



Republic of Macedonia
MINISTRY OF FINANCE

Public Internal Financial Control Department
Central Harmonisation Unit for Financial Management and Control

MANUAL FOR FINANCIAL MANAGEMENT AND CONTROL

Skopje, December 2010

Dear,

The reforms undertaken by the Government of the Republic of Macedonia in the European integration process of the Republic of Macedonia requires the establishment and development of sound and efficient system of financial management and control within the public sector entities.

Law on Public Internal Financial Control ("Official Gazette of the Republic of Macedonia" no.90/09) adopted by Parliament of the Republic of Macedonia on July 22, 2009, secondary regulations for financial management and control and this manual is the legal framework of financial management and control within the public sector entities in the Republic of Macedonia.

Manual for financial management and control model is structured to establish a sound control environment, which aims to provide reasonable assurance that activities are carried out according to the principles of sound financial management, transparency, efficiency, effectiveness and economy, as well as current legislation and the budget.

This Manual provides a comprehensive overview of the main principles of modern management and hopefully will serve as a guide and tool in performing everyday tasks and activities of all officers and persons involved in financial management and control.

This Manual has been prepared by the Public Internal Financial Control Department in the Ministry of Finance which is the central unit for the harmonization of financial management and control within the EU twinning project "Strengthening of the Public Internal Financial Control and MATRA project" Strengthening and implementation of public internal financial control at the central level realized in cooperation with the Kingdom of the Netherlands.

Manual for financial management and control will be published on the website of the Ministry of Finance www.finance.gov.mk, and will be updated and improved.

Sincerely,

Бр. AS-46644/1
31.12 2010 година
Скопје



CONTENT

CHAPTER I.....6

INTRODUCTION

1.1. Purpose of the Manual on Financial Management and Control7
 1.2. Users of the Manual7
 1.3. Structure of the Manual on Financial Management and Control8
 1.4 Style of the Manual8

CHAPTER II9

FINANCIAL MANAGEMENT AND CONTROL - GENERAL RULES

2.1 Public Responsibility10
 2.2 Public Internal Financial Control10
 2.3 Managerial Responsibility12
 2.4 What can be achieved by internal control12
 2.5 Limitations of internal control12
 2.6 Checking and evaluating internal control13
 2.7 Financial management and control14
 2.8 Components of financial management and control - COSO framework.....17
 2.8.1 Component 1 - Control environment18
 2.8.2 Component 2 - Risk management.....21
 2.8.3 Component 3 – Controls.....23
 2.8.4 Component 4 - Information and Communication28
 2.8.5 Component 5 - Monitoring30
 2.9 Interconnectivity (synergy) of the five components of internal control30

CHAPTER III33

ESTABLISHMENT OF FINANCIAL MANAGEMENT AND CONTROL

3.1 Conditions for the establishment of financial management and control34
 3.2 Establish financial management and control37
 3.2.1 Organizational establishment39
 3.2.2 Preparation of the plan for the establishment and development of financial management and control43
 3.2.3 Preparation of statements for the vision and mission and key business objectives47
 3.2.4 Assessment of the five components of internal control51
 3.2.5 Inventory or book (map) of business processes53
 3.2.6 Determining the risk level of process, risk assessment and ranking of risk

management	62
3.2.7 Consider the establishment of control	73
3.2.8 Analysis of existing and required controls	74
3.2.9 Preparation of a plan to eliminate weaknesses in internal control - the establishment of corrective measures.....	75
3.2.10 Preparation of reports on internal control	75

CHAPTER IV78

ROLES AND PARTICIPANTS IN THE SYSTEM OF FINANCIAL MANAGEMENT AND CONTROL

4.1 Organizational role	79
4.1.1 Ministry of Finance	79
4.1.2 Head of the entity.....	79
4.1.3 Head of Financial Affairs Unit	81
4.1.4 Coordinator for Financial Management and Control	85
4.1.5 Authorized persons incur	86
4.1.6 Ex ante financial controller	87
4.1.7 Ex-post financial controller	87
4.1.8 Central Harmonisation Unit (CHU) at the Ministry of Finance	88
4.1.8 The Financial Management and Control	89
4.2 Conclusion	90

CHAPTER V92

ANNEXES

Annex 1 internal financial control in the public sector - Concepts Definitions of terms	93
Annex 2 Useful Tips for components of financial management and control	106
Annex 3 Form of record of issued authorizations (Register of authorizations)	115
Annex 4 Decision on internal distribution of total approved budget	117
Annex 5 Checklist for undertaking financial obligations	120
Annex 6 Form a plan for the establishment and development of financial management and control (the methodology for implementation of the plan)	123
Annex 7 Chart of the financial issues in the entity of central and local level	135
Annex 8 Decision on granting authorization	137
Annex 9 Form establishing / inventory of business processes	140
Annex 10 Map of the work processes.....	143
Annex 11 Form of Risk register	155
Annex 12 Example of a Strategy for Risk Management	157
Annex 13 The role of internal audit in developing system of financial management and control	166

CHAPTER VI
REGULATION

- LAW ON PUBLIC INTERNAL FINANCIAL CONTROL
- RULEBOOK FOR THE MANNER OF GIVING AUTHORISATION
- RULEBOOK FOR THE MANNER OF IMPLEMENTATION OF GENERAL FINANCIAL PROCESSES
- RULEBOOK FOR THE MANNER OF EXECUTION OF THE WORKS FROM THE COMPETENCES OF THE FINANCIAL AFFAIRS UNIT
- STANDARDS FOR INTERNAL CONTROL IN THE PUBLIC SECTOR
- RULEBOOK FOR THE FORM AND CONTENT OF REPORTS AND STATEMENT OF QUALITY AND CONDITION OF THE INTERNAL CONTROLS OF ANNUAL FINANCIAL REPORT

CHAPTER I

INTRODUCTION

1.1 Purpose of the Manual on Financial Management and Control

This Manual¹ aims to explain the essence of financial management and control and its components. It is a document which should assist managers in developing and maintaining an adequate system of financial management and control in their organizations with the requirements of the Public Internal Financial Control Law (Official Gazette of the Republic of Macedonia no. 90/09) from July 22, 2009, and facilitate the achievement of the objectives of the organization.

1.2 Users of the Manual

Heads of budget users in the field of legislative, executive and judicial authorisations, funds and City of Skopje (hereinafter: entities) pursuant to Article 7 of the Public Internal Financial Control Law shall establish and constantly evaluate the financial management and control according to the methodological guidelines given in this manual.

Heads of entities also may bring additional detailed instructions and guidelines in the area of financial management and control when specific tasks and structure of the organization seeking such access, and the Central Unit for Harmonization of financial management and control can provide advice and guidance about it, if necessary.

This manual is intended for:

- Heads of entities - who are responsible for establishing appropriate, effective and efficient financial management and control;
- Heads of organizational units authorized to perform financial management and control structures, programs, activities and processes that govern;
- Heads of units authorized financial issues for the implementation of regulations for financial management, accounting and preparation of reports;
- Other managers within the entity responsible for their actions in terms of financial management and control structures and units that operate.
- All staff in the organization contributing to the implementation of financial management and control, and according to their functional responsibilities should be familiar with their roles and responsibilities regarding financial management and control;

¹ Prepared in accordance with Article 12 of the Law on public internal financial control.

- Internal auditors have a special role in assessing the efficiency of financial management and control (including risk management) in accordance with the Public Internal Financial Control Law and
- external auditors.

Purpose of this Manual is not to make any of the above persons expert in financial management and control, but to increase awareness and understanding of the concept of financial management and control. This manual is intended to provide guidance for all participants involved in the establishment and improvement of system of financial management and control within the public sector.

1.3 Structure of the Manual on Financial Management and Control

The guide is divided into six parts, including attachments. The first part of the Manual - "Introduction" describes the purpose, beneficiaries, structure and style of this Guide.

The second part of the Manual - "Financial management and control - the general rule" - defining the concept of public internal financial control, accountability and managerial components of financial management and control.

The third part of the Manual - "Establishment of financial management and control" processes the conditions and process for the establishment of financial management and control.

In the fourth part of the Manual – "Roles and participants in the system of financial management and control" referred to are the main actors responsible for the functioning of financial management and control in the public sector.

In the fifth part are annexes as an integral part of this manual. In the sixth part there is a regulation on public internal financial control.

1.4 Style of the Manual

The manual begins with a general introduction which is intended to be easily understood by readers who are not specialists in this field. More details on each chapter can be found in relevant annexes. Some annexes can be used as specific guidelines not only for issues related to internal control, but and with the work of internal audit.

Manual for financial management and document control is not given once and for all, but in future may be added to some annexes, some of the current can be change. This manual should be developed continuously because of the internal control day by day is different, so the methodology should be changed.

CHAPTER II

FINANCIAL MANAGEMENT AND CONTROL - GENERAL RULES

2.1 Public Accountability

General expectations of the public that persons who are competent to perform the operations and services of interest to use funds economy, effectively and efficiently and to be responsible and accountable for the performance of the entrusted tasks in accordance with law and relevant standards.

One of the general objectives of state policy concerning on giving of public services and quality acceptable to consumers, users and oriented towards results. Therefore it is necessary to adopt a systematic approach for measuring performance, which may involve cooperation with other institutions in the public or the private sector to effectively and efficiently executing programs and projects of public interest and improve management of public funds.

In order for this responsibility to implement in practice, the entities have to establish and maintain appropriate solutions and manners for managing the assets that are available.

2.2 Public Internal Financial Control

The concept of Public Internal Financial Control (PIFC) is developed by the European Commission in order to provide a structured and operational model that will assist national governments in redesigning their internal control environment and in particular to improve their control system in the public sector in line with international standards and EU best practice.

PIFC is a concept and strategy developed by the European Commission in order to help candidate countries in reforming their systems of internal financial control in the public sector.

The process of strengthening the system of PIFC according with requirements of the acquis on building modern systems of internal control in the public sector in the Republic of Macedonia is being implemented through the development and application of the principles of decentralized responsibility of management (managerial accountability) and the establishment of functionally independent internal audit. The objective of this process is building a system that will ensure reasonable use of public funds and preventing irregularities, suspicion of fraud and corruption.

PIFC is the overall and comprehensive internal control system implemented by the Government of Republic of Macedonia or organizations to whom it is delegated, aims to provide financial management and control of budget spending is in line with existing laws, descriptions of the budget, principles of sound financial governance, transparency, efficiency, effectiveness and economy. PIFC comprises all measures of controlling all state revenues, expenditures, assets and liabilities. It is an internal control in a broad sense that includes the functionally independent internal audit.

The concept is important to introduce higher standards of control of public expenditure, with greater emphasis on "value for money (economy, efficiency and effectiveness) different from traditional systems, which give greater emphasis on regularity, and there are in the future Member States.

PIFC covers financial management and control, internal audit and their harmonization, established in accordance with international standards for internal control and internal audit function together to provide reasonable assurance that internal control is functioning properly and efficiently.

Minister of Finance is responsible for coordinating the development, establishment, implementation and maintenance of public internal financial control, and in his name Central Harmonisation Unit in the Ministry of Finance (hereinafter CHU).

CHU directs and develops the process of PIFC. CHU, among other things, is responsible and for updating the standards for internal control and internal audit, and to assist entities in ensuring these standards are applied at the appropriate level of quality.

Heads of entities are responsible for the establishment and development of the PIFC in the entities that manage.

The legal framework of PIFC is governed by the Public Internal Financial Control Law and secondary regulations for financial management and control and internal audit. This Manual will contribute to advancing the application of the provisions of this Law and secondary regulations for financial management and control.

Law on public internal financial controls and secondary regulations for financial management and control are given in Chapter VI. Regulation, as an integral part of this manual.

PIFC system consists of three main pillars:

- a strong system of financial management and control to implement the tasks of planning, programming, budgeting, accounting, reporting, archiving and monitoring;
- functionally independent and objective internal audit which supports management and provides reasonable assurance that the advice and risk management, control and processes are established rules and standards, and to the principles of sound financial management for better achievement of goals and
- CHU in the Ministry of Finance which is responsible for developing and implementing harmonized methodology and standardized quality management and financial control and internal audit.

2.3 Managerial Responsibility

These three pillars are based on the principles of managerial accountability, which is the responsibility of all managers in organizations from the public sector to implement the principles of sound financial management in using the public funds. The management responsibility is the basis for an effective system of internal control entities. It is the responsibility of heads of entities to perform all activities in accordance with the principles of sound financial management and regulation, and

report on the procedures and results before the body that appointed or their delegated responsibilities.

Managerial responsibility means delegating towards fulfilling the objectives, not only in effectively spending the funds.

2.4 What can be achieved by internal control?

Internal control can help the entity to provide:

- Compliance with laws, regulations, policies, plans and procedures;
- Reliable and comprehensive financial and other information;
- Efficient and effective operation and use of resources and
- Protection of property.

2.5 Limitations of internal control

Regardless of how the system of internal controls is well designed and implemented operationally, it can provide only reasonable, but not completely assured of management, linked to achieve the objectives of the organization. Reasonable assurance is a satisfactory level of confidence for certain issues, taking into account the costs, benefits and risks (Cost benefit analysis). You need to have the reasoning ability to say what level of assurance is reasonable. In addition, managers should identify the risks inherent² in its activities, programs and projects, to assess such risks and determine acceptable levels of risk under different circumstances.

The limitations of internal control are the result of the following factors:

- Reasoning in decision making can be wrong, so it could be interference due to simple human error;
- Circumventing the controls as a result of an agreement between two or more persons;
- Possibility of neglecting the procedures of management and
- The existence of limitations in resources, which resulted in forming the system of internal controls, utility controls should be considered in relation to the amount of costs.

While internal control can help the entity in achieving its goals, it still is not a magic formula for good governance. It only provides information to management regarding the progress of the entity or lack of progress on achieving goals. The internal control cannot achieve the objectives whose achievement depends on management. Therefore, internal control, poor management cannot do well.

² Inherent risk may be defined as a possible risk of failure of the mission, goals and objectives of the entity, tooth, inefficiency, or effectiveness; loss, unauthorized use or unjustified granting of property, not adherence to laws, regulations, policy, procedures and guidelines or inaccurate recording and storage of financial and other relevant data, or inaccurate reporting about them.

2.6 Checking and evaluating internal control

To begin the process of establishing financial management and control, it is important to know the current state of the entity in terms of standards for internal control. In order to determine the current condition will be necessary to check and evaluation on the functioning of internal control and its elements. Check the controls to verify that internal controls contribute to achieving goals.

Checking and evaluation of the effectiveness of internal control can be performed in different ways: the direct hierarchical way (through direct control) to a complex structural and organizational way (e.g. by experts in the control that the evaluation form through techniques of observation and interviews) and through self - assessment method (the public sector entity assess the effectiveness of controls on own activities).

By checking and evaluating of internal control provide recommendations that may require supplementation, abolition or change of the internal controls or procedures in a particular organizational unit. In case of acceptance of the recommendations are agreed time limit of execution.

It is necessary following the implementation of the recommendations to confirm that the recommendations are implemented and functioning as intended.

2.7 Financial management and control

Financial management and control includes the two concepts, including: financial management and internal control. The connection of these two concepts is shown in Figure 1.

Internal control in the broadest sense	Financial management and control		Internal audit
	Financial management	Internal control in the narrow sense	
	Environment ETHICS, INTEGRITY FUNCTIONS, OBJECTIVES TASKS COMPETENCE, PERFORMANCE SENSITIVE ITEMS DELEGATE ORGANIZATIONAL STRUCTURE Risk management OBJECTIVES PLANNING COORDINATION MONITORING PERFORMANCE RISK MANAGEMENT Information and communication INFORMATION COMMUNICATION CORRESPONDENCE ASSUMPTIONS, REASSESSMENT ANNOUNCEMENT OF IRREGULARITIES Monitoring CHECKING AND EVALUATION OF CONTROL INTERNAL AUDIT	Controls PROCEDURES SEGREGATION OF DUTIES SUPERVISION RESOLUTION OF DEVIATIONS CONTINUITY OF ACTIVITIES STRATEGIES FOR CONTROL ACCESS TO RESOURCES	

Figure 1

Pursuant to the provisions of Article 3 paragraph 3 of the Public Internal Financial Control Law, financial management and control is a system of policies, procedures and activities established by the head of the entity in order to provide reasonable assurance that the entity's objectives are achieved.

Sound financial management and control is transparent, regular, economical, efficient and effective use of available resources.

Control all activities undertaken in order to avoid or reduce risks.

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. .

The first category of objectives relates to doing things the proper, ethical, economical, effective and efficient manner.

"Economy" is minimizing the resources for achieving the intended goals or outcomes of an operation, taking into account the determined quality of those effects or results.

"Effectiveness" is the extent to which objectives have been achieved on a particular activity or relationship between planned performance and actual impact of a particular activity.

"Efficiency" is maximizing the effects or results from a specific activity of proper investments. That means minimal input of resources to achieve a certain amount and quality of output values or maximum output values with a certain amount and quality of input resources.

The second category of objectives concerning the compliance of the laws, other regulations, established policy, plans and procedures. Laws and regulations governing the authorizations granted to the entity. Same policies, plans and procedures will be develop to ensure practical implementation and compliance with the provisions of the laws and regulations. Therefore, they should be adapted to the characteristics, activities and environment of each entity.

The third category covers protection of property and other resources from losses caused by mismanagement, unjustified spending and utilization, as well as irregularities and abuses. Management of the entity property, (purchase, use and wear out of assets), is a key issue relating to the protection of property.

The fourth category includes strengthening the accountability for the successful accomplishment of tasks. Duty of head of the organization is to establish an organizational structure and procedures that will ensure the operation, monitoring and development of an efficient system of sound financial management and control, taking into account the specifics of the entity and activities that are financed, the risks of operation, applying the standards internal control, the basic elements of financial management and control instructions and guidelines for financial management and control of the Ministry of Finance.

The head of the entity in writing should clearly define the responsibilities and limitations of authorisations of managers, by providing adequate separation of duties.

In case of transfer of responsibilities, the head of the entity for the given authorizations continues to be responsible for all decisions including decisions relating to financial management and control.

The fifth category includes the proper recording of financial transactions, obliging the heads of the entities in their accounting to provide data separately for all types of revenues and other receipts, expenditures and other outflow, and the condition of assets, liabilities and sources of funds. Accounting is established and operates under the principles of fairness, efficiency, economy, verifiability and orderliness.

The sixth category of objectives relates to timely financial reporting and monitoring of results of operations. It involves the preparation of appropriate consistent and useful financial and management information, including financial statements that promote decision-making and enables transparent and efficient monitoring. This information will improve decision-making process only if they are of adequate quality, are assembled, maintain, protect and provide timely reports through appropriate structure and content managers and staff within the entities, as well as external stakeholders.

Although these categories are distinct and satisfy different needs, they overlap and cover all activities, programs or projects carried out by the entity and provide guidance towards meeting the specific requirements and / or managerial interests.

Financial management and control:

- affects all aspects of the entity: to all people, processes, activities, programs and projects;
- an essential element that is widespread throughout the entity, not its additional part;
- contains the characteristics of good governance;
- depends on the people and will succeed or fail depending on the attention people give him;
- effective when all employees and the environment work together;
- provides a level of reasonable assurance given the likelihood of achieving the objectives of the entity and
- assist the entity in achieving its mission, the principal reason for its existence and operations.

2.8 Components of financial management and control - COSO framework

Financial management and control are performed according to internationally accepted standards for internal control, which Macedonia has accepted and published in the Official Gazette of the Republic of Macedonia no. 147 of 11.11.2010.

Basic principles of internal control are based on well-established organizational techniques and practices. They are derived from the way management manages an activity, program and project, and are involved in management process. There are different methodologies and approaches of internal control, but is commonly used COSO framework.³

³ Most internationally recognized model of internal control is the COSO model. In 1992, the Committee of sponsorship Organizations (COSO) of the National Commission for fraudulent financial reporting in

Internal control in accordance with COSO framework is defined as "a process, executed by the board of directors of the entity, management and other employees, designed to provide reasonable assurance regarding the achievement of objectives" and that in four categories:

- compliance with laws and bylaws;
- reliability of financial reporting and managing;
- efficiency and effectiveness of operations and
- protection of property.

Internal control is effective if each of the above categories of management has reasonable assurance that:

- understand the extent to which the objectives of the operations of the entity are achieved;
- published financial statements are prepared in a credible manner and
- comply with laws and secondary regulations.

Under the COSO Framework, internal control consists of following interconnected components:

- Control environment;
- Risk management;
- Controls;
- Information and communications
- Monitoring.

The five main components and their clustering gives a combination of so-called "soft" controls, such as establishing an environment in which control can survive and grow using the strict, traditional kinds of "robust" control of accounting and financial transactions.

2.8.1 Component 1 - Control environment

Ethics and integrity

Managers and staff have the appropriate level of personal and professional integrity (feelings of dignity, fairness and conscientiousness that drive human behavior towards honesty, integrity, and safety) and are aware of the importance of activities performed.

The head of the entity, through its decisions and personal example to support and promote ethical values and personal and professional integrity of staff, but requires

the U.S.A (known as the Treadway Commission) published a document: Internal Control - Integrated Framework.

the adoption of the official ethics code, which should establish uniformity of ethical values for all employees.

Functions goals, and objectives

Employees are generally familiar with the goals posed by the head of the organization and contribute to their realization, but for every employee in the organization needs completely and accurately defining its role through the established job descriptions.

The tasks are given and the results are communicated only through a report on the relationship manager - employee - manager (superior - subordinate - superior).

There is a need to identify the entity sensitive tasks (tasks for employees whose performance may be affected in some complex situations that might adversely affect the financial management) which, through written procedures should be in place additional measures.

Competence, performance

The entity should take measures to the staff to regularly be submitted documents containing goals (strategic plan and its amendments and supplements).

The job descriptions need to be contained tasks and expected results, and on a regular basis requires employees to be informed about the obligations arising from regulation.

It takes precision of internal documents they have access to all employees. Descriptions of the jobs should be regularly updated, with a recommendation for the full involvement of managers at all levels.

Employees in the entity should have the skills, expertise, appropriate and necessary features that contribute for achieve the objectives of the organization. Also, the entity is needed to respect the legal obligation in employment within the public sector to implement the advertisement.

Is a need for management in the entity to establish procedures for assessing the needs and demands of providing the organization taking reasonable decisions about organizational structure, supervision, distribution of tasks and reorganization Management needs to hire external resources for needs that cannot provide with resource in the organization. Is a need for training of employees to focus more on those skills that improve individual performance and the ability for joint decision making and group learning.

Plans for training should ensure that managers and employees to have such knowledge, skills and experience that should ensure efficient and effective execution of tasks. In order to given tasks appropriate to the competence of employees, it is: for every workplace to be determined not only the level and type of education, but also required additional skills.

