



2018

Ministry of Finance

Public Internal Financial Control
Department

**2018 ANNUAL REPORT
ON THE FUNCTIONING OF PUBLIC INTERNAL FINANCIAL CONTROL SYSTEM**

Skopje, July 2019

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SUMMARY

Public Internal Financial Control Department - Central Harmonization Unit is an organizational unit within the Ministry of Finance, responsible for harmonizing the activities for development of the internal financial control system in the public sector. Pursuant to the Law on Public Internal Financial Control, Central Harmonization Unit prepares Annual Report on the Functioning of the Public Internal Financial Control System.

This Report is prepared in order to present the level of development of financial management and control and internal audit, and to inform the Government of the Republic of North Macedonia and other stakeholders about the activities carried out in the reporting period, as well as to provide instructions for the future development of this system.

In 2018, 80% of the budget users at central level and 70% of the budget users at local level met the obligation for submission of 2018 Annual Financial Report.

Analysis of annual financial reports point out to the need for improvement of the annual reporting by introducing annual reporting oriented towards identifying and eliminating weaknesses and irregularities, expanding the obligation for preparing an annual report (besides budgetary and non-budgetary users) and introducing an obligation for the non-budgetary users to submit the annual reports to the parent ministry/budget user.

In order to improve the establishment, staffing and quality as regards the operations of the Financial Affair Units, there is a need to release the small budget users from the mandatory establishment of FAU, and appoint a person for coordinating the development of financial management and control instead.

In order to improve the quality of sectoral strategies, there is a need to link the sectoral strategic planning with the strategic priorities of the Government and the financial resources in mid-term budget planning and to establish a cascading model of goals in the strategic and annual plans.

In order to improve the risk management, there is a need to improve the reporting and to expand the role of the parent ministries/budget users in preventing/reducing risks in the institutions, falling within their overall competence.

Although analysis of data regarding controls indicates that almost 80% of budget users at central and local level have written internal procedures that are regularly updated, there is a need to adopt/update procedures for the key processes in financial management and control, as well as to regulate the manner of cooperation with the second-line budget users.

Data analysis on established information and communications points out that the budget users generally have an internal reporting system in place, however, there is a need for further development of the accounting system, defining a way of exchanging information between the parent institution and the competent institutions and establishing a system of communications with the citizens, i.e. with the users of the services, which they can use to make suggestions for improvement in the service provision.

Monitoring and evaluation system, established by the budget users, is mainly carried out through continuous monitoring, self-assessment and internal and external audit, however, there is a need to strengthen the delegation of authority to managers for decision making and human resources management, to improve reporting on the achievement of objectives and to strengthen the accountability of the parent ministries/budget users.

Out of total 174 budget users, 113 (65%), i.e. 59 budget users at central level and 54 budget users at local level fulfilled the obligation for submission of Annual Report on Audits and Internal Audit Activities.

Percentage of budget users that did not submit Annual Report on Audits is 35%, 12% out of which were budget users that have a functioning Internal Audit Unit (IAU), but did not submit an annual report, 15% were budget users that have established Internal Audit Unit (IAU), but they are not operating due to the fact that they do not have auditors, and 8% were budget users obliged to establish an IAU, but did not establish it.

Data analysis shows that the average number of auditors at the budget users at central level is 1.61 auditor per Internal Audit Unit, while the average at the budget users at local level is 1.07, which significantly affects the quality of internal audit.

This necessitates the need to consolidate the IAU by changing the criteria for establishing IAU, according to which the small budget users will be released from the obligation to establish IAU and to strengthen IAU in the parent ministries/budget users in their internal auditing, as well as to strengthen the role of the CHU in conducting quality checks of the operation of IAUs.

Given that the percentage of implemented internal audit recommendations is unsatisfactory (57%) and that the implementation of more complex audits is lacking, there is a need to improve the quality of the recommendations given and to increase the auditors' knowledge and skills in conducting more complex audits by organizing trainings and appropriate pilot audits.

1. INTRODUCTION

Ministry of Finance, the Public Internal Financial Control Department is an organizational unit responsible for both the harmonization and the development of the internal financial control systems in the public sector, which, pursuant to the Law on Public Internal Financial Control¹ (hereinafter referred to as “Law”) is in charge of a preparing the Annual Report on the functioning of the public internal financial control system (hereinafter referred to as “Annual Report”).

The Annual Report presents the state of the internal financial control system at the budget users at central and local level.

Internal financial control system is established and developed for the purpose of providing sound financial management in the public sector, in order to target and control the financial effects from the operations by supporting the achievement of the objectives, thereby using the funds in a legal, proper, cost-effective, efficient and effective manner.

Heads of the budget users at central level, local government units and the City of Skopje are responsible for the development of an efficient and effective internal financial control system (hereinafter referred to as “heads of budget users”).

Due to its complexity, the internal financial controls require continuous monitoring and assessment of their appropriateness and functionality carried out through self-assessment by the management, as well as the internal and external audit activities. Considering this, level of development of the internal financial control system in 2018 is observed, and the Annual Report contains measures for its further development.

1.1. Legal Basis for the Preparation of the Annual Report

Pursuant to indent 11, Article 48 of the Law, the Annual Report was prepared on the basis of analysis of the Questionnaire on self-assessment of financial management and control system and the Report on Performed Audits and Internal Audit Activities submitted with the Annual Financial Report by the budget users to the Ministry of Finance, as well as on the basis of the carried out activities related to the implementation of the coordination of the development of internal financial control systems, the Central Harmonization Unit being in charge thereof.

1.2. Purpose of the Annual Report

The Annual Report is prepared in order to present the level of development of internal financial control system and inform the Government of the Republic of North Macedonia (hereinafter referred to as “Government of RNM”) and other stakeholders about the activities implemented in the reporting period, as well as provide instructions for the future development of the public financial control system and internal audit.

¹ “Official Gazette of the Republic of North Macedonia”, nos. 90/2009, 188/2013 and 192/15

1.3. Basis for Preparation and Scope of the Annual Report

2018 Annual Report is prepared on the basis of analysis of the following:

- filled in Questionnaire for self-assessment of financial management and control system, as part of the submitted reports on activities for establishing and developing financial management and control,
- submitted Report on Performed Audits and Internal Audit Activities
- submitted Statement on Quality and Status of Internal Controls,

as well as the submitted financial reports :

- Report on planned and spent funds by items (comparable overview tables),
- Report on realized programs, projects and agreements,
- Annual statements or consolidated annual statement,
- Report on carried out self-assessment

from the Ministries and other state administration bodies, first-line budget users, the municipalities and the City of Skopje.

Apart from the data provided in the AFR, data from the available audit reports of the State Audit Office were used for the purpose of this Annual Report, which also contained information about perceived weaknesses in the internal financial control system as regards managing the budget cycle. SAO Annual Report on Operations and Audits performed in 2018² was also taken into account, which contains information on the opinions of the State Audit Office from the audits performed in 2018, referring to the financial reports and business activities of the budget users in 2017. The findings and the recommendations given in SAO reports are used by the budget users in the self-assessment of internal control systems in the areas in which irregularities and omissions are identified.

1.4 Submitted 2018 Annual Financial Reports

In 2018, 174 budget users were obliged to submit AFR, 93 out of which were entities at central and 81 were entities at local level (municipalities and the City of Skopje).

Table 1: Review of budget users obliged to submit AFR for 2018 and budget users which submitted AFR

Budget users	Number of budget users obliged to submit AFR	Number of budget users which submitted AFR	Number of budget users which did not submit AFR	% of budget users which have not submitted AFR
Central level	93	74	19	20%
Local level	81	57	24	30%
Total	174	131	43	25%

² http://www.dzr.mk/Uploads/DZR_GI_2018_REDUCE.pdf

Out of total of 174 budget users at central and local level in 2018, 131 budget users submitted AFR, while 43 budget users or 25 % did not submit AFR³.

(1. Review of Budget Users at Central and Local Level not having submitted Annual Financial Report).

1.4.1 Measures to Improve the Quality of Annual Reporting

Analysis of annual financial reports points out to the need to improve the annual reporting by:

- establishing annual reporting oriented towards identifying and eliminating weaknesses and irregularities through:
 - self-assessment of the available information and the results from the work of both the internal and the external auditors,
 - expanding the obligation for preparing an annual report, besides budget users and non-budget users and
 - preparing a report on eliminated weaknesses and irregularities.
- expanding the obligation for preparing an annual report, besides budget users and non-budget users and
- introducing an obligation for the non-budget users⁴ to submit annual reports to the parent ministry/budget user.

³ 33 budget users did not submit AFR previous year.

⁴ Bodies within entity, second-line budget users and state-owned enterprises

2. REPORT ON THE QUALITY AND STATUS OF FINANCIAL MANAGEMENT AND CONTROL

2.1 CURRENT STATE OF PLAY AS REGARDS FINANCIAL MANAGEMENT AND CONTROL SYSTEM

The internal financial controls system is established and developed so as to ensure sound financial management in the public sector. Internal financial controls are aimed at target and control the financial effects from the operations by supporting the achievement of the objectives, thereby using the funds in a legal, proper, cost-effective, efficient and effective manner.

