

Audit manual

PART ONE REGULATION

Table of content

1. INTRODUCTION.....	2
2. LAW ON PUBLIC INTERNAL FINANCIAL CONTROL.....	3
3. RULEBOOK FOR THE MANNER OF PERFORMANCE OF THE INTERNAL AUDIT AND THE MANNER ON REPORTING FOR THE AUDIT.....	41
4. INTERNATIONAL STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING (STANDARDS).....	52
5. RULEBOOK FOR THE CHARTER FOR INTERNAL AUDIT.....	72
6. INTERNAL AUDIT CHARTER.....	74
7. RULEBOOK FOR CODE OF ETHICS OF THE INTERNAL AUDITORS.....	79

1. INTRODUCTION

The internal audit in the public sector in the Republic of Macedonia is implemented in compliance with:

- Law on public internal financial control (“Official Gazette of RM”, no. 90/09, 12/11 and 188/13);
- Rulebook for the manner of performance of the internal audit and the manner on reporting for the audit (“Official Gazette of RM”, no. 136/2010);
- International standards for the professional practice of internal auditing (“Official Gazette of RM”, no. 113/2014);
- Rulebook for the charter for internal audit (“Official Gazette of RM”, no. 136/2010);
- Rulebook for Code of ethics of internal auditors.

Performance of the internal audit and the rights of the internal auditors in the internal audit unit are defined with Charter for internal audit, brought by the Head i.e. by the official who manages with the subject from the public sector.

REPUBLIC OF MACEDONIA

**LAW ON
PUBLIC INTERNAL FINANCIAL CONTROL
(Official Gazette No.90/2009, 12/2011 and 188/2013)**

Skopje, December 2013

LAW ON PUBLIC INTERNAL FINANCIAL CONTROL

I. GENERAL PROVISIONS

1. Subject

Article 1

(1) This Law regulates the public internal financial control system that covers the financial management and control, internal audit and their harmonisation, established in compliance with the international standards for internal control and internal audit and the conditions and manner of conducting the examination for certified internal auditor in the public sector.

(1) This Law regulates the organisation, standards, methodology, relations and responsibilities as well as the competences of the Minister of Finance and the consultancy bodies for public internal financial control.

2. Coordination of the Public Internal Financial Control System

Article 2

(1) The Minister of Finance shall be in charge of the coordination of the development, the establishment, the implementation and the maintenance of the public internal financial control system, and on his behalf the Central Harmonisation Unit of the Public Internal Financial control System within the Ministry of Finance (hereinafter: Central Harmonisation Unit).

(2) The coordination referred to in paragraph (1) of this Article shall be executed by the Minister of Finance through: - harmonisation and supervision of the financial management and control;

- harmonisation and supervision of the internal audit; and
- preparation and issuance of bylaws, manuals and directives

3. Definitions

Article 3

Certain terms used in this Law shall have the following meaning:

(1) Public funds shall mean all collected, received, acquired, allocated and spent funds by the subjects from the public sector, also including budget revenues, credits, expenditures and subsidies.

(2) **Public sector entities** shall mean users of the funds of the Budget of the Republic of Macedonia, the Funds, the municipalities and the City of Skopje, agencies and other institutions established by law, public enterprises, public institutions and other legal entities owned by the state or in which, the state shall be shareholder.

(3) **Financial management and control** shall mean a system of policies, procedures and activities established by the Head of the Entity, in order to provide reasonable assurance that the objectives of the Entity have been accomplished.

(4) **Reasonable assurance** shall mean a satisfactory level of confidence for certain issue taking into account the costs, the benefits and the risks.

(5) **Responsible persons for financial management and control** shall mean the Head of the Entity and the Heads of Subordinated Units within the Entity.

(6) **Financial controller** shall mean a person within the Entity, authorised for control of the legality and the regularity of the proposed financial decisions, as well as their approval or negation, taking into consideration the principles of cost-effectiveness, efficiency and effectiveness.

(7) **Ex-ante financial control** shall mean a procedure, by which the financial commitment shall not be undertaken and the expenditure shall not be paid without prior approval by an official hierarchically independent of the credit official and the payment ordonnator.

(8) **Credit ordonnator** shall mean an authorised official who can undertake financial commitments.

(9) **Payment ordonnator** shall mean an authorised official who can give payment orders;

(10) **Ex-post financial control** shall mean a procedure being implemented within the entity, which shall ensure for the financial transactions in the form of commitments, expenditures or revenues, to be checked after the transaction is fully completed.

(11) **Sound financial management and control** shall mean transparent, regular, economical, efficient and effective use of the available funds;

(12) **Economy** shall mean minimising the resources used for achieving the planned goals or outcomes of certain activity, taking into account the determined quality of those effects or outcomes.

(13) **Effectiveness** shall mean the extent to which the objectives of certain activity are achieved or the relation between the planned impact and actual impact of certain activity.

(14) **Efficiency** shall mean maximising the effects or outcomes of certain activity in relation to the invested funds.

(15) **Audit trail** shall mean documented flow of the financial and other transactions from their beginning until the end, in order to provide reconstruction of all separate activities and their approval. It shall cover the systems of documenting, reporting, accounting and archiving;

(16) **Cashier** shall be an authorised official in charge of paying and receiving cash ;

- (17)**Mandate** shall mean the right for bringing decisions on behalf of the mandate giver and it can be general or special;
- (18)**General mandate** shall mean giving authorisation for implementing the overall competence, for which the mandate giver shall be responsible;
- (19)**Special mandate** shall mean authorisation given for specific cases;
- (20)**Sub-mandate** shall mean approval for the mandate receiver to transfer completely or partially the received authorisation to the Head of the Basic Organisational Units being under his direct responsibility.
- (21)**Mandate giver** shall be the head of the entity giving authorisation;
- (22)**Mandate receiver** shall mean an official who received authorisation by the mandate giver to decide and to act on his behalf.
- (23)**Financial commitment** shall mean a payment commitment expressed in the form of money, material assets, property or rights;
- (24)**Risk** shall be the probability of occurrence of event with a negative impact on the achievement of the objectives of the entity;
- (25)**Risk management** shall mean a process of ascertaining and assessing the internal and external risks which may negatively affect the fulfilment of the objectives of the entity and the implementation of the necessary controls in order to keep the exposure of the risks to an acceptable level or to decrease the consequences of possible risk to an acceptable level;
- (26)**Control** shall mean all activities undertaken in order to avoid or decrease the risks;
- (27)**Mission** shall be the main reason for existence and operations of the entity and it shall consist of working area, values and objectives that should be accomplished;
- (28)**Supervision** shall be managerial responsibility helping the entities in accomplishing the objectives, finishing, review and approval of the affairs, clear segregation of the duties and responsibilities awarded to each employee, systematic review of the performance of the activities of each employee at the necessary level and approval of the performance of the activities in the important areas, thus ensuring execution of the planned activities.
- (29)**Basic financial reports** shall mean balance sheet, balance of revenues and expenditures, consolidated balance of the capital property (inventory of the capital property), balance of obligations and notes/justification for the financial reports;
- (30)**Internal audit** shall mean an independent objective assurance and consulting activity, designed to add value and improve the entity `s operations. It shall help the entity in accomplishing its objectives, by applying a systematic, disciplinary approach for assessing and improving the effectiveness in the process related to risk management, control and governance.
- (31)**Audit on the internal control systems** shall mean an in-depth assessment of the functioning of the internal control systems;

(32)**Performance (execution) audit of the working** shall mean an assessment of the economy, efficiency and effectiveness of the operations and the usage of funds in a defined area of activities or programmes;

(33)**Financial audit** shall mean control of the accuracy, the completeness and the lawfulness of the accounting records and the financial statements;

(34)**Compliance (regularity) audit** shall mean an assessment whether the operations are in compliance with the effective laws, bylaws and internal acts;

(35)**IT audit** shall mean detailed assessment of the performance of the informational and technical systems.

(36)**Independence of the internal audit** shall mean non -existence of conditions impairing the objectivity;

(37)**Objectivity in the internal audit** shall mean an unbiased behaviour not being based on judgment of others;

(38)**Competence in the internal audit** shall mean having relevant knowledge and skills;

(39)**Professionalism in the internal audit** shall mean implementation of careful relation and skills of attentive and competent official;

(40)**Integrity in the internal audit** shall mean conscientiously non- participation in an illegal activity or non- undertaking of activities t discrediting the profession of the internal auditor or the entity;

(41)**Confidentiality in the internal audit** shall mean respecting the value and ownership of information that should not be disclosed without authorisation, except in cases of legal or professional commitment;

(42)**Suspicion of fraud** shall mean undertaken or not undertaken act, from which, one can excusably bring a conclusion for intentional or wrong presentation of the material or financial facts;

(43)**Code of Ethics of the Internal Auditors** shall mean the Code of Ethics of the Institute of Internal Auditors.

(44)**Internal Audit Charter** shall mean an internal act signed by the Head of the Internal Audit Unit and the Head of the Entity, determining the objectives, the authorisations and the responsibilities of the internal audit.

(45)**International standards for internal audit** shall mean the International Standards for the Professional Practise of Internal Audit of the Institute of Internal Auditors (USA/IA, Inc.).

(46)**International audit standards** shall mean the standards of the International Federation of Accountants / IFAC.5

II. FINANCIAL MANAGEMENT AND CONTROL

1. Scope of the Financial Management and Control

Article 4

(1) Financial management and control pursuant to this Law shall be applicable to budget users in the field of legislative, executive and judicial authorities (central government), Funds, the municipalities and the City of Skopje (hereinafter: entities).

Article 5

(1) The financial management and control of the entity shall cover the financial processes of planning, executing, monitoring and reporting on:

- collection of the revenues determined in the budget ;
- management and control of the execution of the expenditures approved in the budget and
- protection of the assets and liabilities, the value of which shall be recorded in the balance sheet.

(2) The financial management and control should be implemented in all organisational units and at all levels of the entity and it shall cover all funds of the entity, including the funds from the European Union and from other sources.

(3) The financial management and control system should be continually assessed and developed for the purpose of efficient accomplishment of the mission and the objectives of the entity.

2. Financial Management and Control Objective

Article 6

The objective of the financial management and control shall be improving the financial management for the purpose of achieving the following general objectives:

- Performing the activities in a proper, ethical, economical, effective and efficient manner,
- Conformity of the operations with the laws, the other regulations, the established policy, the plans and the procedures,

- Protecting the property and the other resources from losses caused by bad management, unjustified spending and usage, as well as from irregularities and misuses,
- Strengthening the responsibility for successful realisation of the tasks,
- Proper record of financial transactions
- Timely financial reporting and monitoring the work results.

3. Responsibility and Accountability of the Head of Entity

Article 7

(1) The head of the entity shall be in charge of the following:

- Budget preparation, budget execution and reporting on the budget of the entity managed by him;
- Financial management and control and internal audit in all organisational structures, programs, operations and processes, managed by him;
- Control on keeping accounting, undertaking financial commitments, executing the payments, collecting revenues and safeguarding assets and liabilities;
- Continuous assessment of the financial management and control system;
- Determination and accomplishment of the objectives of the entity and preparation and realisation of the strategic and other plans as well as programs for accomplishment of the general and specific objectives of the entity;
- Establishing an organisational structure and working procedures to ensure functioning, monitoring and development of sound financial management and control;
- Establishing a reporting line in compliance with the transferred authorisations and responsibilities;
- Competency of all employees for execution of the tasks in line with the financial management and control; and
- Risk management and establishment of appropriate and efficient internal controls.

(2) The head of the entity shall be accountable for achieving the objectives of the entity by managing public funds in a legal, economical, efficient and effective manner.

4. Responsibility and Awarding Mandate

Article 8

- (1) The head of the entity may, by an act give a mandate (general or special) to one or more managing officials being hierarchically placed directly subordinated to him.
- (2) By a mandate act a sub-mandate may be given.
- (3) The mandate or sub-mandate act may include conditions for using the authorisation.
- (4) On the basis of mandate or sub-mandate, decisions with an important political or financial impact shall not be reached without prior approval by the Head of the entity. .
- (5) Heads of Internal Organisational Units within the Entity, who have received a authority with mandate or sub-mandate can act only within the framework of the limits determined by the mandate or sub-mandate act and they shall be responsible to the mandate giver for the usage of the mandate.
- (6) Decisions regarding the mandate shall be made and signed on behalf of the head of the entity. The head of the entity shall, after the given mandate continue to be responsible for all reached decisions also including the decisions referring to financial management and control.
- (7) The Minister of Finance shall closely stipulate the manner for granting mandates

5. Financial Affairs Unit

Article 9

- (1) Head of the Entity shall establish a special Organisational Unit for Financial Affairs (hereinafter: Financial Affairs Unit) as Department or Unit, the Head of which shall be directly responsible to the head of the entity and the highest managing civil servant.
- (2) Financial Affairs Unit shall be in charge of performing the activities in the field of financial management and control. The Minister of Finance shall stipulate the manner of performance of the task under the competence of the Financial Affairs Unit.

6. Requirements to be fulfilled by the Head of the Financial Affairs Unit

Article 10

Person, who despite the general employment requirements determined by law, should also meet other requirements, may be appointed as Head of Financial Affairs Unit, those being:

- University degree in the field of economics;
- At least three years of working experience in the field of finance; and

- He/she has not been, by a court decision prohibition to perform activity or profession, during the prohibition.

