU and pilot institutions

Time frame:mediumterm

Measure 3.3: Promote the results of the practical application of the key risks management of the four pilot institutions.

Activity 3.3.1: Organizing a public event for senior managerial structures for presenting the results.

Owner: CHU and pilot institutions

Time frame:medium term

Expected results

- Facilitate the process of risk management.
- Increased awareness of the usefulness of risk management.
- Providing practical application of the management of key risks
- Provided timely response to new risks.

PRIORITY 4: CONTROL ACTIVITIES IN FINANCIAL MANAGEMENT

The Government recognized the need to improve the efficiency of control activities in the day-to-day operations. Only 38%¹² of institutions have written rules, i.e. internal acts and procedures for financial management. This combined with the lack of adopted procedures for the key business processes and quality management, being still under development, has resulted in, among other things, lower quality of delivered public services than expected, arrears¹³ and occurrence of fraud and corruption¹⁴.

The Government is committed to raising awareness of the need to apply high anti-corruption standards to zero corruption and ensure fair public procurement¹⁵, as well as to strengthen management and control systems by reviewing, adjusting and appropriately developing control activities on the basis of carried out realistic risks assessment. The initial focus will be on ensuring compliance with the regulation, in particular public expenditures (also including public procurement), whose disadvantage is still evident at this stage of maturity of the internal financial controls. In parallel, by moving the administration towards more

¹²<https://www.finance.gov.mk/node/572>

¹³On May 31, 2017, Denar 22.4 billion i.e. or EUR 364.6 million were estimated. Data published on the website of the Ministry of Finance prepared on the basis of collected data from budget institutions, municipalities, public enterprises and PHI <https://finance.gov.mk/mk/%D0%9F%D0%BE%D0%B4%D0%B0%D1%82%D0%BE%D1%86%D0%B8%20>

¹⁴ Corruption is ranked as the fifth largest problem in the country (27.9%), after unemployment, poverty, low incomes and high prices, and the key challenge is to improve the implementation of anti-corruption policies in practice - Corruption Assessment Report in Macedonia, Macedonian Center for International Cooperation http://seldi.net/fileadmin/public/PDF/Publications/CAR_Macedonia/CAR_MacedoniaMacedonian.pdf

¹⁵ In July 2017, the Ministry of Finance published Guidelines for Managing the Risk of Fraud and Corruption. The purpose of these guidelines is to provide recommendations and help public sector entities to undertake effective and proportionate measures against irregularities and fraud (including corruption), taking into account the identified risks. <https://finance.gov.mk/mk/node/679>

mature results-based responses, control activities will be developed to ensure timely delivery of goals, within the agreed performance standards.

Defining the standards of control activities remains within the Ministry of Finance, as well as the coordination of control activities related to finance. MISA is continuously working on improving the delivery of services (which includes administrative decisions) and the quality management through the public sector. Due to the wide range and diversity of control activities in the public sector, within this priority, PIFC policy will focus on the activities that should be undertaken by the Ministry of Finance. The implementation of IT systems to support business processes and increase the efficiency of compliance controls is in the early stage. Within this priority, the focus of the measures and activities will be to improve the efficiency of control systems without wider use of automated controls. In the later phases, this priority will be updated in order to address the risks and challenges associated with the high level of digitization of public sector institutions.

The Ministry of Finance, with the PFM Reform Programme, planned and undertook several activities for increasing the efficiency of the control activities.

PFM Reform Program

P4M1: Implementing a new Financial management implementation system (FMIS)

P4M2: Strengthening control over liabilities.

P4M4: Strengthening the public procurement system

P4M5: Effective PPP system and concessions

Expected result:

- Quarterly report on budget users who have not reported commitments on time.
- Electronic recording of commitments, invoices and financial plans
- A module for claims and a liquidity planning module introduced
- Quarterly report on budget users who have not reported their commitments on time.
- A prepared integrity report with performance indicators of public procurement and (anti-corruption) "red flags",
- published annual public procurement plans and concluded public procurement contracts and their annexes and
- Established an effective PPP system and concessions

Additionally, to support the objectives set by the PFM Reform Program and to fulfill the objectives set for this Priority, as defined in this policy document for the PIFC, the Government considers it necessary to take the following additional measures and activities:

Measure 4.1: Determining weaknesses in key control activities in one pilot institution

Activity 4.1.1: Conducting an assessment at the control activities in achieving objectives, preventing fraud and corruption in public procurement, and preventing the further creation of arrears

Owner: CHU and Pilot Institutions

Time frame: short term

Measure 4.2: Enhancing control activities in financial management based on realistic assessment of key risks in achieving objectives, preventing fraud and corruption in public procurement, and preventing the further creation of arrears in four pilot institutions.