In addition, objective of the system is to ensure reliability and comprehensiveness of the financial reports, as well as protection of assets against losses caused by mismanagement and unjustified spending and usage. Heads of the budget users are responsible for the development of an efficient and effective internal financial control system.

2.1.1 State of Play in the Establishment and Staffing of the Financial Affairs Units

Financial Affairs Units (FAU) are organizational units within the budget users responsible for establishing and developing the financial management and control system on behalf of the head of the budget user.

At **central level**, 15% of the budget users did not establish Financial Affairs Units, 38% of them did not appoint Heads of Financial Affairs Units, while 12% of them did not appoint authorized accountants.

At **local level**, 23% of the municipalities did not establish Financial Affairs Units, 44% of them did not appoint Heads of Financial Affairs Units, while 25% of them did not appoint authorized accountants.

(2. Review of Budget Users at Central and Local Level not having established Separate Financial Affairs Unit)

(3. Review of Budget Users at Central and Local Level not having Appointed Heads of Financial Affairs Units)

(4. Review of Budget Users at Central and Local Level not having appointed an Authorized Accountant)

2.1.1.1 Measures to Improve the Establishment, Staffing and the Quality of Operations of Financial Affairs Units

In order to improve the establishment, staffing and the quality of operations of the FAUs, there is a need for small budget users to be released from the obligation to establish FAU if they appoint a person to coordinate the development of financial management and control.

Heads of units and coordinators for the development of financial management and control should successfully undergo internal financial control training in accordance with a program approved by the Minister of Finance.

As regards second-line budget users, coordination of the development of financial management and control will be carried out in accordance with the guidelines of the parent ministry/budget user.

2.2. ANALYSIS OF THE QUESTIONNAIRE FOR SELF-ASSESSMENT OF FINANCIAL MANAGEMENT AND CONTROL SYSTEM

Due to its complexity, internal control systems require monitoring and evaluation of suitability and functionality through:

- self-assessment of the systems implemented by the management and
- the activities of internal and external audit.

Self-assessment of the systems is carried out by filling in the Questionnaire for self-assessment of financial management and control system, by answering the questions grouped into the following components:

- control environment,
- risk management,
- controls,
- information and communications and
- monitoring.

A. CONTROL ENVIRONMENT

Control environment includes following areas:

- ethics and integrity - personal and professional integrity, i.e. ethical values of the employees and their competences,
- manner of governance and management style,
- planning approach to operations in place (defining the mission, the vision, determining the strategic goals and their linking with the operational - annual objectives),
- set organizational structure with clearly set authorizations and responsibilities for carrying out the goals and managing the budget funds and
- establishment of reporting lines for the achieved goals and spent budget funds.

a) Ethics and Integrity

Analysis of the data from the submitted self-assessment indicates that employees in 92% of the budget users at central and local level are familiar with the Code of Ethics or with the separate Code of Ethics, however only 48% of them have additional internal guidelines and/or instructions on employees' behavior to prevent and report fraud and irregularities, while 34% of them have clear rules (internal acts) defining the potential conflict of interest and the manner of acting upon its occurrence.

Table 2: Results achieved in the field of "Ethics and Integrity"

Ethics and Integrity	2018					
	Central level		Local level		Total	
	74 budget users		57 budget users		131 budget user	
	Number	%	Number	%	Number	%
Familiarity of the employees with the Code of Ethics of Civil Servants or the separate Code of Ethics of the respective budget user	69	93.2	52	91.2	121	92.3
Appointed person for ethics (ethics commissioner)	12	16.2	2	3.5	14	10.6
Additional internal guidelines and or/instructions for employees' behavior in place	45	60.8	18	31.6	63	48.0
Clear rules (internal acts) in place, defining the potential conflict of interests and the manner of acting thereupon	28	37.8	17	29.8	45	34.3

In the following period, additional measures and activities will be required as regards:

- developing additional internal guidelines and/or instructions for employees' behavior to prevent and report fraud and irregularities,
- developing clear rules for preventing potential conflict of interest,
- ensuring that both the managers and the employees have an appropriate level of personal and professional integrity and awareness of the importance of the activities they perform; and
- ensuring that managers, by setting their personal patterns in working, promote the ethical values, the personal and the professional integrity and the positive approach to financial control for the employees to follow.

b) Governance and Management Style

Analysis of the data obtained points out to the fact that the governance and the management style at budget users are at high professional level, high-level meetings (collegiums) are held on regular basis and topics related to financial management and control (strategic goals,

implementation of programs/projects and achieved results, key challenges in the operations and realization of the financial plan/budget execution) are discussed therein on regular basis.

However, heads of budget users falling within the budget users, regional offices and heads of second-line budget users at only 35% of the budget users take part at these high-level meetings at central level, while in some institutions, the management style at the budget users is still highly centralized.

Table 3: Results in the field of "Governance and Management Style"

Governance and Management Style	2018					
	Central level		Local level		Total	
	74 budget users		57 budget users		131 budget user	
	Number	%	Number	%	Number	%
High-level meetings (collegiums) held on regular basis	69	93.2	50	87.7	119	90.8
Topics discussed at the high-level meetings are the following:						
a) strategic goals	68	91.9	48	84.2	116	88.5
b) implementation of programs/projects and achieved results	68	91.9	51	89.5	119	90.8
c) key operational risks	60	81.1	42	73.7	102	77.8
d) realization of the financial plan/budget execution	68	91.9	50	87.7	118	90.0
Heads of the bodies within the entity also take part in the high-level meetings	26	35.1	39	68.4	65	49.6

c) Planning Approach to Operations

Results of analysis of the data show that budget users at central and local level have defined mission, vision, strategic goals, programs and program objectives related to the strategic goals.

Budget users at central level, especially the ministries, are still facing the challenge of linking the sectoral strategic planning with the Government's strategic priorities and financial resources.

This results in reduced quality of the proposed sectoral strategies, which imposes the need to link sectoral policies and the budgets with the medium-term planning and the budget forecasting, as well as to establish a cascading model of objectives in the strategic and the annual plans.

Table 4: Results in the field of "Planning Approach to Operations"

Planning approach to operations	2018					
	Central level		Local level		Total	
	74 budget users		57 budget users		131 budget user	
	Number	%	Number	%	Number	%

Set institution's vision and mission	72	97.3	39	68.4	111	84.7
Set strategic goals	71	95.9	48	84.2	119	90.8
Determined programs	66	89.2	53	93.0	119	90.8
Set program goals	66	89.2	52	91.2	118	90.0
Program goals are related to the strategic goals	65	87.8	49	86.0	114	87.0
Adopted annual operational plan/program	62	83.8	44	77.2	106	80.9
Goals, which every organizational unit should realize throughout the year, are defined in the annual operational plan/program,	59	79.7	41	71.9	100	76.3
Goals of the annual operational plans/programs are linked and harmonized with the strategic goals	64	86.5	40	70.2	104	79.4
Planning documents, indicating data on the goals, include data on the estimated financial resources necessary for realizing the goals set	60	81.1	40	70.2	100	76.3
Set performance indicators, applied to monitor the implementation of the set goals	57	77.0	22	38.6	79	60.3
Second-line budget users are also included in the preparation of the strategic documents	9	12.2	36	63.2	45	34.3

d) Organizational Structure, Authorizations, Responsibilities and Reporting System

Internal organizational set-up of budget users is regulated by internal acts on organizational set-up and job systematization. Segregation of the authorizations and responsibilities in spending the approved budget funds is provided by adoption of a decision on internal distribution of the total approved budget and decisions on general authorizations for assuming financial commitments and general authorizations for payment to the Head of FAU.

Decisions on internal distribution of the total approved budget were adopted by 81% of the budget users at central level and 68% of the municipalities and the City of Skopje. Weaker performance was achieved as regards adopting decisions on general authorizations, i.e. 53% of the budget users at central level and 37% of the municipalities and the City Of Skopje adopted such decisions.

Budget users at central and local level are still facing the challenge of establishing reporting lines that will enable the managers to monitor the realization of strategic and operational goals.

Table 5: Results achieved in the field of "Organizational Structure, Authorizations, Responsibilities and Reporting System"

ORGANIZATIONAL STRUCTURE, AUTHORIZATIONS, RESPONSIBILITIES AND REPORTING SYSTEM	2018					
	Central level		Local level		Total	
	74 budget users		57 budget users		131 budget user	
	Number	%	Number	%	Number	%
Clearly defined competences and responsibilities of the organizational units in the strategic planning process	62	83.8	37	64.9	99	75.6
Clearly defined authorizations and responsibilities for realizing the goals agreed under the program/project/activity	60	81.1	42	73.7	102	77.9
Activities for coordination of the financial management and control development are under the competence of the Financial Affairs Unit	60	81.1	43	75.4	103	78.6
Finance-related working posts are established in the other organizational units/bodies	16	21.6	12	21.1	28	21
Heads of the organizational units are authorized to manage the approved budget funds aimed at realizing the activities under their competence	47	63.5	35	61.4	82	62.6
Top management has introduced reporting lines for realization of the goals and accordingly the realization of the financial plan/budget execution (realized goals, spent budget funds, generated revenues, incurred liabilities, and similar)	56	75.7	48	84.2	104	79.4
Organizational units prepare reports on realization of the goals, programs, projects	60	81.1	47	82.5	107	81.7
Organizational units prepare report on execution of the approved budget (spent budget funds for realization of programs, projects, activities, revenues, contractual obligations and similar)	36	48.6	44	77.2	80	61

e) Human Resources Management

Results from the analysis show that about 92 % of the budget users at central level and 93 % at local level prepare training plans for the employees related to the scope of the work they perform, whereby records/registry is being kept for the carried out training per each employee separately.