7. Competences of the Head of Financial Affairs Unit

Article 11

(1) Head of Financial Affairs Unit shall supervise and advises the management of the entity particularly for:

- Budget control (control of budget formulation and execution);
- Ex-ante financial control;
- Control of the execution of the established policy and the operational management (supervision over the whole process of the internal management and control);
- Accounting and
- Budget and financial reporting.

(2) Head of Financial Affairs Unit shall:

- co-ordinate the process for preparation and amendments and modifications to the budget and the strategic plan of the entity.
- co-ordinate the process for development, establishment, implementation and maintenance of the financial management and control.
- co-ordinate the process of accounting recording of the budget execution and the preparation of the annual account and the Annual Finance Report referred to in Article 49 of this Law.
- obligatory give an opinion upon the draft acts prepared by the other Organisational Units within the entity and the draft acts of other entities that have or may financial implications on the budget of the entity.
- Implement ex ante and ex post financial control.
- protect the assets and liabilities, the value of which shall be recorded in the balance sheet.

Article 12

(1) Head of Financial Affairs Unit shall prepare a plan for the establishment of the financial management and control as well as a methodology for implementation of the plan being approved by the head of the entity.

(2) Head of Financial Affairs Unit may adequately to the needs and specifications in the operations of the entity appoint a Coordinator for Financial Management and Control operationally implementing and coordinating the establishment and the development of the financial management and control within the entity. The Coordinator for Financial Management and Control shall not be allowed to fulfil ex ante and ex post control activities.

(3) Persons in charge of the establishment and the development of the financial management and control referred to in paragraphs (1) and (2) of this Article and the persons in charge of the implementation of special types of control referred to in Article 21 paragraph (1) of this Law, shall be obliged to undergo a training in accordance with a Programme for Training in Establishment and Development of Financial Management and Control adopted by the Minister of Finance, as well as to cooperate with the Central Harmonisation Unit within the Ministry of Finance in relation to the establishment and the development of financial management and control.

(4) The Central Harmonisation Unit shall prepare and update a Manual for Financial Management and Control being approved by the Minister of Finance. The Manual for Financial Management and Control shall include guidelines for establishment and implementation of the financial management and control.

8. Financial Management and Control Components

Article 13

(1) Financial management and control shall be implemented on the basis of internationally accepted standards for internal control, through the application of the following, mutually related components:

- Control environment,
- Risk management,
- Controls,
- Information and communication, and
- Monitoring.

(2) The internationally accepted standards for internal control shall be published in the "Official Gazette" by the Minister of Finance.

9. Control Environment

Article 14

The control environment shall include the following:

- Personal and professional integrity of the management and the staff of the entity,
- Management philosophy and style of work of the management,
- Organisational structure, ensuring segregation of responsibilities, hierarchy and clear rules, rights, obligations and levels of reporting,
- Policies and practices of human resource management,
- Competence of staff.

10. Risk Management

Article 15

(1) The risk management shall include identification, assessment and control over potential events or situations that might have an adverse effect on the achievement of the entity objectives for the purpose of ensuring reasonable assurance that the objectives will be attained.

(2) Regarding the implementation of the activities referred to in paragraph (1) of this Article, the Head of the Entity shall adopt Risk Management Strategy, which shall be updated every three years and in the cases when the risks significantly change . The controls aimed at minimising the risk should be analyzed and updated at least once a year.

11.Controls

Article 16

Controls shall include the following:

- Procedures for authorisation and approval;
- Segregation of duties in a manner not allowing to an official y be at the same time responsible for authorisation, execution, accounting and control;
- Double signature system;
- Rules for access to assets and information;
- Ex-ante and ex post financial control;
- Procedures for full, correct, precise and prompt accounting of all transactions;

- Report and review of activities - assessment of the transactions' efficiency and effectiveness;
- Monitoring procedures;
- Procedures for human resources management;
- Rules on the documentation of all transactions and actions related to the entity's activities.

12. Information and Communication

Article 17

Information and communication shall include the following:

- Identification, collection and dissemination of reliable and trustworthy information in appropriate form and timeframe, enabling to any responsible official to undertake certain responsibility;
- Effective horizontal and vertical communication at all hierarchical levels in the entity;
- Building of an appropriate information system for management of the entity so as for all employees' to get acquainted with the clear and precise guidelines and instructions on their role and responsibilities related to the financial management and control;
- Documentation and and graphic display containing rules for drafting, execution, transfer, usage and archiving of documents;
- Documentation of all operational processes and transactions to the end of ensuring an adequate audit trail ;
- The development of an effective, timely and reliable reporting system including: levels and final deadlines for reporting; reports presented to managers; forms of reporting upon detection of errors, irregularities, misuse, frauds or misappropriations.

13. Monitoring

Article 18

(1) Monitoring shall mean check of the adequate functioning of the financial management and control system.

(2) Monitoring of the financial management and control should be carried out particularly through constant monitoring, self-assessments and internal audits.

(3) Head of the Entity shall, through the Financial Affairs Unit during the year, perform self-assessments of the separate processes of the financial management and control system in the entity managed by him, and once in five years he shall implement self-assessment of the structure and the functioning of the whole financial management and control system.

(4) Notwithstanding paragraph (3) of this Article, the self-assessment may not be implemented in specific organisational part within the entity or for specific financial process if the result from the risk management gives good arguments for non-implementation of the self-assessment.

(5) Head of Financial Affairs Unit shall inform the Head of Internal Audit Unit about the results of the executed self-assessments.

(6) With regard to the Annual Financial Report referred to in Article 47 of this Law, the head of entity shall prepare on both the self-assessments referred to in paragraph (3) of this Article being performed in the respective year and the results from these self-assessments not being completely positive.

(7) Report referred to in paragraph (6) of this Article shall include the comments of the head of the entity referring to the recommendations of the self-assessments.

(8) Head of entity shall give opinion on the financial management and control in the Annual Financial Report referred to in Article 47 of this Law.

14. Principles of Accounting and Financial Reporting

Article 19

(1) The head of the entity shall establish accounting and financial reporting providing him with relevant information in order to be able to monitor and to be responsible for the functioning of the financial management and control within the entity.

(2) Accounting shall be established and shall function in compliance with the principles of regularity, efficiency, economy, verifiability and orderliness.

(3) The head of the entity shall be in charge of verification of the conformity of the data received by third parties with the principles referred to in paragraph (2) of this Article, if the revenues or the expenditures depend on those data.

15. Financial Commitments Ordonnator, Payment Ordonnator and Cashier

Article 20

(1) The head of the entity may assign persons authorised for undertaking financial commitments, persons authorised for payment and cashiers.

(2) One person may perform only one of the tasks referred to in paragraph (1) of this Article and should be hierarchically independent of the other persons of referred to in paragraph (1) of this Article.

(3) The Minister of Finance shall prescribe the manner of conducting the general financial processes.

16. Ex-ante and Ex-post Financial Control

Article 21

(1) The head of the entity shall be in charge of ex-ante and ex-post financial control.

(2) The head of entity shall decide for the manner of implementing the ex-ante and ex-post controls taking into consideration the need and the specifications of the operations after the implemented risk analyses.

(3) Ex-post financial control shall provide the instruments for removing the detected irregularities of the internal controls and it should not be implemented by persons being in charge of ex-ante financial control;

(4) The ex-post control shall also include detective control carried out after full implementation of the approved financial decisions and transaction for the purpose of minimising the risk of undesirable consequences and improving the procedures or ex -ante controls.

17. Special Financial Commitments

Article 22

(1) The head of the entity can assume financial commitments in the form of money, material assets, property or rights on behalf of the Republic of Macedonia for awarding subsidies, grants, pecuniary assistance, loans or guarantees to a third party and share in equity, only if it is determined by law.

(2) When proposing adoption of Law on Assuming Financial Commitments referred to in paragraph (1) of this Article, prior written consent by the Minister of Finance shall be necessary.

III. INTERNAL AUDIT

1. Objective, Role and Internal Audit Principles

Article 23

The objective of the internal audit shall be providing the head of public sector entity with an independent reasonable objective assurance and advice to the end of improving the operations of the entity and increasing the effectiveness of the internal control systems.

Article 24

Role of the internal audit shall be giving support to the heads of the public sector entity in the accomplishment of the objectives of the entity through:

a. Preparation of strategic and annual plans for internal audit on the basis of an objective risk assessment, as well as performing separate internal audits in accordance with the adopted audit plans.

b. Assessment of the adequacy, economy, efficiency, effectiveness of the financial management and control system for determination assessment and risk management by the management of the entity in relation to: - Conformity with the laws, by-laws and the internal acts and contracts;

- Credibility and completeness of the financial and operational information;
- Safety of the property and the information; and
- Performance of the tasks and accomplishment of the objectives.

c. Giving recommendations for improving the operations and the work procedure.

d. Monitoring of the implementation of measures undertaken by the head of public sector entity on the basis of executed audits.

Article 25

The internal audit shall be implemented in compliance with the principles of legality, independence, objectivity, competency, professionalism, integrity and confidentiality.

2. Standards and Methodology for Execution of Internal Audit

Article 26

(1) The internal audit shall be executed in compliance with the accepted standards for professional execution of the internal audit, this Law, the by-laws adopted on the basis of this Law, the Internal Audit Charter and the internal acts of the public sector entity harmonised with this Law.

(2) The internal auditors shall, with regard to their operations, in addition to the acts referred to in paragraph (1) of this Article, be also obliged to implement the Code of Ethics of the internal auditors and the guidelines and the Internal Audit Manual referred to in Article 27 of this Law.

(3) The Standards for Professional Practice of the Internal Audit shall mean the International standards for internal audit published in Official Gazette by the Minister of Finance.

(4) Minister of Finance shall proscribe the Internal Audit Charter and the Code of Ethics of Internal Auditors.

Article 27

The Central Harmonisation Unit shall prepare and update Internal Audit Manual being approved by the Minister of Finance. The internal Audit Manual shall determine the methodology for work and execution of the internal audit.

3. Types of Internal Audit

Article 28

Internal audit shall include the following:

- Financial audit;
- Compliance audit (regularity);
- Audit on the internal control systems;
- Performance audit (execution) ; and
- IT audit

4. Internal audit Scope and Organisation

Article 29

(1) Internal audit shall be performed in all organisational structures, programmes, activities and processes in the public sector entities.

(2) Internal Audit Unit shall be established as a Unit with at least two internal auditors, also including the Head of Internal Audit Unit i.e. as a Department with at least five internal auditors, also including the Head of Internal Audit Department.

Article 30

(1) Internal Audit Unit shall be mandatory established in:

- The Parliament of the Republic of Macedonia, the National Bank of the Republic of Macedonia, the General Secretariat of the Government of the Republic of Macedonia, the Judiciary Council of the Republic of Macedonia, the ministries, the Pension and Disability Insurance Fund of the Republic of Macedonia the Health Insurance Fund of the Republic of Macedonia, Agency for State Roads of the Republic of Macedonia Employment Agency of the Republic of Macedonia and the Civil Servants Agency;

(2) Internal Audit Unit shall be also mandatory established as in all public sector entities, which average annual budget/financial plan was above Denar 50 million in the last three years.

(3) Public sector entity, which average annual budget/financial plan did not exceed Denar 50 million in the last three years shall organise the internal audit by engaging:

- Internal auditor/s from Internal Audit Unit from other public sector entity, on the basis of an agreement concluded between the heads of the both public sector entities; or
- Auditor/s listed in the internal auditors registry referred to in Article 48 of this Law.

(4) Abolished by the Constitutional Court

Article 31

(1) Head of public sector entity shall establish an Internal Audit Unit in line with the following criteria:

- With at least one internal auditor and Head of Internal Audit Unit if the average budget/financial plan of the respective public sector entity was at least Denar 50 million in the last three years also including the EU –financed Funds and Programmes.
- with at least three internal auditors and Head of Internal Audit Unit if the average budget/financial plan of the respective public sector entity was at least Denar 500 million in the last three years, also including ; EU –financed Funds and Programmes
- with at least four internal auditors and Head of Internal Audit Unit if the average budget/financial plan of the respective public sector entity was at least Denar 2 billion also including EU –financed Funds and Programmes.
- With at least one internal auditor of every five budget users.

(2) The minimum number of employees in the Internal Audit Unit referred to in paragraph (1) of this Article shall not include the trainees auditors of referred to in paragraph (4) Article 36, of this Law.

Article 32

- (1) The Internal Audit Unit shall perform internal audit in the public sector entity, the spending units, all structures, programmes, activities and processes, also including those of the beneficiaries of the resources from the EU Funds, as well as in the legal entities and natural persons with which the entity were performing internal audit have business relations and which using public funds.
- (2) The Internal Audit Unit, within the entity in charge of the management of inter-agency programmes/projects, shall coordinate the operations of the Internal Audit Units of the public sector entities participating in the implementation of the programmes/projects.