It is necessary to develop the internal capacity for training in compliance with the forms of training outside the entity and defining policy for training and mobility to enhance the experience of employees.

Sensitive positions

The entity should be determined: a list of sensitive jobs, list of employees who have filled these jobs, the time for which the employee is assigned such a job and a plan providing for rotation of staff sensitive jobs, so that an employee may not be the job for more than 5 years.

Delegate

For employees in the entity should be aware that highly centralized decision-making of all kinds makes it difficult to work in the organization, which requires the head of the entity in writing to perform delegation of authorizations and responsibilities of heads in the entity.

It is necessary to take additional efforts rather than the Head of the entity in place chief executive of the activities to become the chief controller of the administration which sets out the general objectives and approve projects and then seeks accountability from employees for success in their implementation.

The delegation shall be made after an appraisal of the importance of the decisions and risks associated with them. The employee that should be delegated the authority should have the necessary knowledge, experience and ability necessary for its execution and that a signature to verify downloaded responsibility.

It is necessary to introduce a system sub mandate a prior consent of the head of the organization and establish a system that should provide delegation of responsibilities not exempt from liability provider of authorization.

Organizational Structure

The head of the entity should define and approve the organizational structure according to the regulation on organization and functioning within the public sector entities. Filling of the organizational structure with managers and employees should be provided in a separate review of employees.

Competencies, responsibilities, tasks and reporting obligations should be clearly defined for each structural component and in written form to be given to all employees.

Employees should be competent, ie have the capacity for making decisions within the established limits in order to implement activities related to the workplace. It should also be responsible in carrying tasks within a certain competence. Each employee has an obligation to notify for information on achieving tasks.

Competence, responsibility, task and responsibility for reporting should be linked to the workplace and they must be clear, coherent and defined in writing.

2.8.2 Component 2 - Risk management Objectives

Entity in accordance with the mission⁴ is necessary to prepare an official document should define the main objectives, specific objectives and expected results and they should communicate to employees.

The objectives must be defined so that to answer to the requirements "S.M.A.R.T.", meaning they have to be: specific, measurable, appropriate, achievable and timed.

It is necessary to build a system in which the head of the organization should be responsible for establishing goals and for the achievement should be responsible head of the organization and employees.

The objectives should be classified depending on their size and complexity, and for each goal should be determined who is responsible for implementation of each goal and that is accountable to provide quick reporting of the result.

Planning

An entity should prepare strategic and annual plans in which goals are appropriate to the maximum available resources, to minimize the risk of failure to meet targets. Then, planning to become one of the basic functions of management.

The planning should be defined the conditions for achieving goals, and then allocate resources taking into account their limitations. Planning should be a continuous process that has a dynamic character.

The plan should always be updated in line with the changes in goals, resources or some other element of the process of its establishment. The precision and degree of detailing the plans should be tailored to the procedures for decision-making, the need for formal approval of certain activities and more.

Coordination

In order to ensure compliance and connectivity, and to achieve the desired objectives, decisions and activities of the branches should always be fully coordinated.

Because it should be organized and special structures (e.g., Committee on Financial Management and Control and Audit Committee) to support management in coordinating activities, which have decisive influence on the results of cooperation between employees in the organizational structures within the maintenance professional relationships.

Employees of organizational units should have in mind the consequences of their decisions and actions on the institution as a whole.

⁴ Providing quality public services in terms of highest efficiency and effectiveness

Monitoring performance

Entity to any policies and actions should provide monitoring of implementation through relevant quantitative and qualitative indicators, including those related to economy, efficiency and effectiveness.

Based on the reports of any activity that is contained in the Plan, the Head of the entity need to evaluate performance, confirming the possible deviations from targets, in order to take corrective measures. It takes the system to monitor performance regularly to adapt to changes in objectives and / or indicators and the method of obtaining information from employees.

Risk Management

The entity systematically, at least once a year, has to analyze the risks associated with activities, given that any action or enforcement activity is a risk for failure of the objectives. It is necessary to develop appropriate plans to limit the possible negative consequences of these risks and determination of employees to be responsible for implementation of adopted plans.

Should be taken to create and maintain efficient system of internal controls, based on the determination of significant risks that can have a negative impact on effectiveness and efficiency of activities, respect the rules and regulations, the reliability of financial and management information, protection of assets and preventing and detecting fraud.

Also, need to be determined: the acceptable level of exposure to risks, assessing the probability of occurrence of risk and its impact, monitoring and evaluation of risks and establishing appropriate internal controls that need to manage risks and review the reports for budget execution, including those for the execution of programs.

The head of the entity should adopt strategy for risk management which is updated every three years and in cases where the risk varies greatly.

Strategy for risk management includes the usual elements of the known systems of risk management entity, in an appropriate manner and in appropriate places, are presented herein.

The strategy should include activities and measures which the entity should take or intends to take the following short and medium term.

With the Strategy for risk management has to determine policies for risk management, and management will clearly support the process for managing risks. The strategy should also specify the role and responsibility of all employees in the entity in identifying and managing risks in the operation.

The policy of risk management among other things should include:

- Policy objectives;
- Defining the possible risks;
- Type and volume of documents required for risk management;
- Plan for monitoring and control activities to reduce risks and
- Report on the implementation of the measures taken.

Risk management is the responsibility of all employees in the entity. The establishment and development of risk management in the entity is the responsibility of the head of the entity and the heads of organizational units in the entity. Their support is extremely important and especially important role of the Internal Audit in control, but not in management strategy. For the preparation of the strategy is necessary to establish a Working Group for risk management, consisting of employees in the entity. Its main task should be encouraging all parties involved in the implementation of guidelines and achieve the objectives of the strategy.

2.8.3 Component 3 - Controls Procedures

The entity should be available by written procedures should be comprehensive, complete and clear, classified the important activities, particularly for economic operations, and also be available to all employees involved. For each activity and / or significant event, the entity should ensure that adequate documentation and documentation of operations.

Documentation should be complete, accurate and in accordance with the structures and policies and also include administrative policies, manuals, operating instructions, checklists or other forms of presentation of the procedures. It should be updated, useful, accurate, easy to check and available to the manager, employees and third parties. If necessary it should ensure consistency of operations despite fluctuation of employees. It should be borne in mind that the absence of documentation, not complete and / or documentation not update represent risks to achieving objectives.

The entity should develop internal act on the motion of the documentation for each level of responsibility and monitor their implementation.

Separation of duties

The entity is needed financial and operational elements of any operation to be verified by two mutually independent persons, with the functions of initiation and verification of each operation should always be separated, thus reducing the risk of errors, fraud, breach of regulation, and the risk of not discovering these irregularities.

The entity requires the division of duties to create the conditions a person or organizational unit does not control all the important stages of a specific operation or event you need to create conditions for effective balancing of power. In circumstances where the possibility of separation of duties and responsibilities is limited by the small number of employees, employees should be aware of the existence of such risks and limits to compensate with other measures.

Supervision

The entity on the basis of previously established procedures should establish measures for monitoring operations, including ex post controls in order to carry out transactions in an effective manner.

The head of the entity should carefully determine the manner of execution of supervision to ensure employees effectively and continuously to implement procedures.

Supervision should include: reviewing the activities of employees, reports exceptions, through sample testing and other ways that confirm the compliance procedures.

The head of the entity has to confirm and endorse the actions of employees, to give necessary instructions in order to reduce errors, eliminate fraud, to comply with regulations and care instructions to be understood and applied.

Supervision activities should be considered adequate if: the duties, responsibilities and limitations of the authorisations delivered to each employee, the activity of each employee are systematically evaluated and the results of activity in various stages of execution of the operation was approved.

Resolving the discrepancies

In the performance of activities entity to special circumstances arise that cannot be predicted and which cause deviations that do not allow execution of transactions through the established procedures. For these cases should be prepared appropriate documents approved by the appropriate level under which they should be carried out.

In order observed deviations can be presented for approval, they must be justified, documented and with conclusions on good practice which should be applied in the future.

Continuity of activities

The entity should ensure continuous performance of activities through its organizational units in terms of the possible interruption of the continuity of operations because of the mobility of employees, equipment breakdowns, delays caused by some service providers, changes in procedures, etc., which can directly affect the achievement of objectives.

Therefore it is necessary to undertake appropriate measures to ensure the activities, especially those from the economic - financial nature take place at any moment and in any conditions continuously at all levels. To overcome this situation the entity of any such state should establish different measures to maintain continuity, such as employment / download for retirement or departure from the institution for other reasons, determining a replacement in case of temporary absence (holidays, vacations and other), contracting for maintenance of purchased equipment and contracts for the replacement of the supplied equipment.

Also, the entity should prepare a list of conditions that may cause discontinuation of activities and measures to prevent their occurrence.

Control strategies

The entity has to build strategies for control, appropriate strategies, policies and programs adopted for achieving goals and maintaining a balance in applying the same for the whole period of implementation of each goal.

To realize the objectives and strategies to control it is necessary to prepare a single report on the implementation of strategies, policies and programs.

The strategy for control has to reduce risk of deviations from the strategy, policy and programs, and thus failures in achieving planned objectives.

The strategy for control should be made in accordance with the strategic concept, which basically involves determining the control objectives, necessary resources, time frame, training of employees who are entrusted control activities, improvement of control methods and procedures, ways of assessing controls and so on.

Control strategies regarding the types of control applicable in certain situations classified through multiple criteria.

The control activities serve as mechanisms for and are very much a part of managing the achievement of objectives. They could be split in the following categories:

- **Preventative controls** - designed to prevent the occurrence of failures, inefficiencies, errors, and weaknesses. For that reason, preventative controls are proactive controls operating during the course of an activity or during the execution of employees' duties. By comparison, preventative controls are more favorable than other controls in terms of their cost, as they prevent losses and reduce certain risks. *Examples include: segregation of duties, authorisation and approval, assets access control, checking arithmetical accuracy before payment.*
- **Detective controls** - designed to detect and correct failures, inefficiencies, errors, and weaknesses. They operate after an event has occurred or an output has been produced and they should reduce the risk of undesirable consequences as they enable remedial action to be taken. Some detective controls serve as feedback controls – they follow the process and alarm in case there are deviations from a planned or standard value. Detective controls are used to improve procedures or preventive controls. *Examples include: inspection of goods delivered, post payment check, stock verification and bank reconciliations.*
- **Directive controls** - designed to cause or encourage events necessary to the achievement of objectives. *Examples include: clear definition of policies, the setting of targets and adequate training and staffing.*
- **Corrective controls** – designed to correct the circumstances arising from the undesired events which came true. They provide an "escape path" for the purpose of certain recovery from loss or damage. For example, this would involve the design of contractual terms and conditions enabling the recovery of excess payments.

Insurance may be regarded as a form of corrective control, as it facilitates the financial recovery in relation to the occurrence of a risk. Contingency planning is a vehicle whereby organisations plan for the continuation of their operations/recovery after an event they could not have influenced.

In practice, the above categories may not be clearly distinguished and a single control may operate to cover two or more functions. For instance, supervision covers preventative, detective and directive controls.

Types of Controls

The types of internal controls are summarised under the acronym “**SOAPSPAM**”:

- **S**egregation of duties
- **O**rganisation
- **A**uthorisation and approval
- **P**hysical
- **S**upervision
- **P**ersonnel
- **A**rithmetical and accounting
- **M**anagement

Integration of controls to Information Technology Systems

Given that operative systems and the systems which provide support to decision-making are more and more computerised, there is a great need for incorporating adequate controls into information systems.

The Information technology in business information systems has fundamental effects on the nature of the operations transacted, the procedures followed, the risks incurred, and the controls for mitigating those risks. These effects flow from the characteristics that distinguish computer-based processing from manual processing.

Therefore, we come back again on the concept of risk analysis and controls to be implemented to mitigate risks, including both functional and assurance controls in order to provide one the hand data integrity, availability and security, and, on the other hand confidence that integrity, availability and security controls are effective.

Information systems controls are of two types: general controls and application system controls. These controls apply to all systems – mainframe, mini-computer and end-user computing environments.

Access to resources

The head of the entity issuing authority has to determine persons who have access to material, financial and informational resources in the entity, and to appoint persons responsible for the protection and proper use of these resources.

Depending on the exposure of assets of inappropriate use should be determined dynamics of periodic comparisons of these goods with their value accounting (inventory).

Restricting access to resources to reduce their risk of inappropriate use.

The degree of restriction of access should be determined depending on the exposure of a specific resource of inappropriate use and the risk of potential losses and they should be periodically re-evaluated.

2.8.4 Component 4 - Information and communication

Information

Entity the information has to defined by type, quantity, quality and dynamics of reporting, which should provide managers and staff through the reception, processing and transmission of information to carry out tasks and to implement internal control.

Managers and employees should receive and transmit information necessary for the execution of tasks.

Information should be accurate, reliable, clear, complete, timely, useful, understandable and accessible.

The information should provide sound financial management and effective monitoring in order to identify risk situations before their occurrence.

Information should be delivered quickly in and outside the organization aimed at strengthening ethical values, policies, authorisations, responsibilities and reporting obligations, the institution's objectives, plans and other.

Communication

The entity has to take additional measures to strengthen the effectiveness of a system of internal and external communication, which should provide accurate, smooth and fast dissemination of information, so their complete and timely delivery to end users.

This is primarily because the entity has to ensure the functioning of an efficient system of communication should serve the needs of users (citizens) and should be flexible enough and fast inside the organization and between it and the environment and adapted to the capacity of users.

Correspondence

The entity has to provide a good organization of the receipt / webcast, registration and archiving of correspondence, in order for it to be available to management, employees and affected third persons.

In correspondence should be possible use of different informational support (diskettes, CDs, etc..) and be accomplished in different ways (with delivery, mail, email, fax, etc.).. Degree to which should be used the information support and the way they exercised correspondence should be adjusted to: the level of equipment of the organization and / or third level of training of employees, urgency, distance, cost, safety, limitations in legislation and so on.

It is needed to be prepared plans for implementation of correspondence that need to provide: reliability sending of correspondence, confirmation of receipt and dispatch of correspondence, preservation (archiving) of correspondence and access to correspondence.

Assumptions and reassessment

The entity changes in assumptions as a result of changes in the environment, should always be required, and reassessment of goals. When setting goals should always be taken into account assumptions are carefully reviewed and accepted by general consent.

If change the assumptions on which goals have been established, you should always be re-evaluated and the information needs to be collected, method of collection, the contents of the reports or the relevant information system.

Employees who are involved in achieving the objectives should be familiar with the established and accepted assumptions regarding the set goals.

Reporting of irregularities

Employees, in addition to communication that is practiced in terms of achieving objectives that are responsible to report on suspicions of irregularities, according to the procedure laid down by the Public Internal Financial Control Law, without being entitled to unfair or discriminatory treatment due respect such a procedure. Therefore it is necessary to establish procedures for reporting cases of suspected irregularities which should be communicated to employees, and managers should have responsibility for implementing the appropriate inquiry for examination of the said doubts and if necessary take appropriate measures to resolve them.

Employees in accordance with procedures have to identify irregularities, which directly or indirectly have the knowledge, should be protected from any discrimination. Pointing out the irregularities should be a part of the regular activities of employees and required to be stated in job descriptions.

2.8.5 Component 5 - Monitoring Review and evaluation of control

The entity should prepare plans and programs for the evaluation of internal control. The head of the entity should provide continuous review and evaluation of the functioning of internal control and its elements. Sun or other established functioning problems should be solved operationally by taking corrective measures.

Check the controls to verify that internal controls contribute to achieving goals. The evaluation of the effectiveness of controls can be addressed, (depending on the specificity and / or definition of requirements), or the objectives of the entity as a whole or some of them depending on the requirements of the head.

The evaluation of the effectiveness of control can be performed in different ways: the direct hierarchical way (through direct control) to a complex structural and organizational way (e.g. by experts who control the evaluation form through techniques of observation and interviews) through method of self (the entity to evaluate the effectiveness of controls on their activities).

Internal Audit

The entity should establish an internal audit, composed of auditors who carry out activities in accordance with programs based on assessment of risks.

Internal Audit should provide independent and objective assessment of the system of internal control entity.

Internal auditors their work should be completed by audit reports containing findings and recommendations to eliminate weaknesses in the system.

In accordance with the recommendations contained in audit reports, the head of the organization should identify the necessary measures to eliminate the weaknesses identified by audit.

The role of internal audit in the development of the financial management and control is given in Annex No. 13, which is an integral part of this manual.

2.9 Interconnectivity (synergy) of the five components of internal control

There is a mutual connection and relationship between the five components (control environment, risk management, controls, information and communication and monitoring), thus creating an integrated system that dynamically respond to changing circumstances. Such interconnection is shown in Figure 2.

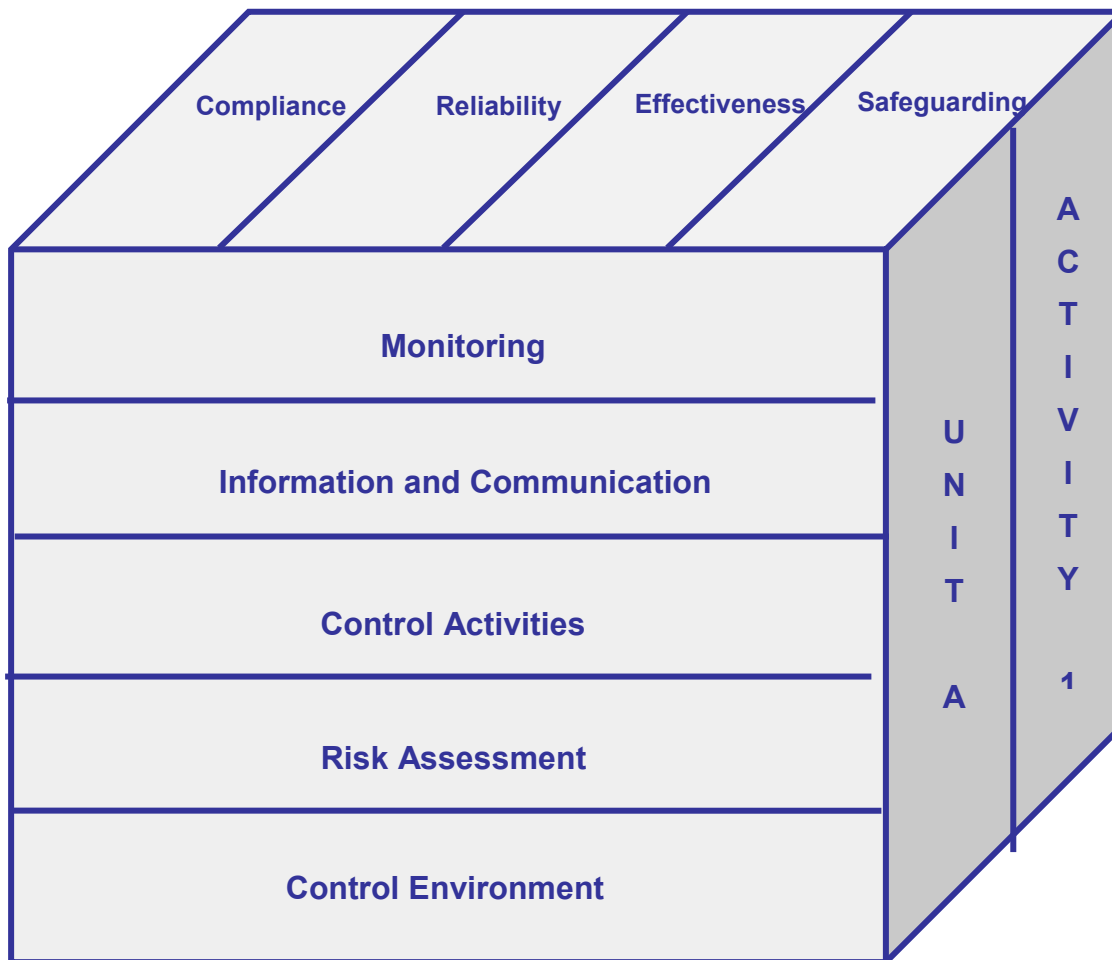


Figure 2

The system of internal control is intertwined with the operational activities of the entity, and is retained for reasons of basic activities. Internal control is most effective when controls are built into the activities and operations of the entity and when an integral part of the essence of the entity. "Inbuilt" control serves as a support to initiatives related to quality and authority granted thereby avoid unnecessary costs and it allows quick reaction to changed circumstances.

The six categories of objectives that relate to what the entity wants to achieve and these components, which represent what is needed to achieve the objectives are in direct relation.

All components are relevant for each category of goals. If look at any particular category - e.g., effectiveness and efficiency of operations - all five components must exist and function effectively in order to conclude that internal control works effectively.

A successful system of internal control helps in streamlining processes and

improving the level and quality of services. This provides reasonable assurance that the general objectives will be attained.

The internal control should increase the likelihood of detecting fraud, to reduce unjustified spending, abuses or mistakes, to prevent inappropriate activities or to strengthen compliance with regulations.

Internal control is the responsibility of all employees, and each entity should ensure that the system of internal control to be integrated into operational activities.

CHAPTER III
**ESTABLISHMENT OF FINANCIAL
MANAGEMENT AND CONTROL**

3.1 Conditions for the establishment of financial management and control

The obligation to implement the financial management and control system by the entities is stipulated in the Public Internal Financial Control Law and Budget Law. The implementation of financial management and control helps achieve the objectives of the entities of an optimal way. Head of the institution should provide a well-established system of financial management and control, where the cost of its operation should not exceed the benefits.

The main responsibility for implementing an effective system for financial management and control have authorized managers and other executives, but all employees should be sufficiently involved in this process.

Raising awareness

Awareness of the importance of financial management and control need to be strengthened in all entities, and it is especially important for heads of entities.

Training

Training for implementation of financial management and control includes the following:

- Training on basic concepts and principles of financial management and control;
- Training for the role and responsibilities of persons involved in financial management and control;
- Training for setting general and specific objectives, indicators of success in operations and results;
- Training for risk assessment and risk management;
- Training for establishment of internal controls;
- Training for audit trail and
- Training for use and limitations of internal audit.

Public Sector Modernization

Public sector reform in the Republic of Macedonia and other candidate countries to join the European Union, is the meaning and purpose of PIFC and the need for financial management and control and internal audit. Indeed, the European Union said that status quo should not exist as an opportunity!

Regardless of how states believe they have effective controls, the European Union seeks to adopt their proposal that would create a feeling that there is implementation

and compliance with the principles of PIFC concept which represents the European Union.

The system of financial management and control is intended for the whole entity, which emphasizes the need for teamwork that reduces the possibilities of plot, settling disputes and reduce fraud.

