



**Republic of Macedonia
Ministry of Finance**

**POLICY PAPER
FOR DEVELOPMENT OF PUBLIC INTERNAL FINANCIAL CONTROL IN THE REPUBLIC OF MACEDONIA FOR
THE PERIOD FROM 2015 UNTIL 2017**

Skopje, August 2014

INTRODUCTION

The Policy paper for development of public internal financial control from 2015 until 2017 is actually a medium-term plan for development of the system of internal financial control in the public sector in the Republic of Macedonia and it is a strategic document of the Government of the Republic of Macedonia.

This policy paper is a third in this area and aims established system of internal financial control in the public sector further to develop, as a tool that will serve to the management for responsible, successful and transparent management of national and European Union funds.

The system of internal financial controls comprises of financial management and control and internal audit and their harmonization. The development of this system in the Republic of Macedonia and its implementation is carried out in accordance with international standards and best practices of the European Union, taking into account the specificities of the public sector in the Republic of Macedonia.

The previous policy paper for the development of public internal financial control in the Republic of Macedonia, which covered the period from 2010 to 2012, was focused on creating the necessary conditions and assumptions for the establishment and development of an effective system of internal financial control in the public sector in the Republic of Macedonia. It, include preparation and adoption of bylaws pursuant to the Public Internal Financial Control Law adopted in 2009, international standards and EU best practice and organizational establishment of the system of internal control in the budget users.

Policy paper for Development of Public Internal Financial Control in the Republic of Macedonia for the period from 2015 to 2017 is focused on the activities for performing in practice established system of internal financial controls and increasing awareness of the importance and benefits of this system by strengthening financial management and control and internal audit.

The development of the system of internal financial controls is a continuous process in which the heads of public sector entities are required to manage according the principle of "value of money" which implies an active management approach, where in the focus is not only the questions "how and whether we are spending within the planned resources", but also the questions of "what and how we are spending and what goals and outcomes we are achieving".

To ensure sustainability of public finances in the short and medium term, it is necessary to improve financial management through appropriate planning, financial reporting, measurement of the results, and establishment of control mechanisms that allow managers sufficient level of confidence in delegating tasks and responsibilities.

Improved regulation and methodology of work in this area has created a good basis for the systematic development of management in the public sector by imposing an obligation to the budget users to strategically plan, manage with risks, to give authorizations and responsibility for implementation of the objectives and management of budgetary resources to develop a system of recording and reporting, conduct a self-assessment of the financial management and control, to use the work of internal audit through implementation of the recommendations and by that timely to address weaknesses and deficiencies in financial management and control.

Central Harmonization Unit of the Ministry of Finance provides support in the implementation of the system of internal financial controls in all budget users, through coordination and harmonization of activities related to the development and implementation of this system in the public sector in the Republic of Macedonia.

Reforms referring to the organisation and the manner of working of the state administration bodies, budget process, accounting in the public sector, as well as the process of enhancing and strengthening the responsibility of the management in the public sector, are inseparable form the further enhancement of the public financial control

system. Therefore, it is necessary to determine further guidelines on development of the internal control system so as to ensure complementarity of the indicated reforms and contribution to responsible, transparent, efficient, effective and economical management of national and EU funds.

II. PUBLIC INTERNAL FINANCIAL CONTROL CONCEPT (PIFC)

PIFC concept is developed by the European Commission to help the candidate countries to improve the management of public assets, national, and EU funds in the understanding and implementation of a well developed and effective system of internal controls.

This concept is an internal control framework for the public sector that the candidate countries must accept to meet the requirement of Chapter 32 of the accession negotiations. Component of internal control of PIFC based on COSO Framework¹ and internal audit component of the International Professional Practices Framework of the Institute of Internal Auditors (The IIA's International Professional Practices Framework - IPPF)². PIFC model also includes the function of the central harmonization as holder of the rearrangement process³.

The concept of public internal financial control requires leadership structure, and managers to make decisions based on the "value of money", which means providing quality and timely services with less public funding, and that requires quality financial accounting information systems.

This concept emphasizes leadership structure and its responsibilities and this is one of its most important parts. The head of the organization is responsible for implementing appropriate, effective and efficient system of internal financial control. Such a system requires within the organizational structure to be established clear lines of authority and responsibility at all levels of management and to be properly applied.

Public sector should manage with the resources in a manner, which provides best effects in conditions of limited resources and this can be achieved only if efficient control system is established, which will ensure compliance with both national and EU regulations.

Practical implementation of the concept of PIFC is performed through:

- establishment and development of financial management and control,
- establishment and development of functionally independent internal audit and
- coordination and harmonisation of the establishment of financial management and control and internal audit in the public sector by the Central Harmonisation Unit within the Ministry of Finance.