5. Organisational, Professional and Functional Independence of the internal Audit Unit

Article 33

- (1) The Internal Audit Unit shall be organisationally and functionally independent and directly and solely responsible to the head of the public sector entity.
- (2) The functional independence of the Internal Audit Unit shall be ensured through its independence of the other organisational units of the entity in the planning of the operations, the execution of the internal audit and the reporting.
- (3) The head of the Internal Audit Unit and the internal auditors shall be independent when performing the internal audit, being executed skillfully and professionally by applying methodology based on the international standards for internal audit, as well as the principles and the rules for behavior determined under of the Code of Ethics of Internal Auditors as well as the instructions or the guidelines by the Minister of Finance.
- (4) Head the Internal Audit Unit and the internal auditors should not perform financial management and control tasks and other tasks in the entity not arising from the internal audit function.
- (5) The head of the Internal Audit Unit and the internal auditors may not be dismissed or transferred to another working post due to reporting on certain situations or giving certain recommendations.
- (6) Before undertaking disciplinary measures, redeployment, or dismissal of the Head of the Internal Audit Unit and the internal auditors, the head of the public sector entity shall be obliged to inform the Central Harmonisation Unit and to enclose the necessary documentation.
- (7) Abolished by the Constitutional Court

Article 34

(1) The Head of Internal Audit Unit shall be obliged to directly inform the head of the public sector entity on all audit affairs within the public sector entity, and particularly on the following:

- The regularity, effectiveness and the efficiency of the budget/financial plan execution
- The regularity and the efficiency of the internal financial control also including the management of the funds and
- The conformity of the accounting reports on the budget/financial plan execution with the accounting standards.

(2) Head of Internal Audit Unit shall give opinions on the internal rules and acts of the public sector entity with regard to issues related to internal financial control and internal audit before these rules and acts become effective.

(3) The head of Internal Audit Unit shall advice all managing officials in the public sector entity about the risk management.

6.Requirements to be fulfilled by the Head of Internal Audit Unit, Certified Internal auditors and Internal Auditors

Article 35

(1) For the head of the internal audit unit may be appointed:

- certified internal auditor who meets the requirements of Article 36 paragraph (2), items 1, 2 and 4 of this Law;
- has at least three years experience in internal or external audit.

(2) The following persons cannot be appointed as head of internal audit Person whose spouse, relative in a direct line without limitation, in a collateral line up to the fourth degree, or by marriage up to the fourth degree are or have been employed in a managing position in the public sector entity in the previous two years.

(3) The head of the entity shall be informed in writing about the circumstances referred to in paragraph (2) of this Article, by the applicant for the position of Head of Internal Audit Unit during the appointment.

Article 36

(1) Certified Internal Auditors and internal auditors shall be appointed by the head of the entity.

(2) Individuals, who in addition to the general requirements determined by law also meet specific requirements may be assigned as certified internal auditors, those being the following:

- higher education;
- training and passed exam for certified internal auditor in the public sector according to a Programme for Taking Exam for Certified Internal Auditor or possession of internationally recognised audit certificate;
- At least 2 years working experience in internal or external audit; and
- He/she has not been pronounced, by a court decision prohibition to perform activity or profession, during the prohibition,

(3) Individuals, who in addition to the general requirements determined by law also meet specific requirements may be appointed as as internal auditors, those being the following:

- higher education;
- At least 2 years of working experience in the field of internal or external audit; and
- He/she has not been , by a court decision prohibition to perform activity or profession , during the prohibition

(4) Individuals, who addition to the general requirements determined by law also meet specific requirements may be appointed as internal auditors, those being the following:

- higher education; and
- He/she has not been , by a court decision prohibition to perform activity or profession , during the prohibition;

(5) After the period of 2 years, the trainee auditor shall be appointed as an internal auditor.

(6) The training referred to in paragraph (2), indent 2 of this Article shall be coordinated by the Central Harmonisation Unit.

6-a. Terms and method of conducting training and examination for certified internal auditor in the public sector

Article 36 -a

(1) Training and exam for certified internal auditor in the public sector (hereinafter training and exam) may attend or take persons who have completed four years of high school VII / 1 with work at least two years in internal or external audit in entities public sector entities.

(2) Training and exam can attend or take and persons with higher education completed

four years of high school VII / 1 with work at least three years in internal or external audit in trade companies and other legal entities or associations of citizens.

- (3) Training and exam can attend or take persons who completed university degree in business or economics who studied under the Bologna Declaration and have 240 credits under the European Credit Transfer System (ECTS) to work for at least one year of internal or external audit in the public sector entities .
- (4) Training and exam can attend or take and persons who completed university degree in business or economics who studied under the Bologna Declaration and have 240 credits under the European Credit Transfer System (ECTS) to work for at least two years in internal or external audit companies and other legal persons or associations of citizens .
- (5) The time spent on practice for vocational training in the units internal and / or external audit units in the public sector, trade companies and other legal entities and associations of citizens, in accordance with law, in relation to the requirements for passing the exam is regarded as a time spent at work in these entities.
- (6) Candidates who successfully take the training and passed the part of relevant modules of the exam within the internationally recognized CIPFA Auditing Certificate for internal auditor in the public sector are recognized for laid, and within this exam shall take not passed modules and after their passing is issued certificate according Article 36 – q of this law.

Article 36 - b

- (1) Government of the Republic of Macedonia on the proposal of the Ministry of Finance for each fiscal year adopted program for training and examination for certified internal auditors in the public sector in which are defining the basic elements of the program including: the number of candidates, the funding from the budget of the Republic of Macedonia, financing of candidates participants and more.
- (2) Ministry of Finance on the basis of the approved program of paragraph (1) of this Article, in two daily newspapers of which one on the language is spoken by 20% of the communities, shall announce call for applications for participants in the program.
- (3) The request for training and exam for certified internal auditor in the public sector applicant shall submit to the Ministry of Finance.
- (4) With the request for training and exam candidate shall submit evidence of compliance requirements for taking the exam for Certified Internal Auditor as prescribed by the law.
- (5) The Minister of Finance by solution determines whether the applicant meets the requirements for training and examination for certified internal auditor in the public sector.

- (6) The applicant which request training and exam is refused may initiate administrative proceedings before the competent court within 30 days of receipt the decision.
- (7) Applicants who have received the decision from paragraph (5) of this Article, by the Minister of Finance signed an agreement for training and examination for certified internal auditor in the public sector.
- (8) After signing the contract under paragraph (7) of this article, candidates receive an identification number, schedule periods to maintain the training and schedule for the dates for holding the exams prepared on the basis of the program of Article 36-d paragraph (1) of this law.

Article 36 - c

Exam can take persons who were present at least 80% of the organized training classes for each module separately.

Article 36- d

- (1) Training and exam are implemented according to program for module content and deadlines within are conducted trainings and exams.
- (2) The program referred to in paragraph (1) of this Article shall be adopted by the Minister of Finance.
- (3) Based on the program referred to in paragraph (1) of this Article, the Minister of Finance approved manuals for each module separately.

Article 36 - e

- (1) Training and exam are composed of four modules including:
 - legal system, public finance, public sector accounting, public procurement, civil and public servants and protection of information;
 - basis of internal audit;
 - accounting and financial reporting in the public sector and
 - management and control.
- (2) The first three modules are taken in writing by answering on specified number of questions, and a fourth module consists of a description of individual case for risk management and establishing internal control in certain entity (case study).
- (3) For each module is organized 10 days training being conducted certified internal auditors in the public sector - educators.

Article 36 - f

- (1) Educators of Article 36-e, of paragraph (3) prepared database of at least 600 questions for the first three modules of the exam.
- (2) Issues of paragraph (1) of this Article shall verify Committee established by the Minister of Finance consists of:
 - a university professor in the field of accounting and auditing;
 - two managerial civil servants from the Ministry of Finance and
 - two persons who have a certificate for certified internal auditor in the public sector.
- (3) Commission under paragraph (2) of this Article shall perform audit and update database for issues of paragraph (1) of this article at least once a year.
- (4) Within the audit commission has particularly in mind the changes in the regulations that is based the question, the number of candidates who responded, success in answering these and other criteria that may affect the improvement of the quality of the base of paragraph (1) of this Article.
- (5) Based on performed audit and updating of database issues, the Commission shall decide questions shall be changed or completely removed from the base of paragraph (1) of this Article.
- (6) Educators and members of the Commission for verification of paragraphs (1) and (2) of this Article shall be entitled to remuneration as determined by the Minister of Finance.
- (7) The amount of remuneration under paragraph (6) of this Article shall be determined based on the number of prepared questions, as well as the complexity of the matter.
- (8) The annual amount of compensation referred to in paragraph (6) of this Article shall not exceed the amount of two average salaries in the Republic of Macedonia in the previous year, published by the State Statistical Office.

Article 36 – g

Professional and administrative tasks needed to implement the exam conducted by the Ministry of Finance and the technical examination conducted legal entity registered in the Central Registry selected on public announcement by the Ministry of Finance.

Article 36 - h

- (1) The Ministry of Finance by e-mail informs the candidate who has been approved examination for time and place for pass the exam no later than eight days before the exam.
- (2) Candidate of paragraph (1) of this Article shall not later than eight days before the exam, by e-mail to report the participation on the exam.

Article 36 – i

- (1) The exam is taken in a room equipped for taking an exam with material-technical and IT equipment, internet connection and recording equipment taking.
- (2) The date and time of the exam are published on the website of the Ministry of Finance at least three days before the exam.
- (3) The examination is recorded and live broadcast on the website of the Ministry of Finance, and if for technical reasons the recording is broken, footage of the exam are placed on the website of the Ministry of Finance.
- (4) Legal entity that conducts the exam should fulfill premises and material technical equipment of the premises for the exam, which conditions shall prescribe the Minister of Finance.
- (5) In the premise for the exam, during the exam present two authorized representatives of the Ministry of Finance and a representative of the Government of the Republic of Macedonia on the proposal of the Cabinet on the Prezident of the Government of the Republic of Macedonia and Informatics proposed by the Ministry of Information Society and Administration.

Article 36 - j

- (1) Before the exam, the representative of the Ministry of Finance to identify the identity of candidate with reviews the ID.
- (2) On the candidate during the exam is allowed using only the pen and calculator.
- (3) On the candidate during the exam is not allowed to contact with other candidates or persons , except with Informatics of Article 36 i - paragraph (5) of this Law , in case if there is a technical problem with the computer.
- (4) If the technical problems with the computer shall be removed for five minutes exam continues, and if not removed within this deadline, exam only for that candidate are broken and will be held no later than three days after the termination of the exam.

- (5) If there are problems with more than five computers and they are not removed within five minutes the exam is interrupted for all candidates who take the exam and will be held no later than three days after the termination of the exam.
- (6) The persons of Article 36-i, paragraph (5) of this Law during the exam should not be kept longer than five minutes near the candidate takes the exam for certified internal auditor in the public sector , except in case of removing technical problem when not allowed to remain longer than five minutes.
- (7) If the candidate during the exam acts contrary on paragraphs (2) and (3) of this Article shall not allowed further examination in that term.
- (8) In the cases of paragraph (4) of this Article, means that the candidate has not passed the exam for that module and it is noted in the minutes of the exam.

Article 36 - k

- (1) The exam is held by passing the first three modules separately, after following the training for each module.
- (2) The fourth module is taken by giving us a case study within 15 days after the completion of this training module.
- (3) Training for each module is obliged. Passing the previous module is not a requirement for training and passing the next module.
- (4) A candidate who didn't pass the exam in the first examination period has a right to pass in the next 2 additional terms.
- (5) The method of scoring the exam in all modules shall be prescribed by the Minister for Finance.

Article 36 - l

- (1) The first two modules of the exam contains 50 questions with five options for completing one of which is correct , the two are similar and the two are not accurate .
- (2) The third module of the exam contains five tasks of which the first task is obligated, and the remaining four candidates elected three .
- (3) The fourth module is making a study of individual case management risks and establishing internal control choice of candidate .

Article 36 - m

- (1) Taking the first two modules of the exam is done by answering a number of questions in terms of solving the electronic test on computer.
- (2) The questions of the test depending on the severity, measured by points specified in the test.
- (3) Taking the third module of the exam is done by solving the tasks of paragraph (2) of Article 36-l of this law.
- (4) Evaluation of the decisions of paragraph (3) of this Article shall be made in accordance with guideline adopted by the Minister of Finance.
- (5) Passing the fourth module of the exam is done by submitting a case study.
- (6) The case study is valued with points according to guideline adopted by the Minister of Finance.
- (7) Base of issues and answers for passing the first three modules are stored in a sole electronic system for examination and is publicly available.
- (8) The number of questions in the database of paragraph (7) of this Article shall be increased by 10% per year, starting in 2015.
- (9) The results from taking the first two modules of the exam are available to candidates on the computer on which sat the exam, immediately after its completion.
- (10) The results of taking whole modules of the exam and on the identification numbers are published on the website of the Ministry of Finance within 30 days of the day of taking the exam.

Article 36 - n

- (1) On the day of taking the first and second module of the exam, the representative of the Ministry of Finance gives the candidate access code or password which is granted access to electronic system of Article 36-m of this Law.
- (2) After approved the access, the candidate receives electronic test for exam, computer generated, which contents of randomly determines the software on electronic system of paragraph (7) of article 36-m of this law.
- (3) The first, second and third module of the exam, containing instructions on how to resolve it, for which the representative of the Ministry of Finance provides clarification before start the exam.
- (4) Electronic system for the examination can not allow the existence of identical content of electronic test for first and the second module of the exam in one session for more

than one candidate.