About 56% of the budget users at central level and about 60% of municipalities have not established a practice for assigning tasks/activities per each employee separately under the annual operational plans of the organizational units. There is also insufficient linkage of the training plans for the employees with the assigned tasks.

Table 6: Results achieved in the field of "Development of Human Resources"

Development of human resources (planning of the operations and monitoring the achieved results)	2018					
	Central level		Local level		Total	
	74 budget users		57 budget users		131 budget user	
	Number	%	Number	%	Number	%
Training plans for the employees related to the scope the work they perform are in place	67	91.8	53	93	120	91.6
Records/registry for training per each employee separately is kept	65	89	38	66.7	103	78.6
Employees attend training related to financial management and control (including training in the field of strategic planning, preparation and drafting of budget request, risk management, procurement and contracting, accounting systems, irregularities and frauds and similar)	66	90.4	48	84.2	114	87
Under the annual operational plans of the organizational units, tasks/activities are assigned per each employee separately	32	43.8	23	40.4	55	42

B. RISK MANAGEMENT

69% of the budget users **at central level** adopted Risk Management Strategy, about 72% of the budget users documented the operational risks in the Risk Registry, while 66% documented them in the planning documents.

This percentage is lower at the budget users at local level (municipalities and the City of Skopje), whereby about 43% of them adopted Risk Management Strategy, about 40% of them documented the risks in the Risk Registry, and about 54% of them documented the risks in the planning documents.

(5. Review of Budget Users at Central and Local Level not having Adopted Risk Management Strategy)

(6. Review of Budget Users at Central and Local level not having prepared Risk Registry)

At central level, about 53 % of the budget users appointed a person responsible for coordinating the risk management process across the whole institution, and about 35% of them appointed risk coordinators in the organizational units.

At local level, approximately 25% of municipalities appointed person responsible for coordinating the risk management process across the whole institution, and 10% of them appointed risk coordinators in the organizational units.

Only around 15% of the budget users **at central level** obtain information about the most significant risks from their respective bodies therein and the second-line budget users. This percentage is slightly higher **at local level**, accounting for 30%.

Budget users at central and local level mainly focus on the risk assessment related to harmonization of the operations with the regulations, assessing to a lesser extent the risks affecting the results achieved from their operations.

In order to improve risk management, there is a need to:

- improve the reporting on the implementation of the identified measures and activities to overcome or mitigate risks; and
- expand the role of the parent ministries/budget users in preventing/reducing risks in the institutions within their overall competence (respective bodies therein, second-line budget users and state-owned enterprises).

Table 7: Results Achieved in the field of "Risk Management"

Risk Management	2018					
	Central level		Local level		Total	
	74 budget users		57 budget users		131 budget user	
	Number	%	Number	%	Number	%
Risks are determined that may affect the realization of the following:						
a) strategic goals	56	75.7	37	64.9	93	71
b) goals of the program/project/activity	55	74.3	39	68.4	94	71.7
c) goals included in the annual operational program	49	66.2	34	59.7	83	63.4
Risks are indicated in writing in:						
a) the planning documents (strategic documents/plan of development programs/annual operational plans)	49	66.2	31	54.4	80	61
c) the Risk Registry, determined in line with the instructions for implementing the risk management process at the budget users	53	71.6	23	40.4	76	58
As regards the determined risks, their probability and effects are estimated	54	73	31	54.4	85	64.9
Reporting system was established as regards the most significant risks	42	56.7	14	24.6	56	42.7
Person responsible for coordinating the establishment of risk management process, was appointed	39	52.7	14	24.6	53	40.4
Risk coordinators were appointed in the organizational units	26	35.1	6	10.5	32	24.4
Budget users within the respective bodies submit reports on the main risks	11	14.9	17	29.8	28	21.4

C. CONTROLS

Analysis of the data related to controls indicates that almost 80% of budget users at central and local level have written internal procedures, which they regularly update, as regards the process of:

- procurement and contracting,
- preparing and excuting the budget request/draft budget and
- recording the business operations and transactions.

Poorer performance is noticed with respect to written internal procedures as regards the process of:

- preparing and implementing the strategic plan, property managing - tangible and intangible assets
- collecting own revenues,
- refunding the unjustifiably spent or erroneously paid budget funds, carrying out additional ex-post controls and
- manner of cooperation and activities for second-line budget users (awareness of the parent budget users of the extent of regulated control activities at the second-line budget users in the processes of preparation and implementation of financial plans/budgets, procurement and contracting, property management, ect.).

Table 8: Results Achieved in the field of Controls

CONTROLS	2018					
	Central level		Local level		Total	
	Budget users		Budget users		131 budget user	
	Number	%	Number	%	Number	%
Written internal procedures (rulebooks, guidelines, instructions) in place, which, in addition to the regulations, regulate more closely the following processes:						
a) process of preparing and implementing the strategic plan	44	59.5	25	43.9	69	52.8
b) process of preparing and implementing the budget request/draft budget	57	77	43	75.4	100	76.3
c) process of recording the business operations and transactions	61	82.4	37	64.9	98	74.8
d) process of procuring and contracting	60	81.1	43	75.4	103	78.6
e) process of property managing - tangible and intangible assets	47	63.5	34	59.7	81	61.8
f) process of collecting own revenues	20	27	38	66.7	58	44.3
g) process of refunding the unjustifiably spent or erroneously paid budget funds	31	41.9	30	52.6	61	46.6
Internal procedures are updated	62	83.8	41	71.9	103	78.6
Principle of segregation of duties is applied	62	83.8	35	61.4	97	74

pursuant to the law and the standards, i.e. same person not to be responsible for approval, execution, accounting and control						
Ex-post controls over earmarked spending of the paid out budget funds are carried out. (For instance, on-site controls for paid subsidies, grants, assistance, various fees, transferred budget funds to the final beneficiaries, and similar)	45	60.8	32	56.1	77	58.8
Procedure for carrying out ex-post controls is regulated under written procedures	32	43.2	14	24.6	46	35.1
Procedure for carrying out ex-post controls over earmarked spending of the paid out budget funds is:						
a) part of the regular operations of the organizational units in the institution in charge therefore	49	66.2	31	54.4	80	61.1
b) ad hoc task in cases when there is a need for ex-post controls (for instance, in case of anonymous reporting for potential irregularities when using the budget funds)	43	58.1	26	45.6	69	52.7
Written internal procedures referring to preparation and implementation of the strategic plans, preparation and implementation of the financial plans/budget execution, procurement and contracting, ex-post control and similar, include guidelines on the manner of cooperation and the activities for the second-line budget users	8	10.8	16	28.1	24	18.3
Awareness of the extent of regulated control activities at the second-line budget users in the processes of preparation and implementation of the financial plans/budget execution, procurement and contracting, property management and similar.	3	4.1	14	24.6	17	13

D. INFORMATION AND COMMUNICATIONS

Analysis of the data regarding information and communications indicates that there is an internal reporting system in place at the budget users at central and local level providing timely, accurate and complete data and information and their exchange between internal organizational units for the purposes of budget planning and execution, i.e the financial plan, implementation of programs, projects and activities, monitoring the realization of the goals and spent funds.

Budget users at central and local level are still facing the challenge of:

- development of accounting systems, including cost and management accounting and other systems of records and databases of objectives, risks and other financial and non-financial information depending on the needs and specifics of the operations;
- defining a way of exchanging information between the parent institution and the competent authorities and
- establishing a system of communication with the citizens, i.e. with the service users, through which they can make suggestions for improvements in the provision of services.