Financial management and control is a system of policies, procedures and activities established by the head of the organization in order to provide reasonable assurance that the objectives of the organization are achieved. This system is based on the responsibilities of the heads of the entity for financial management of asset and process of internal control, while internal audit, as the unit which is organizationally and functionally independent, evaluates the effectiveness of internal controls. Central Harmonisation Unit establishes and coordinates financial management and control and internal audit in the public sector entities at central and local level. Its mission is to provide appropriate working methodology, guidelines, instructions, guidelines for financial management and control and internal audit in the public sector.

¹ COSO integrated framework for internal control allows organizations to effectively and efficiently develop internal control systems that will adapt to changes in work and work environment, will mitigate the risks to an acceptable level and to support sound decision-making and management organization .

² IPPF Framework for IIA professional practices are mandatory and strictly recommended guidelines for performing internal audits that include the official definition of Internal Auditing, the Code of Ethics of the IIA, the revised International Standards for the Professional Practice of Internal Auditing and practical advice and guidance.

³ Source: Newsletter No. 5 of the European Commission of the second Public Internal Control (PIC) Conference with EU Member States and Candidate Countries held in The Hague, 15/16 May 2014

The development of the financial management and control system in the public sector requires from the budget users improvement of the efficiency and effectiveness of operations and strengthening the responsibilities of managers in the way of managing of the available resources, liabilities, costs and results. The development of this system together with the development of the budget system go in the direction of linking of strategic and budget planning, developing of program planning, defining clear objectives operations, establishing indicators of success and developing of a system for monitoring of the implementation.

All stated, to be successfully implemented in practice, requires much more detailed information about costs, revenues, assets, liabilities, i.e. their structure, behavior patterns, place of occurrence and the effects they have on the long-term sustainability of specific programs, projects, activities, processes and similar.

PIFC concept is an essential part of the reform of public administration. Modernising of financial management and control is a precondition for successful implementation of efficient management by establishing substantial performance indicators that are important condition for implementation of risk management process. The best effects are expected to be achieved when these reforms are carried out simultaneously.

III. ACHIEVED RESULTS

The development of the system of internal financial control in the public sector in the Republic of Macedonia in the so-far period was systematically guided through two policy papers for the development of this system, which covered the period from 2006 to 2008 and from 2010 to 2012. Action plans of these policy papers were implemented with help of implemented projects funded by the EU.

Achieved results in the area of public internal financial control are relating to:

- established legislative and institutional framework of the system of internal financial control in the public sector
- introducing of decentralized system of managing of budget funds
- increased level of understanding of the importance of the system of internal financial control in the public sector
- strengthened internal financial controls through prepared working procedures for financial processes
- strengthened coordinative and advisory role of financial affairs units
- strengthened process of linking strategic and budget planning at central level
- started introduction of performance indicators and system for monitoring the results
- started introduction of risk management
- improved Treasury system in the part of recording of undertaken multiannual obligations
- performed international CIPFA certification of 45 internal auditors and
- performed international CIPFA certification of 49 accountants from public sector of which 23 have gained international CIPFA diploma.

3.1. Legislative Framework

Basis of overall legislative PIFC framework is given in the Stabilization and Association Agreement, where Chapter VIII - Policy of Cooperation Article 92 for internal financial control in the public sector, thus envisaging adoption of appropriate regulations, the purpose of which is developing transparent, efficient and economic PIFC. There are no regulations of Acquis in relation to internal financial control in the public sector, however the regulations in this area

are harmonized with the internationally accepted internal control and internal audit standards, as well as the best EU practices.

In July 2009, Law on PIFC was adopted ("Official Gazette of the Republic of Macedonia", no. 90/09). This Law determines the framework for establishing and developing financial management and control and internal audit in the public sector, methodology, standards and other issues of relevance for establishment, development and implementation of public financial control system in the public sector, as well as the competence of the Central Harmonization Unit, being in charge of coordination and harmonization of the establishment and development of this system.

The Law also governs the establishment of Financial Affairs Units (FAU's) and Internal Audit Units (IAU's) within the public sector entities.

Pursuant to the PIFC law, the following by-laws on financial management and control were adopted⁴:

- Rulebook on the Manner of Implementation of General Financial Processes;
- Rulebook on the Manner of Giving Authorisation,
- Rulebook on the Manner of Performing Activities under the Competence of the Financial Affairs Units;
- Internal Control Standards in the public sector and
- Rulebook on the Form and the Contents of Reports and Statement on Quality and the Status of Internal Controls under the Annual Financial Report.

By adopting the Rulebook on the Manner of Implementation of General Financial Processes, legal basis for implementing decentralised public funds management system, was established.

Pursuant to the Law, the following by-laws on internal audit were adopted⁵:

- Rulebook on the Manner of Carryng Out Internal Audit and the the Manner of Audit Reporting;
- Rulebook on Internal Audit Charter;
- Rulebook on the Code of Ethics of Internal Auditors;
- Rulebook on the Programme and the Manner of Taking the Exam for Certified Internal Auditor in the Public Sector and
- International Standards on Professional Praticce of Internal Auditing.