(5) The Ministry of Finance is established the sole electronic system for examination .

Article 36 - o

- (1) In case of disability on implementation of the first and second module of the exam, because of reasons leading to technical failure of operation of the electronic system, the exam is interrupted.
- (2) If the reason of paragraph (1) of this Article shall be removed within 60 minutes of the termination of the examination, it shall be extended immediately after their removal.
- (3) If the reason of paragraph (1) of this Article shall not be removed in the date from paragraph (2) of this Article, exam reschedule for another date.

Article 36 - p

- (1) The total time determined for answering questions of tests for taking the first two modules, is 120 minutes for each module.
- (2) The total time determined for answering questions and tasks of test for taking third module, is 180 minutes.
- (3) It is believed that the exam of first, second and fourth module has passed the one candidate who has achieved at least 70% of positive points envisaged by individual module.
- (4) It is believed that third module of exam has passed the one candidate who has achieved at least 50% of the total envisaged points.

Article 36 - q.

- (1) On the candidates who have passed all four modules are issued a certificate of certified internal auditor in the public sector within 15 days of completion of the exam.
- (2) The form and content of the certificate of paragraph (1) of this Article shall be prescribed by the Minister of Finance.

Article 36 - r

On the request of the candidate, the Ministry of Finance shall inform for the mistakes made in the test for examination, by providing immediate insight into test.

Article 36 - s

- (1) The cost of examination and correction of the examination shall be borne by the candidate if the institution where is employed does not pay.
- (2) The fee referred to paragraph (1) of this Article shall be determined by the Minister of Finance on the basis of real costs incurred for examination, necessary for the implementation of the first, second and third module of the exam, preparation of databases issues, implementation of electronic test , preparation of materials and invitations and preparing certificates.
- (3) The cost of examination shall be paid on account of the revenues of the Ministry of Finance.
- (4) If costs are not paid on proper account of the Ministry of Finance no later than 15 days prior to the start of the exam, the candidate will not allow taking the exam.
- (5) If the candidate within one year from the date of payment does not take the exam, the paid funds are returned according with law.

Article 36 - t

- (1) Materials of held exams, especially paper versions of tests and tasks for the examination for certified internal auditor in the public sector and schemes for check the accuracy of the answers to the test and tasks, as well as footage of held exams are keep in the Ministry of Finance.
- (2) The Minister of Finance established the Audit Commission for audit of held exams for certified internal auditor in the public sector, which in his work uses material from paragraph (1) of this Article. In the Audit Commission, among other members, obliged are member a representative of Government of the Republic of Macedonia and informatics from Ministry of Information Society and Administration designated by the Government of the Republic of Macedonia.
- (3) Audit Commission meets at least once a year and auditing of how the implementation of at least one session held in the current year.
- (4) Audit Commission has the right to audit and on the manner of conducting the examinations held in the last five years to the day of the meeting of the Audit Commission, but not earlier than the date of application of this law.
- (5) If the Audit Commission finds irregularities in the conduct of the examination for certified internal auditor in the public sector by individuals from paragraph (5) of Article 36-j of this law, proposed revocation the certificate from Article 36 - q of this law.
- (6) The Ministry of Finance shall make a decision to revoke the certificate on the basis of the proposal of Audit Commission within three days of receipt of the proposal.
- (7) Against the decision from paragraph (6) of this Article may initiate administrative proceedings before the competent court within 30 days of receipt of the decision. "

7. Internal Auditor Rights

Article 37

(1) The Internal Auditor shall have the following rights:

- To enter the premises of the public sector entity being audited, taking into account the rules for security and good behavior.
- To have access to the relevant documents related to the audit within the public sector entity, as well as the documents including data with certain degree of secrecy and other documents and data kept in electronic form, observing the regulations for protection of both classified information and personal data. To request certified copies, statements or certificates of these documents and in specific cases to take the original documents leaving a copy with acknowledgement of receipt;
- To request oral or written information from any employee or head in the public sector entity being audited;
- To request information from any information holder in the public sector entity; and
- To request information from other institutions in relation to the operations and the management of the public sector entity, being audited.

8. Conflict of interest

Article 38

The head of the internal audit unit or the internal auditor should not participate in the audit if one of the following conflicts of interests is present:

- During the previous year, the head of the internal audit unit or the auditor was employed in the organizational unit of the public sector entity, being audited,
- During the previous year the head of the internal audit unit or the auditor, spouse or relative up to second degree managed in the public sector being audited ,
- Head of the internal audit unit or the auditor, spouse or relative up to second degree have a share or shares in entities that use means that government expenditures , a having business relationships with entities in the public sector are audited and
- There are other circumstances that could give rise to a conflict of interest in evaluating the Head of Internal Audit Unit which he gives an explanation in writing.

Article 39

The Head of the public sector entity i.e. the heads and the employees in the public sector entity, being audited shall have the following obligations:

- To assist and cooperate during the audit;
- To provide oral or written information, statements upon request by the auditor' request, access to documents, electronic data bases or any information bearer;
- To submit certified copies of the requested documents, as well as to submit the requested original documents with acknowledgment of receipt thereof;
- Upon request by the auditor, to give a statement for the completeness of documents and the data;
- According to the audit findings and recommendations, to prepare and submit to the Head of Internal Audit Unit an action plan for implementation of the recommendations, identifying the responsible persons and the final deadlines for undertaking the necessary measures within their competences;
- To implement the recommendations and to inform the head of public sector entity and the Head of Internal Audit Unit on the implementation of the action plan; and
- To provide appropriate working conditions for the auditors.

9. Planning the Internal Audit

Article 40

(1) The internal audit shall be performed on the basis of:

- Strategic Plan for period of three years,
- Annual Plan and
- Individual Audit Plan.

(2) The strategic and the annual plan for performing the internal audit shall be adopted by the Head of Internal Audit Unit after consent obtained by the head of the public sector entity on the basis of the carried out risk assessment.

(3) The Head of Internal Audit Unit shall, for each individual audit approves a plan and programme, describe more specifically the audit procedures.

(4) The Head of Internal Audit Unit shall, by 15th December in the current year at the latest, submit the Strategic Plan for the next three years and the Annual Audit Plan for the next year to the Central Harmonisation Unit and to the heads of the organisational units of the public sector entities covered under the Annual Plan.

10. Amendments to the Annual Audit Plan

Article 41

- (1) The Annual Audit Plan may be amended if a significant change of the assessed risk or the planned resources occurs during the preparation of the Annual Plan.
- (2) The Head of Internal Audit Unit shall inform the Central Harmonisation Unit on the amendments to the Annual Plan.

11. Performance of Internal Audit

Article 42

- (1) The Audit shall be performed by determining, analysing, assessing, and documenting the data, sufficient for giving expert opinion on the set goals.
- (2) The Head of Internal Audit Unit may, in accordance with the head of the public sector entity, also engage experts to assist during the execution of the internal audit in separate areas.
- (3) Audit Report including a summary, objectives and scope of the audit, findings, conclusions and recommendations shall be prepared for each performed internal audit.
- (4) Minister of Finance shall prescribe the manner of performing the internal audit and the manner reporting on the audit to the public sector entity.

12. Specific Audit Rules within Public Sector Entity

Article 43

- (1) The Internal Audit Unit can prepare own Annex to the Internal Audit Manual referred to in Article 27 of this Law, if there specifications in the operations.
- (2) The Annex to the Manual referred to in paragraph (1) of this Article shall be submitted to the Central Harmonisation Unit.

IV. COMMITTEES FOR FINANCIAL MANAGEMENT AND CONTROL AND INTERNAL AUDIT

1. Financial Management and Control Committee

Article 44

- (1) The Minister of Finance shall establish a Financial Management and Control Committee as a consultative body for issues related to financial management and control.

(2) The Financial Management and Control Committee may have its members the Heads for Financial Affairs Units of the Ministries. The State Secretary of the Ministry of Finance shall act as chairperson over the Committee, and the Head of the Central Harmonization Unit shall be Secretary.

(3) The Financial Management and Control Committee shall have meetings at least once in three months, and in case of emergency the president may call extraordinary meeting

(4) The Financial Management and Control Committee shall adopt Rules of Procedure.

2. Audit Committee

Article 45

(1) The Minister of Finance shall establish Audit Committee as consultative body for issues related to the internal audit.

(2) The Audit Committee may have as its members the Heads of Internal Audit Units, i.e. internal auditors from the Ministries. The State Secretary of the Ministry of Finance shall act as chairperson over the Committee and the Head of the Central Harmonisation Unit shall be Secretary.

(3) The Audit Committee shall meet at least once in three months, and in case of emergency, the president may call extraordinary meeting.

(4) The Audit Committee shall adopt Rules of Procedure.

Article 46

Financial Management and Control Committees and Audit Committees may be established in the entities referred to in Article 4 of this Law.

V. REPORTING ON FINANCIAL MANAGEMENT AND CONTROL AND INTERNAL AUDIT

Article 47

(1) The head of the first line budget users, users in the field of legislative, executive, and judicial authorities (except the State Audit Office), the Funds, the municipalities and the City of Skopje shall be obliged to submit to the Central Harmonisation Unit an Annual Financial Report by 10-th May in the current year for the previous year at the latest.

(2) The Annual Financial Report shall particularly include the following:

- Report on planed and spent funds by items (comparative overview tables)
- Report on realised programmes, projects and agreements;

- The annual accounts or consolidated annual account;
- Report on the performed self-assessments referred to in Article 18 paragraphs (3) and (8) of this Law (results from the self-assessments not being fully positive, comments of the heads of the entity referring to the recommendations of the self-assessments and opinion on the financial management and control);
- Quality statement and the condition of the internal controls;
- Report on the activities for establishment and development of the financial management and control; and
- Report on the performed audits and the internal audit activities.

(3) The Minister of Finance shall closely prescribe the form and contents of the reports referred to in paragraph 2, indents 1,2,4, 6 and 7 and the statement referred to in paragraph 2, indent 5 of this Article.

VI. CENTRAL HARMONISATION UNIT

Article 48

(1) The Central Harmonisation Unit shall be in charge of the following:

- Preparation of laws and by-laws in the field of the financial management and control and the internal audit;
- Preparation of methodology and working standards for the financial management and control and the internal audit;
- Coordination of the trainings for the heads and employees involved in the financial management and control and the internal audit;
- Coordination during the establishment and the development of the internal financial control system;
- Preparation of approval for redeployment and dismissals of internal auditors referred to in Article 33, paragraph (7) of this Law;
- Establishment and maintenance of databases for the internal audit units and the adopted charters;
- Establishment and maintenance of registry of certified internal auditors who took the exam for internal auditor in the public sector and who have internationally recognised audit certificate.
- Cooperation with institutions responsible for public internal control affairs in the country and abroad and exchange of information for the development of the public internal financial control;
- Supervision of the quality of the financial management and control system;

- Supervision of the quality of the operations of the Internal Audit Units; and
- Preparation of an Annual Report on the Functioning of the Public Internal Financial Control System on the basis of the Annual Financial Report referred to in Article 47 of this Law, the Ministry of Finance shall submit to the Government of the Republic of Macedonia by the end of July in the current year for the previous year at the latest;
- Organisation of ad hoc audits to be performed by internal auditors from certain public sector entities, when the subject of such audit goes beyond the scope i.e. the competence of the certain entity or the subject of the audit has such a nature that the multidisciplinary approach of the internal audit is more beneficial. The findings and recommendations of this type of audit shall be discussed with the audited entities and the final report submitted to the involved entities .

Article 49

(1) The head of the entity shall be obliged to provide access to the employees from the Central Harmonisation Unit to documents, accounting records and the other information necessary for monitoring the functioning of the financial management and control and the internal audit to the employees from the Central Harmonisation Unit.

(2) The access referred to in paragraph (1) of this Article shall be provided upon received written authorisation by the Minister of Finance.

VII. UNDERTAKING MEASURES AGAINST IRREGULARITIES AND FRAUDS

Article 50

(1) The head of the public sector entity shall be obliged to both prevent the risk of irregularities and frauds and to undertake activities against irregularities and frauds.

(2) The head of the public sector entity shall appoint a person reporting on irregularities and suspicions for frauds or corruption and shall independently undertake activities referred to in paragraph (5) of this Article.

(3) All employees, including the internal auditors shall inform the head of the public sector entity or the person in charge of irregularities or suspicions of frauds or corruption.

(4) If the Internal Auditor has suspicion of fraud or corruption during the performance of the audit, he shall inform the Head of Internal Audit Unit, being obliged to submit written information to the head of the public sector entity and the person in charge of irregularities thereon.

(5) After the received report on existence of irregularities or suspicions of frauds or corruption, the person in charge of irregularities shall undertake the necessary measures and shall inform the Public Prosecutor's Office of the Republic of Macedonia and the Ministry of Finance – Financial Police Office and Financial Inspection of the Public Sector

thereon,, and within 15 days he/she shall inform in writing the person pointing out to the irregularities or frauds on the undertaken measures, except in case of an anonymous report.

(6) If the persons referred to in paragraph (3) of this Article are not informed on the appropriately undertaken measures, they shall inform the bodies referred to in paragraph (5) of this Article. The Central Harmonisation Unit shall not be body in charge of irregularities and frauds.