Table 9: Results Achieved in the field of “Information and Communications”

INFORMATION AND COMMUNICATIONS	2018					
	Central level		Local level		Total	
	74 budget users		57 budget users		131 budget user	
	Number	%	Number	%	Number	%
Defined appropriate reporting lines referring to implementation of the strategic goals included in the strategic documents	46	62.2	23	40.4	69	52.7
Established reporting system referring to implementation of the programs/projects	56	75.7	39	68.4	95	72.5
Established regular system for monitoring and analyzing the implementation of the financial plan/budget execution	68	91.9	52	91.2	120	91.6
Organizational units participate in preparation of the financial plan/budget	62	83.8	53	93.0	115	87.8
Organizational units obtain information about the approved budget funds for implementing the programs/projects/activities within their competence	61	82.4	51	89.5	112	85.5
For the purpose of monitoring the implementation of the financial plan/budget execution, there is more thoroughly elaborated economic classification than the one stipulated in the Rulebook on Accounting Plan for Budgets and Budget Users, i.e. whether there is analytics of the accounting plan.	49	66.2	42	73.7	91	69.5
Accounting systems enable monitoring of expenditures/revenues by:						

a) programs	62	83.8	56	98.3	118	90.1
b) projects	44	59.5	42	73.7	86	65.6
c) activities	37	50.0	40	70.2	77	58.8
d) organizational units	38	51.3	37	64.9	75	57.2
8) Do you have centralized records of all signed agreements and contractual obligations and are they supported by the IT system	50	67.6	37	64.9	87	66.4
In addition to the stipulated financial statements (balance sheet, income statement and consolidated balance sheet), there are additional internal reports on the financial management needs (for instance, reports on unpaid liabilities by programs/projects/organizational units, reports on contracted, but still not invoiced liabilities, reports on the achieved results of the programs/projects, and similar)	52	70.3	43	75.4	95	72.5
Working systems (finances, procurement and contracting, operational records, personnel, and similar) are sufficiently supported with IT technology (IT system)	61	82.4	47	82.5	108	82.4
IT systems supporting certain processes are integrated with each other	39	52.7	28	49.1	67	51.1
Key operational processes, implemented within the organizational units, are documented, i.e. are the procedures, the tasks of individual participants, the authorizations and the responsibilities clearly defined? (for instance, are internal guidelines, instructions, rulebooks in place, are maps/books of the operational processes and similar, prepared?)	61	82.4	37	64.9	98	74.8
Second-line budget users also prepare other reports apart from the stipulated financial statements, which they submit to the first-line budget users*	7	9.5	20	35.1	27	20.6
IT connection with the second-line budget users was established (for instance, through the Treasury Department system and similar)	12	16.2	38	66.7	50	38.2

E. MONITORING AND ASSESSMENT SYSTEM

Analysis of data obtained in annual financial reports with respect to the established monitoring and evaluation system indicates that the budget users at central and local levels mainly carry out: continuous monitoring, self-assessment and internal and external audit.

However, as regards the budget users at central and local level, a need arises to:

- delegate authorizations to managers for decisions making and human resource management (hiring, firing, payroll, promotion)
- improve reporting on the achievement of goals
- strengthen the accountability of parent ministries/budget users

Also, budget users at central and local level, while carrying out system assessments, are still facing the challenge of:

- low percentage of implemented and partially implemented recommendations and recommendations in the course of the external audit which accounted for 41% in 2018,
- low percentage of implemented and partially implemented recommendations of the internal audit, which accounted for 57% in 2018 and
- carrying out regular self-assessment of the internal control system by FAU and amending internal regulations respectively for the processes of budget planning, preparing and execution, i.e. financial plan, accounting and reporting, procurement and contracting processes, for the purpose of ensuring regular, ethical, cost-effective, efficient and effective operation.

Table 10: Results in the field of "System Monitoring and Assessment "

Monitoring and evaluation on the system	2018					
	Central level		Local level		Total	
	74 budget users		57 budget users		131 budget user	
	Number	%	Number	%	Number	%
Top management established reporting system, which provides for reports on the functioning of the financial management and control system, which they are responsible for	47	63.5	33	58	80	61.1
Established procedures providing for the internal acts (rulebooks, guidelines, instructions and similar) to be implemented in practice, as well as to be updated	47	63.5	31	54.4	78	59.5

⁵State Audit Office 2018 Annual Report

Recommendations of external auditors are being implemented	64	86.5	51	89.5	115	87.8
Internal audit recommendations are implemented in line with the action plans for implementation of the recommendations	52	70.3	48	84.2	100	76.3
There are appropriate reporting systems established by the first-line budget users, providing for monitoring the functioning of the financial management and control system at second-line budget users.	6	8.1	23	40.4	29	22.1

3. REPORT ON PERFORMED AUDITS AND INTERNAL AUDIT ACTIVITIES IN 2018

3.1 Organizational setup and staffing of the internal audit in accordance with the records of the Central Harmonization Unit

According to CHU 2018 records, 88 internal audit units were established at budget users at **central level**, employing 142 internal auditors, 55 (about 39 %) out of which as managers, while 22 public sector entities concluded internal audit contract with an internal audit unit from another entity.

As regards budget users at **the local level**, 71 internal audit units were established in 2018, employing 76 internal auditors, 23 (about 30%) out of which as heads, while 25 municipalities contracted the performance of internal audit with another municipality.

Table no. 11: Overview of First-Line Budget Users, Funds and Municipalities having Establish Internal Audit

First-line budget users, Funds and municipalities	Total number of budget users (first-line budget users, Funds and municipalities)	Number of first-line budget users, Funds and municipalities having established internal audit by 31.12.2018				% of budget users which established internal audit by 31.12.2018
		IAU	Contract	IAU and contract	Total	
Central level	93	61	14	2	77	83
Local level	81	52	11	14	77	95
Total	174	113	25	16	154	88.5

Out of 77 central level budget users having established internal audit, 61 (about 79%) had their own internal audit units, 14 (about 18%) concluded contracts and 2 (about 3 %) both established their own internal audit units and concluded contracts. 18 (about 29%) out of the 63 established internal audit units, were not staffed, while 23 (about 36%) were staffed with one internal auditor. The remaining 16 central level budget users not having set up internal audit included 9 inspectorates, 4 committees, 2 agencies and the Bureau for Representation of RNM before the European Court of Human Rights.

With respect to 77 budget users at **local level** having established internal audit, 52 (about 68 %) out of them had their own internal audit units, 11 (about 14 %) concluded contracts, while 14 (about 18%) both established own internal audit units and concluded contracts. 27 (41%) out of the established 66 internal audit units were not staffed, 27 (41%) were staffed with one internal auditor. The remaining 4 municipalities (Staro Nagoricani, Studenicani, Aracinovo and Dolneni) did not establish an internal audit.

Internal audit was also established at 37⁶ budget users established by law, public authorization holders and spending units (30 of which at central level and 7 at local level).

⁶ For which the PIFC Department has records

Table no. 12: Overview of Budget Users established by Law being Granted Public Authorization and Spending Units having Established Internal Audit

Budget users established by law being granted public authorization and spending units	Total number of budget users established by law being granted public authorization and spending units for which PIFC Department has records	Number of budget users established by law being granted public authorization and spending units having established internal audit by 31.12.2018				% of budget users having established internal audit by 31.12.2018
		IAU	Contract	No IAU, there is an internal auditor	Total	
Central level	30	25	4	1	30	100
Local level	7	5	0	2	7	100
Total	37	30	4	3	37	100

A. Measures to Improve the Organizational Setup and Staffing of the Internal Audit

Considering the above mentioned, it can be concluded that the average number of auditors at central-level budget users was only 1.61 auditors per internal audit unit, which the average at local-level budget users accounted for 1.07 auditors.

This situation significantly affects the quality of internal audit performance.

This necessitates the need to consolidate the IAU by changing the criteria for establishing the IAU, according to which the small budget users will be released from the obligation to establish an IAU and to strengthen the IAU in the respective ministries/budget users in performing internal audit at the entities within their competence.

3.2 Status of Internal Audit as per the Submitted 2018 Annual Reports

174 budget users, 93 out of which at central level and 81 out of which at local level, are obliged to submit report on the performed audits and internal audit activities applies to.

Out of the total 174 budget users, 113 budget users (65%) submitted reports, i.e. 59 budget users at central level and 54 budget users at local level.

In addition, 5 public sector entities at central level and one public sector entity at local level submitted reports, although they were not obliged to submit them. Thus, 64 reports were submitted at central level and 55 reports were submitted at local level.

Out of the total 174 budget users at both central and local level, 35% did not submit a report, i.e. 61 budget users (34 out of which at central (about 37%) and 27 at local (about 33%)).

(Annex 7. Review of Budget Users at Central and Local Level not having submitted a Report on Performed Audits and Internal Audit Activities).

B. Measures to Improve the Situation and Reporting of IAU

Taking into account the above mentioned, it can be concluded that the percentage of budget users not having submitted reports on internal audit accounted for 35%, out of which:

- 12% were budget users having a functional IAU, but not having submitted annual report;
- 15 % were budget users having established an IAU, however it was not functional because they did not have auditors;
- 8 % were budget users being obliged to establish an IAU, but they did not establish it.

This necessitates the need to strengthen the IAU in the parent ministries/budget users in conducting internal audit at the entities within their competence, as well as to strengthen the role of the Central Harmonization Unit in the area of quality assurance.