Fraud can be defined as intentionally making or omission relating to false, inaccurate or incomplete disclosure of the facts for abuse, which has the effect negative effect of income and expenditures or the budget funds, EU funds and funds from other sources.

Fraud can include the following:

- Falsifying or altering records or documents;
- Recording the fraudulent transactions;
- Theft or deliberate destruction of property or its loss and
- Incorrect application of accounting or other regulations or policies.

Fraud is a risk, among others, which may adversely affect the achievement of objectives. As in the case of other risks, management is responsible to care for the existence of sufficient controls to prevent any action for fraud (or such activities will reveal).

The system of financial management and control affect the entity, its employees and processes. It is a culture of change management.

Financial management and control is an integral part of the entity, not its additional section. It depends on the managers and all employees who have a role in ensuring the effectiveness of the system. The system is useful when all the employees and the control environment operating aligned. It helps the entity to accomplish its mission.

Supporting the highest management levels

If top management (head of the institution and authorized officers) believes that internal control is important in other entity will react with conscientiously respecting the established controls.

If top management believes that control is not important or gives importance only to the words, it is certain that other employees will do the same. It follows that, for purposes of internal control is crucial to show management and ethics to insist on it.

In exercising its management role should give good example with their actions and their behavior should reflect what is appropriate, and not just what is acceptable or expedient. Policies, procedures or practices of management should promote the proper, ethical, economical, efficient and effective behavior.

The ultimate responsibility for achieving the operation of the system of PIFC have separate ministers, heads of state institutions and other senior executives. They are

responsible for establishing and developing appropriate and effective PIFC within the entity in charge.

Management should ensure that employees who perform work to have the necessary skills, knowledge and abilities. The management staff should allow adequate supervision, monitoring and training in a reasonable measure to ensure the entity has the necessary facilities to carry out their work.

The ultimate responsibility has head of the organization, as its first head.

Process of strategic planning and measuring the success of the operation

Strategic planning as one of the first control includes the following questions:

- Setting the objectives of the organization and organizational unit;
- Planning of activities;
- Determining the desired level of controls;
- Setting the standards of performance;
- Defining the outcomes and criteria for their measurement and
- Measures to unforeseen circumstances.

When setting the objectives of the management entity should provide:

- The objectives of the entity to provide general guidance as to what entity should achieve, where they will be sufficiently specific and directly related to the entity;
- All employees are familiar with the objectives of the organization, and management through effective communication to seek feedback on the degree of achievement of objectives;
- Consistency of operational strategies with the objectives of the entity and
- A common strategy for risk management, which takes into account the organizational goals and important sources of risk to establish a control structure to reduce the risks. An example Strategy for risk management is given in Annex 12, which is an integral part of this manual.

When setting the objectives of organizational units should provide management:

- The objectives of the organizational units
 - to derive the objectives and strategic plans of entities associated with them;
 - be complementary to each other to complement and not contradictory;
 - be relevant to all significant processes of the entity and
 - to include criteria for measurement.
- Entity to resources appropriate to the objectives of organizational units;

- Determining the objectives of the organizational units that are key to the success of the overall goals;
- All management levels are involved in setting the objectives of organizational units and are dedicated to their realization and
- All employees are familiar with the objectives of organizational units, and management to gather feedback, which confirms that communication, is effective.

This way of setting the objectives are taken into account the five control components that are mentioned in the COSO framework.

Enforcement of financial management and control

The manner of execution of financial management and control of an entity should adjust according to their own specific needs and circumstances.

Therefore, the Head of the financial issues need to devise a plan for the establishment of financial management and control (the methodology for implementation of the plan) that are approved by the head of the entity.

3.2. Establishment of financial management and control

The obligation to establish and develop financial management and control is laid down in part II. Financial management and control of the Public Internal Financial Control. Law

The process for establishing the financial management and control includes the following activities:

1. Organizational setting which includes delegating responsibility, developing systems for internal reporting and establishing a documentation process.
2. Preparation of a plan for the establishment and development of financial management and control (the methodology for implementation of the plan).
3. Making statements about vision and mission, and key business objectives.
4. Assessment of the five components of internal control or self assessment control.
5. Preparation of book (map) of business processes.
6. Risk assessment and risk management.
7. Review of established controls.
8. Analysis of existing and required controls:
9. Preparation of plans for corrective actions.
10. Report for the content of internal controls.

11. Annual report on the implementation of financial management and control that is submitted to the CHU.

12. Periodic review of internal controls in areas with high risk.

These activities should not be viewed separately, but as interconnected.

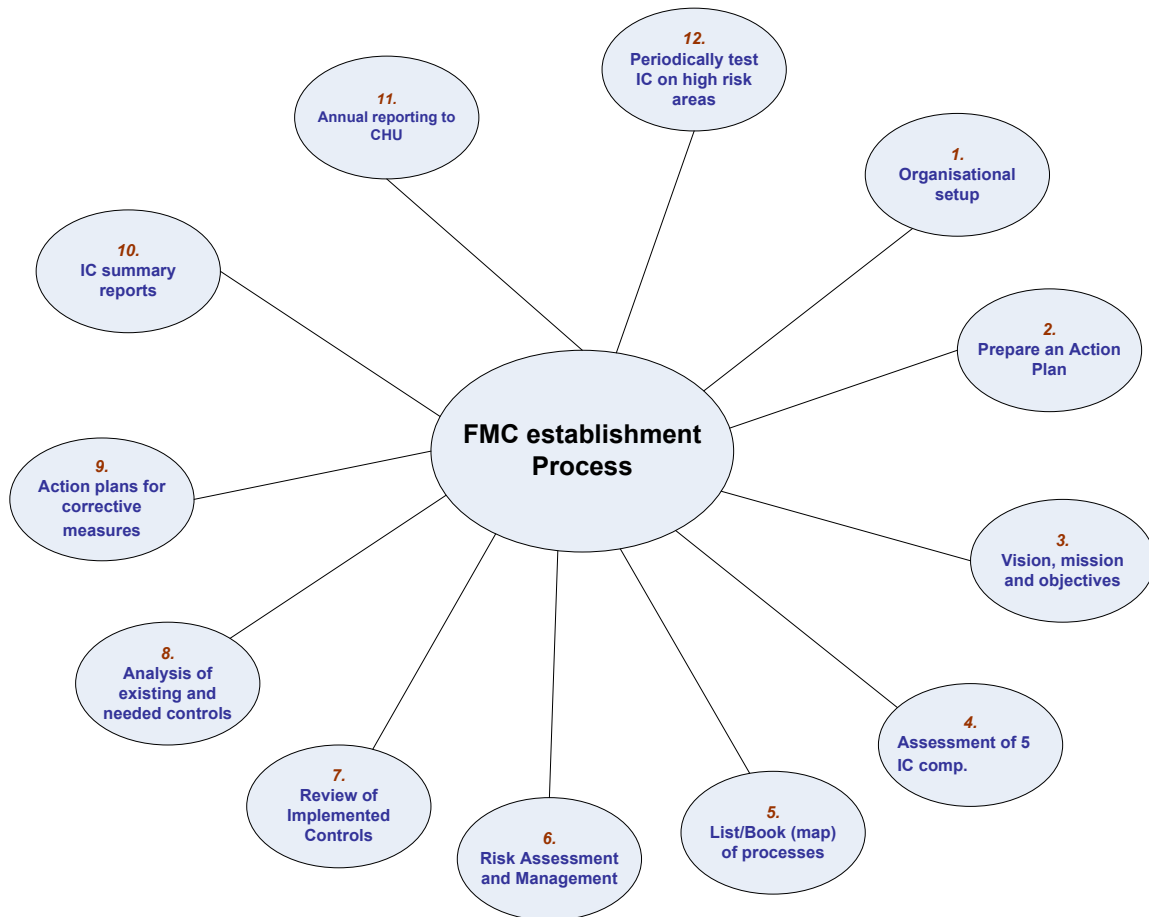


Figure 3

3.2.1 Organizational setting

Organised approach is a key factor for successful establishment of financial management and control. Careful planning and organization of this step is invaluable in the implementation of further steps in the process of establishing the financial management and control and maintenance.

Establishment of Financial Affairs Unit or strengthening the already existing unit is the responsibility of management. That should ensure proper distribution or allocation

of funds and delegation of tasks in a manner that ensures the fulfillment of long-term goals of the organization.

a) Delegate responsibility

The system of financial management and control is not separate and detached from the rest of the entity, but a generalization of all plans and resources which provide reasonable control of the operation. Therefore, the ultimate responsibility for enforcement of an effective internal control is the management of each entity and not an external unit. Those same managers responsible for daily operations, also responsible for the existence and effectiveness of internal controls.

Delegation of duties can significantly differ between entities and between organizational units within the entity, depending on the specific goals and objectives, size and organizational structure, regulation and the environment in which they operate. It is recommended to consider the following:

Head of Financial Affairs Unit

It is recommended that one of the heads of organizational units which meets the requirements of Article 10 of the Public Internal Financial Control Law and has knowledge of the operations, employees and the objectives of the entity to be appointed Head of the financial affairs unit. This person should be responsible for coordinating activities related to the establishment and development of financial management and control.

Head of Financial Affairs Unit cares for the establishment and development of financial management and control of the entity, and is responsible for the following:

- monitoring and evaluating the overall system of internal control;
- coordinating the development and implementation of internal control;
- monitoring of the identified deficiencies and necessary corrective actions;
- to provide familiarization of employees with policies, by providing adequate training in the field of internal control and
- reporting requirements according to internal and external users.

Specific duties of this person, related to the establishment of financial management and control include:

- preparation, publication and updating of guidelines;
- development of specific goals;
- to chair the working group;
- evaluation of plans for risk assessment and reviews of their internal control or improvement;

- coordinating the preparation of training programs for persons involved;
- monitoring progress in the establishment of financial management and control;
- review the results of risk assessment and review and evaluation of control;
- monitoring the implementation and effectiveness of corrective actions and
- reporting on progress and status of development of financial management and control of senior management of the entity.

Coordinator for Financial Management and Control

Coordinator for financial management and control works on the instructions of the Head of the Financial Affairs and working groups in the entity responsible for implementing policies and procedures of the entity.

Duties of the Coordinator for financial management and control are as follows:

- Coordinate the establishment and development of financial management and control;
- Participates in the preparation of the book (map) the processes and the establishment and development of procedures;
- Cooperate in the establishment of financial management and control and risk analysis;
- Helps the manager for financial management and control in preparation of the plan to establish financial management and control;
- Helps the manager of financial management and control in monitoring and evaluation of the entire system and establishing a process required for monitoring and reporting;
- Participates in the preparation of reports on the progress of financial management and control and prepare an annual report to the established system of financial management and control;
- Propose appropriate training in financial management and control related with the needs of employees and
- Take care of updating the documentation associated with the map of business processes and analysis of risks and control measures.

Working group

Head of the Financial Affairs is responsible for organizing the job of the working groups were formed in the entity.

Ideally, members of the working group to be experts with knowledge and experience in one of the following areas: financial management, internal audit, human resources, assessment and risk management, public procurement and IT (information technology).

Members should be sufficiently qualified in terms of knowledge, experience and authority, how could add value to the group with his experience and knowledge. Also, you should have the authority to give an opinion as representatives of a specific area of work.

Duties of the Working Group are:

- Oversight of activities related to establishing a system of financial management and control;
- Introduction to the problems associated with its establishment and finding ways for their solution;
- Assistance and coordination associated with the risk assessment;
- Reviewing the results of risk assessment and control self-assessment;
- Preparation of reports for analysis of weaknesses (gap analysis), or the difference between analysis and established the necessary controls and
- Assessing the current situation and deciding on actions that need to be taken, attendance at meetings to negotiate for further progress, analysis of problem areas and other.

Managers of organizational units⁵

Heads of organizational units have responsibility for financial management and control in their organizational units.

The duties associated with the establishment of financial management and controls of the heads of organizational units are:

- participation in the job of working groups;
- concern over the heads to be motivated and educated to perform their tasks;
- participation in the program for internal control can properly be reflected in individual work program and assessment;
- development / review of the objectives of the cycle of events;
- organize and / or performing risk assessment and review of internal controls;
- reviewing and analyzing the results of risk assessment and evaluation of internal controls;
- worry about the removal of significant deficiencies in the control and
- worry about it, all amendments to the rules, procedures, systems, etc.. include appropriate controls.

⁵ In the ministries they are heads of units and heads of departments

Staff

The system of internal control is effective as long as it is supported by employees around the entity. Employees at all levels of the entity should understand its role in internal control and the importance in supporting the system with their work.

Practically, all employees create information that is used in the system of internal control or undertake tasks that affect the implementation of the control. Also, all employees should be responsible for notification of problems, mistakes, shortcomings in the activities and operation, disobeying the rules and procedures or compliance with other policies or illegal things to a higher level entity.

Each entity has to decide on the level of staff who will determine for execution of the process of evaluating and improving the system of internal control.

The heads of organizational units should be given guidelines in order to better familiarize the entity with the program, goals, and their responsibilities in the process of evaluation, promotion and reporting. Also, you need to train employees who received the task to perform risk assessment and review of internal controls.

b) Development of internal reporting system

The internal system of reporting and monitoring is necessary to establish activities for monitoring the progress of various tasks that make the process of evaluation and promotion. Areas that need to be monitored include the following:

- making the schedule and implementation of inventory and description of working processes;
- making the schedule and implementation of risk assessment;
- making the schedule and implement a review of internal controls and
- progress of corrective activities in areas where controls are needed but do not exist, where they are not strong enough to be able to ensure improvement or where the controls are overdone and believe in the work or unprofitable.

Furthermore, the reporting system should include review of information related to the results of risk assessment, review of internal controls or audits, evaluations and corrective measures, the state of training of persons involved in financial management and control, and documenting the existence and content program.

c) Establish a process for documenting

Documentation should be taken for those activities that are carried on the inventory and description of business processes, risk assessment, the review of internal controls, evaluations and monitoring. The type and quantity of documentation and the manner of that documentation is a work that every entity should be determined according to their own needs. Documentation at least should show the persons

involved (in the assessment, review or monitoring), key components of monitoring, applied methods of assessment and conclusions.

Documentation should be sufficiently detailed to enable effective execution of review or monitoring. Independent assessors should be able to review and understand the documentation.

3.2.2 Preparation of the plan for the establishment and development of financial management and control (the methodology for implementation of the plan)

This is one of the most important steps in the process because it creates the basis for other steps. Head of the Financial Affairs Unit with the consent of the Head of the entity is responsible to develop a Plan for establishing a system for financial management and control (the methodology for implementation of the plan).

The plan should include activities needed to implement the system of financial management and control, deadlines for implementation of individual activities as well as responsible persons by individual activities. Financial management and control system cannot be established overnight. It is a process that depends on the entity will take approximately two to three years.

Example plan for the establishment and development of the system of financial management and control (the methodology for implementation of the plan) is presented in Annex 6 which is an integral part of this manual.

3.2.2.1 Organization of the establishment of financial management and control includes the following activities:

- Establishment of a unit on financial issues;
- Appointment of Head of Financial Affairs Unit, responsible for financial management and control;
- Appointing a person responsible for irregularities;
- Appointment of a coordinator for financial management and control and
- Establishment of a working group for drafting the policies, procedures and activities related to financial management and control.

Establishment of Financial Affairs Unit

The head of the entity on a separate organizational unit of financial issues as a sector or department, whose head directly to the head of the organization and top management civil servant. Unit for Financial Affairs is responsible for conducting the affairs of the financial management and control.

Organogram of the financial issues in entity from the central and local level is in Annex 7 which is an integral part of this manual.

Appointment of Head of Unit for Financial Affairs, responsible for financial management and control

Head of the Financial Affairs is responsible for:

- Coordinates the development process, establishing, implementing and maintaining financial management and control;
- Development Plan for the establishment of financial management and control, which approve the head of the entity;
- To appoint a coordinator for financial management and operational control which implements and coordinates the establishment and development of financial management and control of the entity;
- Monitoring, assessment and identification of deficiencies and necessary corrective activities of the entire system of financial management and control;
- Proposes the establishment of a working group that will work on developing policies, procedures and activities related to financial management and control;
- Developing a plan for training in financial management and control;
- Preparation of reports required by the internal and external users;
- Assessment of plans for risk assessment and reviews of their internal control or improvement;
- Preparing an annual report to the established system of financial management and control;
- Reviewing the results of risk assessment and review of internal control;
- Monitoring the implementation and effectiveness of corrective actions;
- Reporting on the progress and status of development of financial management and control of senior management of the entity and
- Participation in the preparation of the inventory and description of processes, establishing and developing procedures.

Designate a person responsible for irregularities

The head of the public sector has an obligation to prevent the risk of irregularities and fraud and to take action against irregularities and fraud. He appoints the person who reports on irregularities and suspicions of fraud or corruption and self-taken measures.

All staff including internal auditors report to the Head of the public sector entity and the person responsible for irregularities, the irregularities or suspicions of fraud or corruption.

If the internal auditor has a suspicion of fraud or corruption during the performance of the audit, it shall notify the Head of the Internal Audit has an obligation to provide

written notice to the head of the public sector entity and the person responsible for irregularities.

After receiving notification of the existence of irregularities or suspected fraud or corruption, the person responsible for irregularities take the necessary measures and shall inform the Public Prosecutor of the Republic of Macedonia, Ministry of Finance - Financial Police Office and financial inspection of the public sector and within 15 days of the measures taken in writing, inform the person that suggest misconduct or fraud, except in case of an anonymous report.

If employees and internal auditors are not adequately informed about the measures taken, such as to inform the Public Prosecutor of the Republic of Macedonia, Ministry of Finance - Financial Police Office and financial inspection of the public sector. Central Harmonisation Unit is not authority for reporting irregularities and fraud.

The staff including internal auditors who reported irregularity or suspected fraud shall be provided with protection of identity and rights acquired from employment on the basis of law.

Appointment of the Coordinator for Financial Management and Control

Coordinator for financial management and control works on the instructions of the Head of the Financial Affairs Unit and working groups in the entity responsible for implementing policies and procedures of the entity.

Establishment of working group for drafting policies, procedures and activities related to financial management and control

Head of the Financial Affairs Unit is responsible for organizing the work of the working group that will work on developing policies, procedures and activities related to financial management and control.

Chairman of the Working Group's Head of the financial issues. Members of the working group should have the knowledge and experience in one of the following areas: financial management, internal audit, human resources management, assessment and risk management, public procurement and IT (information technology).

The duties of the working group are:

- Supervision of activities related to establishing a system of financial management and control;
- Familiarization with the problems associated with its establishment and finding ways for their solution;
- Cooperation and coordination associated with the risk assessment;
- Reviewing the results of risk assessment and self-assessment control;
- Preparation of reports for analysis of weaknesses, or the difference between analysis and established the necessary controls and

- Evaluating the current situation and deciding on actions that need to be undertaken, attendance at meetings for agreeing to further progress and problem areas and more.

The heads of major organizational units are responsible for internal control in their organizational units:

- Participation in working groups for drafting policies, procedures and activities related to financial management and control;
- Organizing and / or performing risk assessment and identification and evaluation of control;
- Reviewing and analyzing the results of risk assessment and evaluation of internal controls;
- Care for the removal of significant deficiencies in the control and
- Care for amendments to the rules, procedures and systems.

The system of internal control is effective as long as it is supported by employees around the entity. Employees at all levels of the entity should understand its role in financial management and control and the importance in supporting the system.

Practically, all employees create information used in financial management and control or carry out tasks that affect the implementation of the control. Also, all employees should be responsible for notification of problems, mistakes, shortcomings in the activities and operation, disobeying the rules and procedures or compliance with policies or other illegal things to a higher level in the entity.

Each entity must decide which employees will carry out evaluation and improvement of the system of financial management and control, and training of employees who received such a task.

3.2.2.2 Establishment and development of financial management and control includes the following activities:

- Making statements about the vision, mission and key objectives of the organization and administration / department;
- Initial assessment of the five components of internal control;
- Map of work processes and determine the activities in each process;
- Preparation of a description of the processes (audit trail);
- Identification of the main risks to achieving the objectives and decision control objectives in terms of managing the most important risks - risk register - the adoption of strategies for managing risks;
- Analysis of existing / established and expected / required controls and defining the positions and functions of the previous and subsequent control;
- Preparation of the plan to eliminate weaknesses in internal control;
- Monitoring and reviewing progress (plan of establishing the necessary controls);

- Annual report for the system of financial management and control and reporting to CHU and
- Training of persons involved in financial management and control.

3.2.3 Preparation of statements for the vision, mission, and key business goals

Statements of vision and mission are an important element that promotes the process of separating the entity into smaller parts and allows the identification and determination of the related goals of the process.

Vision Statement indicates the long-term direction and describes what the entity wants to achieve over a period of 15-20 years. This creates an atmosphere for all employees. She also has to be ambitious and realistic. It should be in writing and need to be reviewed and approved before being published.

The mission of a public sector entity is usually based on providing the best services to the public through effective, efficient and economical management of public funds.

The mission is a main reason for the existence and operation of the entity, and consists of areas of operations, values and goals to be achieved. She responds to questions "Who we are", "What we do" "Why we exist," and "To whom we serve."

The mission statement elaborates the vision statement and attributed goal. She has no time frame so exist so long as a entity.

Examples of statements of mission and vision:

The mission of the Ministry of Finance of the Republic of Macedonia is

"Maintaining a stable public funding and a stable macroeconomic framework to ensure continuation of the process of economic reform and accelerating economic growth, leading to increased prosperity and improved quality of life of citizens Republic of Macedonia".⁶

The mission of the State Audit Office is

„The State Audit Office (SAO) is the supreme audit institution in the Republic of Macedonia, which aims to provide timely and objective information Assembly Government, other public officials and the public on audit findings from audits“.

State Audit Office provides support to the Assembly in fulfilling its responsibilities through the identification and presentation of irregularities, instances of illegal operations, and possible cases of corruption and abuse of office.

Through clear and effective recommendations SAO provides support to state institutions and users of public funds to improve the management of them. SAO thus contributing to improving the lives of the citizens of Macedonia.“⁷

⁶ www.finance.gov.mk

⁷ www.dzr.gov.mk

Vision of the State Audit Office - "To successfully fulfill our goal - care for public funds and contribute to improving the management of them, our vision is that you need to continually provide quality work that would have kept the epithet of independent and professional partner with high integrity who is the bearer of progress in managing public funds, accountability and transparency in the use of the same."⁸

EXAMPLES:

1. MINISTRY OF FINANCE OF IRELAND

The Department of Finance has a central role in implementing Government policy, in particular the Programme for Government, and in advising and supporting the Minister for Finance and the Government on the economic and financial management of the State and the overall management and development of the public sector. In formulating this advice the Department is guided by its mission which is:

'To promote a growing economy which will deliver a high level of sustainable employment, social progress and living standards?'