Activity 4.2.1: Provide support in assessing key risks in financial management

Activity 4.2.2: Provide support for incorporating responses to assessed key risks in internal acts / procedures.

Owner: CHU and Pilot Institutions

Timeframe: medium term

Measure 4.3: Promoting the results of the enhanced efficiency of the control activities in the financial management of the four pilot institutions in other institutions

Activity 4.3.1: Organize a public event to present the results of the pilot institutions.

Owner: CHU and pilot institutes

Time frame: medium term

Expected results

- Identified measures to improve the financial management and control
- Improved internal acts / procedures for financial management and control
- Reduced level of arrears
- Reduced level of fraud and corruption in public procurement

PRIORITY 5: INFORMATION, COMMUNICATION AND MONITORING

The established systems of internal reporting, communication and monitoring within and outside the institution are essential, as it aims at timely and quality implementation of programs, projects and activities.

The reports on the accomplished results in function of the strategic priorities prepared by the organizational units in the institution contain a narrative description of the activities, as well as financial information on a general level prepared by the financial affairs unit. This approach does not fully provide timely, accurate and complete data and information, as well as their exchange between the internal organizational units in the entities in order to monitor the realization of the work goals and the spent funds. In order to overcome this situation, it is necessary to improve the systems for internal reporting and accounting systems.

The ongoing way of exchanging information between the institution and the institutions in charge, as well as the communication with the citizens / users of services, does not contribute enough to increase the

transparency and accountability of the institutions. Therefore, it is necessary to strengthen the system of publicly published performance indicators.

Besides to the ongoing monitoring by the management and the implementation of the internal audit, an important part of the monitoring is the self-assessment of the separate processes of the financial management and control system and the preparation of a plan for eliminating the identified weaknesses and irregularities. In 2017, 83% of the central level institutions and 75% of the municipalities prepared a self-assessment of the financial management and control system, but only 20% at the central level and 14% at the local level submitted Plans for the establishment and development of the FMC which eliminate identified weaknesses and irregularities.¹⁶

In order to meet the objectives set for this Priority, as defined in this PIFC policy paper, the Government considers it necessary to undertake the following additional measures and activities:

Measure 5.1: Strengthening information and communication systems in four pilot institutions

Activity 5.1.1: Providing support to institutions in improving the internal reporting system that will provide timely, accurate and complete data and information as well as their exchange between internal organizational units in the entities.

Activity 5.1.2: Supporting institutions to improve the way they exchange information within their organization and externally with other institutions in charge, as well as communicating with citizens / users of services, through continuous publication of performance indicators and progress reports.

Owner: CHU and Pilot Institutions

Time frame: medium term

Measure 5.2: Strengthening monitoring systems in four pilot institutions

Activity 5.2.1: Providing support at institutions to improving the implementation of self-assessment of the separate processes of the financial management and control system and preparing a plan for eliminating the identified weaknesses and irregularities.

Owner: CHU and Pilot Institutions

Time frame: medium term

Measure 5.3: Promoting results of strengthened reporting systems, communication and monitoring from the four pilot institutions to other institutions

Activity 5.4.2: Organize a public event to present the results.

Owner: CHU and Pilot Institutions

¹⁶Annual report on the functioning of the Public Internal Financial Control system for 2017

Time frame: medium term

Expected results

- Strengthened reporting, communication and monitoring systems

PRIORITY 6: INTERNAL AUDIT

The Government of the Republic of North Macedonia is determined to establish a functional internal audit that, through independent, reasonable, objective assurance and advice of the management, will ensure improvement of the operations of the entity and increase of the effectiveness of the internal control systems, i.e. achievement of the set goals.

Government observes that the insufficient staffing of too many internal audit units¹⁷ and low level of certified internal auditors¹⁸ negatively affects the efficient implementation of the International Standards for the Professional Practice of Internal Auditing and the Quality Assurance in the Internal Audit.

In order to ensure the fulfilment of the objective and the role of the internal audit, the new way of organization of the internal audit units will be introduced after the revision of the legal framework the new criteria for the organization of the internal audit units will be established

The regular checks on the quality of the operations of the internal audit units will be introduced as well as the program for conducting training and exam for the national certification of internal auditors in the public sector.

PFM Reform Program

P6M1: Enhanced legal regulations for IA and methodological framework

Expected results:

- New PIC Act.
- Adopted Law on Academy of Public Finance.
- New rulebooks on Internal Audit (IA).
- New Manual for IA.

P6M2: Strengthened administrative capacities for IA at central and local level

Expected results:

- Adoption of rulebooks for continuous training for IA.
- Adoption of the Rulebook for Training and Examination for Certification of Internal Auditors

¹⁷In the public sector, 159 internal audit units were established, in which 218 internal auditors work (only 1.37 auditors per unit in average), and only 48% (76) of the units have heads. One of the reasons for the insufficient staffing of the internal audit units are criteria for the organization of the internal audit, defined in the Law on Public Internal Financial Control, which for the small institutions (by number of employees and budget) are more difficult to implement.