In addition, pursuant to the PIFC Law, Decree on the Procedure for Preventing Irregularities, the Manner of Mutual Cooperation, Form, Contents, Deadlines and the Manner of Reporting Irregularities⁶ was adopted.

Methodological framework, determined under the Law on PIFC and the adopted rulebooks are thoroughly presented in the Rulebook on Financial Management and Control and the Rulebook on Internal Audit published on the website of the Ministry of Finance⁷.

In December 2013, the Law for Amending the Law on Public Internal Financial Control was adopted, that defines the conditions and manner of conducting the examination for certified internal auditor in the public sector⁸. Given that the procedure for the examination for certified internal auditors in the public sector is regulated by this law, on 31st of

⁴ Published in the "Official Gazette of the Republic of Macedonia", nos. 147/10 and 34/11.

⁵ Published in the "Official Gazette of the Republic of Macedonia", no. 136/10

⁶ „Official Gazette of the Republic of Macedonia“ no. 63/11 dated 9th May 2011

⁷ <http://www.finance.gov.mk>

⁸ Published in the "Official Gazette of the Republic of Macedonia", no.188/13

March 2014 was adopted Rulebook on termination of the Rulebook for the program and the manner of the examination for Certified Internal Auditor⁹.

Law for financial inspection in the public sector was adopted on 31 May 2013¹⁰ and in March 2014 was amended as to its approximation with the Inspection Law.

3.2. Institutional Framework

The institutional framework for the establishment and development of the system of internal financial controls are public sector entities, which have obligation for its establishment and Central Harmonization Unit, as an organizational unit within Ministry of Finance, responsible for coordinating the activities of the establishment and development of this system.

In so-far period, the Central Harmonization Unit was engaged in the preparation of primary and secondary legislation and strengthening of human resources and their continued training.

3.2.1 Financial Management and Control

Budget users started the process of implementation of financial management and control by establishing units for financial affairs and appointing heads of these units which are in charge of development of financial management and control. In all Ministries, Funds and bigger budget users from first line and in most of the municipalities are established units for financial affairs. Heads of Financial Affairs Units are assigned in 55% of the entity from the central level and in 43% of local level and in the City of Skopje.

Financial management and control is often perceived only through the existence of units of financial affairs, which in some institutions still are geared more towards the "financial administration" than taking coordinated action to develop financial management and control. It should be noted that the financial management and control is not only units responsible for financial affairs and the head of this unit is not only one who should be responsible for the budget of the organizational units and their programs and projects. Financial Affairs Unit should become a key supporter and coordinator of the system of financial management and control, a process that is started, but not enough developed in all budget users.

In the upcoming period will continue this process of strengthening coordination and advisory function of financial affairs units for support of the management at all levels within the institution.

Difficulties in establishing of the institutional framework of this system appear in smaller institutions at central and local level, for which there is a need for exemption from the obligation for establishing financial affairs unit for the institutions whose realized budget in the previous year is below 50 million denars and the head of the entity will assign person responsible for the establishment and development of financial management and control.

According to the regulation on public internal financial control, budget users from the legislative, executive and judicial government, funds, municipalities and the City of Skopje, establish and develop a system of financial management and control in accordance with Plans for the establishment and development of financial management and control, in which determine the activities and the persons responsible for their implementation and deadlines. For the establishment, development and implementation of financial management and control, 49% budget users from the central and 44% from the local level adopted Plans for the establishment and development of financial management and control. Central Harmonisation Unit in the upcoming period will undertake measures and actions for monitoring the implementation of the plans and its annual updating.

In 2012 started implementation of a decentralized system of management of public funds, or application of managerial accountability in financial management and control. As of April 2014, 85% of institutions at the central level and 74% of the municipalities adopted Decisions for internal distribution of the total approved budget, and 67% of the institutions at the central level and 36% of the municipalities adopted Decisions for general authorizations. In the next period this process needs to be improved due to which Central Harmonization Unit will conduct an analysis

⁹ Published in the "Official Gazette of the Republic of Macedonia" no.57/2014

¹⁰ Published in the "Official Gazette of the Republic of Macedonia", no.82/13

of the established mechanisms of managerial responsibility, upon which will be developed Guidelines for managerial responsibility.

From the above it can be concluded that the development of financial management and control of the central level takes place with better intensity compared with the same on local level, so in the next period will be undertaken additional activities by which will be enhanced implementation of the system of local level.

Undertaken activities for establishment and development financial management and control in the so-far period were more directed towards the development of control, rather than the development of financial management, or in documenting business processes emphasis was placed on their compliance with regulations and less on providing economy, effectiveness and efficiency in the realization of the funds approved with the budget. Therefore, it is needed budget users to adopt or to improve/update internal procedures for the planning and execution of the budget.

In order to implementation of the adopted regulation and establishing a system of financial management and control in the public sector entities, the Central Harmonization Unit organized several trainings and workshops, which were primarily aimed to raising awareness of the importance of this system. With the trainings were covered managers and employees in the units of financial affairs at central and local level, as well as staff from other organizational units. In the part of the institutions there are still insufficient understanding of the system of financial management and control, and the importance of its implementation at all levels, not only in the units of financial affairs. However, some institutions are a good example for promotion of this system.