(7) Employees including the internal auditors reporting irregularities or suspicions of frauds shall be provided with protection on the identity and the acquired employment related rights pursuant to law.

(8) The Government of the Republic of Macedonia, upon proposal by the Minister of Finance, shall prescribe the procedure for preventing irregularities, the manner of mutual cooperation, the form and, the contents, the deadlines and the manner of informing on the irregularities.

Chapter VIII. INSPECTION SUPERVISION ON PUBLIC FINANCE and article 51 are deleted.

IX. CONTROL OF USAGE OF RESOURCES FROM THE EU FUNDS

Article 52

(1) Entities using resources from the European Union Funds shall be also obliged, in addition to the provisions of this Law, to take into consideration and to apply the special requirements for financial management, internal controls and internal audit, determined by the European Commission.

(2) All beneficiaries of the resources from the European Union Funds should enable the authorised officials from the Ministry of Finance, the inspectors from the European Commission and the European Court of Auditors free access to the whole documentation, the offices, the funds and the staff, taking into account the rules for security and good behavior.

X. VIOLATION PROVISIONS

Article 53

Fine in the amount of EUR 1.000 to 2.000 in denars equivalent shall be imposed on the head of the entity for perpetrated misdemeanor if:

1. he/she fails to establish Financial Affairs Department/Unit (Article 9);

2. he/she undertakes financial obligation for awarding subsidy, loan or guarantee to a third party or share in equity, not being determined by law. (Article 22 paragraph (1));
3. he/she fails to submit an Annual Financial Report to the Central Harmonisation Unit (article 47);

Article 54

Fine in the amount of EUR 1.000 to 2.000 in denars equivalent shall be imposed to the head of the public sector entity for perpetrated misdemeanor if:

1. He/she fails to establish an Internal Audit Unit. (Articles 30 and 31);
2. (Abolished by the Constitutional Court)
3. Responsible person or employed in the public sector entity internal audit is performed do not fulfils the obligations referred to in Article 39;
4. he/she fails provide access for the employees of the Central Harmonisation Unit to the documents, accounting records, and other information necessary for monitoring the functioning of the financial management and control and the internal audit. (Article 49);
5. he/she fails to undertake the necessary activities against irregularities and frauds. (Article 50 paragraph (1));
6. He/she fails to appoint a person in charge of irregularities. (Article 50 paragraph (2));
7. He/she fails to provide protection of the identity and the acquired employment related rights to an employee or an internal auditor, in cases of report on irregularities and suspicions of fraud or corruption, (Article 50 paragraph (7));
8. He/she fails to provide the authorised officials from the Ministry of Finance, inspectors from the European Commission and the European Court of Auditors, with free access to the whole documentation, the offices, the funds and the staff. (Article 52 paragraph (2));

Article 54-a

- (1) A fine from 4.000 to 5.000 euros in denars shall be imposed on the responsible legal entity that conducted the technical examination of Article 36 - g of this law if do not record, do not brotcast in live on the website of the Ministry Finance and if not placed footage for complete exam on the website of the Ministry of Finance .
- (2) A fine of 4.000 to 5.000 euros in denars shall be imposed on authority institution which conducts the examination of Article 36-g of this law, if not terminate the examination in accordance with paragraphs (4) and (5) of Article 36 - j of this law.

- (3) A fine of 500 to 1.000 euros in denars shall be imposed on authorized representative from paragraph (5) of article 36 - j of this law, if acted contrary paragraph (6) of Article 36-j of this law.

Article 55

- (1) Competent court shall conduct misdemeanor procedure and shall impose sanction for misdemeanors referred to in Articles 53 and 54 of this Law.
- (2) The Ministry of Finance shall request for initiating misdemeanor procedures to competent court.
- (3) For the offenses under this Law before submitting a request for initiation of misdemeanor procedure conducted settlement procedure pursuant to the Violations Law.

XI. TRANSITIONAL AND FINAL PROVISIONS

Article 56

- (1) The bylaws of this Law shall be adopted within one year after the entry into force of this law.
- (2) Until the day of entering into force of the by-laws referred to in paragraph of this Law, adopted pursuant to the Law on Public Internal Financial Control ("Official Gazette of the Republic of Macedonia", no. 22/07) and the Law on Internal Audit in the Public Sector ("Official Gazette of the Republic of Macedonia", no. 69/04 and 22/07).

Article 57

- (1) The head of the entity shall appoint Head of Financial Affairs Unit referred to in Article 9 of this Law, within 90 days from the day of entering into force of this Law.
- (2) The Head of Financial Affairs Unit, in accordance with the head of the entity, shall adopt plan for implementation and development of financial management and control referred to in Article 12, paragraph (1) of this Law, within six months from the day of entering into force of this Law.
- (3) The head of the entity shall appoint a person in charge of irregularities pursuant to Article 50 of this Law, within 90 days from the day of entering into force of this Law.

Article 58

The public sector entities shall be obliged to perform internal audit pursuant to Article 30, paragraph (3), indent 2 and Article 31 of this Law, within one year from the day of entering into force of this Law.

Article 59

The provisions of Article 35 paragraph (1) sub-paragraph 1 shall apply from 1 January 2017.

Article 60

(is deleted)

Article 61

With the day of entering into force of this Law the Law on Public Internal Financial Control (“Official Gazette of the Republic of Macedonia”, no. 22/07) and the Law on Internal Audit in the Public Sector (“Official Gazette of the Republic of Macedonia”, no. 69/04 and 22/07) shall cease to be valid on the day of entering into force of this Law.

Article 62

This law shall enter into force on the eighth day from the day it is published in the “Official Gazette of the Republic of Macedonia” and the provisions of Articles 36-a, 36-b, 36-c, 36-d, 36-e, 36-f, 36-g, 36 - h, 36 - i, 36 - j, 36 – k, 36-l, 36-m, 36-n, 36-o, 36-p, 36 q, 36 - r, 36-s and 36-t will begin to apply one year after the entry into force of this law.

Pursuant to Article 42, paragraph 4 from the Law on public internal financial control ("Official Gazette of the Republic of Macedonia" No. 90/09) the Minister of Finance adopted

RULEBOOK

FOR THE MANNER OF PERFORMANCE OF THE INTERNAL AUDIT AND THE MANNER ON REPORTING FOR THE AUDIT

I. GENERAL PROVISIONS

Article 1

This Rulebook regulates the manner of performance of the internal audit and the manner of reporting for the audit to the public sector entities.

Article 2

The internal auditors perform audits and prepare audit reports on the basis of strategic and annual internal audit plan and plan for separate audit, in compliance with the international standards for professional conducting of the internal audit issued by the Institute of Internal Auditors (IIA) and the best practices from the EU member states.

II. PERFORMANCE OF THE INTERNAL AUDIT

Strategic plan for performance of the internal audit

Article 3

The strategic plan contains:

Introduction;

Mission and vision of the internal audit unit;

Analysis of the situation (weaknesses) - review of the systems and processes in the entity where the performed risk assessment indicates on existence of high and medium risks;

Priorities (main goals) of the internal audit unit;

Measures (programs and activities) of the internal audit unit for improvement of the situation (weaknesses) of the systems and processes in the entity where exist high and medium risks; and

Determining the necessary funds for implementation of the priorities and the measures (budget of the internal audit unit) with an explanation and detailed calculations.

Article 4

- (1) The annual audit plan contains:
- (2) Audit type;
- (3) List of systems and processes planned for audit;
- (4) Clear, achievable and measurable goals for each audit; and
- (5) Possible indicators (time frame, available resources and possible engagement of external experts).
- (6) The engagement of external experts is planned for carrying out certain types of internal audit having regard to the scope, complexity, necessary qualifications or the availability of internal resources.
- (7) When planning the activities of internal audit unit shall be taken into consideration the time needed for preparation of the audit reports and the annual report.

Article 5

- (1) For execution of each audit, it is necessary the internal auditors and the external experts to have a letter of authorization signed by the head of the internal audit unit.
- (2) If the head of the internal audit unit performs internal audit the authorization shall be signed by the head of the entity.
- (3) The letter of authorization contains:
 - the head and the members of the audit team;
 - systems and processes that will be subject to an audit;
 - the objectives set out in the annual internal audit plan and
 - the time frame (beginning and end of the audit) and the deadline for issuing the final report on the performed audit.

Article 6

- (1) Internal auditors before the planned start of the audit shall make preliminary research to collect information in order to gain general understanding for the area they will audit.
- (2) The preliminary research is the basis for planning the audit and to determine:
 1. Audit objectives;

2. The scope of the audit and the specific areas that should be paid more attention because they are high risky, are important for the system and / or have weaknesses that are already known;
 3. The dates when need to be completed certain stages of the audit;
 4. The auditors to be engaged in auditing and who is head of the audit team who will perform check of the quality of the audit work, and
 5. The boundaries of the systems that will be subject to an audit and to identify all connections with other systems and other audits that are planned.
- (3) The preliminary research should include:
1. Review of the permanent audit dossier and the reports from previous audits, including the reports from the State Audit Office;
 2. Review of strategic and operational plans and organograms in the area that should be audited;
 3. Review of the budget and the given information to the management;
 4. Initial discussions with the heads of individual organizational units to determine the specific goals of the audited area ;
 5. Review of the relevant legal, secondary, internal and other acts.

Article 7

- (1) The audit begins with initial meeting that should be held between the management of the audited organizational unit and the head of the internal audit unit, accompanied by the head of the audit team and internal auditors who will perform the audit.
- (2) During the initial meeting the head of the internal audit unit performs the following activities:
 - presents the audit team in front of the management of the audited entity/organizational unit;
 - shows the audit objective and gives short overview of the approach that will be used and if the audit is conducting for first time gives detailed explanation;
 - explains that the internal audit will inform on the progress of the audit and that the assistance from the management will facilitate the audit itself;
 - requests additional information on the audited working process;
 - discusses with the management for the areas where internal audit believes should be given particular attention;
 - asks the management to point out the specific areas that they

consider should be given particular attention; and

- agrees on the list of documents that should be submitted by the audited entity/organizational unit.

(1) At the initial meeting to all participants shall be given a copy of the Charter for Internal Audit.

Article 8

(1) After the preliminary research and the initial meeting the internal auditors should prepare a plan for an individual audit.

(2) The plan for an individual audit contains:

1. Number and name of the audit in accordance with the annual audit plan;
2. Head of the audit team;
3. Audited entity/organizational unit;
4. Audited systems or processes;
5. Key objectives of the systems/processes established under the SMART method (specific, measurable, achievable, realistic and timely);
6. Short description of the system/process:

- name of system/process,

- resources entering the system/process (financial means, materials, employees, time, information and knowledge/ technology),

- name of the activities/steps of the process,

- description of activities (way of processing resources),

- controls related to activities (checks, reviews etc.),

- results (product, effects and outcomes) of the processing in the system,

- name of the person responsible for the activity and

- flow chart.

7. Significant findings on the audited system/process from previous audits;

8. Key contacts (list of persons to be contacted/interviewed);

9. Audit objectives;

10. Scope of audit;

11. Priorities/key issues and possible problems;

12. Access and audit techniques (types and levels of researches and testing to be performed; internal audit procedures related to collecting, analyzing, processing and documentation of data);

13. Members of the audit team (including external experts) and their tasks;

14. Scheduled dates for completion of: preliminary research, field work, preparation of the draft report, submitting of interim report and submitting final report.

Article 9

(1) The head of the audit team prepares an audit program for each audited system/process separately upon ascertaining the objectives of the systems/processes for audit.

(2) The audit program contains the following elements:

- objectives of the system/process/activity,
- control objectives (purpose for which the control is implementing),
- risks,
- identified controls,
- evaluation of identified controls versus risks,
- compliance tests (documented check whether the established controls are adequate and functioning properly),
- content tests (check whether the not functioning of the controls brought to error/loss),
- working document and
- conclusion/comment (information on the audit results as a whole or for specific step).

Article 10

(1) The field work is a systematic process of objective collecting of evidence to confirm the expert's opinion of the systems/processes that are subject to an audit. The assessment represents a totality of findings for the positive sides and weaknesses of the systems/processes in respect of identified risks and goals.

(2) The purpose of the field work is to carry out all audit activities stated in the audit plan for individual audit in order to achieve the audit objective.

(3) During the field working shall be applied audit methods that are in accordance with international standards and accepted best professional practices as such:

- supervising;
- confirmation;
- verification;
- researching;
- analysis; and
- evaluation.

- (4) Evidence should provide support to the findings of the audited systems/processes. Particular attention is paid to the efficiency of processes in accordance with the objectives.
- (5) The audit shall assess the quality and efficiency of the controls implemented by the management. The assessment shall be made on the basis of a comparison between the control objectives set out in the audit program and the reality that comes through testing and questioning. During the assessment are highlighting also the economic effects of excessive control.
- (6) The existing system/process shall be objectively described by preparation of graphic displays of the processes flow.

Article 11

(1) If the internal auditor has a suspicion of fraud or corruption during the execution of the audit, shall temporarily stop the audit and will inform the head of internal audit unit who has an obligation to provide written notification to the head of a public sector entity and the person responsible for irregularities.