2. THE MINISTRY OF FINANCE IN NETHERLANDS

'We guard the treasury and aim for a financially sound and prosperous state of the Netherlands'

That is why:

- we develop just and solid fiscal legislation
- we collect taxes: we do so based on principles of lawfulness, equality before the law and legal certainty
- we monitor responsible and efficient expenditure of government funds and we safeguard budgetary rules
- we borrow money at the lowest rates and we manage State Property as good stewards
- we lay down rules for a stable financial system
- we develop a strong economic structure, solidly embedded in a strong Europe
- we contribute to the protection of our society against undesired goods and services.

The process of setting goals you can control the top management, and to inform the lower levels. Furthermore the procedure can be participatory, with each unit determines its established goals that align to those goals that were established from different hierarchical levels of the organization. Targets create visibility to expectations, ways to meet those expectations and ways of measuring the success of the operation. Goals (according to the principle SMART) should be:

⁸ www.dzr.gov.mk

- Specific (concrete)
- Measurable,
- Achievable,
- Realistic,
- Timed.

Work goals are desired outcomes for the entity. They are the product of the planning process and are necessary for coordinating activities in the entity.

If objectives are not clearly defined, employees could work inefficient, ineffective and / or mutually opposite directions.

Good job goals may be a starting point for determining the specific and detailed targets within the lower units (i.e., management, units, departments, sectors and units of assessment). Goals may be organizational or functional.

Management performs **organizational (strategic) objectives** of the mission and often develops during the process of strategic planning. Such goals are long-term, broad scope, used to define the desired outcomes of the entity entirely.

Good organizational goals could be a starting point for determining the specific and detailed goals within the organizational units of the entity. They also can serve as a standard for assessing the overall success of the operations of the entity.

Management determines the operational objectives of a number of organizational goals. The operational objectives are thinner; they are more specific and define the desired outcomes of each unit at a lower level. They should be hierarchically structured as it could achieve the operational objectives of each unit at a lower level to help the next unit on a higher level in achieving its operational objectives, and it helps the management to achieve and organizational goals.

All goals should be established in writing. The management needs of the employees to make available organizational and operational objectives in written form as a statement of mission also. Management should ensure that employees understand the goals and how their work helps in achieving those goals.

Finally, as changes in the environment may affect the appropriateness and relevance of the mission statement, these causes can affect the institution's objectives. For an organization to function effectively and develop, you should periodically evaluate their organizational and operational goals.

The connection between the statement of vision and mission, determining objectives, implementation strategies and basic principles as five components of internal control are presented in Figure 4 below:

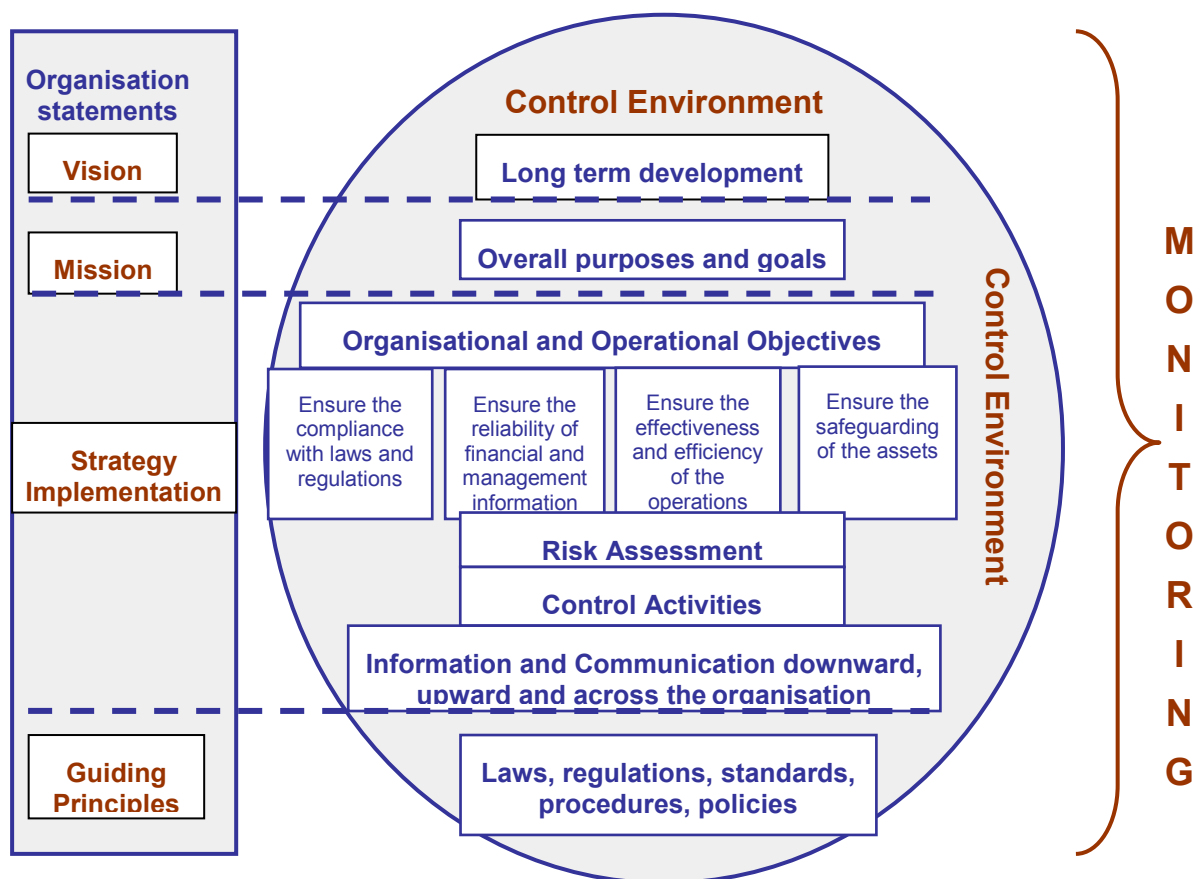


Figure 4

3.2.4 Assessment of the five components of internal control

Self-assessment control is useful and efficient approach to the Head of the Entity and the Head of Financial Affairs in the assessing and evaluating control procedures that are established and implemented within the entity.

Entity which maintains self – assessment control, it should be documented implemented which will enable managers, heads of financial management and control and working groups, participation in self control, in order:

- Identification of risk and areas at risk;
- Assessment of control that would reduce those risks;
- Preparation of action plans that lead to reduced risk and
- Determining the probability of achieving the goals of the organization.

Form of control self-assessment is a questionnaire that includes five interrelated components of internal control system, according COSO framework (control

environment, risk management, controls, information and communication and monitoring).

The issues within each of these components typically require an answer "yes" or "no." They are also drawn to the one who filled the questionnaire, can understand. For these questions need to openly discuss with employees who need to answer the questions. The answer "no" indicates a defect that should be resolved. Maybe not all questions are applicable and therefore should not meet all the parts. However, if the individual areas are missed or discrepancies arise, it should be mentioned in the notes.

It should be noted and that the evaluation of internal control structure is not a single but permanent job. The responsible persons should be permanently engaged with the possibility of improving the type and operation of internal control. Self-assessment control creates a solid basis for determining and reducing gaps in control systems.

The procedure of self-assessment control consists of two phases:

Initial assessment - it is necessary first to determine the current situation, which will require self-assessment of existing internal controls and

Permanent overview - annual self-assessment performed for evaluation of progress in the implementation and effectiveness of internal control.

Questionnaire for self assessment control is an integral part of the Rulebook on the form and content of reports and the statement about the quality and condition of the internal controls of the annual financial report.

In order to obtain self-assessment questionnaire for quality control, we offer the following advice on the questionnaire to include the five components of internal control to show what there is, and what there is not which is perhaps more important.

The main useful tips for the five components of financial management and control are given in Annex 2, which is an integral part of this manual.

3.2.5 Inventory or book (map) of business processes

The primary goal of this activity is making an inventory of business processes, organizational units at the level of the whole entity.

Compiling an inventory of processes and the development of a book (map) process provides uniqueness of the development of business processes, determining which activities are implemented, responsibility for implementation of activities and the time to be implemented, and a review of controls determined in separate processes, which are providing the goals of the process.

The inventory process is a review of processes taking place in the entity. The review process includes an overview of activities and procedures to determine the way they conducted individual work process and the forms or documents from the third level used during their execution.

In this activity separation into units provides base for determining the level of involvement of employees in work processes. However, there is no best method to

be followed, because for the implementation of this activity may be decided separation that includes a combination of organizational units, administrative functions and programmatic activities.

Sources that can be used in the preparation of an inventory of business processes include organizational charts, jobs description, materials related to budget and financial plan, regulations and manuals for management information systems. At the beginning of this activity is best to start from the act on internal organization of the entity.

Work processes are a set of related activities aimed at achieving employment goals. Mapping process includes inventory and description of all work processes. Mapping of all processes in the entity will give a full picture of how the entity achieves its business goals. The mapping process will receive a full description of the entity and its operations, will determine whether there are shortcomings regarding the defined process, the interconnection between processes will be seen, and opportunities to improve the operations of the entity.

The entity is required to review all processes to ensure their effectiveness and efficiency in achieving the expected results.

Given that many units are interconnected and rely on each other, especially if it is included Information Technology, most processes are carried out in several organizational units within the entity. Some examples of processes include calculation and payment of salaries, purchasing, accounting, budget preparation etc.

After performing an inventory of processes in the entity, it is necessary to be documented.

In the first stage of preparing the map of business processes is proposed, based on the forms / inventory of work processes, collecting data on processes and their main activities by units of the entity. Working Group on the establishment of financial management and control should review the processes in terms of their definition that is necessary to determine that certain activities of the same process are not marked as processes and to identify common processes.

For example, receiving mail, registration, delivery of mail and archiving processes are not four but a process that consists of the following activities. Also, the process of drafting the bylaws and laws is a process that takes place in almost all organizational units in a separate ministry or public administration bodies. Then, this process is necessary only once to enroll in the map of business processes and the level of the entity to determine the manner of its execution, or in a single procedure or a procedure to describe the way in which all units should perform in the implementation process. The result of this phase is making an inventory of all the processes that exist in the entity. In larger entities (budget users) they can be displayed in a document in the form of book inventory of business processes.

In the second phase of preparing the map of business processes, is proposed and approved the identified work processes to enroll in the map of business processes.

Recommended content of the book (map) process is:

- Heading:

- Name of entity
- Document: map of process
- Prepared by:
- Name of the process:
 - o The main process:
 - o Sub process:
- Process Code
- Version of the document
- Date:
- Approved the Head of entity: (signature and stamp)
- Owner process
- Purpose of the process
- Authorization
- Chronological description of activities
- Employees involved
- Minimum separation of duties
- Reporting Documents
- Time period
- Rules and Regulations
- Risk profile

In addition explanations are provided for individual items from the book / map of processes, i.e.:

Heading

In the title of the book / map is necessary to specify: name of entity, name of the documents, name of developer organizational unit, the name of the main process, the name of the sub-process, code of the process, the version of the document, date and signature of the Head the entity and stamp of the entity.

Code of the Process

Under the code of the process it means the numeric or text label of the process when the entity can set for individual processes.

Document Version

All processes and their main characteristics during the first entry in the inventory (map) of business processes will have a version of the document 1, and in case of amendment the specified number is changed.

Name of the Process

Under the name of the process is recorded the name of the process which is assigned during the enrollment into the form for establish / inventory of business processes given in Annex No. 9 which is an integral part of this manual. The name of the process should briefly and clearly explains the unity of the process. For example: the process of calculation and payment of wages or the procurement process.

Process Owner

Each business process should have owner, manager or person responsible for carrying out the process. Process owner can only be one person who determines how the process should be conducted and has authority for its modification. Recommendation is to write the name of the workplace or function, not his name, to allow the data entered in the book / map processes not to be changed, if there the person responsible for that process is changed. For example, the owner of the process of calculation and payment of wages is the Head of Unit for Financial Affairs. If it works for the procurement process, then the owner can be the head of the procurement unit or other organizational unit responsible for implementing the process.

The aim of the process

The objective of any process is what you want or need to be achieved by development of activities or work processes. For example, the objective of the procurement process is: economical and timely satisfaction of real needs for goods, supplies and services in accordance with the legislation with efficient use of available budget. In the process of calculation and payment of wages order is timely and accurate calculation and payment of salaries of employees in the entity.

Authorization

It said the source from which derives authority and responsibility of the owner of the authorization process and the involved employees to perform activities in the process. Example: Act of systematization and organization, decision for deployment of staff, decision of mandate / sub mandate, laws and other regulations.

Brief description of the process

Short description of the process comprises: inputs in the process, the sub process name or names of the activities and output of the process.

Employees Involved

Involved employees are persons who perform activities in the work process. In the process of calculation and payment of salaries that are, for example, persons who conduct activities in process, that officer for salaries, advisor for the calculation of salary, head of the accounting and payments and the head of the financial affairs department.

Minimum Separation of Duties

The minimum separation of duties should be provided an official at the same time not be responsible for the approval, execution, accounting and control.

Reporting Documents

Regarding the "reporting documents" shall be entered and are provided in addition, documents that are created during the process that are derived from execution of the same. (Letters, forms, decisions, reports, check lists, etc.). These documents are also listed in the table "workflow" column "Result / official document" and table "working instructions" and are an integral part of the map.

Time period

It introduces the term of a process or part of the process determined by regulation or other official document (contract, invoice, etc.), Law or other regulation. Example: payment of salary until the 15th of the month.

The critical period is stated in the section "IV. Workflow" and marks the duration of the activities individually and cumulatively for the entire process. In various cases it is possible that some activities are performed parallel, independently of each other. Purpose of determining the critical period is to determine the shortest period of time for running the entire business process.

Rules and regulations

Here regulations on the activities that take place within the process are stated.

Chronological activities

Chronological activities stated in Section "IV. Workflow". Activities are things that need to be made in order to convert inputs into outputs, therefore the desired result of the process. For example, activities of the procurement process include: determining needs, planning and providing of funds, preparation of documents, posting announcements, registration, openings, reviews, ratings, comparison of bids, selection of bid, contracting, receipt of goods or services. In the case of single process is complex, therefore consists of a series of activities which may be implemented in separate units, those summed up activities may be named as sub processes. For example, one sub processes may be conducting a public announcement. Then this sub processes will contain the following activities: preparation of documentation, publication of the contest, receiving bids, opening, review, evaluate and compare the offers and choosing the best offer.

In the staffing process activities are: establishing the need, preparation of annual plan of recruitment, initiation of proceedings during the year, preparation and publication of the competition, receiving and processing incoming reports from the contest, referring to an interview, testing of candidates, election of candidates, making decisions about the selection, preparation of contracts - the decision for admission into the civil service and decision deployment job and submission of health and pension insurance.

Inputs to the process are requirements of users, data, ideas, and everything that can be changed in the process to achieve the desired outcomes of the process. For example, inputs in the procurement process to customer requirements for procurement of goods, services, with appropriate quality and features. In the staffing process input is determined a need for employment of people with certain skills and qualifications.

Outputs of the process are the results achieved in the process on the base of the input in the process. In the procurement process, those are goods received, services or activities with the quality and features required. So, the procurement process begins with determining the needs for procurement of certain goods, service or activity and ends with fulfilling the needs or receives goods, services with such characteristics are defined at the beginning of the process. In the process of employment, output of the process is the employment of the person after the expiration of the probationary period is determinate that has all the required capabilities and that meets all the necessary qualifications.

Risk analysis and control measures

Depending on the objectives of the process is necessary to determine the risk that those adverse events that may prevent the realization of the objective. All processes involve certain risks. For example, risks of the procurement process can be: delay, delay in work processes, not fulfilling the goals of business processes, non-compliance with legislation, the creation of obligations over available financial assets, uneconomic and unintended budget spending, inefficient and ineffective utilization of human resources, non-transparent selection of bids, acceptance of delivery which is not in accordance with the contract and so on. In the process of calculation and payment of salaries, risks can be: a delay of payment of salaries, overpaying or insufficient payment of salary, overtime work error or absenteeism, unauthorized access to information or unauthorized payment. On the level of each activity is estimated profile of risk as: low, medium or high according to the matrix for the evaluation of risks, or based on the assessment of the likelihood and impact / effect.

The activities for which of high-profile of risk is set, and sometimes medium, depending on the "risk appetite" of the owner of the process, is essentially determined by the risk in terms of: legality, timeliness, completeness, accuracy, actuality and economy, examples of risk, control measures, responsible person - an employee who performs the control and the frequency (how often it is done).

Diagram of flows (audit trail) of the process includes:

- Activities registered by the time of execution and arranged in a vertical line. Activities should be expressed clearly and concisely;
- Organizational units and employees of the entity listed in the horizontal line;
- Operations that are conducted and their results;
- Timeline for each activity;
- Operations and results are presented with graphic symbols;
- With graphic symbols of the activities should be determined organizational units of the entity and
- Graphic symbols should be connected with arrows to get a complete representation of management flow and the time development.

The information required for preparation or updating of diagrams of flows, usually obtained through interviewing employees in each "Organizational Unit" on procedures to be applied, then the current flow diagrams and other documentation

for the system. Samples are collected from the documents and the procedure is included each organizational unit.

The employees ask questions about their specific duties. The survey can be conducted simultaneously with the review of transactions, especially when the flow diagrams are updated.

Diagrams of flows have the advantage because it gives a concise overview of the processes and assist in determining inappropriate elements that allow faster understanding of how the process works.

Shortcomings in the preparation of a flow diagram relating to time may be needed for construction, validation and continuous updating.

The Managers of organizational units are responsible for managing the process or its parts. It is believed that they are most competent of making the description of business processes or for the preparation of the audit trail.

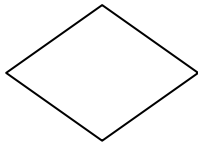
Example flow diagram (audit trail) is located in the Annex No. 10 Map of the working process, which is an integral part of this manual.

A legend of the symbols used in the example is presented in *figure No 5* below:

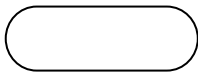
Figure No 5



Activity or action – a short title of activity is entered into the symbol.



Enquiry – decision-making symbol. The symbol is positioned in the procedure (a point in the procedure) where a decision is to be made. The symbol gives YES-NO options as its outputs.



Start or end of a procedure – the symbol is use to show the beginning or end of a process in the flowchart. Words "start" or "end" are written in the symbol.



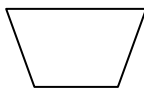
Process direction – this symbol is being use to mark the direction and order of activities in a process, i.e. to mark the course between the symbols in the flow chart – upward, downward and laterally.



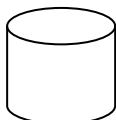
Document – this symbol is use to mark a document created during the course of the process activities.



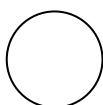
Multiple documents – this symbol is use to mark several documents created during the course of the process activities.



Manual operation – this symbol is use for a manual operation.



Database – this symbol is use to present a database in which data created during the course of the process activities are being electronically stored.



Interruption or continuation of a procedure (or a part thereof) – the symbol (together with adequate letter mark within it) is used at the end of a flowchart to show how one flowchart's output will serve as other flowchart's input. The symbol is frequently being

used when there is no enough space on a single sheet of paper to show the entire flowchart.

Details of the database, documents and practices of archiving on the process include the following:

- Inventory of activities according to a flow chart;
- Indication of the laws and regulations, manuals, guidelines, tutorials and more for each activity;
- Highlighting the accounting system for each activity (if and where appropriate);
- Highlighting the supporting documentation for each activity (e.g. Plans, decisions, reports, transcripts, etc.) and
- Highlighting the archival items for each activity.

Work flow, the description of the activities, liability and accompanying documents are provided in the following form:

<i>Flowchart</i>	<i>Activity description</i>	<i>Execution</i>		<i>Supporting documents</i>
		<i>Responsibility</i>	<i>Dead line</i>	
<pre> graph TD START([START]) --> ACTIVITY[ACTIVITY] ACTIVITY --> DECISION{DECISION} DECISION -- YES --> Exit[] DECISION -- NO --> ACTIVITY </pre>				

3.2.6 Identification of risks – on the level of process, risk assessment and ranking of risk - risk management

After compiling the statement of vision and mission, determining the objectives of the entity, making a map for the entity processes, monitor activities to assess and manage risks and determining the time required to perform risk assessment.

Conduct risk assessments

A risk assessment is performed by management on each of the assessable units/processes identified. It is intended as a quick analysis and should not require an inordinate amount of staff time and effort. A risk assessment is a preliminary

judgment concerning the existence and adequacy of safeguards or controls now in place to assure:

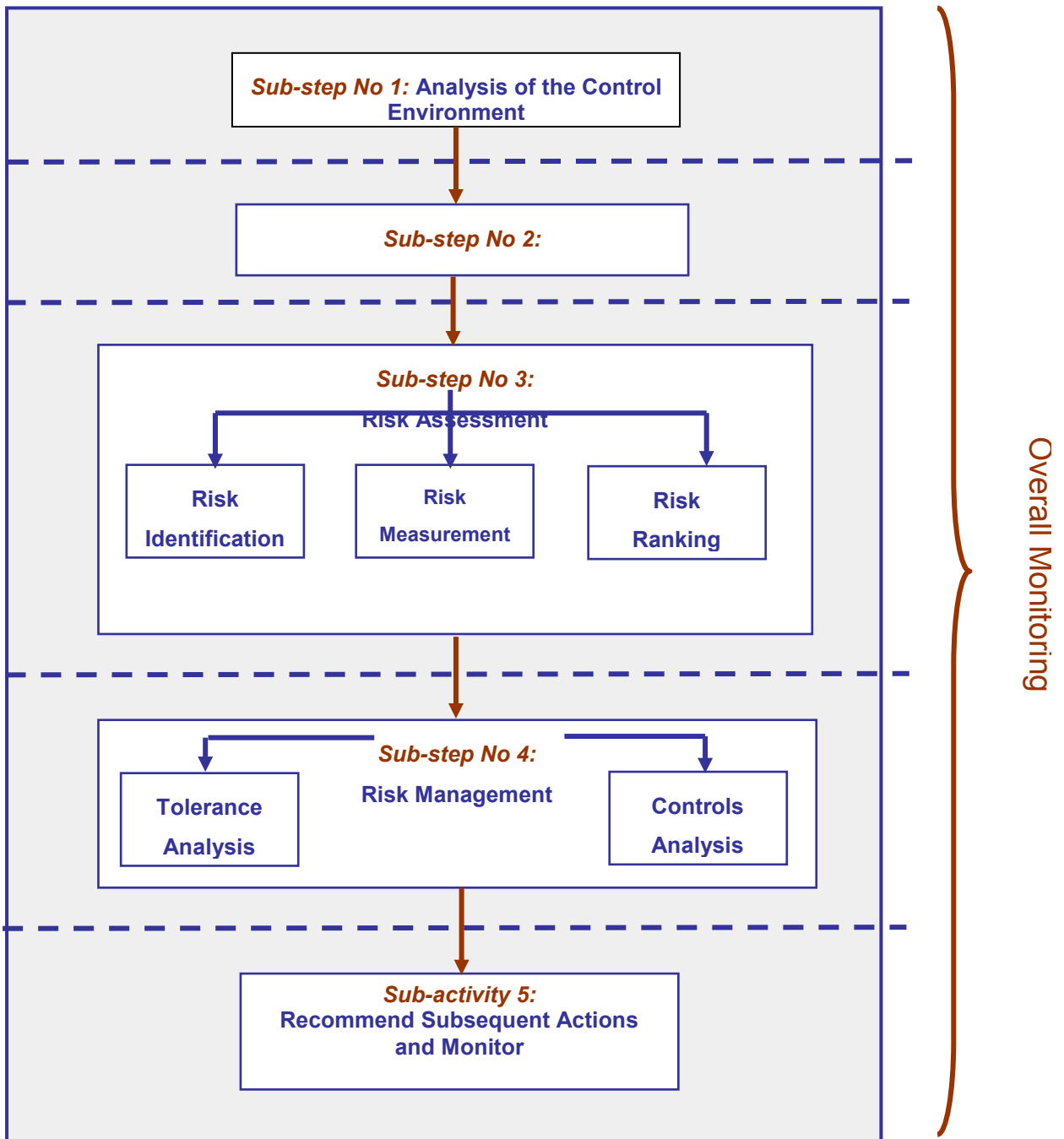
- Successful achievement of the organisation's mission, objectives and goals.
- Operational effectiveness, efficiency and economy.
- Compliance with laws, regulations, policies, procedures and guidelines.
- Safeguarding of assets.
- Accurate recording, preservation and reporting of financial and other key data.