By adopting the methodological framework for risk management, as a part of the Financial Management and Control Manual, and the performing of trainings in this area, the process of embedding risk management into planning processes in the public sector is started, but in small number of institutions is applied in practice. In order to strengthen it's fully implementation in the institutions, further elaboration of methodology and appropriate updating of the Manual on financial management and control is needed, as well as conducting trainings for managers and employees in selected pilot institutions.

3.2.2 Internal Audit

According to the Law on Public Internal Financial Control budget users, funds, municipalities and the City of Skopje, agencies and other institutions established by law, public enterprises, public institutions and other entities that are state-owned or state is a shareholder, should establish an internal audit and Central Harmonization Unit to harmonize and coordinate activities for the establishment of this system.

Almost in all Ministries, Funds and larger first line budget users, as well as in the local government units, internal audit function was established. Internal audit is performed through internal audit units (units/departments), being directly responsible for their work to the Head of the entity.

Entities, which pursuant to the Law on PIFC, in the last three years, had average budget over Denar 50 million, are obliged to establish internal audit unit. Smaller entities, i.e. entities average budget of which in the last three years was below Denar 50 million, have a possibility to establish internal audit function by engaging an internal auditor/s from an Internal Audit Unit from another public sector entity, on the basis of an agreement concluded between the Heads of both public sector entities.

In line with the established criteria for establishing Internal Audit Units (IAU`s), as of April 2014 inclusive, at central level, 93% of the direct budget users have established own IAU`s, while Head is appointed in 67% of the IAU`s. At local level, 80% of the municipalities have established own IAU`s, while only one third of them have appointed Head. In the part of the public sector entities on central and local level, internal audit function is performed on the basis of agreement concluded with other institution.

Management in certain institutions sometimes perceives the audit as "giving assurance", not sufficiently accepting the benefits that the internal auditors may provide by giving advice. Thus, part of the audit function is not fully used.

There are also institutions, in particular at local level, with weaker staffing of the systematised places in the internal audit units, due to which there is no team work and adequate quality when performing audit.

To the end of enhancing the internal audit capacities, in line with the international standards and best practices, there is ongoing training and organisation of exam for international certification of internal auditors through implementation of Project "Training of internal auditors in the public sector". The project is carried out in cooperation with the Center of Excellence in Finance (CEF) from the Republic of Slovenia and the Chartered Institute of Public Finance and Accountancy (CIPFA) from London. Within the project 45 auditors successfully completed training and passed the exam, and acquired CIPFA certificate for internationally certified internal auditors in public sector.

Certification of the internal auditors will contribute to ensuring quality of performed audits and for increasing the rating of the internal audit function. This Project is basis for further national certification of internal auditors.

Internal audit has appropriate administrative capacities, however, they should be constantly enhanced, and among other, to the end of further improvement of the true manner of usage by the management and increase of its quality.

In order to strengthen the capacity of internal auditors will be introduced obligation for continuous professional training of internal auditors and also will be defined the type and areas of continuous improvement, meeting the requirements for gaining points and reporting thereof.

In order to be partner to the management, the auditor should understand the work of the Head (for example the Policy Paper structure, systems, style, skills, employees and mutual value of the institution), should understand the risks of the institution, and he/she should especially be familiar with the problems and the concern of the Head as regards certain conditions in the institutions. Even afterwards the auditor may help the management in giving advice for further improvement of the functioning of the processes in the institution.

In the previous period, a part of the auditors at central and local level were trained in audit oriented towards the requirements. In the next period, efforts will be put for the overall audit function to be organised as an audit oriented towards the requirements and systemically based audit.

In addition, it is necessary to ensure quality of each auditor, the audit function and the separate audits. This can be achieved by organising (continuous) trainings for auditors, specialised by types of audits, organising exams for certified internal auditor in the public sector, performing vertical and horizontal audits, as well as carrying out analyses of experience of other countries for accepting model for carrying out internal and external assessment of the quality of the internal audit function. These analyses will contribute to the preparation of bylaw, which will provide for quality of the internal audit function.

In addition, the Rulebook on the Form and the Contents of Reports and Statement on Quality and the Status of Internal Controls under the Annual Financial Report, as regards the Report on Performed Audits and Internal Audit Activities and the number of determined findings, given and implemented recommendations by the end of the reporting year, two new criteria will be added for the number of recommendations given in the audit report, whose implementation is not due in the reporting period and the number of recommendations in audit reports from previous years which is due for implementation in the reporting year.

To the end of achieving the previously mentioned objectives, by modifying and amending the Law on PIFC, appointment of Heads of IAUs with passed exam for certified internal auditor (national or international certificate) will not be a condition by the end of 2016.

3.2.3 Central Harmonization Unit

In the past period, CHU was mainly focused on preparing legal regulations and bylaws for establishing PIFC system, as well as methodology and standards on operations of the units for financial affairs and internal audit.