(2) Upon informing for the serious irregularity or fraud, the internal auditor and the head of the internal audit unit will not discuss the irregularity or fraud with any other except the head of the entity or authorized officials.

III. REPORTING FOR THE AUDIT

Article 12

- (1) For each completed audit the internal auditors prepare an audit report in writing.
- (2) The internal auditors in the audit report provide the head of the entity and the head of the audited organizational unit with an assurance for the functioning of the audited systems and processes and the financial management and control system and state all irregularities, discrepancies and deficiencies.
- (3) Internal auditors in the audit report give recommendations for improving the current situation, minimize weaknesses and improve the efficiency of operations.
- (4) The recommendations shall be prepared based on existing legislation,

professional experience, best practices of EU member states in order to assist the head of the entity to:

- reduce the risks;
- increase the efficiency, effectiveness and economy of operation, and
- improve the quality of the financial management and control system.

(5) Recommendations given in the audit report should be: specific, measurable, achievable, realistic and timely.

Article 13

(1) The audit report generally contains the following elements: first page of the report, table of contents, executive summary, detailed report and annexes.

(2) The first page of the report contains: title of the report number and number and date of issuance of the report.

(3) In the table of content shall be stated: the title of the report, titles and subtitles of each section of the report and a list of all annexes.

(4) The executive summary of not more than three printed pages contains:

- Introduction and general information (general information about the audited area and why it is subject to an audit, the scope and main objectives of the audit, important aspects of the process which are excluded from the audit and why, when and why previously was conducted audit of the area)

- Key findings (paraphrasing the most important conclusions from the detailed report) and

- Key recommendations (stating only most priority recommendations listed in the action plan).

(5) The detailed report contains: introduction, description of system/process and findings and recommendations.

a) The introduction contains:

- basis for implementation of the audit,
- subject and scope of the audit,
- audit objective,
- short description of the used audit methodology,
- data for previous audit reports,
- where, when and by whom the audit is conducted,
- notification that the "audit is conducted in accordance with International standards for professional performance of the internal audit" if the

quality test supports such statement,

- name and surname and position/job post of the responsible persons of the audited entity/organizational unit and
- eventual limitations (lack of documentation available for review or unavailability of employees for interviews).

b) The description of the system/process is describing the system/process in the moment of the audit.

c) The finding contains:

- problems or weaknesses identified during the testing (short without many details and descriptions);
- cause of the problem or weakness (why it happens or not happens);
- effect (existing or potential consequences of weakness if possible quantified) and
- short conclusion.

d) Recommendations should:

- to be based on reliable information;
- to refer to the cause of the problem, not the symptoms;
- precisely to describe what needs to be done;
- to propose who should be responsible for taking the activities;
- to be clear, concise, simple and feasible;
- not to be ambiguous; and
- to refer to specific activity.

(6)The action plan contains: ordinal numbers, recommendation, priority, activities, responsible person and date of application.

(7)Annexes are: tables, graph, organizational charts, drawings, etc.

(8)The preparation of the report passes through the following three stages:

- draft report;
- interim report, and
- final report.

Article 14

(1) Draft report is first version of the report which is presented on the final meeting in front of the management of the audited entity/organizational unit in order to agree on the findings and to accept the recommendations of the audit.

(2) Draft internal audit report contains all elements listed in Article 16, paragraph 1 of this Rulebook, except the executive summary which is finalized at a later stage after receiving the response upon the interim report by the head of the audited entity/organizational unit.

(3) On the final meeting the auditor should:

- to give an short overview of the audit, including what has been done - (objectives, scope, procedures);
- to give an explanation for the approach used in determining the findings, conclusions and recommendations of the audit;
- to indicate the identified risks;
- to indicate the significant problems ascertained by the audit as well as the recommendations for dealing with identified risks;
- to point out on the significant problems ascertained with the audit that have been corrected in the meantime and
- to refer to less important issues ascertained with the audit.

1. The objective of the final meeting is:

- to keep the trust in the internal audit and its operation in a transparent, consultative and professional manner;
- to agree on the facts of the audit findings, and if disputes arise, the internal auditors will have the final word;
- to agree on recommendations and to describe the steps for implementation and
- to agree on a timeframe for implementation of the recommendations.

Article 15

(1) The interim report is the first official version of the audit report that is preparing within one month after finishing the audit and the head of internal audit unit shall submit it to the heads of the audited organizational units. The interim audit report includes also the results of the final meeting.

(2) The heads of the audited organizational units have a dead line of 10 working days from the day of receipt of the interim audit report submitted to answer to it.

(3) The answer to the heads of the audited organizational units upon the interim audit report contains comments on the contents of the report and an action plan for implementation of the recommendations with specifically defined period of performance and responsible persons.

- (4) The comments should contain real evidence in order to challenge the opinion of internal audit before the final report to be published.

Article 16

- (1) The final report consists of the final version of the executive summary, the interim report amended in accordance with accepted comments of the audited entities, the answer from the audited entities and the final action plan for implementing the recommendations.
- (2) The head of the internal audit unit shall submit the final report to the head of the entity and to the heads of the audited organizational units.

Article 17

The audit memorandum is short audit report that is used for:

- rapid and extraordinary audits that are made on a request of the management as well as for audit of the results from the actions taken after the audit;
- when during the audit will be noticed few problems; and
- as an interim report in longer audits.

Article 18

- (1) Internal audit unit shall keep records of the recommendations in order to have complete and timely information for their implementation.
- (2) The head of the audited organizational unit shall submit quarterly reports to the head of the entity and to the head of internal audit unit on the progress made in the implementation of the recommendations within the time frame established by the action plan. The quarterly report will serve to update the deadlines for implementing the recommendations, if necessary.
- (3) The internal auditors perform an assessment of the implementation of the recommendations during the performance of future audits.

IV. TRANSITION AND CLOSING PROVISIONS

Article 19

With the day of entry into force of this Rulebook, shall cease the Rulebook for the basic elements of the working manual, charter, annual plan and program for internal audit ("Official Gazette of the Republic of Macedonia" no.38/05).

Article 20

This Rulebook shall enter into force on the day after its publication in the "Official Gazette of the Republic of Macedonia".

No.136/2010
12.10.2010 year
Skopje

MINISTER OF FINANCE
Zoran Stavreski, MA

Pursuant to Article 26, paragraph (3) from the Law on Public Internal Financial Control ("Official Gazette of the Republic of Macedonia", no. 90/09), Minister of Finance publishes

INTERNATIONAL STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING (STANDARDS)

Attribute Standards

1000 - Purpose, Authority, and Responsibility

The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

Interpretation:

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization, including the nature of the chief audit executive's functional reporting relationship with the board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.

1000.A1 - The nature of assurance services provided to the organization must be defined in the internal audit charter. If assurances are to be provided to parties outside the organization, the nature of these assurances must also be defined in the internal audit charter.

1000.C1 - The nature of consulting services must be defined in the internal audit charter.

1010 - Recognition of the Definition of Internal Auditing, the Code of Ethics, and the Standards in the Internal Audit Charter

The mandatory nature of the Definition of Internal Auditing, the Code of Ethics, and the *Standards* must be recognized in the internal audit charter. The chief audit executive should discuss the Definition of Internal Auditing, the Code of Ethics, and the *Standards* with senior management and the board.

1100 - Independence and Objectivity

The internal audit activity must be independent, and internal auditors must be objective in performing their work.

Interpretation:

Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels.

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.

(1) - Organizational Independence

The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.

Interpretation:

Organizational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:

- Approving the internal audit charter;
- Approving the risk based internal audit plan;
- Approving the internal audit budget and resource plan;
- Receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters;
- Approving decisions regarding the appointment and removal of the chief audit executive;
- Approving the remuneration of the chief audit executive; and
- Making appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.

1110.A1 - The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results.

(2) - Direct Interaction with the Board

The chief audit executive must communicate and interact directly with the board.

1120 - Individual Objectivity

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest. In-

terpretation:

Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfill his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity, and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

International Standards for the Professional Practice of Internal Auditing (*Standards*) 1130 - Im-

pairment to Independence or Objectivity

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

Interpretation:

Impairment to organizational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations, such as funding.

The determination of appropriate parties to which the details of an impairment to independence or objectivity must be disclosed is dependent upon the expectations of the internal audit activity's and the chief audit executive's responsibilities to senior management and the board as described in the internal audit charter, as well as the nature of the impairment.

1130.A1 - Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

1130.A2 - Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.

1130.C1 - Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.

1130.C2 - If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.

1200 - Proficiency and Due Professional Care

Engagements must be performed with proficiency and due professional care.

1210 - Proficiency

Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

Interpretation:

Knowledge, skills, and other competencies is a collective term that refers to the professional proficiency required of internal auditors to effectively carry out their professional responsibilities. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organizations.

1210.A1 - The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

Inte 1210.A2 - Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

1210.A3 - Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.

1210.C1 - The chief audit executive must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1220 - Due Professional Care

Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

1220.A1 - Internal auditors must exercise due professional care by considering the:

- Extent of work needed to achieve the engagement's objectives;
- Relative complexity, materiality, or significance of matters to which assurance procedures are applied;
- Adequacy and effectiveness of governance, risk management, and control processes;
- Probability of significant errors, fraud, or noncompliance; and
- Cost of assurance in relation to potential benefits.

1220.A2 - In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.

1220.A3 - Internal auditors must be alert to the significant risks that might affect objectives, operations, or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.

1220.C1 - Internal auditors must exercise due professional care during a consulting engagement by considering the:

- Needs and expectations of clients, including the nature, timing, and communication of engagement results;
- Relative complexity and extent of work needed to achieve the engagement's objectives; and
- Cost of the consulting engagement in relation to potential benefits.
- International Standards for the Professional Practice of Internal Auditing (*Standards*) 1230

- Continuing Professional Development

Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.

1300 - Quality Assurance and Improvement Program

The chief audit executive must develop and maintain a quality assurance and improvement program

that covers all aspects of the internal audit activity. **Practice of Internal Auditing (Standards)**

Interpretation:

A quality assurance and improvement program is designed to enable an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

- Requirements of the Quality Assurance and Improvement Program

The quality assurance and improvement program must include both internal and external assessments.

- Internal Assessments

Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity; and
- Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.

Interpretation:

Ongoing monitoring is an integral part of the day-to-day supervision, review, and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools, and information considered necessary to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards.

Periodic assessments are conducted to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards.

Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.

1. - External Assessments

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The chief audit executive must discuss with the board:

- The form and frequency of external assessment; and
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.
- International Standards for the Professional Practice of Internal Auditing (*Standards*) Interpretation:

External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation.

A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organizations of similar size, complexity, sector or industry, and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.

An independent assessor or assessment team means not having either a real or an apparent conflict

of interest and not being a part of, or under the control of, the organization to which the internal audit activity belongs.

- Reporting on the Quality Assurance and Improvement Program

The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board.

Interpretation:

The form, content, and frequency of communicating the results of the quality assurance and improvement program is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards, the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.

- Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing"

The chief audit executive may state that the internal audit activity conforms with the *International Standards for the Professional Practice of Internal Auditing* only if the results of the quality assurance and improvement program support this statement.

Interpretation:

The internal audit activity conforms with the Standards when it achieves the outcomes described in the Definition of Internal Auditing, Code of Ethics, and Standards. The results of the quality assurance and improvement program include the results of both internal and external assessments. All internal audit activities will have the results of internal assessments. Internal audit activities in existence for at least five years will also have the results of external assessments.

- Disclosure of Nonconformance

When nonconformance with the Definition of Internal Auditing, the Code of Ethics, or the *Standards* impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the nonconformance and the impact to senior management and the board.

Performance Standards

2000 - Managing the Internal Audit Activity

The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.

Interpretation:

The internal audit activity is effectively managed when:

- *The results of the internal audit activity's work achieve the purpose and responsibility included in the internal audit charter;*
- *The internal audit activity conforms with the Definition of Internal Auditing and the Standards; and*
- *The individuals who are part of the internal audit activity demonstrate conformance with the Code of Ethics and the Standards.*

The internal audit activity adds value to the organization (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes.

2010 - Planning

The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals.

Interpretation:

The chief audit executive is responsible for developing a risk-based plan. The chief audit executive takes into account the organization's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organization. If a framework does not exist, the chief audit executive uses his/her own judgment of risks after consideration of input from senior management and the board. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls.

2010.A1 - The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

2010.A2 - The chief audit executive must identify and consider the expectations of senior management, the board, and other stakeholders for internal audit opinions and other conclusions.

2010.C1 - The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value, and improve the organization's operations. Accepted engagements must be included in the plan.

International Standards for the Professional Practice of Internal Auditing (*Standards*) 2020 - Communication and Approval

The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

2030 - Resource Management

The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

Interpretation:

Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimizes the achievement of the approved plan.

2040 - Policies and Procedures

The chief audit executive must establish policies and procedures to guide the internal audit activity.

Interpretation:

The form and content of policies and procedures are dependent upon the size and structure of the internal audit activity and the complexity of its work.

2050 - Coordination

The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts.

2060 - Reporting to Senior Management and the Board

The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.

Interpretation:

The frequency and content of reporting are determined in discussion with senior management and the board and depend on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management or the board.