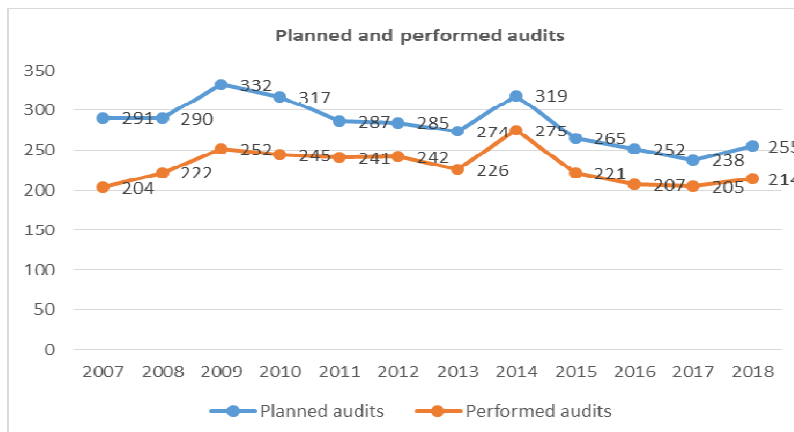
3.2.1 Status of Internal Audit at Central Level as per the Submitted 2018 Annual Reports

Out of the 64 budget users at central level having submitted a report, 49 have established an IAU, with 256 systematized job positions, 107 being filled, i.e. only about 42%.

According to the 2018 Annual Plans, 255 audits (232 initially planned and 23 ad hoc audits at the request of the managers) were planned at central level, 214 audits out of which, i.e. 84%, were performed.

In 2018, 30 audits related to EU programs were planned, 26 audits out of which, i.e. 87%, were performed.

Planned and performed audits by year are presented below:



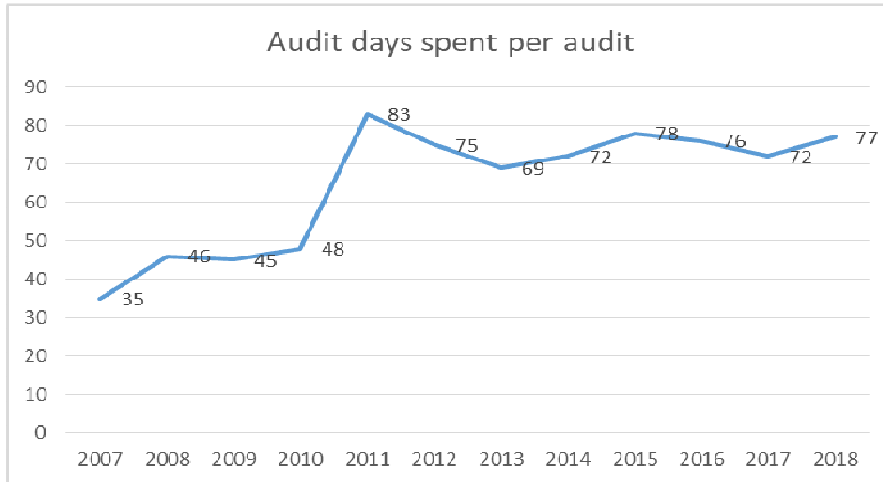
Out of the 214 audits performed:

- 29% (62) were system audits,
- about 42% (90) were regularity audits,
- about 5% (11) were financial audits,
- about 2% (3) were performance audits,
- about 9% (20) were audits to follow up on recommendations,
- about 13% (28) were combined audits,
- 0% IT audits.

In 2018, 1,149 recommendations were given for the performed audits, 52% (600) of which were implemented and partially implemented, and about 48% (549) of them were not implemented⁷.

⁷ Deadline for implementation of 392 (34.1%) of the unrealized recommendations has not expired yet.

Internal audit units at the central level performed 214 audits in 2018, 16,473 audit days being spent therefore, or 77 audit days on average, which was about 5 days more than the previous year.



3.2.2 Status of Internal Audit at Local Level as per the Submitted 2018 Annual Reports

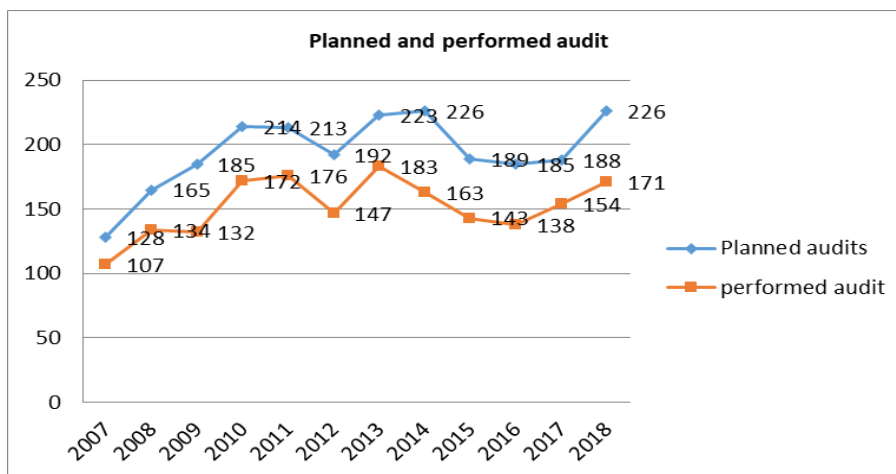
Out of 81 budget users at local level obliged to submit reports on performed internal audits and internal audit activities, 54 municipalities submitted a report. In addition, one public sector entity submitted a report, although it was not obliged to submit it, hence, 55 reports were submitted.

Out of 55 budget users at local level having submitted reports, 42 have established an internal audit unit, with 140 systematized job positions, 66 being filled, or only about 47%.

According to the 2018 Annual Plans, 226 audits (194 initially planned and 32 ad hoc audits at the request of the managers) were planned at local level, 171 audits out of which, i.e. about 76%, were performed.

No audits related to EU programs were planned and carried out in 2018, although 14 municipalities reported they used EU funds.

Planned and performed audits by year are presented below:



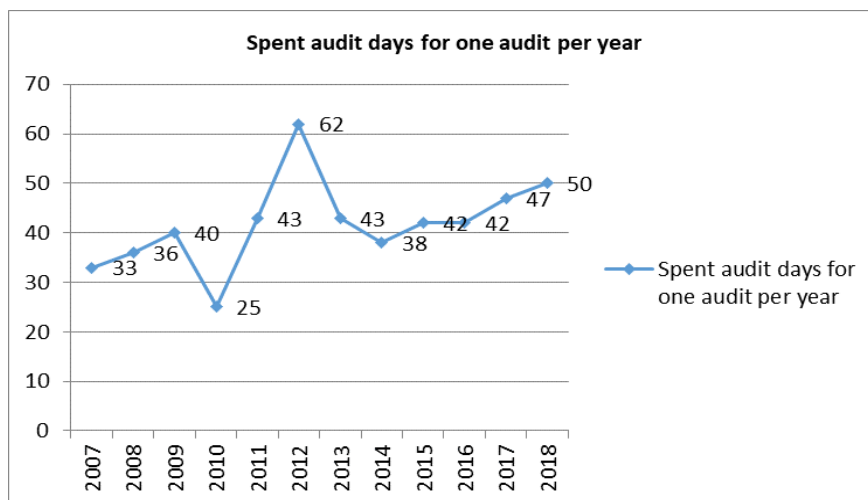
Out of the 171 audits performed:

- about 13% (23) were system audits,
- about 46% (79) were regularity audits,
- 4% (7) were performance audits,
- about 13% (23) were financial audits,
- about 5% (8) were audits to follow up on recommendations,
- about 18% (31) were combined audits and
- 0% IT audits

In 2018, 1,028 recommendations were given from the performed audits, 62% (638) of which were implemented and partially implemented, 29% (299) were not implemented⁸, and about 9% (91) have no information on their implementation.

Internal audit units at local level carried out 171 audits in 2018, 8,549 audit days being spent therefore, or 50 audit days on average

Number of audit days spent per audit per year is shown in the chart below:



C. Measures to Promote the Implementation of Internal Audit at Central and Local Level

Taking into account the above-mentioned, it can be concluded that:

- the percentage of implemented recommendations is unsatisfactory and
- the implementation of more complex audits is lacking, i.e. regularity audits are mostly present.

Therefore, it is necessary to:

- improve the quality of the recommendations given and increase the degree of their compliance with the audited entity,

⁸ Deadline for implementation of 195 (65.2%) of the unrealized recommendations has not expired yet.

- increase the knowledge and skills of auditors in conducting more complex audits,
- improve the quality of the recommendations given, by organizing trainings and pilot audits,
- organize and conduct an examination for obtaining national certificate for internal auditor in the public sector and
- update the regulations and the methodology in the field of internal audit, including developing a methodology for conducting external evaluations of the quality of audit activities and drafting a new Internal Audit Manual in compliance with the latest IIA Standards for the Professional Practice of Internal Auditing in the public sector.