Managers who perform risk assessments should guard against any tendency to devise a low risk rating with the main purpose of avoiding a detailed internal control review. Also, they should be aware that if a weakness is observed which is perceived as placing the unit in immediate jeopardy, corrective action should be implemented as soon as possible.

There are various assessment tools and methodologies available to complete this task. The manager of each assessable unit should be responsible for and participate in each of the unit's risk assessments.

A typical risk model is provided below:

Figure No 6: Risk Model



Further details with regard to the steps listed on the Risk Model are delivered as follows:

Step 1: Analyse general control environment

The environment in which activities are conducted has a major impact on the effectiveness of internal control. An analysis of the environment is performed to determine the extent to which the work setting supports a system of internal controls. This evaluation may be performed for the entity as a whole, or individually for each

assessable unit. Determination should be based upon the size and nature of the entity. The following should be among the factors that are used to analyse the control environment:

- Management attitude;
- Organisational structure;
- Personnel;
- Delegation of authority;
- Policies and procedures;
- Budgeting and reporting practices;
- Organisational checks and balances; and
- EDP considerations.

Step 2: Objectives identification and setting

This activity has been developed under section 2.3. Hence the objectives that has been developed and issued in written will be used now for the purposes of the risk model.

Step 3: Risk Assessment

- Identification of inherent risk

Inherent risk may be defined as the potential for non-achievement of the organisation's mission, objectives and goals; waste, inefficiency or ineffectiveness; loss, unauthorised use or misappropriation of assets; non compliance with laws, regulations, policies, procedures and guidelines; or the inaccurate recording, preservation, and reporting of financial and other key data.

This analysis should be performed without regard to controls that are in place to counteract those risks.

The following should be among the factors considered in analysing the inherent risk:

- Purpose and characteristics of the activity;
- Budget and resource level;
- Procurement of goods or services;
- Impact outside of the organisation;
- Age and life expectancy of the activity;
- Degree of decentralisation; and prior reviews.

There are a number of **methods that can be used for identifying the risks:**

Brainstorming⁹

Risk identification can successfully be undertaken by brainstorming at all levels within the organisation. The important thing is that the brainstorming should have structure to ensure that identification of key risks is achieved. A good starting point is identifying the threats to the successful achievement of objectives of the processes.

⁹ Brainstorming is a method aimed at finding creative solutions to certain problems. It is being carried out by having the participants focus on a problem and then trying to come up with as many ideas or solutions to a problem as possible.

It is advisable to consider risks under a number of strategic headings, such as:

- Reputation.
- Financial.
- Service provision.
- Political

And to categorise risks under operational headings such as:

- Procurement.
- Human resource.
- Operational.
- Financial.
- Information technology.
- Asset management

And to categorise risks under Memo headings such as **APRICOT**:

- **A**ssets.
- **P**eople.
- **R**eputation.
- **I**nformation.
- **C**ontinuity of **O**perations.
- **T**argets.

Use of Checklists

Each risk is considered against a pre-agreed checklist. The problem with this approach is that it is sometimes difficult to draw up a list that will provide parameters that can be used widely. If checklists are used, they should be reviewed regularly to make sure that they remain relevant to the areas of operation being considered.

Past Experience

Historic records maintained by the organisation, or available to it from other sources, are valuable for identifying incidents, their frequency and impact. Careful analysis can form a vital stage in the process of identifying risks. The information must be reliable and as comprehensive as possible, ideally identifying 'near misses' as well as actual incidents. If data is available for a three- or five-year period, this will reduce the possibility of reaching wrong conclusions.

List of examples of risks:

All processes involve some degree of risk – the risk in particular that as a result of unplanned events or circumstances arising, services are not delivered on time, or cannot respond to sudden changes in demand for them, or are of poor quality, or are not cost effective.

Typical risks faced by the public sector can be considered as:

- Anything that poses a threat to the achievement of a department's objectives program or service delivery for citizens.

- Anything that could damage the reputation of a department and undermine the public's confidence in it.
- Failure to guard against impropriety, malpractice, waste or poor value for money.
- Failure to comply with regulations such as those covering health and safety and the environment.
- An inability to respond to or to manage changed circumstances in a way that prevents or minimises adverse effects on the delivery of public services.

The following are many of the risks which Ministries, government departments and agencies face (although there may be other risks relevant to particular organisations/situations):

- Economic changes – such as lower economic growth, reduce tax revenue and opportunities to provide a wider range of services or limit the availability or quality of existing services.
- Failure to innovate – leading to sub-standard services compared with other public and private sector providers.
- Loss or misappropriation of funds through fraud or impropriety.
- Delayed or failed introduction of new technology.
- Higher than expected demand for service – which in turn causes breakdown in delivery.
- Safety of public potentially at risk.
- Inconsistent programme objectives – resulting in unwanted outcomes.
- Technical risk – failure to keep pace with technical developments, or investment in inappropriate or mismatched technology.
- Failure to evaluate properly public projects before a new service is introduced – this may result in problems when the service becomes fully operational.
- Related public services not joined up at point of delivery – for example employment advice and benefits for the unemployed.
- Failure of contractors, partners or other government agencies to provide services as required.
- Inadequate skills or resources to deliver services as required.
- Project delays, cost overruns, and inadequate quality standards.
- Inadequate contingency plans to maintain continuity of service.
- Environmental damage caused by failure of regulations or government inspection regime.

- Risk measurement

The risk measuring is derived from the identification of the risks. It is considered in terms of Impact and Likelihood.

Impact implies consequences caused by the occurrence of an event and likelihood implies the frequency of such an event.

An example of measuring a risk Impact is delivered here below.

Rating	Ranking Impact	Description
4-5	High	Disruption of all essential programs/services Loss of major assets Serious environmental damage Death Significant loss of public trust Public outcry for removal of Minister and/or departmental official
2-3	Medium	Disruption of some essential programs/services Loss of assets Some environmental damage Serious injury Some loss of public trust Negative media attention
1	Low	Schedule delays to minor projects/services Loss of assets (low value) Temporary environmental effect First aid treatment Setback in building public trust Some unfavorable media attention

An example of measuring a risk Likelihood is delivered here below.

Rating	Likelihood	Description
4-5	High	The event is expected to occur in most circumstances

2-3	Medium	The event should occur at sometime
0-1	Low	The event occurring is unlikely

- **Risk ranking**

The overall risk ranking is derived from consideration of the conclusions reached in the analysis of the general control environment, the inherent risk and the measurement in terms of impact and likelihood.

The risk ranking will be identified following the intersection of the impact and likelihood.

Or, the risk rating is the combination of impact and likelihood, according the chosen method; it can go to a maximum of 25 points.

The categorization of high/medium/low level of risk results in a **“3*3” risk matrix** that is shown on *figure No 7* here below.

Figure No 7

IMPACT	Severe			
	Moderate			
	Minor			
		Low	Medium	High
		LIKELIHOOD		

Worth mentioning is that management may consider some risks as unacceptable, (human death, corruption...) even though impact and/or likelihood are medium or low, such risks must be rated as a decision rather than calculation to be pointed out all along the risk assessment process.

The "3*3" risk matrix will derive the risk rating. Or at this stage, the questions that should be answered are:

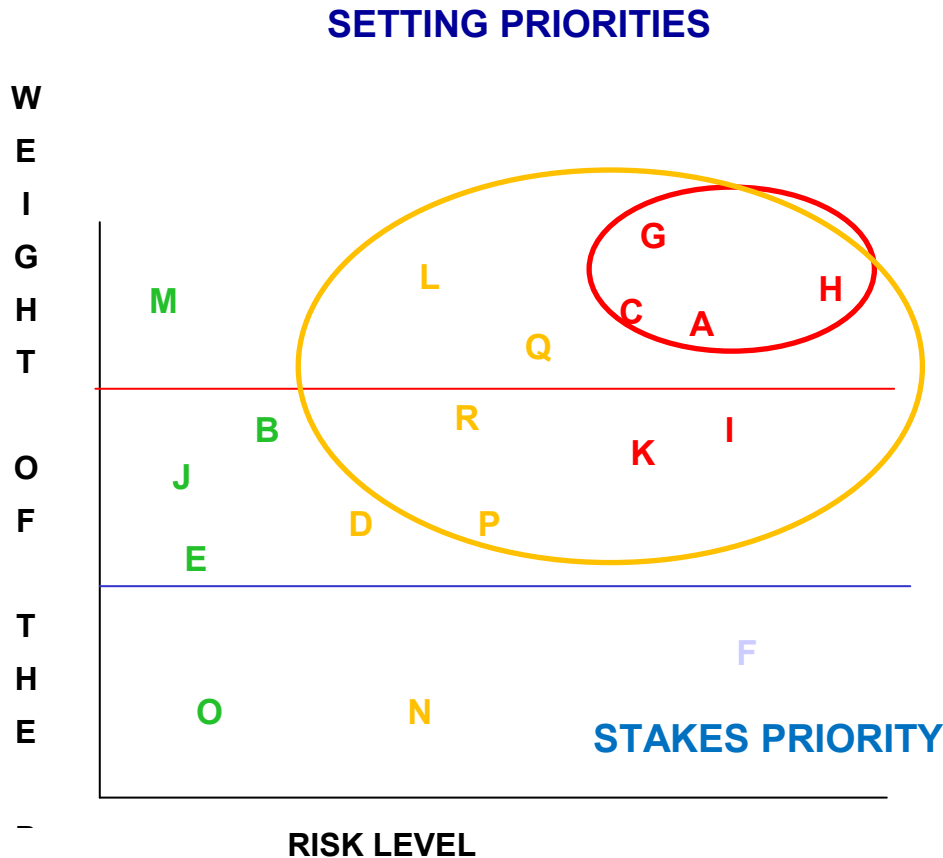
- How to sort and rank risks coming from several processes?
- In other words, how to prioritize the top risks that can cause the most damage?

Combining highest risks of the process with its weight may facilitate the identification of major risks.

The presentation of the result may be the list of process associated to the most important risks.

The result may also be represented on a two dimension graph as shown on *figure No 7* below.

Figure No 8



The Graphic example combines risk color and weight of processes.

The risks are represented with letters.

In this case, the greatest risks in the most significant processes were marked with letters G, C, A, H, and if the budget allows, it may be enriched with the risks in the orange ellipse.

The priority is given to the processes (stake priority).

Step 4: Risk Management

The overall risk management will derive from the risk measurement and prioritisation. The purpose of managing risks is to constrain them to a tolerable level. Any action that is taken by the organisation with a view to manage a risk becomes part of the “internal control”.

There are two major aspects of managing risks:

- tolerance analysis; and
- controls analysis.

Tolerance analysis

The impact of the risk may be tolerable without any further action being taken by the organisation. Even, it is not tolerable, the organisation might be not able to do something to mitigate the risk, or the cost of taking any action might exceed the potential benefits gained.

Controls analysis

It involves making a preliminary judgment concerning the existence and adequacy of safeguards/controls used by the assessable unit to assure:

- Successful achievement of the organisation's mission, objectives and goals;
- Operational effectiveness, efficiency and economy;
- Compliance with laws, regulations, policies, procedures and guidelines;
- Safeguarding of assets; and
- Accurate recording, preservation and reporting of financial and other key data.

An in-depth review is not appropriate during risk assessments. Rather, the evaluator's judgment should be based on knowledge and experience, and should be made in reference to internal control standards.

The option control analysis should be analysed into the four different types of controls, i.e. preventative, detective, directive and corrective.

In designing control it is important to give *reasonable assurance* that the associate risk will be constrained rather than eliminated. Every control action has an associated cost. Hence it is important that the control action offers value for money in relation to the risk it is controlling.

Step 5: Recommend Subsequent action and Monitoring

The recommendation for subsequent action is derived from consideration of the conclusions reached in the risk assessment process above, and from your knowledge, experience and judgment of and concerning the risk of the unit or activity.

The risk assessment provides an initial evaluation of risks and safeguards and is used to determine recommended actions to be taken. The next step is to establish a plan and schedule for taking the approved recommended actions for each of the assessable units, or for the areas which are determined to be most susceptible to loss.

Four activities should be considered during this step:

- Classify risk assessments according to the degree of risk;
- Prioritise vulnerable areas based on such factors as the degree of risk and relative critical nature of the specific activities;
- Select specific courses of action; and
- Develop a schedule for completing the approved recommended actions.

Head of entity and heads of the organizational units in the entity are the best qualified to establish plans for subsequent actions. The implementation of these plans should be monitored.

In annex No 11 to this manual, there is an example of a "risk register", containing the name of organizational unit, risk title, assessment of impact and likelihood, person responsible – risk owner, actions to be taken to mitigate the risk, person to carry out the actions and implementation deadline, as well as the date for the next review of the same risk.

3.2.7. Review of Implemented Controls

Depending on the outcome of the risk assessment and other appropriate considerations, it may be appropriate to conduct internal control reviews. Internal control reviews are detailed examinations of activities to determine whether adequate control measures exist, are implemented, and are effective. They involve assessing a specific group of activities (event cycle) to ascertain if defined techniques (processes and documents) are functioning as intended, and if they efficiently and effectively meet the established control objectives for the event cycle. During an internal control review, the flow of an event should be tracked from beginning to end: how it is created, how it is processed, and how it is reported.

The following five steps comprise one approach to conducting internal control reviews:

- Identify event cycles;
- Analyse general control environment;
- Document the event cycle;
- Evaluate internal controls within the event cycles; and
- Test the internal controls.

Managers should have the primary responsibility in the internal control review process. This responsibility includes planning and organising each review, assigning responsibilities to personnel who will conduct the actual review, and monitoring the process. This can be performed by Self Assessment or Internal Audit.

Internal audit may also be an effective and objective method to evaluate internal controls. There are certain advantages and disadvantages to utilising audit rather than an internal control review.

Regardless of the evaluation method applied, however, management is responsible for understanding controls from their respective scopes of competence.

Testing internal controls can be a component of an internal control review or audit, or performed as a standalone process. The distinction between an internal control review or audit and internal control testing is that generally testing is limited to a sample of transactions which will enable the reviewer to determine if the specific control is effective. For example, if the control objective for the personnel function is to determine that qualified staff are hired, an internal control review would document that the organisation policies and procedures (administrative controls) requires that a search be conducted and that credentials are verified as necessary. Testing would require that a representative sample of new hires over a certain time period would be selected and that the files for these individual or the search files indicated the search committee process was followed and that credentials were indeed verified.

3.2.8. Analysis of Existing and Expected Controls

After an internal control review has been carried out, the need for additional control activities will be considered. The control activities are established as:

- ex-ante controls
- ex-post controls

The head of the entity may appoint a person, a financial controller, who would carry out ex-ante controls for those business processes or transactions which are exposed to a greater level of risk or are of greater significance for the user of budget. The financial controller is a person who checks the legality, economy, efficiency and effectiveness of a business transaction prior to the execution of a final decision, conclusion of a contract or implementation of another business transaction. Thus, the appointment of a financial controller is only one form of control to be decided on by the user head, taking account of the needs and specificities of the user of budget.

In addition, head of the entity may decide to also appoint persons for the performance of ex-post controls, i.e. controls after a business transaction has been completed. Ex-post control may not be performed by the person responsible for or involved in the performance of ex-ante control.

3.2.9. Preparation of a plan to eliminate weaknesses in internal control - the establishment of corrective measures

After reviewing the system design and testing the functioning controls, the reviewer should reach conclusions concerning the effectiveness of the controls. When the reviewer concludes that areas remain where controls do not provide reasonable assurance that a control objective is being met, or that unnecessary controls exist, follow-up actions are required.

Reports should be prepared which not only identify the weaknesses, but also recommend how to correct them. The recommendations should correlate with the risks involved; that is, a level of control should be recommended that considers the materiality or degree of the weakness. The recommended change should provide reasonable assurance of control and should be cost effective when weighed against the expected benefit those results from risks avoided or from errors or irregularities detected.

The recommendations should be considered by management, and a decision should be made to institute new controls, improve existing controls, or accept the risk inherent in the weakness. In many instances, the appropriate action will be apparent, but in other instances, further analysis may be necessary. In either case, approved corrective actions should be initiated as promptly as possible.

A formal system should be established to log and track the weaknesses identified, suggested actions, and actions taken. This follow-up system should identify responsible personnel and target dates. Last but not least the action plans should be monitored on a regular basis in order to ensure their timely implementation.

3.2.10. Prepare summary reports on internal controls

Reports should be prepared on a regular basis to inform managers of the status of the internal control. These reports should include such topics such as areas with nonexistent or inadequate control techniques, areas with controls that are not functioning properly, and areas where excessive controls exist, as well as the plans and schedules for addressing the identified concerns.

3.2.11. Annual report on implementation of financial management and control and reporting CHU

The head of the entity CHU report to the Ministry of Finance for the operation, effectiveness and efficiency of financial management and control. Head of financial management and control is required to prepare annual report on activities related to the establishment and development of financial management and control, and after approval by the head to submit to the Central Office for Harmonization in the end of May 10 in the current year for the previous year.

CHU produce an annual report on the functioning of the system of public internal financial control based on the annual financial statements obtained from the entities by the end of July current year for the previous year, which adopts the Government of the Republic of Macedonia.

The report should reflect the shape and functioning of the system of internal control, and information on the activities undertaken to strengthen the system of financial management and control.

The Rulebook on the form and content of reports and the statement about the quality and condition of the internal controls of the annual financial report was given instructions for preparing the annual financial report for the system of internal financial control in the public sector provided the unified methodology of preparation of annual report establishment and functioning of the system of internal financial control in public sector entities.

3.2.12. Periodically test internal controls in high risk areas

Good internal controls have no impact unless they are followed in practice. A testing programme provides the assurance that functions operate as intended. An effective testing programme does not have to be onerous, and tests managers will conduct will not have the same level of thoroughness and documented working papers as those conducted by auditors. However, tests should be adequate enough to inform managers whether procedures are being followed and controls are working as intended. Periodic testing of internal controls should be performed on all areas identified in the risk assessment process as high risks.

An effective testing programme consists of the following:

- Identification of the functions to be tested and key controls over the function.
- Determination of standards that apply to the function and expectations for performance.
- Development of a testing plan.
- Conduct the test.

- Documentation and reporting of test results.
- Resolution of identified weakness and retest, if necessary.
- Summary

Detailed information of the auditors' role with regard to the evaluation of the adequacy and effectiveness of the internal control system is delivered in *Annex No 13* to this FMC Manual.

CHAPTER IV
**ROLES AND PARTICIPANTS IN THE
SYSTEM OF FINANCIAL MANAGEMENT
AND CONTROL**

4.1 Organizational role

There are many different participants in the entire system of financial management and control in public administration with a different scope of responsibilities. The most important and most participants on the functioning of this system are given below.

4.1.1 Minister of Finance

According to Article 2 of the Public Internal Financial Control Law, 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.

According to Article 14 and 30 of Budget Law the Minister of Finance is responsible for preparing the State Budget and its submission to the Government, and the presentation of the proposal State Budget in Parliament.

4.1.2 Head of entity

The head of the entity has the ultimate responsibility over financial management control. He is responsible for:

- 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.

In addition, 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.

The head of the entity clearly establishes the responsibilities and limitations of the authorisations of the management in writing, ensuring proper segregation of duties. The head of the entity makes decisions on behalf of the entity and under the jurisdiction of which is responsible.

The head of the entity is responsible for activities that are necessary or useful to implement decisions according to law, except for those activities which by law are the responsibility or authority of the head of another entity. In case of transfer of responsibilities, head of the organization continues to be responsible for the effectiveness of the established system of financial management and internal controls.

The head of the entity is obliged to continuously monitor the operations for which he is responsible on the basis of established procedures to take swift and appropriate action regarding any knowledge of improper activities. For all the activities planned head of the organization should establish and track key performance indicators that will compare results and set goals in accordance with the instructions and guidelines for financial management and control.

The head of the entity may with act to give authority (generally or specifically) to one or more managers who are directly hierarchically arranged. General or special authorisations to impose financial management and control head of the organization gives with decision. Based on the decision of the authority, recipient of the mandate can give sub mandate which is transmitted in whole or in part the received mandate. Act of mandate or sub mandate may contain conditions for use of the mandate. Heads of organizational units in the entity who received authorization through delegation or sub-delegation can act only within the limits specified in the act of delegation or sub-delegation and are responsible to mandate giver for use of the authorization. Based on the mandate or sub mandate cannot make decisions with significant political or financial influence, without prior approval by the head of the entity. Decisions of the authorization shall be prepared and signed on behalf of the Head of the entity. The head of the entity after given mandate continues to be responsible for all decisions including decisions relating to financial management and control. Form for registration of issued mandate (Register of mandates) is given in Annex 3 which is an integral part of this manual.