2070 - External Service Provider and Organizational Responsibility for Internal Auditing

When an external service provider serves as the internal audit activity, the provider must make the organization aware that the organization has the responsibility for maintaining an effective internal audit activity.

International Standards for the Professional Practice of Internal Auditing (*Standards*) Interpretation

This responsibility is demonstrated through the quality assurance and improvement program which assesses conformance with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*.

2100 - Nature of Work

The internal audit activity must evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach.

2110 - Governance

The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organization;
- Ensuring effective organizational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organization; and
- Coordinating the activities of and communicating information among the board, external and internal auditors, and management.

2110.A1 - The internal audit activity must evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities.

2110.A2 - The internal audit activity must assess whether the information technology governance of the organization supports the organization's strategies and objectives.

2120 - Risk Management

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

Interpretation:

Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:

- Organizational objectives support and align with the organization's mission;
- Significant risks are identified and assessed;
- Appropriate risk responses are selected that align risks with the organization's risk appetite; and
- Relevant risk information is captured and communicated in a timely manner across the organization, enabling staff, management, and the board to carry out their responsibilities.

The internal audit activity may gather the information to support this assessment during multiple engagements. The results of these engagements, when viewed together, provide an understanding of the organization's risk management processes and their effectiveness.

Risk management processes are monitored through ongoing management activities, separate evaluations, or both.

2120.A1 - The internal audit activity must evaluate risk exposures relating to the organization's governance, operations, and information systems regarding the:

- Achievement of the organization's strategic objectives;
- Reliability and integrity of financial and operational information;

- Effectiveness and efficiency of operations and programs;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures, and contracts.

2120.A2 - The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.

2120.C1 - During consulting engagements, internal auditors must address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.

2120.C2 - Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organization's risk management processes.

2120.C3 - When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.

2130 - Control

The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

2130.A1 - The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organization's governance, operations, and information systems regarding the:

- Achievement of the organization's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programs;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures, and contracts.

2130.C1 - Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organization's control processes.

(1) - Engagement Planning

Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations.

(2) - Planning Considerations

In planning the engagement, internal auditors must consider:

- The objectives of the activity being reviewed and the means by which the activity controls its performance;
- The significant risks to the activity, its objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level;

- (1) The adequacy and effectiveness of the activity's governance, risk management, and control processes compared to a relevant framework or model; and

- (2) The opportunities for making significant improvements to the activity's governance, risk management, and control processes.

2201.A1 - When planning an engagement for parties outside the organization, internal auditors must establish a written understanding with them about objectives, scope, respective responsibilities, and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records.

2201.C1 - Internal auditors must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities, and other client expectations. For significant engagements, this understanding must be documented.

2210 - Engagement Objectives

Objectives must be established for each engagement.

2210.A1 - Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.

2210.A2 - Internal auditors must consider the probability of significant errors, fraud, noncompliance, and other exposures when developing the engagement objectives.

2210.A3 - Adequate criteria are needed to evaluate governance, risk management, and controls. Internal auditors must ascertain the extent to which management and/or the board has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must work with management and/or the board to develop appropriate evaluation criteria.

2210.C1 - Consulting engagement objectives must address governance, risk management, and control processes to the extent agreed upon with the client.

2210.C2 - Consulting engagement objectives must be consistent with the organization's values, strategies, and objectives.

International Standards for the Professional Practice of Internal Auditing (*Standards*) 2220 - En-

gagement Scope

The established scope must be sufficient to achieve the objectives of the engagement.

2220.A1 - The scope of the engagement must include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties.

2220.A2 - If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities, and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards.

2220.C1 - In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement.

2220.C2 - During consulting engagements, internal auditors must address controls consis-

tent with the engagement's objectives and be alert to significant control issues.

2230 - Engagement Resource Allocation

Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.

2240 - Engagement Work Program

Internal auditors must develop and document work programs that achieve the engagement objectives.

2240.A1 - Work programs must include the procedures for identifying, analyzing, evaluating, and documenting information during the engagement. The work program must be approved prior to its implementation, and any adjustments approved promptly.

2240.C1 - Work programs for consulting engagements may vary in form and content depending upon the nature of the engagement.

2300 - Performing the Engagement

Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.

2310 - Identifying Information

Internal auditors must identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.

International Standards for the Professional Practice of Internal Auditing (*Standards*) Interpretation:

tation:

Sufficient information is factual, adequate, and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organization meet its goals.

2320 - Analysis and Evaluation

Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.

2330 - Documenting Information

Internal auditors must document relevant information to support the conclusions and engagement results.

2330.A1 - The chief audit executive must control access to engagement records. The chief audit executive must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.

2330.A2 - The chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

2330.C1 - The chief audit executive must develop policies governing the custody and retention of consulting engagement records, as well as their release to internal and external parties. These policies must be consistent with the organization's guidelines and any pertinent regulatory or other requirements.

2340 - Engagement Supervision

Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

Interpretation:

The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement. The chief audit executive has overall responsibility for supervising the engagement, whether performed by or for the internal audit activity, but may designate appropriately experienced members of the internal audit activity to perform the review. Appropriate evidence of supervision is documented and retained.

2400 - Communicating Results

Internal auditors must communicate the results of engagements.

2410 - Criteria for Communicating

Communications must include the engagement's objectives and scope as well as applicable conclusions, recommendations, and action plans.

2410.A1 - Final communication of engagement results must, where appropriate, contain the

internal auditors' opinion and/or conclusions. When issued, an opinion or conclusion must take account of the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

Interpretation:

Opinions at the engagement level may be ratings, conclusions, or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk, or business unit. The formulation of such opinions requires consideration of the engagement results and their significance.

2410.A2 - Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

2410.A3 - When releasing engagement results to parties outside the organization, the communication must include limitations on distribution and use of the results.

2410.C1 - Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.

- Quality of Communications

Communications must be accurate, objective, clear, concise, constructive, complete, and timely.

Interpretation:

Accurate communications are free from errors and distortions and are faithful to the underlying facts. Objective communications are fair, impartial, and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances. Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information. Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy, and wordiness. Constructive communications are helpful to the engagement client and the organization and lead to improvements where needed. Complete communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions. Timely communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.

- Errors and Omissions

If a final communication contains a significant error or omission, the chief audit executive must communicate corrected information to all parties who received the original communication.

2430 - Use of "Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing"

Internal auditors may report that their engagements are "conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*", only if the results of the quality assurance and improvement program support the statement.

International Standards for the Professional Practice of Internal Auditing (*Standards*) 2431 -

Engagement Disclosure of Nonconformance

When nonconformance with the Definition of Internal Auditing, the Code of Ethics or the *Standards* impacts a specific engagement, communication of the results must disclose the:

- Principle or rule of conduct of the Code of Ethics or *Standard(s)* with which full conformance

was not achieved;

- Reason(s) for nonconformance; and
- Impact of nonconformance on the engagement and the communicated engagement results.

2440 - Disseminating Results

The chief audit executive must communicate results to the appropriate parties.

Interpretation:

The chief audit executive is responsible for reviewing and approving the final engagement communication before issuance and for deciding to whom and how it will be disseminated. When the chief audit executive delegates these duties, he or she retains overall responsibility.

2440.A1 - The chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.

2440.A2 - If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organization the chief audit executive must:

- (3) Assess the potential risk to the organization;
- (4) Consult with senior management and/or legal counsel as appropriate; and
- (5) Control dissemination by restricting the use of the results.

2440.C1 - The chief audit executive is responsible for communicating the final results of consulting engagements to clients.

2440.C2 - During consulting engagements, governance, risk management, and control issues may be identified. Whenever these issues are significant to the organization, they must be communicated to senior management and the board.

2450 - Overall Opinions

When an overall opinion is issued, it must take into account the expectations of senior management, the board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

Interpretation:

The communication will identify:

- *The scope, including the time period to which the opinion pertains;*
- *Scope limitations;*
- *Consideration of all related projects including the reliance on other assurance providers;*
- *The risk or control framework or other criteria used as a basis for the overall opinion; and*
- *The overall opinion, judgment, or conclusion reached.*

The reasons for an unfavorable overall opinion must be stated.

2500 - Monitoring Progress

The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

2500.A1 - The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior manage-

ment has accepted the risk of not taking action.

2500.C1 - The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.

2600 - Communicating the Acceptance of Risks

When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.

Interpretation:

The identification of risk accepted by management may be observed through an assurance or consulting engagement, monitoring progress on actions taken by management as a result of prior engagements, or other means. It is not the responsibility of the chief audit executive to resolve the risk.

Add Value

The internal audit activity adds value to the organization (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes.

Adequate Control

Present if management has planned and organized (designed) in a manner that provides reasonable assurance that the organization's risks have been managed effectively and that the organization's goals and objectives will be achieved efficiently and economically.

Assurance Services

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.

Board

The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organization. Typically, this includes an independent group of directors (e.g., a board of directors, a supervisory board, or a board of governors or trustees). If such a group does not exist, the "board" may refer to the head of the organization. "Board" may refer to an audit committee to which the governing body has delegated certain functions.

Charter

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

Chief Audit Executive

Chief audit executive describes a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the Definition of Internal Auditing, the Code of Ethics, and the *Standards*. The chief audit executive or others reporting to the chief audit executive will have appropriate professional certifications and qualifications. The specific job title of the chief audit executive may vary across organizations.

Code of Ethics

The Code of Ethics of The Institute of Internal Auditors (IIA) are Principles relevant to the profession and practice of internal auditing, and Rules of Conduct that describe behavior expected of internal auditors. The Code of Ethics applies to both parties and entities that provide internal audit services. The purpose of the Code of Ethics is to promote an ethical culture in the global profession of internal auditing.

Compliance

Adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.

International Standards for the Professional Practice of Internal Auditing (*Standards*) Conflict of

Interest

Any relationship that is, or appears to be, not in the best interest of the organization. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.

Consulting Services

Advisory and related client service activities, the nature and scope of which are agreed with the client,

are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.

Control

Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Control Environment

The attitude and actions of the board and management regarding the importance of control within the organization. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organizational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

Control Processes

The policies, procedures (both manual and automated), and activities that are part of a control framework, designed and operated to ensure that risks are contained within the level that an organization is willing to accept.

Engagement

A specific internal audit assignment, task, or review activity, such as an internal audit, control self-assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

Engagement Objectives

Broad statements developed by internal auditors that define intended engagement accomplishments.

International Standards for the Professional Practice of Internal Auditing (*Standards*) Engagement

Opinion

The rating, conclusion, and/or other description of results of an individual internal audit engagement, relating to those aspects within the objectives and scope of the engagement.

Engagement Work Program

A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan.

External Service Provider

A person or firm outside of the organization that has special knowledge, skill, and experience in a particular discipline.

Fraud

Any illegal act characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or busi-

ness advantage.

Governance

The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.

Impairment

Impairment to organizational independence and individual objectivity may include personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations (funding).

Independence

The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

Information Technology Controls

Controls that support business management and governance as well as provide general and technical controls over information technology infrastructures such as applications, information, infrastructure, and people.

Information Technology Governance

Consists of the leadership, organizational structures, and processes that ensure that the enterprise's information technology supports the organization's strategies and objectives.

Internal Audit Activity

A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organization's operations. The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

International Standards for the Professional Practice of Internal Auditing (*Standards*) International

Professional Practices Framework

The conceptual framework that organizes the authoritative guidance promulgated by The IIA. Authoritative Guidance is comprised of two categories - (1) mandatory and (2) strongly recommended.

Must

The *Standards* use the word "must" to specify an unconditional requirement.

Objectivity

An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.

Overall Opinion

The rating, conclusion, and/or other description of results provided by the chief audit executive addressing, at a broad level, governance, risk management, and/or control processes of the organization. An overall opinion is the professional judgment of the chief audit executive based on the results of a number of individual engagements and other activities for a specific time interval.

Risk

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Risk Appetite

The level of risk that an organization is willing to accept.

Risk Management

A process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organization's objectives.

Should

The *Standards* use the word "should" where conformance is expected unless, when applying professional judgment, circumstances justify deviation.

Significance

The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance, and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

Standard

A professional pronouncement promulgated by the Internal Audit Standards Board that delineates the requirements for performing a broad range of internal audit activities, and for evaluating internal audit performance.

International Standards for the Professional Practice of Internal Auditing (*Standards*) Technology-

based Audit Techniques

Any automated audit tool, such as generalized audit software, test data generators, computerized audit programs, specialized audit utilities, and computer-assisted audit techniques (CAATs).

Pursuant to Article 26, paragraph (4) from the Law on Public Internal Financial Control ("Official Gazette of the Republic of Macedonia", no. 90/09), the Minister of Finance adopted:

RULEBOOK FOR THE CHARTER FOR INTERNAL AUDIT

Article 1

This Rulebook regulates the charter for internal audit.

Article 2

Charter for internal audit is an internal act of the public entity that defines the performance of the internal audit, the rights of internal auditors, determines the position of the internal audit within the organization, authorizes access to records, personnel and property essential to the execution of the work and defines the scope of work of the internal audit and establishes goals, delegations and responsibilities of the internal audit.

Article 3

Charter for Internal Audit is prepared by the Head of Internal Audit Unit.

The head of the Internal Audit Unit prepares a Charter for internal audit also for the public sector entity in which the internal audit is carried out on the basis of an agreement.