The period covered by this Policy Paper, i.e. the period 2015-2017, CHU will be mainly focused on giving instructions, advice and organising trainings for the entities for the purpose of better implementation of PIFC system in practice. CHU will regularly analyse the functioning of the PIFC system with which, given the results from the analysis, as well as the exchange of experience with other countries and the implementation of the best EU practices, will continue to coordinate the development of this system in the Republic of Macedonia, with special emphasis on improving the development at local level and promoting and developing the risk management concept.

IV. GOALS AND MEASURES FOR FURTHER DEVELOPMENT OF THE INTERNAL FINANCIAL CONTROL IN THE PUBLIC SECTOR

Considering the ongoing reforms in the public sector of the Republic of Macedonia, which are mainly related to the public administration reform and reforms in the system of public finances through promoting and strengthening managerial accountability, in this policy paper based on the current state of the system of internal financial controls, the following general objectives are determined:

1. Improving the quality of services in the public sector through the further development of financial management and control,
2. Staffed and operational internal audit units, and
3. Strengthening the capacity of the Central Harmonization Unit to ensure effective coordination and support of institutions in the public sector in the implementation of financial management and control and internal audit.

Deadlines and responsibilities for achieving the stated objectives are set out in the Action Plan which is an integral part of this policy paper.

V. GOALS AND MEASURES FOR FURTHER DEVELOPMENT OF FINANCIAL MANAGEMENT AND CONTROL

5.1. Strengthening the financial management and control system based on the principles of managerial responsibility at the budget users from central government, funds, municipalities and the City of Skopje

The primary goal of financial management and control is establishment of management structure that will ensure adopted decisions to be applied in order to transparent, efficient, effective and economical spending of the approved budget. Managers in the decision making process adopt decisions that cause real financial effects for which they are responsible. In addition, it is very important to have clear objectives and performance indicators for their successful implementation, taking into account financial constraints.

Establishing of the principle of managerial accountability will directly have a positive impact on the further development of the system of financial management and control and the development of decentralized management structure and responsibilities will contribute for establishing clear limits of responsibility and accountability at all levels of management and will improve the public administration reform.

Measures:

1. Analyzing of managerial responsibility - delegation of duties and responsibilities of central level and providing recommendations for improving the mechanisms of management accountability.
2. Regular reporting to the Government of the Republic of Macedonia regarding progress made in strengthening management accountability in the budget users.
3. Strengthening of the system of financial management and control through an annual update of the Plans for the establishment and development of this system by the institutions

5.2. Raising the level of awareness for the importance of financial management and control, as a part of management process in the public sector

Financial management and control is a part of the management process, which implementation is necessary in the public sector. For establishing a sound system of financial management and control responsible are all employees, not just managers of the institutions. It is necessary to raise awareness of the importance of this system through an appropriate organizational structure, which implies involvement of all employees under the principle of separation of duties and responsibilities through regular internal reporting.

Heads of the financial affairs units need to be aware of their role in creating the appropriate structure for financial management and control. It does not mean that they are responsible for the budget planning and execution on the level of organizational units or programs and for their results achieved. For the planning and execution and achieving results at the level of organizational unit or program responsible are the managers.

Measures:

1. Promoting the concept of public internal financial control to the managers of the entities of the central and local level.
2. Training of senior civil servants for the system of public internal financial control.
3. Selecting and promoting "leader institutions" in implementation of the system of internal financial controls and the creation a network of institutions for exchanging experiences.

5.3 Strengthening the coordination role of the financial affairs units for development of financial management and control at all levels in the institution

Main coordinator of the activities for the development of financial management and control is financial affairs unit in accordance with clearly established organizational structure of the entity, with clearly given authorizations and responsibilities among all managers which are part of the system of financial management.

In the so-far period in a certain part of the budget users wasn't particularly highlighted the role of the financial affairs units as key coordinators of the development of financial management and control and in providing support to all managers in the institution for the development of this system. In the upcoming period there is a need to continue the development of the coordination - advisory role of these units in all budget users at central and local level.

There has been significant progress achieved in establishing of the Financial Affairs Unit at the central level and in the larger units of local self government. Difficulties in establishing of these units appear in the smaller institutions of central level and the municipalities, due to staff and budget limitations in accordance with their needs and responsibilities.

Measures:

1. Training of the heads of financial affairs units
2. Analysis of the current state of financial affairs units in selected pilot institutions of central and local level and drafting measures for appropriate amendment of the regulations for public internal financial control.

5.4. Improvement of the process of management of public finances

The process of improving the management of public finances as a basic precondition for healthy public finances and maintaining a sound fiscal position, means improving the process of budget planning and execution. The central focus of the process of managing public finances will be aimed to improving the budget programs i.e program classification and to medium-term budget planning.