Heads of entities - budget users in the field of legislative, executive and judicial authority, funds, municipalities and the City of Skopje is responsible for implementing the internal distribution of the total approved budget. Internal distribution is carried out under a decision of the head of the entity which determines:

- Total approved budget of the entity,
- Undistributed portion of the budget for which spending is responsible head of the entity,
- Budget allocated to the common expenses of the entity for which spending is responsible State Secretary or person authorized by the head of the entity and
- Budget allocated for the implementation of policies and projects for which spending is responsible managers (the head of the body within the entity that is not a direct budget user and not a legal entity, the heads of departments

and heads of project units, or temporary units for implementation of specific objectives / projects), and maximum sums for programs and data.

The decision for internal distribution is prepared by head of the financial affairs unit, approved by the State Secretary or person authorized by the head of the entity and signed by the head of the entity until January 10 in the current year.

In the case of amendments to the State Budget or the budgets of municipalities and the City of Skopje, the new decision is adopted in which besides the previously determined amount is entered and modified sums for programs and items in new column.

Decision for internal distribution within eight days from the date of adoption shall be submitted to the Ministry of Finance. The form of the decision for internal distribution of the total approved budget is presented in Annex 4 which is an integral part of this manual.

4.1.3 Head of Financial Affairs Unit

Head of the Financial Affairs is responsible for establishing and development, and implementation of financial management and control of the entity. He conducts surveillance and advises the management of the entity, especially 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.

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.

Head of the Financial Affairs Unit prepares a plan for the establishment of financial

management and control (the methodology for implementation of the plan) that are approved by the head of the entity.

Financial Affairs Unit controls the implementation of financial management and control by monitoring the full and timely collection of revenue, timely payment of expenses in accordance with the procedures for undertaking the obligations and execution of payments, compliance of the budget as a whole or for individual budget items with the procedures adopted by the head of the entity and / or the Minister of Finance and budgetary and financial reporting.

Unit for Financial Affairs is preparing the proposal budget of the entity for the next multi-year projections associated with the budget. Proposed budget for next year are prepared on the basis of proposals received from the heads of departments, departments whose heads directly correspond to the head of the organization and organs within the entity (hereinafter referred to as managers) and the guidelines of the Financial Affairs Unit comply with the guidelines of Ministry of Finance. Unit for Financial Affairs evaluates whether the proposals received from managers in accordance with the directions given.

Head of Financial Affairs Unit submit report and opinion on the proposals received and, if necessary, own proposals for which committed prior consultation with the heads of departments to the head of the entity.

Proposed budget and multi-projections, budget according to the head of the entity, financial affairs unit timely submitted to the Ministry of Finance.

Financial Affairs Unit in the same procedure prepares the proposal for amending the budget.

Financial Affairs Unit monitors the effectiveness of budgetary controls that is implemented by the managers to manage their own part of the budget, which provides that:

- Approved budgets are not exceeded;
- Reallocation between budget items are made in accordance with the objectives and / or purpose and
- Budget items are performed per year that is planned.

Draft decisions that may have financial implications that are not planned in the budget, managers should immediately submit to the Head of Financial Affairs Unit in order to provide opinion on budgetary and financial implications that may cause. Such ex ante financial control should not be implemented regarding the decisions with funds in the budget.

In preparing the draft documents that have or may have financial implications may be involved and the Head of the Financial Affairs Unit. If the Head of the Financial Affairs Unit has remarks to the draft act, they shall be submitted to the appropriate manager. In case remarks on the proposal act are not complied, or accepted, the Head of the Financial Affairs Unit shall submit the same to the head of the entity.

Head of the Financial Affairs Unit follows the compilation of periodic reports on financial obligations and receivables, expenditures, revenues and other statements for which data can be provided by accounting.

Financial Affairs Unit advises and encourages managers to implement effective, efficient, tidy and fully verifiable financial management and control. It also oversees the establishment and implementation of accounting and in cases where accounting is not under its full and direct responsibility.

Financial Affairs Unit, if considers that it can increase revenue through more effective management requires the manager to give appropriate recommendations. If the manager does not accept these recommendations, the Head of the Financial Affairs Unit informs the head of the organization.

The Financial Affairs Unit is established audit trail, which documented ongoing financial and other transactions from their beginning to end. The audit trail established by the heads of the entity is controlled by the Head of the Financial Affairs Unit.

Financial Affairs Unit is preparing its annual financial report under Article 47 of Public Internal Financial Control Law containing: 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.

Financial Affairs Unit prepares guidelines and manuals for budget control and financial management in the entity and in their preparation should consult with the Internal Audit Unit.

The process of payment is issuing payment order by signing an order for payment by an payment ordonnator, after having received a request for payment from the credit ordonnator. Payment ordonnator is Head of Financial Affairs Unit. Payment order is submitted to the Treasury in the Ministry of Finance for execution of payment.

Payment is conducted on the received request for payment from the credit ordonnator. Request for Payment consists of: a contract for procurement, invoice / document situation and to confirm receipt on the financial obligations undertaken or act undertaken commitments and checklists for commitments given in the Annex no. 5, which is an integral part of this manual. The payment ordonnator may refuse to pay if there is a note of the contents of the request.

In case of advance payment, the Head of Financial Affairs Unit checks whether the conditions for payment are met. In the event of purchasing Head of the Financial

Affairs Unit, payment shall be made within the period specified in the contract signed by the credit ordonnator. In cases where the deadline for payment is not specified in the contract, the Head of Unit for Financial Affairs will make the payment within the period specified in the invoice from the supplier if it is shorter than the period for payment fixed by law. In case of payment subsidies, grants, financial aid, loans or guarantees to third parties and participation in equity, the Head of Financial Affairs Unit will make payment within the time limit for payment set by the credit ordonnator.

Advances to a third party may not be made for the sole purpose to spend the budget for the current year; instead they should be paid from the budget for next year. Recording the payments in financial accounting should be timely, accurately and completely.

Head of Financial Affairs Unit should not undertake financial commitments, keep accounts of commitments and carry out financial audit of the obligations and the payment process. The Credit ordonnator should not sign the order for payment, and the treasurer should not undertake financial obligations, to approve the payment of financial commitments, keep accounts of commitments and carry out financial audit of the obligations and the process of payment.

4.1.4 Coordinator for Financial Management and Control

Specific duties and responsibilities of the Head of Financial Affairs Unit can be delegated to the operational level to a person as a coordinator for financial management and control. Coordinator for financial management and control operates under the guidelines received from the Head of the Financial Affairs Unit and working groups responsible for the implementation of organizational policies and procedures related to the organizational internal control program.

Coordinator for financial management and control, operationally implement and coordinate the establishment and development of financial management and control in the entity.

4.1.5 Credit Ordonnator

Credit ordonnator shall be determined by internal decision for the distribution of the total approved budget adopted by the head of the entity. This decision determines the approved budget of each credit ordonnator.

The process of taking on financial obligations include taking:

- Financial commitments to purchase, lease and rent that can be taken only on the basis of a written agreement,
- Financial liabilities for giving of subsidies, grants, financial aid, loans or guarantees to third parties and participation in equity that can be taken only on the basis of an act enacted by the competent authority under the law that regulates this right,
- Financial commitments for small purchases of goods and services, which can be taken by written order and written confirmation of the order from the supplier.

Financial obligations should not be taken orally or by electronic mail, but only on the basis of written procedures prepared by the Head of Financial Affairs Unit, which is approved by the State Secretary or person authorized by the head of the entity, and adopted by the head of the entity.

Financial liabilities with a significant time difference between the day of occurrence of the obligation and the date of payment should be documented and recorded in the financial accounting system in a way that will allow the payment ordonnator to be aware of the date of payment, a person authorized to assume the financial committed to spend part of the budget that has.

Credit ordonnator is responsible for regular, efficient, effective and economical spending of its budget.

Credit ordonnator on undistributed budget is head of the entity or person authorized by him.

Credit ordonnator for the budget allocated to the common expenses of the entity is State Secretary or person authorized by the head of the entity. Credit ordonnator for the budget allocated for implementation of policies and projects are managers.

Credit ordonnator undertakes financial obligations on behalf of the head of the entity and it should not undertake financial obligations for which budget resources are not planned or they are insufficient.

Credit ordonnator should not keep accounts for the financial obligations.

4.1.6 Ex ante financial controller

The head of the entity is responsible for ex-ante financial control.

For the manner of ex ante controls head of the entity decides, taking into account the needs and specifics in the work after risk analysis performed.

Head of the Financial Affairs Unit conducts supervision and advises managers of the entity regarding the ex ante financial control.

Head of the Financial Affairs Unit conducts ex ante financial control through official person - financial controller, hierarchy independently of him and credit ordonnator. Financial Controller is a person authorized in the entity to check the legality and regularity of the proposed financial decisions, and their approval or denial, taking into account the principles of economy, efficiency and effectiveness.

Financial Controller in the Financial Affairs Unit conducts ex ante financial control by checking the legality and regularity of the proposed financial decisions under the contracts, acts and regulations in the field of finance.

Financial Controller in other departments conducts ex ante financial control by checking the legality and regularity of the proposed financial decisions, and their approval or denial, taking into account the principles of economy, efficiency and effectiveness under the contracts, acts and regulations in the field of finance and all other areas.

Ex-ante financial control is a procedure that ensures the financial commitment not to be undertaken and the expenditure cannot be paid, without prior approval from the official, hierarchy regardless of the credit ordonnateur and the payment ordonnateur.

4.1.7 Ex-post Financial Controller

The head of the entity is responsible for ex-post financial control.

For the manner of ex post controls head of the entity decides, taking into account the needs and specifics and conducted risk analysis.

Head of Financial Affairs Unit despite ex ante financial control carried out and ex-post financial control.

Heads of other departments are not conducting ex-post financial control.

Ex-post financial control is a procedure that is implemented within the entity that provides financial transactions in the form of liabilities, expenses or income, to be reviewed after the transaction is fully completed.

The person in charge of ex-post financial controls implemented control after the execution of approved financial decisions, i.e. after the decision was made or the work is completed.

Ex-post financial control provides instruments to remove the irregularities discovered the internal controls and should not be carried out by persons who are responsible for ex-ante financial control.

Ex-post financial control includes and detection control which is performed after the full implementation of the approved financial decisions and transactions in order to reduce the risk of side effects and improving procedures or ex ante controls.

Ex-post financial control is carried out taking into account the principles of economy, efficiency and effectiveness, according to regulations in the field of finance and all other areas.

4.1.8 Central Harmonisation Unit (CHU) at the Ministry of Finance

According to Article 48 of the Law on public internal financial control, CEH in terms of financial management and control is responsible for: 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;
- Preparation of methodology and working standards for the financial management and control;
- Coordination of the trainings for the heads and employees involved in the financial management and control;
- Coordination during the establishment and the development of the internal financial control system;

- 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; Cooperation with officers and other persons responsible for financial management and control;
- 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;
- Maintaining its own Internet site of the Ministry of Finance through which the head and other persons responsible for financial management and control and the public about the internal financial control in the public sector in the Republic of Macedonia are informed.

4.1.9 The Financial Management and Control Committee

Finance Minister established a Committee for financial management and control as a consultative body on issues related to financial management and control. The Committee for financial management and control can be members of the management units of financial affairs ministries. The State Secretary of the Ministry of Finance chairs the Committee and secretary is Head of the Central Harmonisation Unit. Committee for financial management and control shall meet at least once in three months, and in case of emergency the President may convene an extraordinary meeting. The Financial Management and Control Committee adopted rules of procedure.

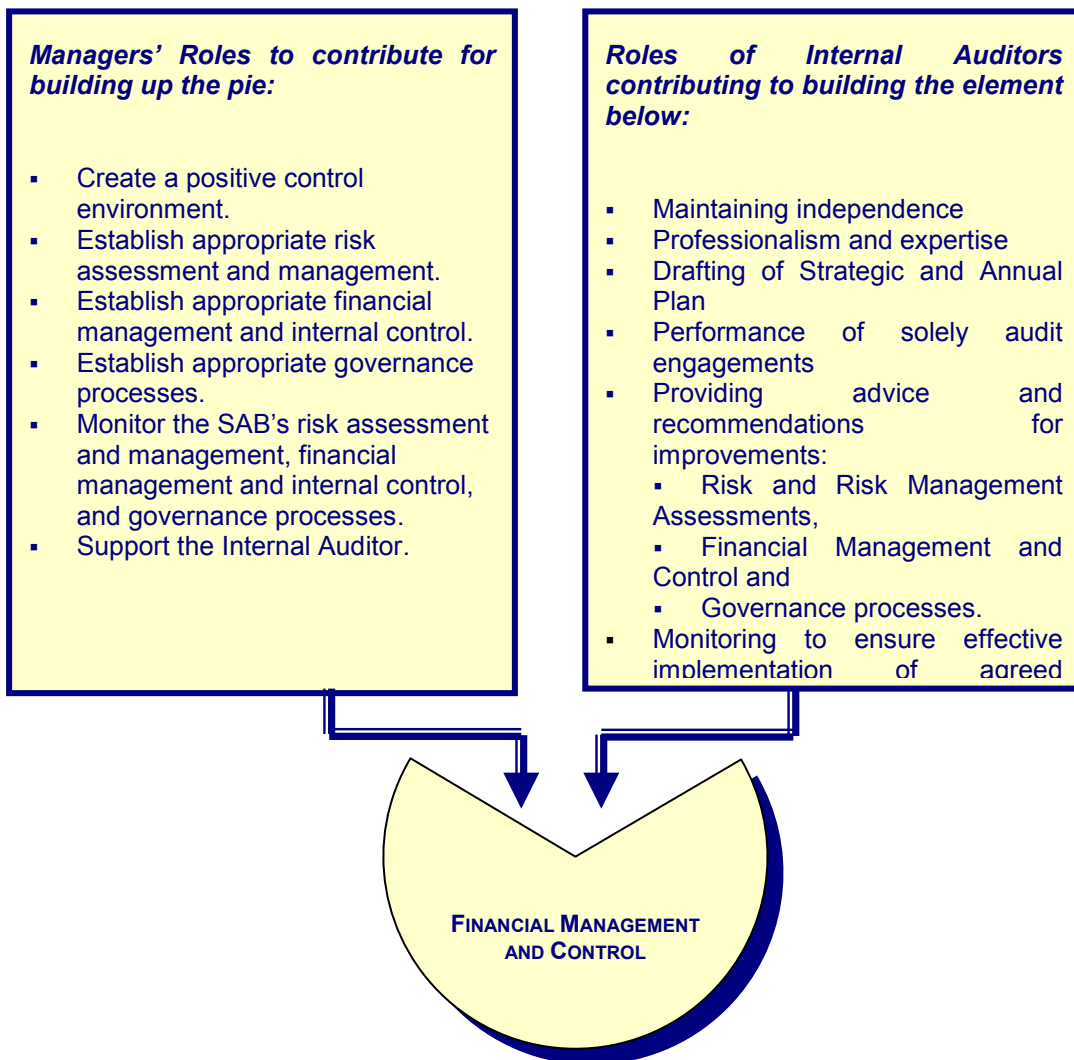
4.2 Conclusion

This Financial Management and Control Manual represent the main direction of establishing appropriate and effective system of internal control or financial management and control. Internal control is defined in a broader concept, is not limited to accounting controls and not only covers financial reporting. The systems of internal control should be incorporated into operational activities to enable rapid response to changed situations or to improve the quality of decision making and delegating. Internal control is a managerial activity and requires the participation of all employees to achieve its effectiveness. Responsibility of the management includes overall management process, from setting objectives to achieve results. It includes the provision of legality, regularity and effectiveness of decisions. For internal control we can say that helps the management in achieving goals, while respecting all relevant rules and procedures. The control framework has been linked with working purposes and is flexible enough to be adaptable.

So, we can recall, internal control:

- is built into the control systems of each service,
- apply to employees at all levels and
- provide expert opinion as a reasonable measure (not absolute) of conviction.

The scheme hereunder highlights the link between the financial management and internal control and internal audit:



CHAPTER V

ANNEXES

ANNEX NO 1

GLOSSARY OF DEFINITIONS

**USED BY THE EUROPEAN COMMISSION IN THE FRAMEWORK OF
PUBLIC INTERNAL FINANCIAL CONTROL (PIFC)**

Term	Definition
Accounting Control System	A series of actions, which are part of the total internal control, system concerned with realising the accounting goals of the entity. This includes compliance with accounting and financial policies and procedures, safeguarding the entity's resources and preparing reliable financial reports.
Administrative Control System	A series of actions, which are part of the internal control system, concerned with administrative procedures needed to make managerial decisions, realise the highest possible economic and administrative efficiency and ensure the implementation of administrative policies, whether related to financial affairs or otherwise.
Audit	In its most generic sense this can mean any examination exposed of a transaction, procedure or report with a view to verifying any aspect of it – its accuracy, its efficiency, etc. The word usually needs to be qualified more narrowly to be useful.
Audit Evidence	<p>Information, which supports the opinions, conclusions or reports of the auditors, internal audit services or SAI.</p> <p>It should be:</p> <p>Competent: information that is quantitatively sufficient and appropriate to achieve the auditing results; and is qualitatively impartial such as to inspire confidence and reliability.</p> <p>Relevant: information that is pertinent to the audit objectives.</p> <p>Reasonable: information that is economical in that the cost of gathering it is commensurate with the result, which the auditor or, the internal audit service or the SAI is trying to achieve.</p>
Audit Mandate	The auditing responsibilities, powers, discretion and duties conferred on any audit body (e.g. the SAI under the constitution or other lawful authority of a country (as set out in primary or secondary national legislation).
Audit Objective	A precise statement of what the audit intends to accomplish and/or the question the audit will answer. This may include financial, regularity or performance issues.

Audit Procedures	Tests, instructions and details included in the audit programme to be carried out systematically and reasonably.
Audit Scope	The framework or limits and subjects of the audit.
Audit Trail	<p>The phrase has a rather imprecise general meaning in general audit usage. However, annex 1 of Council Regulation 2064/97 has provided a specific detailed description of the requirements of 'a sufficient audit trail' for the purposes of the structural funds managed by the Member States on behalf of the Commission. In brief summary it requires the maintenance of records giving the full documentation and justification at all stages of the life of a transaction together with the ability to trace transactions from summarised totals down to the individual details and vice versa.</p> <p>The overriding objective of the audit trail is to ensure a 'satisfactory audit from the summary amounts certified to the Commission to the individual expenditure items and the supporting documents at the final beneficiary'.</p> <p>The word "audit trail" in the Regular Reports and the Accession Partnerships is to be understood in the light of the above definition which should be applied in the context of all Pre-Accession Funds to Candidate Countries.</p>
Audited Entity	The organisation, programme, activity or functions subject to audit by the SAI or the (internal) audit service.
Auditing Standards	Auditing standards provide minimum guidance for the auditor that helps determine the extent of audit steps and procedures that should be applied to fulfill the audit objective. They are the criteria or yardsticks against which the quality of the audit results are evaluated.
Charter (Internal Charter)	<p>Audit</p> <p>Also called Internal Audit Mission Statement, especially in non-US (-linked) organisations. The Charter/Mission Statement of the internal audit activity is a formal, written document that defines the internal audit activity's purpose, scope, and responsibility. It aims to ensure that the internal audit is looked upon with trust, confidence and credibility.</p> <p>The charter should:</p>

	<p>Ensure the functional independence including specification of the position of the internal audit activity within the organisation;</p> <p>Permit unrestricted access to records, personnel, and physical properties relevant to the performance of engagements;</p> <p>Define the scope of internal audit activities;</p> <p>Define reporting requirements to auditees and, where necessary, to judiciary institutions and</p> <p>State the relationship with the State Audit Office.</p>
Compliance Audits	See Regularity Audits
Constitutional	A matter which is permitted or authorised by, the constitution of fundamental law of a country.
Controls	Any kind of control on an organisation or beneficiaries of public funds, both internal and external controls on an organisation – i.e. both internal controls and controls from outside the organisation.
Due Care	The appropriate element of care and skill which a trained auditor would be expected to apply having regard to the complexity of the audit task, including careful attention to planning, gathering and evaluating evidence, and forming opinions, conclusions and making recommendations.
Economy	Minimising the cost of resources used to achieve given planned outputs or outcomes of an activity (including having regard to the appropriate quality of such outputs or outcomes).
Effectiveness	The extent to which objectives of an activity are achieved i.e. the relationship between the planned impact and the actual impact of an activity.
Efficiency	Maximising the outputs or outcomes of an activity relative to the given inputs.
Evaluation	Can mean

	<p>a) The evaluation of tenders as part of the contracting process; or</p> <p>b) Specific reviews designed to examine the overall performance of a programme or project. Its scope may vary. Its core should be setting out, obtaining or calculating the outcomes of the programme or project and considering their economy, effectiveness and efficiency, but it usually covers a much wider range of issues including the appropriateness and achievement of output objectives as well. It may be carried out before, during or after the programme or project has been completed (usually known as ex-ante, mid-term or ex-post). It shares many characteristics with performance audit</p>
Ex ante Financial control (EAFC)	<p>Ex ante financial control (EAFC) is the set of control activities prior to carrying out financial decisions relating to appropriations, commitments, tender procedures, contracts (secondary commitments), and related disbursements and recovery of unduly paid amounts. Such decisions can only be made on the basis of the explicit approval of the ex ante financial controller.</p> <p>EAFC is sometimes also called "preventive control". This is the narrower meaning of financial control. If described as EAFC there can be no ambiguity.</p>
Ex post internal audit (EPIA)	<p>The set of audit activities that take place ex-post. I.e. in this context, after financial decisions have been made by the management. EPIA can be carried out by centralised government audit bodies, responsible and reporting to the highest levels of government (Ministry of Finance or even the Cabinet of Ministers) or decentralised audit bodies (Internal Audit Units in government budget implementation spending units, like Ministries or Agencies).</p>
Ex-post	<p>When referring to audit, "ex post" usually means an audit performed after the initial legal commitment of a transaction. When referring to evaluation, "ex post" usually means an evaluation performed after the transaction has been fully completed.</p>
External audit	<p>Any audit carried out by an auditor who is independent of the management being audited. In public finance, it means audit external to the Government financial management and control policy is carried out by the national Courts of Auditors (or</p>

	similar institutions) Supreme Audit Office to objectively ensure that such management and control systems are compliant with the definition of PIFC as mentioned elsewhere in this glossary above.
Field Standards	The framework for the auditor to systematically fulfill the audit objective, including a) planning and supervision of the audit, b) gathering of audit evidence which is competent, relevant and reasonable, and c) an appropriate study and evaluation of internal controls.
Financial Audits	Cover the examination and reporting on financial statements and examine the accounting statements upon which those statements are based.
Financial controller	<p>The function of the financial controller may mean different things in different organisations e.g.:</p> <p>a) the role which gives ex-ante approval to individual transactions that they are in conformity with regulations and procedures; or.</p> <p>b) the same as auditor; or.</p> <p>c) the management role which combines responsibility for the recording and processing of transactions (financial accounting) with the preparation of and reporting against budget targets (management accounting).</p> <p>In the Commission, Financial Control was originally (1973) defined as ex ante approval of any kind of financial decisions, later the internal audit function was added to the functions of the Finance Controller. Recently the trend is to split the two functions and the term "financial control" refers again only to ex ante approval.</p> <p>In the framework of Enlargement the term is used for the ex ante approval function.</p>
Financial controls	<p>The phrase has a wide meaning in some organisations and a narrow meaning in others (very broadly, organisations from further North take the wider meaning and those from further South take the narrower meaning).</p> <p>The wide meaning follows the meaning of internal controls except that it refers to controls, which have a specific financial</p>