Progress in internal audit in 2018 compared to the previous year	
CENTRAL LEVEL	LOCAL LEVEL
<p>On the basis of the data in the submitted annual reports on the functioning of internal audit and the records in the Central Harmonization Unit in 2018, compared to the previous year, the following was concluded:</p> <ul style="list-style-type: none"> • increased number of appointed heads by 1.9% (from 54 to 55); • increased number of performed audits by 4.4% (from 205 to 214); • increased number of performed compliance audits by 42.9% (from 63 to 90); • increased number of recommendations given in the audit reports by 8.1% (from 1063 to 1149); • increased percentage of implemented recommendations by 4.8 percentage points (from 34.2% to 39%); • unlike in 2017, when IAU had no information on the implementation of certain percentage of recommendations, in 2018, such percentage was reduced to 0. 	<p>On the basis of the data in the submitted annual reports on the functioning of internal audit and the records in the Central Harmonization Unit in 2018, the following was concluded:</p> <ul style="list-style-type: none"> • increased number of internal auditors by 7% (from 71 to 76); • increased number of appointed heads by 9.5% (from 21 to 23); • increased number of planned audits (excluding ad hoc audits) by 3.2% (from 188 to 194); • increased number of performed audits by 11% (from 154 to 171); • increased number of performed compliance audits by 23.4% (from 64 to 79); • increased number of performed financial audits by 77% (from 13 to 23); • increased number of performance audits by 133% (from 3 to 7); • increased the number of recommendations given by 19% (from 864 to 1028); • increased number of implemented recommendations from 446 to 462; • increased number of partially implemented recommendations by 4 percentage points (from 13.1% to 17.1%).
Weaknesses in the internal audit in 2018 compared to the previous year	
CENTRAL LEVEL	LOCAL LEVEL
<p>Following weaknesses were identified in the establishment and the functioning of the internal audit at central level in 2018:</p> <ul style="list-style-type: none"> • reduced number of internal auditors by 1.4% (from 144 to 142); • reduced number of planned audits by 2.5% (from 238 to 232); • increased percentage of ad-hoc audits at the request of the head of the entity by 3 percentage 	<p>Following weaknesses were identified in the establishment and the functioning of the internal audit at local level in 2018:</p> <ul style="list-style-type: none"> • increased number of budget users which were obliged to submit annual reports, but did not submit them, by 1.2% (from 26 to 27); • reduced number of audits of internal control systems by 17.8% (from 28 to 23); • reduced number of performed combined audits by

<p>points (7.7% to 10.7% of total audits performed, for which final audit reports were prepared);</p> <ul style="list-style-type: none"> • reduced number of performance audits by 12 (from 15 to 3); • increased average number of audit days spent performing a single audit by 6.9% (from 72 to 77); • at 6 public sector entities at central level⁹, internal auditors did not solely perform internal audit activities. 	<p>13.8% (from 36 to 31);</p> <ul style="list-style-type: none"> • reduced number of performed follow-up audits by 20% (from 10 to 8); • failure to perform IT audits; • increased number of recommendations not implemented by 3 percentage points (from 26% to 29%); • increased number of average audit days spent per audit by 6.3% (from 47 to 50); • increased percentage of ad-hoc audits at the request of the head of the entity by 8.4 percentage points (from 10.3% to 18.7% of total audits performed, for which final audit reports were prepared); • as in the previous year, no audits of EU programs were planned or carried out in 2018, although 14 municipalities reported they used EU funds; • in 3 local government units¹⁰, internal auditors did not solely perform internal audit activities.
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⁹ Ombudsman of RNM, Agency for Financial Support in Agriculture and Rural Development, Ministry of Information Society and Administration, State Archives of the RNM, Ministry of Health and Ministry of Culture

¹⁰ LGU Gostivar, LGU Aerodrom and LGU Gorce Petrov

4. CENTRAL HARMONIZATION UNIT

4.1. Activities Realized by the Central Harmonization Unit in 2018

In 2018, CHU focused on the preparation of the “PIFC Policy (with Action Plan for the period from 2019 to 2021)” as a strategic document for further development of the internal control system in the public sector.

This document sets out priorities, measures and activities aimed at developing a system of internal controls that will serve as a tool for responsible, accountable, successful and transparent management of both national and EU funds.

This document combines the measures related to PIFC and the activities included in the Public Administration Reform Strategy 2018-2022 and the Public Finance Management Reform Program 2018-2021, envisaging new measures to ensure further continuous strengthening of the public internal financial control, in the following areas: strategic planning and resource planning, managerial accountability, risk management, control activities, reporting, communication and monitoring, internal audit and financial inspection.

In accordance with the Action Plan to the Public Finance Management Reform Program 2018-2021, in cooperation with experts engaged through RESPA, an analysis of the existing regulation was conducted and an initial version of the draft Law on the Public Sector Internal Financial Control System was prepared, which is planned to be adopted by the end of 2019.

On 15 October 2018, in cooperation with the Ministry of Finance of the Republic of Croatia, implementation of the EU-funded Twinning Light Project "Further improvement of internal control system" was launched, which was completed on 15 June 2019. Under the Project, it was planned to prepare a Draft Law on Internal Financial Control System in the Public Sector. In addition, the following was also planned: review and improvement of the existing methodological tools for internal control (including internal audit and financial management and control), preparation of new methodological tools (Managerial Accountability Manual), estimation of the training needs of CHU and key budget users at central and local level, preparation and implementation of training program on financial management and control and internal audit and training of trainers through 3-5 workshops, carrying out 3 pilot audits (performance audit, compliance audit and IT audit), improvement of the strategic role of CHU coordination of all related reforms (PAR PMF, anticorruption), preparation of Quality Assessment Manual based on PEM PAL model, organizing conference to promote PIFC and improvement of annual reporting on PIFC system (FMC/IA).

4.1.1. Cooperation with Key Implementers of Budget Reform and Public Administration Reform

In 2018, CHU cooperated with the budget reform implementers in the Ministry of Finance in the preparation and implementation of the PFM Reform Program 2018-2021, which aims at strengthening the public finance system, promoting transparency, accountability, fiscal discipline and efficiency in managing and using public resources in order to improve service delivery and economic development.

In 2018, cooperation with the Ministry of Information Society and Administration continued as part of the preparation and implementation of the "Public Administration Reform Strategy 2018-2022" as regards Priority Area 2 - Public Service and Human Resources Management and Priority Area 3 - Responsibility, accountability and transparency.

During the preparation of the document "Public Internal Financial Control Policy (with Action Plan 2019 -2021), cooperation was realized with the budget reform implementers in the Ministry of Finance, Ministry of Information Society and Administration and the General Secretariat of the Government of the Republic of North Macedonia as regards Priority 1: Improving the relationship between strategic planning and resource planning and Priority 2: Strengthening decentralized managerial accountability.

4.1.2. Activities related to Chapter 32 - Financial Control

Government of the Republic of North Macedonia is regularly informed on the status and the implementation of the measures and the activities under Chapter 32 - Financial Control through the Secretariat for European Affairs, while the progress achieved as regards this Chapter, was presented at the meeting of the Subcommittee on Economic and Financial Issues and Statistics held in Skopje on 4th October 2018.

An Explanatory Meeting on Chapter 3.32 - Financial Control was held at the European Commission's DG Budget in Brussels on 5th December 2018. Central role of PIFC reform implementation as a bridge in the implementation of PAR and PFM reforms was emphasized at the meeting.

Particular emphasis was put to:

Implementation of PAR as regards:

- Linking sectoral strategic planning with the strategic priorities of the Government and the financial resources,
- Strengthening the monitoring
 - reporting on the achievement of the Government/institutions' objectives and

- accountability of the parent institutions (ministries / agencies) and
- delegating authorizations for making decisions and human resource management (employment, layoffs, salaries, promotions).

Implementing PFM reforms as regards:

- Budget formulating
- Budget execution
- Public procurement and
- Financial reporting

4.2. Activities of the Central Harmonization Unit in 2019

In 2019, the Central Harmonization Unit will focus on the implementation of the "Public Internal Financial Control Policy with Action Plan 2019-2021" as a strategic document for further development of the internal control system in public sector, which the Government adopted on 12th March 2019.

During the first half of 2019, the Central Harmonization Unit implemented the EU-funded Twinning Light Project "Further Improvement of the Internal Control System" (IPA), in cooperation with Ministry of Finance of the Republic of Croatia, which was completed on 15th June 2019.

Under the Project:

- Draft Law on Internal Financial Control System in the Public Sector was prepared,
- New manuals and guidelines for the practical implementation of financial management and control (FMC) and internal audit (IA) were prepared,
- Pilot internal audits were conducted in three budget organizations
- New methodology for monitoring and quality control of the FMC and IA system was prepared,
- Draft training programs for continuous training for FMC and IA staff were prepared,
- trainings for employees in FMC and internal auditors at central and local level were organized, attended by total of 528 participants.

In the second half of 2019, activities of the Central Harmonization Unit will focus on:

- implementation of the measures and activities envisaged under the "Public Internal Financial Control Policy with Action Plan 2019-2021" in 2019, such as:
 - adoption of the Law on Internal Financial Control System in the Public Sector
 - conducting assessment of control activities in achieving the objectives, preventing fraud and corruption in public procurement and preventing

further indebtedness in a pilot institution, in cooperation with the National Finance and Economics Academy of the Kingdom of the Netherlands.