The planned activities within the process will help to formulate realistic budgets and enhance fiscal discipline and credibility of public finances, in order to achieve effective control of the total budget appropriations. Measures that will

be taken will allow strengthening the control and justification of public spending by budget users themselves, as responsible holders of planned policies and programs within their own budgets.

The promotion of the process of management of public finances will contribute to fulfillment of the legally defined budget objectives and principles of inclusiveness, effectiveness, efficiency, effectiveness and sound financial management, which involves execution of the budget in accordance with the effective and efficient internal control as the process which is implementing at all levels of management with financial means.

Measures:

1. Implementation of the activities envisaged under the Action Plans for improving the process of budget planning and execution - improving the program classification
2. Preparation and presentation of the medium-term budget framework, with preparation of action plan for training of first line budget users

5.5 Development of systems for internal reporting and establishing a sustainable system for training and certification of accountants in the public sector

Established accounting systems for budget users are primarily in function of accounting intended for external reporting, which provides a record of the changes, control of implementation of budget funds in accordance with the amounts paid, and whether payments previously approved by authorized person. In the next period is needed to be developed a system of internal reporting within the institution, which includes making the accounting reports based on accounting evidence, which will allow monitoring of revenues and expenditures by programs, projects, activities and organizational units.

In order to strengthening the human capacity related to the managing with public finance and financial reporting, the Ministry of Finance in cooperation with the Center of Excellence in Finance based in Ljubljana (Center of Excellence in Finance-CEF) and the Chartered Institute of Public Finance Accounting based in London (Chartered Institute of Public Finance and Accountancy-CIPFA) will continue to implement training for certification of accountants in the public sector (Public Accountants Certification Training-PACT). The continuity in the implementation of the training will provide capacity building and introduction of professional qualification for public sector accountants.

Measures:

1. Establishing a system of professional education by organizing training for certification of accountants in the public sector and
2. Implement activities for localization of the training for certification of accountants in the public sector

5.6 Establishing Risk Management Process

The purpose of the risk management process is not to eliminate risk, but to reduce the risk to an acceptable level. The process of risk management helps managers in understanding the entire process of identifying, assessing and monitoring the potential risks, taking into account determined goals of the budget users. Precondition for the risk management is assessment of the mission of the entity, specific and general objectives at all levels, as well as taking the necessary activities, especially through financial management and control.

Measures:

1. Adopting a Methodology that prescribes the establishment of risk management system, which will ensure the identification, assessment and control of potential events and situations that could have a negative effect on the achievement of the settled goals at the institution level.
2. Adoption risk managing strategies and keeping risks register at the pilot budget users.

VI. GOALS AND MEASURES FOR FURTHER DEVELOPMENT OF THE INTERNAL AUDIT**6.1. Strengthening the capacity of internal auditors at central and local level**

Considering the role of internal audit in the development of financial management and control and its importance in future decentralized system of management of EU funds, it is necessary to ensure adequate capacity of internal auditors. Therefore, it is necessary to provide a sufficient number of auditors and to provide appropriate training by which will be developed necessary skills for carrying out the internal audit.

The activities of the establishment of internal audit at the central level implied organizational establishment of internal audit units and the appointment of internal auditors.

However, the low level of implementation of internal audit in the future requires more attention and hiring appropriate staff, especially in local-self government.

Measures:

1. Appointment of Internal Auditors from existing staff in the budget users at central and local level to the required number
2. Organizing and performing training for improving the expertise of existing capacity of internal auditors
3. Improving the Methodology of internal audit work by updating the Internal Audit Manual.

6.2. Establish a sustainable system for training and certification of internal auditors

In December 2013 the Parliament of the Republic of Macedonia adopted the Law for Amending the Law on Public Internal Financial Control ("Official Gazette of the Republic of Macedonia" no.188/2013) which defines the terms and manner of conducting the procedure for examination for certified internal auditor in the public sector.

Ministry of Finance in cooperation with the Center of Excellence in Finance (CEF) of the Republic of Slovenia has realized Project "Training of internal auditors in the public sector" within 45 auditors successfully completed the training and passed the exam for CIPFA internationally certified internal auditors.

Measures:

1. Establishing a system of continuous professional education by organizing training for internal auditors in the public sector, and
2. Implementation of preparations for the localization of training programs and certification of internal auditors in the public sector.

6.3. Establishing a model for quality assessment of internal audit

In order to increase the efficiency and effectiveness of internal audit units it is necessary to prepare Program for quality assurance and improvement. It will allow preparation of assessment of the compliance of the internal audit unit with the definition of internal audit and standards, and assessing whether internal auditors apply the Code of Ethics. Program for quality assurance and improvement will include internal and external assessments.

Internal assessments should include: ongoing monitoring of the performance of internal audit and periodic self-evaluations or assessments from other people within the organization who have sufficient knowledge of the practice of internal auditing.

External assessments should be conducted at least once every five years by a qualified, independent assessor or assessment team that did not originate from the organization. The independent assessor or assessment team should not have any conflict of interest and can not be part of, or under the control of the organization to which internal audit unit belongs.