	<p>component. In practice, in this context, there are few controls, which do not have a financial component and the phrase financial control can often be virtually interchangeable with internal control.</p> <p>The narrower meaning follows the narrower meaning of financial controller and refers to the specific review of the conformity of transactions with regulations and procedures described in ex-ante financial control.</p>
Financial management (FM)	<p>In the framework of Enlargement the term is understood to be the set of responsibilities of the management (which is responsible for carrying out the tasks of government budget handling units) to establish and implement a set of rules aiming at an efficient, effective and economic use of available funds (comprising income, expenditure and assets). It refers to planning, budgeting, accounting, reporting and some form of ex ante financial control. FM is subject to internal and external audit.</p>
Financial Systems	<p>The procedures for preparing, recording and reporting reliable information concerning financial transactions.</p>
Findings, Conclusions and Recommendations	<p>Findings are the specific evidence gathered by the auditor to satisfy the audit objectives; conclusions are statements deduced by the auditor from those findings; recommendations are courses of action suggested by the auditor relating to the audit objectives.</p>
Functional Independence (FI)	<p>The special status of a financial controller (narrow sense) or an internal auditor (whether central or decentralised), providing him/her with the power of maintaining a free professional judgment vis-à-vis his superior of the organisation in matters of control and audit. This concept requires the maintenance of a balance between those who are responsible for managing the organisation and those who are controlling/auditing the organisation. FI should be embodied in relevant legislation. Another way to ensure FI is to have the central control/audit organisation nominate a delegate Internal Auditor into the organisation to be audited or to allow the Internal Auditor (in case of conflict of interests) to report his findings freely to the central audit body.</p>
Fundamental	<p>A matter becomes fundamental (sufficiently material) rather than material when its impact on the financial statements is so</p>

	<p>great as to render them misleading as a whole.</p> <p>See also Significant Control Weakness</p>
General Standards	<p>The qualifications and competence, the necessary independence and objectivity, and the exercise of due care, which shall be required of the auditor to carry out the tasks related to the fields and reporting standards in a competent, efficient and effective manner.</p>
Impact	<p>The same as result or outcome.</p>
Independence	<p>For an external audit it means the freedom of the national Courts of Auditors or similar institutions in auditing matters to act in accordance with its audit mandate without external direction or interference of any kind.</p> <p>From an internal audit viewpoint it means that the internal audit service should be organised directly under the top management. Nevertheless, the internal audit service should be free to audit any area that it considers to be an area of risk for material errors, even when management might not think so. (see also functional independence)</p>
Internal Audit	<p>The Institute of Internal Auditors definition is:</p> <p>Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.</p> <p>More concretely, it is the functional means by which the managers of an entity receive an assurance from internal sources (including internally subcontracted sources) that the internal controls are achieving their internal control objectives. It will cover, inter alia, Financial Audits, System Based Audits, Performance Audits, IT-Audits It has most of the characteristics of external audit except that it finally reports to the management and therefore can never have the same level of independence as external audit.</p>
Centralised internal audit (CIA)	<p>In public finance a distinction is made between centralised internal audit and decentralised internal audit as follows:</p>

<p>Decentralised internal audit (DIA)</p>	<p>CIA is public ex post internal audit performed by a centralised body (e.g. the Ministry of Finance or another Internal Audit body (like the Government Control Office in Hungary or the Internal Audit Board in Malta)) on systems</p> <p>DIA is the internal audit performed by specialised Internal Audit Units located inside government or lower public budget implementation spending centres (Ministries or Agencies)</p>
<p>Internal Auditor (IA)</p>	<p>The Internal Auditor (IA) (whether located outside or inside the organisation of the Managing Director) is responsible for carrying out all relevant kinds of ex post internal audit. In public finance terms, the IA should be subject to a special "statute" (preferably written in the Internal Audit Law governing the PIFC-system in a given country) allowing him an adequate degree of functional independence. The IA can report to the MD or be assigned by a central Public Internal Audit Service, like the Ministry of Finance or an Internal Audit Board responsible to the Prime Minister of the Cabinet of Ministers</p>
<p>Internal Control</p>	<p>The whole system of financial and other controls, including the organisational structure, methods, procedures and internal audit, established by management within its corporate goals, to assist in conducting the business of the audited entity in a regular, economic, efficient and effective manner.</p> <p>Internal control covers the totality of the policies and procedures conceived and put in place by an entity's management to ensure the economic, efficient and effective achievement of the entity's objectives; the adherence to external rules and to management policies and regulations; the safeguarding of assets and information; the prevention and detection of fraud and error, and the quality of accounting records and the timely production of reliable financial and management information.</p> <p>Internal control relate to the following categories: Control environment; Risk assessment; Information and Communication; Control activities and Monitoring of controls</p>
<p>Internal Control Objective</p>	<p>The primary objectives of internal control are to ensure:</p> <p>The reliability and integrity of information.</p> <p>Compliance with policies, plans, procedures, laws, and</p>

	<p>regulations.</p> <p>The safeguarding of assets.</p> <p>The economical, efficient and effective use of resources.</p> <p>Each organisation should design its own system of internal control to meet the needs and environment of the organisation.</p>
International Organisation of Supreme Audit Institutions (INTOSAI)	An international and independent body which aims at promoting the exchange of ideas and experience between Supreme Audit Institutions in the sphere of public financial control.
IT systems audits	Examine the sufficiency and adequacy of the protection of the security of the systems of IT applications in order to guarantee the confidentiality, integrity and availability of information and IT systems
Managerial Accountability	Represents the obligation to be accountable for a given task. Accountability covers issues like separation of duties (authorising officer, accountant, ex ante financial controller); development of Financial Management and Control manuals (powers, responsibilities, reporting and risk management), all financial transactions (commitments, contracts, disbursements, recovery of unduly paid amounts), links with the central harmonisation facilities, and evaluation and reporting on F/C systems
Management control	Control by management: the same as internal control, including financial control
Managing Director (MD)	The Managing Director (MD) can be a Line Minister or his delegates, responsible for the implementation of Program/projects relating to national or lower budget income or expenditure. The MD is responsible for setting up financial management and control systems inside his organisation and the development of financial management and control manuals and its implementation through the nomination of an Accountant. The MD and the Accountant should create a double signature system (DSS) to provide for the highest degree of transparency in financial management.
Materiality and	In general terms, a matter may be judged material if

Significance (Material)	knowledge of it would be likely to influence the user of the financial statements or the performance audit report. Materiality is often considered in terms of value but the inherent nature or characteristics of an item or group of items may also render a matter material - for example, where the law or some other regulation requires it to be disclosed separately regardless of the amount involved. In addition to materiality by value and by nature, a matter may be material because of the context in which it occurs. For example, considering an item in relation to the overall view given by the accounts, the total of which it forms a part; associated terms; the corresponding amount in previous years. Audit evidence plays an important part in the auditor's decision concerning the selection of issues and areas for audit and the nature, timing and extent of audit tests and procedures.
Mission Statement	See Charter (Internal audit Charter)
Opinion	The auditor's written conclusions on a set of financial statements as the result of a financial or regularity audit.
Outcomes	The effects of a programme or project measured at the highest meaningful level in proportion to the programme or project (e.g. jobs created). In practice there are always at least some external non-controllable elements, which influence whether outcomes are achieved or not. The same as results or impacts
Outputs	The directly tangible deliverables of a programme or project insofar as they are, for practical purposes, completely under the control of the implementers of the project (e.g. training seminar executed).
Passer-outré	PO is the procedure whereby the opinion of the ex ante financial controller (refusal to approve) can be overridden by the ultimate body responsible for the management of government budget implementation (e.g. Council of Ministers). A reasoned and extensive request by the MD should be the basis for such a decision, while the MD remains responsible for his acts.
Performance Audit	An audit of the economy, efficiency and effectiveness with which the audited entity uses its resources in carrying out its

	<p>responsibilities. In practice there can be difficulty distinguishing Performance Audit from Evaluation. Sometimes Performance Audits are limited to consideration of outputs but this considerably limits the value of the audit. Also Evaluation may create data, particularly on outcomes, whilst Performance Audit would usually be limited to a review of data which was available (and if necessary identification of missing data) Performance Audit is usually concerned with testing performance against some given standards.</p>
Planning	<p>Defining the objectives, setting policies and determining the nature, scope, extent and timing of the procedures and tests needed to achieve the objectives.</p>
Postulates	<p>Basic assumptions, consistent premises, logical principles and requirements which represent the general framework for developing auditing standards.</p>
Public Accountability	<p>The obligations of persons or entities, including public enterprises and corporations, entrusted with public resources to be answerable for the fiscal, managerial and programme responsibilities that have been conferred on them, and to report to those that have conferred these responsibilities on them.</p>
Public Internal Financial Control (PIFC)	<p>PIFC is the overall financial control system performed internally by a Government or by its delegated organisations, aiming to ensure that the financial management and control of its national budget spending centers (including foreign funds) complies to the relevant legislation, budget descriptions, the principles of sound financial management, transparency, efficiency, effectiveness and economy. PIFC comprises all measures to control all government income, expenditure, assets and liabilities. It represents the wide sense of internal control. It includes but is not limited to ex ante financial control (EAFC) and ex-post internal audit (EPIA)</p>
Reasonable Assurance	<p>Internal control, no matter how well designed and operated, can provide only reasonable assurance to management regarding the achievement of an entity's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These limitations may include faulty decision-making with respect to the establishment or design of controls, the need to consider costs as well as</p>

	<p>benefits, management override, the defeat of controls through collusion, and simple errors and mistakes. Additionally, controls can be circumvented by collusion of two or more people. Finally, management may be able to override elements of the internal control system.</p> <p>Reasonable assurance is provided when cost-effective actions are taken to restrict deviations to a tolerable level. This implies, for example, that material errors and improper or illegal acts will be prevented or detected and corrected within a timely period by employees in the normal course of performing their assigned duties. Management during the design of systems considers the cost-benefit relationship. The potential loss associated with any risk is weighed against the cost to control it.</p>
Regularity Audit	<p>Attestation of financial accountability of accountable entities, involving examination and evaluation of financial records and expression of opinions on financial statements; attestation of financial accountability of the government administration as a whole; audit of financial systems and transactions, including an evaluation of compliance with applicable statutes and regulations; audit of internal control and internal audit functions; audit of the probity and propriety of administrative decisions taken within the audited entity ; and reporting of any other matters arising from or relating to the audit that the SAI considers should be disclosed. This is normally not applicable to Internal Audit Services.</p>
Report	<p>The auditor's written opinion and other remarks on a set of financial statements as the result of a financial or regularity audit or the auditor's findings on completion of a performance audit.</p>
Reporting Standards	<p>The framework for the auditor to report the results of the audit, including guidance on the form and content of the auditor's report.</p>
Results	<p>The same as outcomes or impacts</p>
Risk	<p>An event which can result in an undesirable or negative outcome. It is characterised by the probability or likelihood of the event occurring and the resulting impact or consequence if it does occur. These two factors combine to result in a level of</p>

	<p>risk exposure.</p>
<p>Risk assessment</p>	<p>Auditor’s tool to help identifying audit projects offering the highest added value to the organisation. Risk assessment is the identification of all local financial management and control (FMC) systems and of their associated risks according to a number of risk factors (IIA).</p> <p>The risk assessment approach has to be used at, at least two levels:</p> <p>A. for the establishment of the annual audit programme, selecting projects of highest expected return and</p> <p>B. In the planning phases of the individual audit itself.</p> <p>Risk factors are: assessment of volume, sensitivity and materiality of data, the control environment, confidence in management, complexity of activities and Information systems, geographical diversity, and prior audit knowledge.</p>
<p>Risk Management (RM)</p>	<p>The overall process of identifying, assessing and monitoring risks and implementing the necessary controls in order to keep the risk exposure to an acceptable level. Best practice suggests that it should be an embedded part of the management process rather than something, which is added at a later stage.</p> <p>RM acts as awareness raising exercise and as a forum for sharing views at all levels in organisations; it informs and trains management and staff and increases the likelihood for success in the achievement of the objectives.</p> <p>Management creates the conditions and establishes tools necessary to evaluate, prioritise and decide before carrying out an activity to allow it to obtain a reasonable assurance of achieving the objectives with reasonable value for money. The internal control system ensures that management protects itself from unacceptable risks.</p> <p>Processes need to be developed to identify these risks and conceive and implement a system to control the most significant risks. A success factor for implementing the risk management system throughout the organisation is the management’s general interest in the exercise. RM should be put on the agenda for the development of its own system for</p>

	assessing the risks to which the organisation is subject.
Significant Control Weakness	Significant is the level of importance or magnitude assigned to an item, event, information, or problem by the internal auditor. Significant audit findings are those conditions that, in the judgment of the director of internal auditing, could adversely affect the organisation. Significant audit findings (as well as weaknesses cited from other sources) may include conditions dealing with irregularities, illegal acts, fraud, errors, inefficiency, waste, ineffectiveness, conflicts of interest, and control weaknesses
Supervision	An essential requirement in auditing which entails proper leadership, direction and control at all stages to ensure a competent, effective link between the activities, procedures and tests that are carried out and the aims to be achieved.
Supreme Audit Institution (SAI)	The public body of a State which, however designated, constituted or organised, exercises by virtue of law, the highest public auditing function of that State.
Systems based Audit	<p>Systems based audit refers to an in-depth evaluation of the internal control system with the objective to assess to extent to which the controls are functioning effectively. It is designed to assess the accuracy and completeness of financial statements, the legality and regularity of underlying transactions and the economy, efficiency and effectiveness of operations.</p> <p>A systems based audit should be followed-up through substantive testing of a number of transactions, account balances, etc. to determine whether the financial statements of the audited are accurate and complete, the underlying transactions legal and regular and/or the criteria for economy, efficiency and effectiveness have been achieved</p>

ANNEX 2

**USEFUL TIPS REGARDING FINANCIAL
MANAGEMENT AND CONTROL
COMPONENTS**

CONTROL ENVIRONMENT TIPS

INTEGRITY

- Management has issued and approved a code of conduct.
- Management has established rules concerning conflict of interests.
- Management discusses on ethical issues with employees. If employees need additional guidance, Management has approved and issued SABs' standards of conduct.
- Management takes actions in order that employees comply with the conflict of interest policy and disclose potential conflicts of interest (e.g., ownership interest in companies doing business or proposing to do business with the SAB).

ORGANISATION AND ASSIGNMENT OF RESPONSIBILITY AND DELEGATION OF AUTHORITY

- Management has approved and issued written policies and procedures manual which addresses the significant activities and unique issues of the SAB.
- Management has clarified employee responsibilities, limits to authority, accountability, performance standards, control procedures, and reporting relationships.
- The principle of segregation of duties is adhered to when management decide on the design of the delegation process.
- Management has approved and issued job descriptions that clearly state the responsibility for internal control, and correctly translate desired competence levels into requisite knowledge, skills, and experience.
- Management has taken actions in order that employees are well acquainted with the SAB's policies and procedures that pertain to their job responsibilities.
- Management has appropriate disciplinary action when an employee does not comply with policies and procedures or behavioural standards.

RISK ASSESSMENT TIPS

IDENTIFICATION AND DEFINITION OF OBJECTIVES

- Management has identified and defined Strategic objectives that are embodied in a strategic plan that includes a mission statement and broadly defined strategic initiatives. At the department and division levels, goals and objectives should support the SAB's strategic plan.
- Management has identified and defined Activity based objectives that pertain to the activities of the department/division and its programme and projects.
- Management has identified and defined Operational objectives that pertain to the achievement of the basic mission(s) of a division/department and the effectiveness and efficiency of its operations, including performance standards.

IDENTIFICATION OF RISKS

- Management has identified risks at the department/division level and the activity (or process) level by asking the following questions:
 - What could go wrong?
 - How could we fail?
 - What must go right for us to achieve our objectives?
 - What assets do we need to protect?
 - How could someone steal from the department/division?

- How could someone disrupt our activities and operations?
- How do we know whether we are achieving our objectives?
- On what information do we most rely?
- What activities are most complex?
- What activities are regulated?
- Management has identified risks in line with the Strategic, Operational, Activity based objectives.
 - ◆ *The transactions and/or operations more at stake include, but are not limited to:*
 - *Petty cash*
 - *Assets*
 - *Consultant Payments and Other Payments for Services*
 - *Travel Expenditures*
 - *Public procurement*
 - *Payroll (rates, changes, terminations)*
 - *Software Licensing Issues*
 - *Confidential Information*
 - *Grants (meeting terms, not overspending)*

ASSESSMENT OF RISKS

- Management has assessed the impact over the SAB if one of the identified risks occurs.
- Management has assessed the likelihood of occurrence of one of the identified risks.
- Management has prioritised the risky operations and transactions so that departments focus their attention on managing significant risks (*i.e.*, risks with reasonable likelihood of occurrence and large potential impacts).

MANAGEMENT'S RESPONSE TO RISK

- Management has decided how the risks should be managed and what actions are necessary to take. Any action that is taken is part of the Internal Control, these actions include tolerate, transfer, terminate or treat.

BOX No 3

INTERNAL CONTROL TIPS FOR SEGREGATION OF DUTIES (THE FOUR EYES PRINCIPLE)

CATEGORY: PREVENTIVE AND DETECTIVE CONTROL

- Management has established that no one individual is responsible at the same time for:
 - Initiating a transaction,
 - Approving a transaction,
 - Recording a transaction,
 - Reconciling balances,
 - Handling assets,
 - Reviewing reports.
- In general, the approval function, the accounting/reconciling function, and the asset custody function should be separated among employees.
 - The management has established that the person who requisitions the purchase of goods or services is not the person who approves the purchase.
 - The management has established that the preparation, authorisation and dispatch of payments are done by different people.
 - The management has established that the person who approves the purchase of goods or services is not the person who reconciles the monthly financial reports.
- If these functions cannot be separated, due to small department/division size, the management has established a detailed supervisory review of related activities in order to compensate the control activity.

Box No 4

INTERNAL CONTROL TIPS FOR ORGANISATION

CATEGORY: PREVENTIVE AND DIRECTIVE CONTROL

- Management has designed and approved Organisation chart that is constantly up-dated to organisational changes.
- Management has developed, issued and approved Manuals and written guidelines and instructions. They are regularly updated.
- Management has established clear and documented definition of the responsibilities of individuals and groups of individuals (teams) for resources, activities, programme, projects, objectives and targets.
- Management has given clear authority to the lower level managers to do their jobs effectively.
- Management has established best split of work between different individuals and groups of individuals (teams) in the SAB.
- Management avoid placing undue reliance on any one individual.
- Management has separated duties in order to avoid conflicts of interest.
- Management has established the most effective spans of command.
- Management has established the most effective means of communication throughout the organisation.
- Management has established clear reporting lines.

Box No 5

**INTERNAL CONTROL TIPS FOR
AUTHORISATION AND APPROVAL**

CATEGORY: PREVENTIVE CONTROL

- Management has established clear written policies for authorisation and approval.
- Management has established clear limits to authority or clear definition of the authorisation/approval requirements for activities and transactions.
- Management has developed supporting documentation to the authorisation and approval.
- Management enhances that the approvers and/or authorising persons question unusual issues/items.
- Management has ensured that there are no blank signed documents/forms.
- Management checks that relevant activities and transactions have been properly authorised.
 - Authorisation is the delegation of authority; it may be general or specific.
 - Approval of a transaction means that the approver has reviewed the supporting documentation and is satisfied that the transaction is appropriate, accurate and complies with applicable laws, regulations, policies, and procedures.
 - Approvers should review supporting documentation, question unusual issues/items, and make sure that necessary information is present to justify the transaction-before they sign it.
 - Under no circumstances should an approver sign blank documents/forms.
 - Under no circumstance should an approver tell someone that they could sign the approver's name on behalf of the approver.
 - Under no circumstance should an approver with electronic approval authority share his password with another person.

Box No 6

**INTERNAL CONTROL TIPS FOR
PHYSICAL CONTROL**

CATEGORY: PREVENTIVE AND DETECTIVE CONTROL

- Management has set secure custody of physical and intellectual assets and records.
- Management has established physical safeguards.
- Management has established that perpetual records are maintained.
- Management has established that periodic counts/physical inventories are implemented.
- Management has established that there is comparison of the counts to the perpetual records.
- Management has established that differences are analysed, and that appropriate actions are taken for their correction or elimination.
- Management has established access controls such as passwords, identity cards, guards, computer logging.

Box No 7

**INTERNAL CONTROL TIPS FOR
SUPERVISION**

CATEGORY: PREVENTIVE, DIRECTIVE AND DETECTIVE CONTROL

- Management has established that staff is observed, checked and helped by their line managers.

Box No 8

**INTERNAL CONTROL TIPS FOR
PERSONNEL**

CATEGORY: DIRECTIVE CONTROL

- Management identifies and continuing reviews the numbers, grades, experience and expertise levels.
- Management has recruited staff to meet the needs of the SAB.
- Management has established effective recruitment practices.
- Management has established adequate training programme.
- Management has established appropriate monitoring regime over the performance of staff.
- Management evaluates staff performance on an annual basis.

Box No 9

**INTERNAL CONTROL TIPS FOR
ARITHMETICAL AND ACCOUNTING**

CATEGORY: PREVENTIVE AND DETECTIVE CONTROL

- Management ensures that the SAB keeps adequate financial and other information to allow it to produce accounts in the form prescribed by the Organic Budget Law and related Rule books.
- Transactions are recorded as close to their origin as possible.
- Management checks transactions at appropriate times.
- Checks are performed by staff independent of those performing the activities.
- The sequence of the checks is evidenced on pre-numbered documents.
- There are comparisons of one set of documents or accounting records with another e.g. orders and goods received notes.
- Control totals.
- Financial reports are produced to fit the needs of the organisation and to allow managers to make rational decisions.
- Financial reports are produced based on lines of responsibility.
- Management re-performs checks on a sample basis.