Article 4

- A copy from the adopted Charter for Internal Audit, the Head of the entity is obliged to submit to the Central Harmonization Unit of the public internal financial control system in the Ministry of Finance.

Article 5

The Charter for Internal Audit contains:

- Subject of the charter
- Internal audit function
- Internal audit objective
- Independence
- Competence
- Role and scope
- Responsibilities
- Reporting
- Relationship with the State Audit Office
- Signatures of the head of the Internal Audit Unit and the Head of the entity

Article 6

The text of the Charter for Internal Audit is published on the website of the Ministry of Finance and it is a subject to constant monitoring and periodic updating.

Article 7

This Rulebook enters into force one day after publication in "Official Gazette of the Republic of Macedonia".

No.136/2010

12.10.2010

Skopje

MINISTER OF FINANCE

Zoran Stavreski, MA

5. INTERNAL AUDIT CHARTER

In continuance is given model of the Internal Audit Charter that should be adjusted for every specific subject from the public sector.

Pursuant to Article 3, point 44 and Article 26, paragraph 1 from the Law on public internal financial control ("Official Gazette of the Republic of Macedonia", no.90/09),

of _____

(Head of the public sector entity)

(name of the public sector entity)

adopted this

INTERNAL AUDIT CHARTER

1. Subject of the charter

This charter establishes the frame in which _____ will function with aim of

(Internal Audit Unit in – name of the subject)

improving the working of _____ .

(name of the public sector entity)

2. Internal audit function

Internal Audit is an independent activity of objective assurance and consulting that takes place in the public sector determining whether acceptable policies and procedures are followed, legislative requirements and established standards are met, resources are used efficiently and economically, planned objectives (missions) are accomplished effectively and the objectives of the public sector entity are met.

3. Internal audit objective

The objective of the internal audit is to provide additional assurance to the government, relevant minister, the head and the management of the public sector entity that the implementation of management and control mechanisms is adequate, economical and consistent with the generally recognised standards and national legislation. The internal audit furnishes head of the public sector entity with analyses, recommendations, advices and information concerning the activities reviewed.

4. Independence

1. The internal audit is an independent of the activities it audits in order to ensure objective judgement and impartial advice.
2. The internal auditor does not have competence neither is responsible for the activity reviewed. The internal audit by advising may be involved in the developing or implementing departmental policies, systems and procedures in adherence to any past or present recommendations made by the Internal Audit Unit.

5. Competence

1. The competence of the Internal Audit Unit derives its authority from the Law on public internal financial control ((“Official Gazette of the Republic of Macedonia”, no.90/09).
2. The Internal Audit Unit is authorised to conduct regularity and financial audits, system based audits, IT-audits and performance audits on the work (from a point of view of economy, efficiency and effectiveness).
3. The Internal Audit Unit reports to the Head of public sector entity through its Head and submits reports to the auditee and to the Central Harmonisation Unit for Internal Audit in the Ministry of Finance.
4. In order to carry out responsibilities, the Head and the internal auditors from the Internal Audit Unit are authorised to have full, free and unrestricted access to all documents, property and staff relevant to the performance of internal audits. Head of the public sector entity should co-operate in providing information and explanations to the Head of Internal Audit Unit or the internal auditors for the effective and efficient performance of the audits.

6. Role and scope

1. The role of internal audit is to identify and understand the potential risk in the activities of the public sector entity and to examine and evaluate the adequacy and effectiveness of the internal control systems established to control such risk.
2. The scope of the internal audit is unrestricted and includes adherence to centrally prescribed policies, directives and procedures (including those emanating from the international commitments of the Republic of Macedonia and/or from membership within international groupings), and promotion of the economy, efficiency and effectiveness of the activities of the public sector entity in the interest also of transparency in the execution and sustainability of the public services.
3. The Internal Audit Unit has unrestricted access to all activities undertaken by the public sector in order to review, assess and report on:

- a) the adequacy and effectiveness of the systems of financial, operational and management control and their operation in practice in relation to ascertained risks;
- b) the extent of compliance with policies, standards, plans and procedures and their financial effects;
- c) the extent of compliance with laws and regulations of the Republic of Macedonia and those emanating from the international commitments, including reporting requirements of national and international regulatory bodies;
- d) the extent to which resources are acquired economically, used efficiently, duly accounted for and safeguarded from losses of all kinds arising from waste, extravagance, inefficient administration, not enough economy, efficiency and effectiveness, fraud or other causes;
- e) the suitability, accuracy, reliability and integrity of financial and other information and the means used to identify, measure, classify and report such information;
- f) the integrity of processes and systems, including those under development, to ensure that controls offer adequate protection against error, frauds and losses of all kinds and that the process aligns with the objectives of the public sector entity;
- g) the suitability of the organisation of the subjects and other units audited, for carrying out their functions and to ensure that public services are provided in way which is economical, efficient, effective, transparent and sustainable;
- h) the actions taken by the Head of the subject to remedy weaknesses identified by the internal audit and to confirm that good practice is identified and communicated widely.

7. Responsibilities

The Internal Auditor shall function in compliance with the Standards for Professional Practice of the internal audit and the Code of Ethics.

1. The head of the Internal Audit Unit shall be responsible for:
 - a) effective performance of all types of audits;
 - b) effective management and development of the internal audit in the public sector entity by providing the necessary professional, technical and operational directions that emanate from the international audit standards, guidelines and practices;
 - c) providing effective functioning and independence of the Internal Audit Unit within the frames of the public sector entity with no direct responsibility for, nor competence over any of the audited activities;
 - d) preparation of strategic plan based on the objective and scope of the internal audit and on the objective understanding of risks to which the public sector entity is exposed, and submission of the plan to the Head of the public sector

entity for endorsement;

- e) preparation of an annual operational plan for execution of the strategic plan. When preparing the plan will be taken into consideration the policies and directives of the Central Harmonisation Unit of the internal audit in the Ministry of Finance, interests of the Head of the public sector entity and the risk assessments of the activities of the public sector entity carried out by the Internal Audit Unit from time to time. The annual audit plan contains the key areas that will be audited, defines the tasks to be performed, determines the dead lines and needed resources;
- f) realization of the plans submitted to, and approved by the public sector entity and for completion of other ad-hoc assignments that might be required in order to fulfil the role and cover the scope of the internal audit within the public sector entity;
- g) giving proposals to the Head of the subject and to the Central Harmonisation Unit of the internal audit in the Ministry of Finance in regard to the resources that are required to meet the approved audit plans;
- h) maintaining of a professional level of the employees in the Internal Audit Unit by providing sufficient level of knowledge, skills and experience;
- i) providing a continuous and timely internal audit for the needs of the Head of the subject completely respecting the confidentiality of the work.

8. Reporting

1. The Internal Audit Unit formally will inform the Head of the public sector entity for the results of its work.
2. The previous audit report shall be produced within one month of the conclusion of the audit and shall be submitted to the auditee and to the Head of the public sector entity responsible for the audited areas. The report contains findings and recommendations arising from the assessment of the reliability and adequacy of that audited parts of the internal control system. The draft version of the previous audit report will be discussed with the auditee for consolidation and precising prior to the issue of the previous report.
3. In case of fraud or financial irregularity, the internal audit in writing shall inform the Head of the subject and the person in charge of irregularities.
4. The Internal Audit shall report to the Head of the subject throughout the year, at least on a quarterly basis, for the achieved results against the adopted audit plans and shall explain any variation from the plan.
5. The Internal Audit Unit submits an Annual Report on the activities during the year to the Head of the public sector entity. A copy of the report shall be submitted to the Central Harmonising Unit for internal audit in the Ministry of Finance latest by 10th May next year. As a minimum, the report shall include:
 - summary for performed audits;
 - analysis of the common or significant weaknesses;

- a comparison of realized audits with planned;
- details for the findings from significant audits or investigations where urgent action was required, but has not been taken, including the findings identified in the audit reports from previous years.

9. Relationship with the State Audit Office (SAO)

The relationship between the Internal Audit Unit and SAO shall be in accordance with the following conditions:

- a) The communication between SAO and the Internal Audit Unit shall be realized only personally through the General Auditor and the Head of Internal Audit Unit.
- b) The Head of the Internal Audit Unit shall discuss with the audit plans with the General Auditor regarding the main tasks of the internal audit, with primary objective to avoid duplication of the activities and the resources.
- c) The working documents of the Internal Audit Unit, that might be sensitive or to have restrictions of their contents, may be available to SAO only on request by the General Auditor.
- d) The Head of the subject is owner of the reports prepared by the Internal Audit Unit and they may be available to SAO if they are directly requested by the Head of the public sector entity.
- e) Both the SAO and the Head of the Internal Audit Unit agree in a spirit of mutual trust, respecting their independence, to inform each other if any of them discover, during an audit assignment, that there is a serious suspicion for bad management and/or fraud.
- f) Both SAO and the Head of the Internal Audit Unit shall inform each other and mutually shall participate in any training initiative that is under their competences, including the EU initiatives intended for control and protection of the financial interests of EU.

Date:

Head of Internal Audit Unit

Head of subject

A copy of the signed Audit Charter shall be submitted to the Central Harmonization Unit for internal audit in the Ministry of Finance.

Based on Article 26, paragraph 4 from the Law on public internal financial control ("Official Gazette of the Republic of Macedonia" No.90/09) the Minister of Finance adopted

RULEBOOK FOR CODE OF ETHICS OF THE INTERNAL AUDITORS

Article 1

This Rulebook regulates code of ethics for internal auditors.

Article 2

Code of Ethics of the Internal Auditors is enclosed which is an integral part of this Rulebook.

Article 3

On the day of entry into force of this rulebook will cease the Rulebook for the manner of performing the duties of the internal audit ("Official Gazette of the Republic of Macedonia" no.72/03).

Article 4

This rulebook shall enter into force on the eighth day of publication in "Official Gazette of the Republic of Macedonia".

No.136/2010

MINISTER OF FINANCE

12.10. 2010

Zoran Stavreski, MA

Skopje

CODE OF ETHICS

Introduction

The purpose of the Code of Ethics of the Institute of Internal Auditing (issued in January 2009) is to promote an ethical culture in the global profession of internal auditing

Internal audit shall mean an independent objective assurance and consulting activity, designed to add value and improve the entity `s operations. It shall help the entity in accomplishing its objectives, by applying a systematic, disciplinary approach for assessing and improving the effectiveness in the process related to risk management, control and governance.

The Code of Ethics is a necessary and appropriate for the profession of internal auditing, founded as it is, based on trust on objective assurance for governance, risk management and control.

The Code of Ethics of the Institute exceeds the definition of internal audit that includes two basic components:

1. Principles that are relevant to the profession and practice of internal audit;
2. Rules of Conduct that describe behavior norms expected of internal auditors.

These rules help in interpreting the principles in practical application and the purpose is to govern with ethical conduct of internal auditors.

"The Internal auditors" are the members of the Institute, holders or applicants for professional certification by the Institute and those who provide internal audit services within the definition of internal audit.

Application and implementation

This Code of Ethics applies to the subjects and individuals who provide services to internal audit.

For members of the Institute and the holders or candidates for professional certification of the Institute, breaches of the Code of Ethics will be evaluated and administered according to laws and administrative directives of the Institute

The fact that a certain kind of behavior is not mentioned in the Rules of Conduct does not mean that it is acceptable or appropriate, therefore, members, certificate holder or applicant may be responsible for disciplinary offenses.

CODE OF ETHICS

Principles

Basic principles of professional ethics that must be observed by the internal auditors in their work are::

1. Integrity

The integrity of internal auditors creates trust and thus provides a basis for the reliability of their assessment.

2. Objectivity

The Internal auditors pointed the highest level of professional objectivity in the collection, evaluation and transmission of information about the activity or process are investigating. Internal auditors conduct a balanced assessment of all relevant circumstances and upon them do not affect their own interests and others formed opinions.

3. Confidentiality

The Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation so to proceed.

4 . Competence

The Internal auditors apply the knowledge, skills and experience needed in the execution of internal audit.

Rules of Conduct

1. Integrity

Internal auditors:

- 1.1 perform their duty honestly, carefully and responsibly;
- 1.2 respect the law and disclose information that is expected to be disclosed by law and the profession ..
- 1.3 avoid participation in illegal work or activities as well as activities that discredit the profession of the internal auditor or the public sector entity;
- 1.4 observe and contribute to achieving legal and ethical objectives of the organization.

2. Objectivity

Internal auditors:

2.1 do not participate in any activity or relationship that could damage or be considered damaging to the fair assessment. Such participation includes activities or relationships that may be in conflict with the interests of the organization.

2.2 do not accept anything that might harm or be believed to be hurting their professional opinion.

2.3 disclose all material facts are known, which, if not disclosed, could impair the notification of the activities reviewed.

3. Confidentiality

Internal auditors:

3.1 be careful in the use and protection of data that are available when performing the audit; and

3.2 do not use any information for personal gain or in any manner that would be contrary to law or detrimental to the legitimate and ethical objectives of the organization

4 . Competence

Internal auditors:

4.1 apply knowledge, skills and experience necessary to carry out the audit;

4.2 carry out internal audit in accordance with international standards for professional performance of internal audit.

4.3 continually improve themselves and to prove their expertise and quality of their services