¹⁸ only 30% of the total number of auditors is certified (of which 95.3% are with CIPFA certificate and 4.7% with CGAP certificate)

- Performed trainings.

In order to meet the objectives set forth this Priority, as defined in this PIFC policy paper, the Government considers it necessary to take the following additional measures and actions:

Measure 6.1: Reorganization of internal audit structure

Activity 6.1.1: Analysis of the internal audit organizational structure with a proposal for reorganization.

Activity 6.1.2: Preparation of an act on the manner of organization of the internal audit.

Owner: CHU

Timeframe: short term /medium term

Measure 6.2: Strengthening of the internal audit quality

Activity 6.2.1: Implementation of national certification of internal auditors.

Activity 6.2.2: Organizing and conducting continuous trainings.

Owner: CHU

Timeframe: medium term/long term

Expected results:

- Established a new organizational structure of the internal audit and enlargement of the internal audit unit.
- Conducted national certification of internal auditors in the public sector.

PRIORITY 7: FINANCIAL INSPECTION

The control of the regularity of transactions and other activities in the field of financial management and control is the main activity of the financial inspection in order to protect public funds and prevent financial mismanagement, which involves actions or omissions made by a managerial or other person in the entity which could lead or led to losses and/or damage. In order to ensure efficient, effective and rational use public funds to achieve set goals, the Government is determined to provide a control system that will disable frauds, irregularities and other types of financial mismanagement of public funds in the public sector entities. Hence, the financial inspection will base its activities on received complaints, not on the basis of an annual work program. This way the work of the financial inspection will be in function of the implementation of managerial accountability.

Government of the Republic of North Macedonia, to achieve transparent, efficient and effective management of public finances, established the financial inspection in the public sector carrying out ex post controls over the management of public funds in the public sector entities. At the current stage, the insufficient administrative capacities for the functioning of the financial inspection, lead to untimely implementation of the inspection supervision of the public sector entities.

In order to meet the objectives set for this Priority, as defined in this PIFC policy paper, the Government considers it necessary to undertake the following additional measures and activities:

Measure 7.1: Improving the regulation of financial inspection in the public sector

Activity 7.1.1: Analysis of the existing regulation regarding the responsibilities and operations of the financial inspection in the public sector.

Owner: CHU

Timeframe: medium term

Activity 7.1.2: Amendments to the Regulation in accordance with the analysis made.

Owner: CHU

Timeframe: medium term

Measure 7.2: Strengthening the administrative capacity of the financial inspection.

Activity 7.2.1: Equipping the financial inspection in the public sector with human resources.

Activity 7.2.2: Preparation of program and organizing exam for certification of financial inspectors.

Owner: MF / CHU

Time frame: short term

Expected results:

- Harmonized regulation on financial inspection in the public sector.
- Prepared program, organized exam and certified financial inspectors.
- Staffed and professional financial inspection ready to respond to the requirements for performing inspection.

PRIORITY 8: ENSURING THE PERMANENT QUALITY OF PUBLIC INTERNAL FINANCIAL CONTROL

The concept of Public Internal Financial Control is especially important for our country as a candidate country for EU membership and it must be accepted and implemented to meet the requirements of Chapter 32 of the pre-accession negotiations.

Central Harmonization Unit is the main driver of public internal financial control through development of strategic documents, laws and regulations, cooperation with EU Member States and exchange of experiences in the implementation of this system, and coordination of activities among institutions and giving directions. In addition, the Central Harmonization Unit has an active coordinating role in organizing and performing workshops and training for the establishment, development and implementation of this system in the Republic of North Macedonia. For these reasons in practice is needed a strong organizational structure which will support the establishment and functioning of the internal controls system in the public sector.

Once established system of public internal financial control requires continuous monitoring and evaluation in order to ensure that its implementation is according to the legal framework, international standards and best practices.

In the next period, it is necessary to strengthen the administrative capacity of CHU by fulfilling in the systematized jobs positions and jobs positionstate adviser on PIFC and continuously involving the

employees of the CHU in the training programs. It is also necessary for the CHU to begin monitoring activities for the quality of the work of the internal audit units and the quality of the financial management and control system.

Measure 8.1: Strengthening the capacity of the CHU

Activity 8.1.1: Improving the organizational structure and structure of employees in the CHU.

Activity 8.1.2: Strengthening the capacities of the employees in the CHU through trainings

Owner: MF/CHU

Timeframe: short term/continuous

Measure 8.2: Strengthening the activity of the CHU

Activity 8.2.1: Preparation of a Methodology for reviewing the quality of the operations of the internal audit units and the Methodology for reviewing quality of the financial management and control by the CHU.