5. CONCLUSIONS

Further improvement of the **financial management and control system** should be aimed at:

- Improving the annual reporting by establishing annual reporting oriented at identifying and eliminating both the weaknesses and the irregularities, expanding the obligation for preparation of annual report (apart from the budget users, to also include the non-budget users) and introducing an obligation for non-budget users to submit annual reports to the parent ministry/ budget user.
- Releasing the small budget users from the mandatory establishment of FAU and appointing a person to coordinate the development of the financial management and control.
- Linking sectoral strategic planning with the strategic priorities of the Government and the financial resources in mid-term budget planning and establishing a cascading model of objectives in both the strategic and the annual plans.
- Improving reporting and expanding the role of the parent ministries / budget users in preventing / reducing risks within their overall competence.
- Adopting / updating procedures for key processes in financial management and control, as well as regulating the way of cooperation with second-line budget users.
- Further development of the accounting system, defining a way of exchanging information between the parent institution and the institutions falling within its competence and establishing a system of communication with the citizens, i.e. with the service users, through which they can make suggestions for improvement in the service provision.
- Strengthening the delegation of authority to managers for decision making and human resources management, improving reporting on the achievement of objectives and enhancing the accountability of parent ministries / budget users.

Future activities for improvement of **internal audit** should focus on:

- Strengthening the IAU in the parent ministries / budget users in conducting internal audit at the entities falling within their competence
- Enlarging the IAU by changing the criteria for establishment of the IAU, according to which the small budget users will be released from the obligation to establish an IAU

- Improving the quality of the recommendations given and enhancing the auditors' knowledge and skills in conducting more complex audits (performance in realization of program and project, public procurement, property management, IT audits, financial audits and audits related to EU programs, etc.), by organizing training and appropriate pilot audits.
- Strengthening the role of the Central Harmonization Unit in conducting reviews on IAU operations quality.
- Increasing the number of certified internal auditors in the public sector by organizing and conducting an exam to obtain a national certificate for internal auditor in the public sector.
- Updating the regulations and the methodology pertaining to internal auditors' work.

As per the above mentioned, Ministry of Finance proposes for the Government of Republic of North Macedonia to consider the 2018 Annual Report on the Functioning of Public Internal Financial Control System and to adopt the following:

CONCLUSION

Government of Republic of North Macedonia considered and adopted the 2018 Annual Report on the Functioning of Public Internal Financial Control System as an information material.

ATTACHMENTS

1. Review of Budget Users at Central and Local Level not having submitted Annual Financial Report

No.	Name of institution
1	Cabinet of the President of the Republic of North Macedonia
2	Commission for Protection against Discrimination
3	Constitutional Court of the Republic of North Macedonia
4	Secretariat for European Affairs
5	Agency for Language Application
6	Bureau for representation of Republic of North Macedonia before the European Court of Human Rights
7	Language Inspectorate
8	State Foreign Exchange Inspectorate
9	Ministry of Economy
10	Agency for Foreign Investments and Export Promotion of Republic of North Macedonia
11	State Bureau for Protection of Industrial Property
12	State Environmental Inspectorate
13	State Transport Inspectorate
14	State Utilities Inspectorate
15	State Agriculture Inspectorate
16	State Labor Inspectorate
17	Ministry of Health
18	State Local Government Inspectorate
19	Commission for Relation with Religious Communities and Religious Groups

No.	Local Government Unit	No.	Local Government Unit	No.	Local Government Unit
1.	Aracinovo	9.	Konce	17.	Rankovce
2.	Bogdanci	10.	Lipkovo	18.	Rosoman
3.	Vasilevo	11.	Lozovo	19.	Saraj
4.	Demir Kapija	12.	Mavrovo and Rostuse	20.	Staro Nagoricane
5.	Dojran	13.	Negotino	21.	Studenicani
6.	Zellino	14.	Novo Selo	22.	Tearce
7.	Karbinci	15.	Ohrid	23.	Cair
8.	Kicevo	16.	Petrovec	24.	Caska

2. Review of Budget Users at Central and Local Level not having established Separate Financial Affairs Unit

No.	Name of institution
1	Commission for Protection against Discrimination
2	Secretariat for Implementation of Ohrid Agreement
3	Inspection Council
4	Protection and Rescue Directorate
5	Financial Police Office
6	State Foreign Exchange Inspectorate
7	Directorate for Technological Industrial Development Zones
8	State Inspectorate for Technical Inspection

9	State Environmental Inspectorate
10	State Utilities Inspectorate
11	State Labor Inspectorate
12	State Sanitary and Health Inspectorate
13	Bureau for representation of Republic of North Macedonia before the European Court of Human Rights
14	Agency for the Use of Language
15	Language Inspectorate

No.	Local Government Unit
1	Aracinovo
2	Veles
3	Vrapciste
4	Gradsko
5	Debarca
6	Dolneni
7	Zellino
8	Zelenikovo
9	Zrnovci
10	Kavadarci
11	Karbinci
12	Kocani
13	Kriva Palanka
14	Negotino
15	Ohrid
16	Petrovec
17	Saraj
18	Strumica
19	Studenicani

3. Review of Budget Users at Central and Local Level not having Appointed Heads of Financial Affairs Units

No.	Name of institution
1.	Commission for Protection of Competition
2.	Regulatory Housing Commission
3.	Commission for Protection against Discrimination
4.	Constitutional Court of the Republic of North Macedonia
5.	State Attorney's Office of Republic of North Macedonia
6.	Secretariat for Implementation of Ohrid Agreement
7.	Agency for Management of Confiscated Property
8.	Inspection Council
9.	Directorate for Security of Classified Information
10.	Protection and Rescue Directorate
11.	State Foreign Exchange Inspectorate
12.	Agency for Tourism Promotion and Support
13.	Directorate for Technological Industrial Development Zones
14.	State Inspectorate for Technical Inspection
15.	State Office for Protection of Industrial Property

16.	State Environmental Inspectorate
17.	State Transport Inspectorate
18.	State Inspectorate on Civil Engineering and Urbanism
19.	State Utilities Inspectorate
20.	Ministry of Agriculture, Forestry and Water Economy
21.	State Agriculture Inspectorate
22.	State Inspectorate on Forestry and Hunting
23.	State Labor Inspectorate
24.	Ministry of Education and Science
25.	National Agency for European Education Programs and Mobility
26.	Ministry of Information Society and Administration
27.	State Sanitary and Health Inspectorate
28.	State Local Government Inspectorate
29.	Commission on Protection of Right to Free Access to Public Information
30.	Committee for Relations with Religious Communities and Religious Groups
31.	Regional Development Bureau
32.	Judicial Council of Republic of North Macedonia
33.	State Commission for Second Instance Decision Making in the Field of Inspection Supervision and Misdemeanor Procedure
34.	Bureau for representation of Republic of North Macedonia before the European Court of Human Rights
35.	Agency for Language Application
36.	Language Inspectorate

No.	Local Government Unit
1.	Strumica
2.	Bogovinje
3.	Konce
4.	Makedonska Kamenica
5.	Aracinovo
6.	Dojran
7.	Novo Selo
8.	Aerodrom
9.	Brvenica
10.	Veles
11.	Vinica
12.	Vrapciste
13.	Gevgelija
14.	Kriva Palanka
15.	Sveti Nicole
16.	Cucer - Sandevo
17.	Gradsko
18.	Negotino
19.	Pehcevo
20.	Vevcani
21.	Zelenikovo
22.	Zrnovci
23.	Karbinci
24.	Petrovec
25.	Plasnica

26.	Studenicani
27.	Saraj
28.	Suto Orizari
29.	Dolneni
30.	Debarca
31.	Kavadarci
32.	Kocani
33.	Ohrid
34.	Cair
35.	Butel
36.	Cesinovo - Oblesevo

4. Review of Budget Users at Central and Local Level not having Appointed an Accountant

No.	Name of institution
1.	Audit Promotion and Supervision Council
2.	Constitutional Court of the Republic of North Macedonia
3.	Agency for Language Application
4.	Language Inspectorate
5.	Financial Police Office
6.	State Foreign Exchange Inspectorate
7.	Directorate for Technological Industrial Development Zones
8.	State Inspectorate on Civil Engineering and Urbanism
9.	State Utilities Inspectorate
10.	State Labor Inspectorate
11.	State Sanitary and Health Inspectorate

No.	Local Government Unit
1.	Aracinovo Municipality
2.	Bogovinje Municipality
3.	Vevcani Municipality
4.	Dojran Municipality
5.	Zelenikovo Municipality
6.	Zrnovci Municipality
7.	Karbinci Municipality
8.	Konce Municipality
9.	Kratovo Municipality
10.	Mavrovo and Rostuse Municipality
11.	Mogila Municipality
12.	Negotino Municipality
13.	Novaci Municipality
14.	Novo Selo Municipality
15.	Petrovec Municipality
16.	Rankovce Municipality
17.	Saraj Municipality
18.	Sopiste Municipality
19.	Studenicani Municipality
20.	Suto Orizari Municipality

5 . Review of Budget Users at Central and Local Level not having Adopted Risk Management Strategy