Head of the Internal Audit Unit should develop its own methodology for assessment the quality of internal audit based on the guidelines provided by the Central Harmonization Unit.

Measures:

1. Developing a methodology for quality assessment of internal audit;
2. Conducting internal assessment of the work of the internal audit by the head of the internal audit unit, and
3. Conduct external assessment of the quality work of the internal audit by team for assessment set by the Central Harmonization Unit

VII. OBJECTIVES AND MEASURES FOR FURTHER DEVELOPMENT OF THE CENTRAL HARMONISATION UNIT

Central Harmonization Unit is the main driver of public internal financial control through development of strategic documents, laws and regulations, cooperation with EU Member States and exchange of experiences in the implementation of this system, and coordination of activities among institutions and giving directions. In addition, the Central Harmonization Unit has an active coordinating role in organizing and performing workshops and training for the establishment, development and implementation of this system in the Republic of Macedonia.

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

In the upcoming period it is necessary to strengthen the administrative capacity of the Central Harmonization Unit through continuous training of employees and their improvement in the hierarchical structure.

7.1. Strengthening the capacity of the Central Harmonization Unit

In order to further development of the system of internal financial control, and for the needed support that is expected by the Central Harmonization Unit, activities will continue for strengthening the capacity of employees in the Central Harmonization Unit.

Measure:

1. Continuous training of employees in the Central Harmonization Unit, in order to strengthen capacity.

7.2. Strengthening cooperation with the stakeholders

In order to establish and develop system of internal financial control in the public sector entities, it is important Central Harmonization Unit to establish and maintain close cooperation with the heads of public sector entities, persons responsible for the establishment and development of financial management and control, i.e. heads of financial affairs units, heads of internal audit units and internal auditors at central and local level.

In the upcoming period will continue regular collaboration with the Budget Department, Treasury Department / National Fund, the Central Financing and Contracting Department (CFCD), the State Audit Office and the Audit Authority. The result of this co-operation will be updated working methodology in the area of financial management and control and internal audit and will be developed a model for quality assessment of these systems at the budget users.

Measures:

1. Coordination of the activities with the stakeholders in order to update the working methodology in the area of financial management and control and internal audit aimed for the implementation of the concept of public internal financial control in the Republic of Macedonia, according to the international standards for internal control and internal audit, EU best practice, taking into consideration specifics of the public sector in the Republic of Macedonia
2. Establishing cooperation with the local institutions and civil society.

VIII. GOALS AND MEASURES FOR STRENGTHENING THE SYSTEM OF PUBLIC INTERNAL FINANCIAL CONTROL AT LOCAL LEVEL

According to the Public Internal Financial Control Law obligation for establishment and development a system of public internal financial control have all the municipalities and the City of Skopje.

As of May 2014, the 66 municipalities have established internal audit units, where 63 internal auditors are employed, of whom 22 are heads. In the area of financial management and control, in 40 municipalities are established units for financial affairs and in 35 municipalities are appointed heads of these units. Regarding the implementation of the concept of decentralized management accountability, 74% of municipalities have adopted Decisions for internal distribution of the total approved budget, and 36% of municipalities have adopted Decisions for general authorizations.

In so-far period, 40 municipalities were included as pilot institutions within the twinning project for strengthening the public internal financial control, which were implemented the period from 2011 to 2013. Within the project were conducted trainings, workshops and meetings for the employees from the units for financial affairs and internal audit, as well as officers and managers in the municipalities, in order to strengthen awareness at local level for the benefits of the establishment and development of this system, and also were conducted practical trainings for the performance of activities of internal audit and financial management and control.

In the next period will be taken activities for the development of the public internal financial control at the local level, in order to strength it in all municipalities.

Measures:

1. Regional workshops for increasing awareness for the necessity of establishment a system of public internal financial control
2. Promoting Public Internal Financial Control to the management structures in the municipalities
3. Trainings for internal auditors and employees of the financial affairs units on the local level.

IX. Monitoring the implementation of the Policy Paper for the Development of Public Internal Financial Control in the Republic of Macedonia

The implementation of the Policy paper, i.e. the realization of the objectives, measures and activities of the Action Plan for its implementation, will be performed by the Central Harmonization Unit. Also, the Central Harmonization Unit will report to the Government of the Republic of Macedonia for implementation of the activities under the Action Plan, through a consolidated annual report on the system of internal financial control in the public sector.