Activity 8.2.2: Conducting a reviews on the quality of the operations of the internal audit units and the quality of the financial management and control by the CHU.

Owner: CHU

Timeframe: medium term/long term

Expected results:

- Changed Rulebook on Organization and Operations of Ministry of Finance and Rulebook on Systematization of Working Posts in the Ministry of Finance in the part of the PIFC Department
- Fulfilled jobs positions according to the amended systematization act.
- Prepared Methodology for reviewing the quality of the operations of the internal audit units and the Methodology for reviewing quality of the financial management and control
- Conducted reviews on the quality of the operations of the internal audit units and the quality of the financial management and control

Measure 8.3: Implementation of the results of the pilot activities in the public sector institutions.¹⁹

Owner: CHU

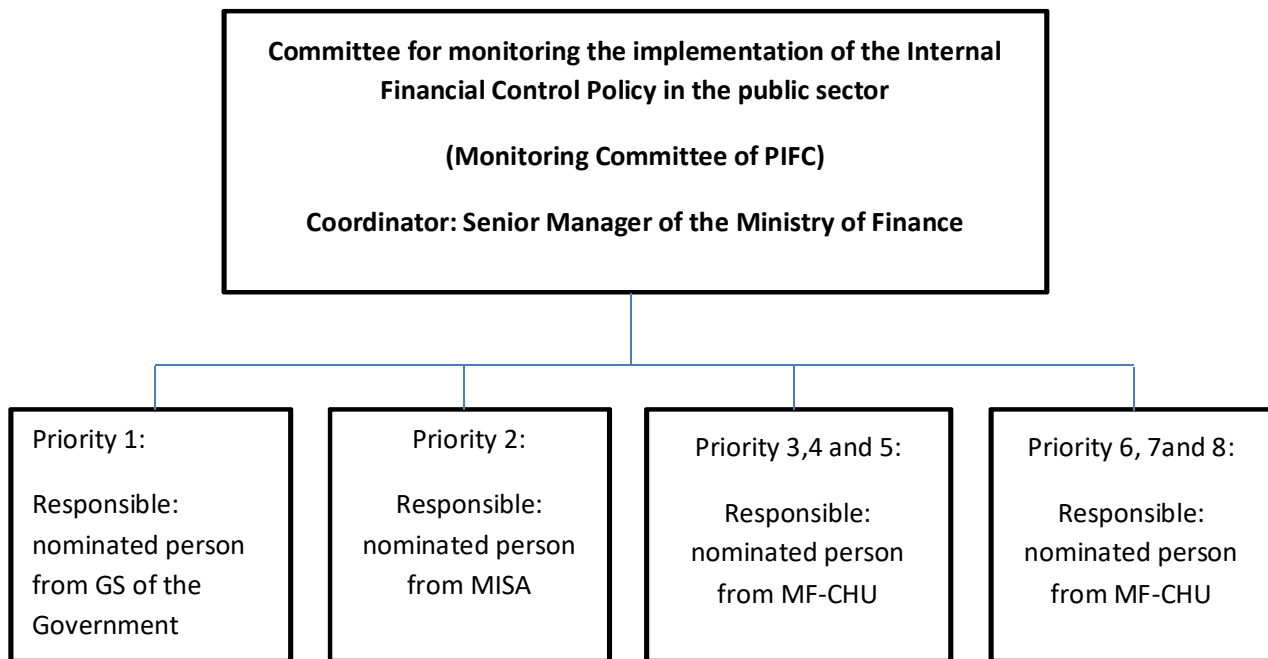
Timeframe: long term

¹⁹The activities of this measure will be presented in the next action plan for 2022 and beyond

ROLE AND RESPONSIBILITIES FOR MONITORING THE IMPLEMENTATION OF THE POLICY FOR INTERNAL FINANCIAL CONTROL IN PUBLIC SECTOR

The Ministry of Finance is responsible for monitoring the implementation of the Internal Financial Control Policy in the public sector.

The framework for monitoring the implementation of the Internal Financial Control Policy in the public sector will have the following structure:



The PIFC Monitoring Committee will be established by the Minister of Finance, chaired by a senior management officer, and it will have members of the Government's General Secretariat (responsible for Priority 1), MISA (responsible for Priority 2), MF-CHU (one member responsible for Priority 3,4 and 5 and one Article responsible for Priorities 6, 7 and 8).

The PIFC Monitoring Committee meets at least every six months in order to review the progress in the implementation of the Internal Financial Control Policy in the public sector, usually prior to the regular meeting of the PU Council.

The PIFC Monitoring Committee prepares a Progress Report on the Implementation of the Internal Financial Control Policy in the public sector and submits it for consideration to the PF Council.