No.	Name of institution
1.	Parliament of the Republic of North Macedonia
2.	State Election Commission
3.	Commission for Protection of Competition
4.	Regulatory Housing Commission
5.	Commission for Protection against Discrimination
6.	Constitutional Court of the Republic of North Macedonia
7.	Common Service Agency
8.	Secretariat for Implementation of Ohrid Agreement
9.	Agency for Management of Confiscated Property
10.	Agency for Language Application
11.	Ministry of Defense
12.	Protection and Rescue Directorate
13.	Vital Records Office
14.	Language Inspectorate
15.	State Foreign Exchange Inspectorate
16.	Agency for Foreign Investments and Export Promotion of Republic of North Macedonia
17.	Directorate for Technological Industrial Development Zones
18.	State Market Inspectorate
19.	Ministry of Environment and Physical Planning
20.	State Environmental Inspectorate
21.	State Utilities Inspectorate
22.	Agency for Financial Support in Agriculture and Rural Development
23.	State Sanitary and Health Inspectorate
24.	State Local Government Inspectorate
25.	Immigration Agency
26.	State Archives of Republic of North Macedonia
27.	Academy of Sciences and Arts of Republic of North Macedonia
28.	Regional Development Bureau
29.	Judicial Council of Republic of North Macedonia
30.	Public Prosecutor's Office of Republic of North Macedonia

No.	Local self-government unit
1.	Aracinovo Municipality
2.	Bogdanci Municipality
3.	Bogovinje Municipality
4.	Bosilovo Municipality
5.	Brvenica Municipality
6.	Vasilevo Municipality
7.	Veles Municipality
8.	Vrapciste Municipality
9.	Gevgelija Municipality
10.	Gradsko Municipality
11.	Debar Municipality

12.	Debarca Municipality
13.	Delcevo Municipality
14.	Demir Kapija Municipality
15.	Demir Hisar Municipality
16.	Dojran Municipality
17.	Dolneni Municipality
18.	Zelino Municipality
19.	Zelenikovo Municipality
20.	Zrnovci Municipality
21.	Kavadarci Municipality
22.	Kisela Voda Municipality
23.	Kicevo Municipality
24.	Konce Municipality
25.	Lipkovo Municipality
26.	Lozovo Municipality
27.	Mavrovo and Rostuse Municipality
28.	Makedonska Kamenica Municipality
29.	Mogila Municipality
30.	Negotino Municipality
31.	Novaci Municipality
32.	Novo Selo Municipality
33.	Pehcevo Municipality
34.	Plasnica Municipality
35.	Radovis Municipality
36.	Rankovce Municipality
37.	Rosoman Municipality
38.	Saraj Municipality
39.	Sveti Nikole Municipality
40.	Sopiste Municipality
41.	Staro Nagoricane Municipality
42.	Studenicani Municipality
43.	Tearce Municipality
44.	Tetovo Municipality
45.	Cair Municipality
46.	Caska Municipality

6. Review of Budget Users at Central and Local level not having prepared Risk Registry

No.	Name of institution
1.	Cabinet of the President of Republic of North Macedonia
2.	Parliament of the Republic of North Macedonia
3.	State Audit Office
4.	State Election Commission
5.	Commission for Protection of Competition
6.	Regulatory Housing Commission
7.	Commission for Protection against Discrimination
8.	State Commission for Second Instance Decision Making in the Field of Inspection Supervision and Misdemeanor Procedure
9.	Constitutional Court of the Republic of North Macedonia
10.	General Secretariat of the Government of Republic of North Macedonia

11.	Common Service Agency
12.	Secretariat for the Implementation of Ohrid Agreement
13.	Agency for Management Confiscated Property
14.	Agency for Language Application
15.	Ministry of Defense
16.	Protection and Rescue Directorate
17.	Ministry of Internal Affairs
18.	Vital Records Office
19.	Language Inspectorate
20.	Financial Police Office
21.	Directorate for Compulsory Reserves of Oil and Oil Derivative
22.	State Foreign Exchange Inspectorate
23.	Agency for Foreign Investments and Export Promotion of Republic of North Macedonia
24.	Directorate for Technological Industrial Development Zones
25.	State Market Inspectorate
26.	State Inspectorate for Technical Inspection
27.	State Bureau for Protection of Industrial Property
28.	Ministry of Environment and Physical Planning
29.	State Environmental Inspectorate
30.	State Transport Inspectorate
31.	State Inspectorate for Civil Engineering and Urbanism
32.	State Utilities Inspectorate
33.	State Labor Inspectorate
34.	Bureau for Education Development
35.	State Sanitary and Health Inspectorate
36.	State Local Government Inspectorate
37.	Immigration Agency
38.	Commission for Relation with Religious Communities and Religious Groups
39.	State Archives of Republic of North Macedonia
40.	Academy of Sciences and Arts of Republic of North Macedonia
41.	Regional Development Bureau
42.	Judicial Council of Republic of North Macedonia
43.	Public Prosecutor's Office of Republic of North Macedonia
44.	Employment Agency of Republic of North Macedonia

No.	Local Government Unit
1.	Aracinovo
2.	Bitola
3.	Bogdanci
4.	Bogovinje
5.	Bosilovo
6.	Brvenica
7.	Vasilevo
8.	Veles
9.	Vinica
10.	Vrapciste
11.	Gevgelija
12.	Gradsko

13.	Debar
14.	Debarca
15.	Delcevo
16.	Demir Kapija
17.	Demir Hisar
18.	Dojran
19.	Dolneni
20.	Zellino
21.	Zelenikovo
22.	Zrnovci
23.	Kavadarci
24.	Kisela Voda
25.	Kicevo
26.	Konce
27.	Kriva Palanka
28.	Lipkovo
29.	Lozovo
30.	Mavrovo and Rostuse
31.	Makedonska Kamenica
32.	Mogila
33.	Negotino
34.	Novaci
35.	Novo selo
36.	Petrovec
37.	Pehcevo
38.	Plasnica
39.	Radovis
40.	Rankovce
41.	Rosoman
42.	Saraj
43.	Sveti Nicole
44.	Sopiste
45.	Staro Nagoricane
46.	Struga
47.	Studenicani
48.	Tearce
49.	Tetovo
50.	Caska
51.	Stip

7. Review of Budget Users at Central and Local Level not having submitted a Report on Audits and Internal Audit Activities

No.	Name of institution
1.	Cabinet of the President of Republic of North Macedonia
2.	State Election Commission
3.	Commission for Protection of Competition
4.	Regulatory Housing Commission
5.	Commission for Protection against Discrimination
6.	State Commission for Decision-making in Administrative Procedure of Second Instance Employment

7.	Constitutional Court of the Republic of North Macedonia
8.	Secretariat of Legislation
9.	Secretariat for European Affairs
10.	Secretariat for the Implementation of Ohrid Agreement
11.	Agency for Language Application
12.	Sanctions Enforcement Office
13.	Vital Records Office
14.	Bureau for representation of Republic of North Macedonia before the European Court of Human Rights
15.	Language Inspectorate
16.	Agency for Foreign Investments and Export Promotion of Republic of North Macedonia
17.	State Foreign Exchange Inspectorate
18.	Agency for Tourism Promotion and Support
19.	Directorate for Technological Industrial Development Zones
20.	State Market Inspectorate
21.	State Inspectorate for Technical Inspection
22.	State Environmental Inspectorate
23.	State Transport Inspectorate
24.	State Inspectorate for Civil Engineering and Urbanism
25.	State Utilities Inspectorate
26.	State Agriculture Inspectorate
27.	State Labor Inspectorate
28.	Bureau for Education Development
29.	State Sanitary and Health Inspectorate
30.	State Local Government Inspectorate
31.	Immigration Agency
32.	Commission for Relation with Religious Communities and Religious Groups
33.	Forensic Expertise Bureau
34.	Public Prosecutor's Office of Republic of North Macedonia

No.	Institution
1.	Dolneni Municipality
2.	Cair Municipality
3.	Kicevo Municipality
4.	Aracinovo Municipality
5.	Bogdanci Municipality
6.	Bosilovo Municipality ¹¹
7.	Brvenica Municipality
8.	Vasilevo Municipality
9.	Gevgelija Municipality
10.	Demir Kapija Municipality
11.	Zelino Municipality
12.	Karpos Municipality ¹²
13.	Konce Municipality
14.	Debar Municipality
15.	Karbinci Municipality
16.	Mavrovo and Rostuse Municipality
17.	Negotino Municipality
18.	Novo Selo Municipality

¹¹ Report not delivered, there is notification no. 03-156 / 1 dated 23.01.2017 that Internal Audit Unit was established

¹² Notification that they have no internal auditor and will not submit a report

19	Petrovec Municipality
20	Plasnica Municipality ¹³
21	Debarca Municipality
22	Rankovce Municipality
23	Saraj Municipality
24	Staro Nagoricane Municipality
25	Studenicani Municipality
26	Tearce Municipality
27	Dojran Municipality

¹³ Notification that the Internal Audit Report will be submitted by the Municipality of Kicevo, with which they have an agreement