ACTION PLAN FOR IMPLEMENTATION POLICY PAPER FOR THE DEVELOPMENT OF PUBLIC INTERNAL FINANCIAL CONTROL IN THE REPUBLIC OF MACEDONIA FOR THE PERIOD 2015 - 2017

No.	Description of activity	Target group	Competence	Period of work
1.FINANCIAL MANAGEMENT AND CONTROL				
Objective: Improve the quality of services in the public sector through financial management and control				
1.1 Strengthening the financial management and control system based on the principles of managerial responsibility for budget users from central government funds, municipalities and City of Skopje				
1.	Developing analysis of management accountability - delegating duties and responsibilities with recommendations for improvement	Pilot institutions of central and local level	MF / CHU	September – December 2015
2.	Preparation Guidelines for managerial responsibility	Budget users on central and local level	MF / CHU	January - March 2016
3.	Information to the Government regarding the progress in strengthening management accountability for budget users on central and local level	Budget users on central and local level	MF / CHU	Continuous annually
4.	Annual updating of Plans for the establishment and development of institutions PIFC	Budget users on central and local level	MF / CHU	Continuous annually
1.2 Raising the level of awareness of the importance of financial management and control, as part of the management process in the public sector				
5.	Organizing Conference for promotion of the PIFC Policy Paper	Head of the organization, managers of FAU and IAU	MF / CHU	October 2014
6.	Inclusion of financial management and control as part of the exam for administrative management	Senior civil servants	MF / CHU and MISA	December 2015
7.	Organizing workshops on financial management and control and promoting "leader institutions"	Head of the organization, managers and FAU and IAU	MF / CHU	Continuous annually
1.3 Strengthening the coordination role of financial affair units for development of financial management and control at all levels of the institution				
8.	Developing analysis of the current state of financial affairs units	Pilot institutions of central and local level	MF / CHU	September – December 2015
9.	Regular meetings / trainings with heads of the financial affairs units	Pilot institutions of central and local level	MF / CHU	Continuous annually

1.4 Improving public finance management process				
10.	Preparing of Draft Program Classification		MF / Budget and Funds Department	2016
11.	Training of first line budget users for presentation of the Guidelines for proper medium-term budget planning	Budget users	MF / Budget and Funds Department	2016 2017
12.	Amendments of the legal framework and preparation manual and other bylaws for medium-term expenditure and budgetary planning framework	Budget users	MF / Budget and Funds Department	2016 2017
1.5 Development of internal reporting systems and establishing a sustainable system for training and certification of accountants in the public sector				
13.	Training and certification of accountants in the public sector	Persons employed in FAU in budgets and budget users	MF / CIPFA project	2015 2016 2017
1.6 Establishing risk management process				
14.	Updating Manual for financial management and control, with a Methodology for establishing the risk management system	Budget users	MF / CHU	January-February 2015
15.	Adoption of Strategy for risk management and establishing risk register	Pilot b budget users	MF / CHU	January-February 2015 year
16.	Organizing training on risk management ▪ 2 training ▪ 4 training	15 institutions 15 institutions	MF / CHU	2015 2016
2.INTERNAL AUDIT				
OBJECTIVE: Capable and operational internal audit unit				
2.1 Strengthening capacity of internal auditors on central and local level				
17.	Appointment of internal auditors from existing staff in the budget users at central and local level to the required number	Budget users	MF / CHU	Continuous
18.	Establishment of the internal audit function of one way	Small budget users	MF / CHU	Continuous
19.	Updating Internal Audit Manual	Internal auditors in the public sector	MF / CHU	2015
2.2 Establishing sustainable system for training and certification of internal auditors				
20.	Training and certification of internal auditors in the	Internal Auditors	MF / CHU / CEF	2015

	public sector in cooperation with CIPFA			
21.	Performing of the preparation for training and exam for certified internal auditor in the public sector	Internal auditors in the public sector	MF / CHU	2015
2.3 Establishment of model for quality assessment of internal audit				
22.	Organizing training in order to introduce model of assessment on the quality of internal audit	Internal audit units	MF / CHU	2015
23.	Conducting assessment of the quality of internal audit in the pilot institutions	10 pilot institutions 10 pilot institutions 10 pilot institutions	MF / CHU	2015 2016 2017
3.CENTRAL HARMONIZATION UNIT				
OBJECTIVE: Further development of the Central Harmonization Unit				
3.1 Strengthening the capacity of the Central Harmonization Unit				
24.	Training and professional improvement of staff in the Central Harmonization Unit	CHU	MF / CHU	Continuous
3.2 Strengthening cooperation with stakeholders				
25.	Organizing a roundtable with representatives of the State Audit Office	Internal and external auditors	MF / CHU	Annually
26.	Organizing semi-annual meetings with the Department of Budget and funds, Treasury Department and the Central Financing and Contracting Department (CFCD)	CHU / Budget / Treasury / CFCD	MF / CHU	Continuously from 2015
27.	Organizing meetings with local institutions and civil society	Municipalities / civil sector	MF / CHU	Annually
4. DEVELOPING PIFC AT LOCAL LEVEL				
GOAL: Strengthening PIFC system at local level				
29.	Conference for the public internal financial control	Mayors and managerial structures of all municipalities	MF / CHU	October 2015
29.	Regional workshops on Public Internal Financial Control	4 pilot regions 4 pilot regions	MF / CHU	2015 2016
30.	Training for internal audit	10 pilot municipalities	MF / CHU	Continuous annually
31.	Training for financial management and control	10 pilot municipalities	MF / CHU	Continuous annually