Box No 10

**INTERNAL CONTROL TIPS FOR
MANAGEMENT**

CATEGORY: DIRECTIVE CONTROL

- Management has set objectives and targets.
- Management produces forecasts of the activity, programme and projects.
- Management has specified the desired levels of control.
- Management has set standards or indicators of performance.
- Management has defined outputs and results of activities, programme and projects according to the objectives and targets.
- Management has defined criteria for measuring the outputs and results.
- Management anticipates contingencies and actions are taken in response.

Box No 11

**INTERNAL CONTROL TIPS FOR
INFORMATION TECHNOLOGY SYSTEMS**

GENERAL CONTROLS

- Management has established general controls concerning the general data centre operations, software acquisition and support, access controls, development and support of applications.
- Appropriate segregation of duties is ensured taking into account the particularities of the IT environment.
- These controls include among others job set-up and scheduling, operator actions, backup and recovery procedures, and contingency or disaster recovery planning.

APPLICATION CONTROLS

- Controls are designed to ensure the completeness and accuracy of transaction processing, authorization and validity.
- Management has established input controls.
- Management has established processing controls.
- Management has established output controls.
- Application interfaces are available and they link to other systems that need control to ensure that all inputs for processing are received and that all outputs are distributed appropriately.

Box No 12

**INTERNAL CONTROL TIPS FOR
INFORMATION AND COMMUNICATION**

INFORMATION AND COMMUNICATION

- Management and other staff receive regular, reliable and easily accessible management information on budget execution, use of resources and progress of their strategic and operational plans.
- Management has aligned the information systems to the strategic and operational initiatives.
- Management has aligned the information systems and their use.
- Management has ensured the coexistence of technologies.
- Management has established proper feed back mechanisms.
- There is adequate communication across the organization that enables people to discharge their responsibilities effectively.
- There are appropriate arrangements with third parties.

Box No 13

**INTERNAL CONTROL TIPS FOR
MONITORING**

MONITORING

- Management and other staff receive regular, reliable and easily accessible management information on budget execution, use of resources and progress of their strategic and operational plans.
- Management has established appropriate ongoing monitoring regime integrated in the day-to-day carrying out of activities and operations.
- There are quality control evaluations carried out on a year or three years basis by independent evaluators.
- There are internal audit capabilities in charge for the evaluation of the adequacy and effectiveness of risk, control and governance processes.
- There are reviews that are implemented by independent external auditors.

ANNEX 3

**FORM FOR RECORDS OF ISSUED
AUTHORITIES
(REGISTER OF MANDATES)**

REGISTER OF MANDATES

.....
(Name of entity)

No .	Mandate Giver function (MG) and Mandate Receiver (MR)	Name and Surname	Signature	Notes/ Scope of mandate
Mandates				
1.	MG:Minister			
2.	MR:State Secretary			
3.	MR: Director of Affiliation Units			
4.	MR: Head of Financial Affairs Unit			
5.	MR: Head of Internal Audit Unit			
.....				
Sub mandates				
6.	MG: State Secretary			
7.	MR: Head of Department A			
8.	MR: Head of Department B			
9.	MR: Head of Department C			
10.	MR: Head of independent Unit			
.....				

ANNEX 4

DECISION FOR INTERNAL DISTRIBUTION OF TOTAL APPROVED BUDGET

Pursuant to Article 4, paragraph 2 of the Rulebook for the manner of the implementing general financial processes (Official Gazette of the Republic of Macedonia no. 147/10 adopted _____

(Head of entity)

DECISION
FOR INTERNAL DISTRIBUTION OF TOTAL APPROVED BUDGET FOR THE YEAR
20__ _____

(Name of entity)

Article 1

The total approved budget for the year 20__ allocated to the following sections:

No.	Description of parts of the budget item	Budget item number	Maximum amount
1.	Total approved budget		
2.	Not distributed part of the budget		
2.1	Program.....		
2.2	Name of Item		
2.3
3.	Budget for common expenses of the entity		
3.1	Program.....		
3.2	Name of Item		
3.3
4.	Budget allocated for the implementation of policies and projects		
4.1	(organizational unit name)		
4.2	Name of item		

4.3
-----	-------	-------	-------

Article 2

This decision shall enter into force on the date of adoption.

No. _____
_____ 20__

Head of the entity

(signature)

(Stamp)

Prepared by: _____, employed in the financial affairs unit

Controlled by: _____, Head of Financial Affairs Unit

Approved by: _____, State Secretary / person authorized by the head of the entity

ANNEX 5

CHECK LIST FOR UNDERTAKING FINANCIAL COMMITMENTS



REPUBLIC OF MACEDONIA

(name of entity)

(organizational unit)

**CHECK LIST FOR UNDERTAKING
FINANCIAL COMMITMENTS FOR GOODS
AND SERVICES**

(ANEXX TO THE PAYMENT REQUEST)

• **SUPPLIER:**

(Name of legal entity or individual service - company and address, post office box)

• **Supplier Responsible Person** (name and surname of Supplier Responsible Person)

(For individual persons: name, home address, date of birth, place of business)

• **Amount of funds:**

to be paid _____ den.

• **Contract/ order** _____

(Contract name and procurement subject)

• **No. of contract /order** _____ from _____ 20__ year

• **Annex to the contract/ order** _____ from _____ 20__ year

• **Fund are provided on budget section** _____,

program _____ item _____

into the budget 20__ year

yes

no

• **Goods/ services Prices are according to the contract/ order**

yes

no

- The quantity of received goods / services are according contract / order
yes no
- The quality of received goods / services are according contract / order
yes no
- The total and individual amounts are accounting contract / order
yes no

.....

(Depending on the assessment of possible risks and other issues)

- Note:

Skopje, _____20__ year

Prepared by: _____
(name and surname, signature)

Controlled by: _____
(name and surname, signature)

APPROVED BY

(Name, surname and title of credit ordonnator)

ANNEX 6

FINANCIAL MANAGEMENT AND CONTROL ESTABLISHMENT AND DEVELOPMENT PLAN TEMPLATE

(METHODOLOGY FOR IMPLEMENTING THE PLAN)

REPUBLIC OF MACEDONIA
MINISTRY OF _____

**FINANCIAL MANAGEMENT AND
CONTROL ESTABLISHMENT AND
DEVELOPMENT PLAN**

Head of Financial Affairs Unit:

Minister:

INTRODUCTION

Public Internal Financial Control Law ("Official Gazette of the Republic of Macedonia" br.90/09) – (hereinafter: the Law) was adopted in July 2009. The law prescribes the obligation to establish financial management and control in all entities. Secondary legislation under the Law was adopted in November 2010 in the Official Gazette of Republic of Macedonia br.147/2010.

The internal financial controls system, as prescribed by law, is a comprehensive system of financial and other controls established by the head of the entity **in order to successfully manage and fulfil the tasks of the entity.**

The internal financial controls system that is necessary to establish and develop within Ministry _____ consists of two components:

- Financial management and control and
- Internal Audit.

Given that the internal audit in the ministry was established in _____, and that carries out its activities in accordance with the adopted strategic and annual plans in this Plan for the establishment and development of financial management and control (hereinafter : Plan) will bring out activities related to financial management and control components.

The plan applies to activities that our ministry should establish and develop for the better accomplishment of the tasks and goals.

Pursuant to the provisions of Article 3 paragraph 3 of the Law, **financial management and control** is a system of policies, procedures and activities established by the head of the entity in order to provide reasonable assurance that the institution's objectives are achieved.

This system covers all transactions, especially those related to revenue / income, expenses / expenditures, public procurement and contracting, the returning of wrongly paid amounts, assets and liabilities. The system of internal controls is implemented by management and all employees.

The purpose for establishing the financial management and control is improving the financial management and decision making for achieving the general objectives, such as:

- Execution of activities in a proper, ethical, economical, efficient and effective manner,
- Compliance of operations with laws, other regulations, established policies, plans and procedures,
- Safeguarding of assets and other resources from losses caused by mismanagement, unjustified spending and utilization, as well as irregularities and misuse,

- Strengthening accountability for the successful accomplishment of tasks,
- Proper recording of financial transactions and
- Timely financial reporting and monitoring of results of operations.

The financial management and control system, in part, addresses the internal controls built into business processes in order to prevent illegal, irregular, uneconomical, inefficient and ineffective decisions and actions. Control is any job undertaken by every head, to minimize the negative consequences of risk and increase the likelihood that goals will come.

The financial management and control system is implemented in all organizational units and at all levels of the organization, and includes all assets of the entity, including the European Union funds.

By establishing a system of financial management and control will provide for the manner of execution of business processes, will determine who is responsible for the implementation of individual activities in the process and deadlines that need to be implemented and a review of controls established in a specific business process. On one side will ensure transparency of operations or the conduct of business processes, and on the other side will show which controls are established, and which controls should be established in future in order to accomplish the objectives and improve operations.

For the preparation of the Plan is in charge Head of the financial affairs unit¹⁰.

Head of the financial affairs unit is responsible for establishing, implementing and developing financial management and control within the Ministry, as well as the adoption of this plan, which authorizes, or consent is given by the Minister.

For monitoring the implementation of this plan Head of the Financial Affairs Unit is responsible and the Working Group¹¹, which is necessary to monitor the implementation of activities, identified in this plan and monitors the development and improvement of this system. Activities for coordination and implementation of individual activities identified in the plan for the establishment of financial management and control will carry out the persons responsible for it.

Also here is necessary to emphasize that once established system of internal controls is not final, but it is necessary to constantly evaluate and develop more efficient accomplishing the tasks and objectives of the Ministry.

¹⁰ In entities where the Head of Financial Affairs Unit is not assigned, the plan will draw from the unit face financial issues that would authorize the head of the entity. The plan will determine the need for appointing Head of Financial Affairs Unit

¹¹ If the working group was not established by a decision will then indicate that following this plan will be solely the responsibility of the Head of the Financial Affairs Unit or indicate that the working group has to be formed. If in a entity financial affairs unit is established, then head of the unit will be responsible for executing the plan. This will be implemented depending on the situation in the particular entity and what is established.

1. CURRENT SITUATION

The Rulebook for organization and operation of the Ministry of _____ no. _____
_____20___ determines the internal organization of the Ministry, the Affiliation Units within the Ministry and other internal organizational units, their framework and way of management.

The Rulebook, among other things describes the basics and duties of civil servants and employees and the conditions necessary for their execution.

Business processes arising from the competences of the Ministry are described and defined in the aforementioned acts.

Activities relating to the procurement process, which in our ministry annually spend about _____ MKD detail are prescribed by the Public Procurement Law ("Official Gazette of the Republic of Macedonia" br.136/2007) and their implementation are fully adhere to the legal provisions and the provisions of the bylaws.

In cases of employment of civil servants in the Ministry are fully applicable provisions of the Civil Servants Law (Official Gazette of the Republic of Macedonia "... br.59/00 ..114/2009 ..").

In planning and spending of budget funds are fully applicable to the Budget Law.

According to that, many of our activities are described and the way of implementing is determined. However, we are aware of the need for more detailed description of significant business processes and assessment of all activities, i.e. business processes of our jurisdiction. Thus, this Plan will determine the deadlines within which certain activities are carried out, related not only with the assessment and description of business processes, but also with self-assessment system of financial management and control, assessment and risk management, establishing control etc.

In accordance with the provisions of the Law, the Minister appoints Head of the Financial Affairs Unit _____20___ and person in charge for irregularities with decision of _____20___¹².

The person in charge of irregularities will report on irregularities and suspicions of fraud or corruption and will take independent action against irregularities and fraud.

At the end of April 20___ Ministry prepared Annual report for the system of financial management and control, which briefly explains what and how something is done the part of the same organizational setting. The report described the previous controls and additional controls that will implement the ministry, and also conducted a self assessment and the financial management and control. The Annual report is submitted within the deadline to the Ministry of Finance or the Central Harmonisation Unit (CHU).

¹² Entities where the head of Financial Affairs Unit and the person responsible for the irregularities are not appointed, it would indicate an activity that must be filled in accordance with the law.

Pursuant to the Rulebook on the form, content and manner of submission of the statement about the quality and condition of internal controls ("Official Gazette of the Republic of Macedonia" no. 08/2008)¹³ assessed individual components of financial management and control, each separately as follows:

- Control environment 18 points
- Risk management 20 points
- Control activities 30 points
- Information and Communications 20 points
- Monitoring and evaluation system of 10 points

Financial management and control system is evaluate with 98 points in total, in terms of the number of possible points (140) is favorable, but not enough, so we must continue to take actions to strengthen this system¹⁴.

The Ministry has not adopted the vision statement and has no defined mission, which is one of the priority tasks in the plan for the establishment and development of financial management and control. The vision statement describes all what the Ministry wants to accomplish or achieve long-term, while the mission must determine the main reason for the existence and operation.

2. PLANNED ACTIVITIES

To establish a system of financial management and control is necessary to take the following actions:

- Establishment of a Financial Affairs Unit;
- Appointment of Head of Financial Affairs Unit;
- Appointment a person responsible for irregularities;
- Appointment a coordinator for financial management and control;
- Establishing working group that will work on developing policies, procedures and activities related to financial management and control;
- Adoption Plan for establishment a system of financial management and control;
- Preparing mission and vision statement, and key organization goals and its organizational units separately;

¹³ From 1.1.2012, will start to apply the Rulebook on the form and content of reports and the statement about the quality and condition of the internal controls of the Annual financial report ("Official Gazette of the Republic of Macedonia no. 147/2010)

¹⁴ From 1.1.2012, will start to apply the Rulebook on the form and content of reports and the statement about the quality and condition of the internal controls of the Annual financial report ("Official Gazette of the Republic of Macedonia no. 147/2010)

- Estimating the components of financial management and control;
- Inventory of work processes and activities within it;
- Describe the business processes (preparation of audit trail);
- Preparing a book (map) processes;
- Assessment and risk management - development of a Register of risks and Strategy for risk management;
- Analysis of required and existing controls;
- Adoption of a Plan for eliminate weaknesses in control, and
- Preparing an Annual report on establishing a system of financial management and control.

The most important activities that must be taken are following:

Inventory of business processes

Inventory of business processes is an overview of business processes that take place in the Ministry or the review of procedures that determines how the development of individual work process, and supporting documentation used in its implementation.

Inventory of business processes will be compiled for each organizational unit based on instructions and directions of the Head of the Financial Affairs Unit or a person who has received training for it.

Head of the Financial Affairs Unit will oblige the heads of departments / units or other units to set up an inventory of business processes taking place in their units. The inventory should include recording of all business processes and determine the individual activities in process.

After compiling the inventory by departments and will make an inventory of business processes at the level of departments or other organizational units to identify common business processes. Then will be made an inventory of business processes that will be assembled map of business processes within the ministry. It is envisaged that these activities related to the inventory to be finalized by _____20_____.

Description of business processes (preparation of audit trail)

All business processes in the Ministry, the manner of their implementation should be presented in writing. The description of business processes should include a flow diagram (graphic representation of processes or procedures), a description of activities, the person responsible for conducting certain activities in the business process, and the period within which or to which activity should be implemented and other documents (forms, instructions, etc..) used in the business process. The

description of the process will be noted and the control that is implemented for its development, as well as those that implement individual control. Description or documentation of business processes will enable employees to know exactly what their authorization and responsibilities.

After setting the business processes at the level of department / unit, every manager on the value of the individual business process to achieve the objectives of the department will determine the order of description of business processes.

Book (map) the processes

As a result of the inventory and description of business processes is composed book (map) the processes in the ministry. That way you get a full description of the processes with the goals of the Ministry, its work and will determine the interconnection of processes and opportunities for improving the operations of the entity. Completing the book (map) process it is foreseen ____20____godina.

Assessment and Risk Management

The risk is determined as the possibility of occurrence of an event that may adversely affect the achievement of objectives. Risk management is a comprehensive process of identifying, assessing and monitoring risk, taking into account the objectives of the Ministry and undertaking the necessary measures in order to reduce risk. So, the risk assessment will include determining the goals of the operation, possible risks that affect their performance, will conduct their assessment in terms of probability of occurrence and importance of the consequences and establish appropriate measures for managing risks.

In order assessment of risks to be implemented, i.e. to provide management with them, it is needed certain employees of the Ministry to engage in the process of training, organized by CHU in the Ministry of Finance.

As a result of the processes of risk assessment risk management strategy will be prepared, which by law the Minister is responsible.

Strategic risks, i.e. risks related to operations of the entity, will be assessing by the Head of Financial Affairs Unit in collaboration with the Head of the Entity. Operational risks will be assessed at the level of each business process. Each manager will assess the risk on level of its organizational unit, or on business process level, that takes place in his organizational unit and will propose measures to mitigate the risk or what controls need to be established to allow reducing the negative impact of risk.¹⁵

On that way a risk register will be compiled that will be part of or basis for making risk strategy that will adopt the minister.

¹⁵ Alternative: Team (workgroup) will be established for risk assessment, and will assess the risk on level on the whole entity, i.e. for all business processes.

Analysis of the necessary existing controls

After compiling a register of risks and decisions on the introduction of control activities as a response to the risks, in the Ministry it will be considered whether the established controls match required.

So after compiling the review of controls established the need for additional control activities will be considered that can be established as:

- Previous controls (ex ante)
- Additional controls (ex post)

Apart from the controls that are "embedded" in the workflow, the Minister may appoint a person, financial controller, who will conduct ex – ante control for those business processes and transactions that are at higher risk or who are important to the subject.

Financial Controller is a person who checks the legality, economy, efficiency and effectiveness of working transactions before the execution of final decisions, contracts or implementation of other transactions. So the appointment of financial controller is just a form of control for whose appointment the Minister shall decide taking into account the needs and specifics of the operations of the Ministry.

In addition the Minister may appoint persons who will carry out additional controls or controls that are implemented after the execution of work transactions. Additional control cannot be implemented by responsible person involved in the implementation of ex – ante control.

Plan to eliminate the control weaknesses

After the decision for introducing additional control activities, Head of Financial Affairs Unit will adopt a Plan to establish additional controls that will provide the work needed to be taken to establish the necessary controls, or remove the controls that are possibly unnecessary.

Annual Financial Report

The head of the entity reports to the CHU in the Ministry of Finance for the functioning, effectiveness and efficiency of financial management and control. Head of financial management and control is obliged to prepare Annual financial report on activities related to establishing and developing financial management and control system, which after approval by the head, will be submitted to the CHU by May 10 in the current year latest, for the previous year.

Training of persons involved in financial management and control

All persons involved in financial management and control will be trained continuously to gain some knowledge on the establishment and development of the system of financial management and control. Without proper training, the system could

develop into unwanted direction. Therefore, the Minister and Head of the Financial Affairs Unit will be responsible for staff training.

3. TABLE OF PLANNED ACTIVITIES

Following is an overview of the activities to be carried out to establish and develop financial management and control system deadlines that should be implemented, the persons responsible for implementation of activities and deadlines that are enforced.

FINANCIAL MANAGEMENT AND CONTROL ESTABLISHMENT AND DEVELOPMENT PLAN TEMPLATE

IN _____

(name of entity)

	ACTIVITIES	RESPONSIBILITY	DEADLINE	EXECUTION
I. ORGANIZATIONAL ESTABLISHMENT	1. Establishment of a Financial Affairs Unit	Head of the entity		Executed
	2. Appointment of Head of Financial Affairs Unit	Head of the entity		
	3. Appointment a person responsible for irregularities	Head of the entity		
	4. Appointment a coordinator for financial management and control;	Head of the entity		
	5. Establishing working group that will work on developing policies, procedures and activities related to financial management and control	Head of the entity		

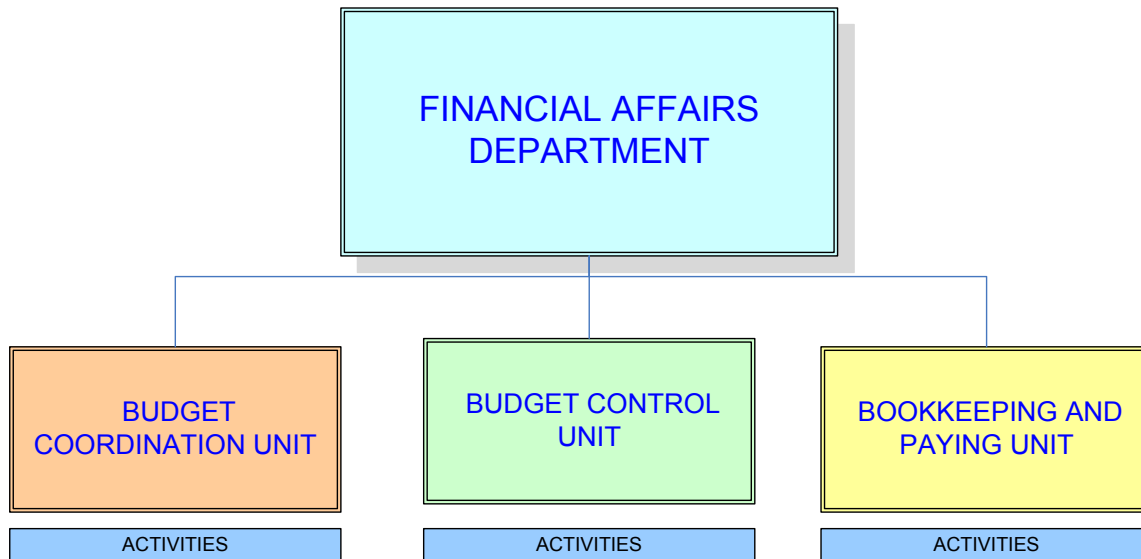
		ACTIVITIES	RESPONSIBILITY	DEADLINE	EXECUTION
II. DEVELOPMENT OF FINANCIAL MANAGEMENT AND CONTROL	1.	Preparing mission and vision statement, and key organization goals and its organizational units separately;	Heads of, Assistants to the Heads, Head of units		
	2.	Estimating the components of financial management and control	Head of Financial Affairs Unit		Executed
	3.	Inventory of work processes and activities within it	Head of Financial Affairs Unit		
	4.	Describe the business processes (preparation of audit trail);	Head of Units, Head of Departments, Head of Financial Affairs Unit		
	5.	Preparing a book (map) processes;	Head of Units, Head of Departments, Head of Financial Affairs Unit		
	6.	Assessment and risk management - development of a Register of risks and Strategy for risk management	Head of Units Head of Entity		
	7.	Analysis of required and existing controls	Head of Financial Affairs Unit and workgroup		
	8.	Adoption of a Plan for eliminate weaknesses in control	Head of Financial Affairs Unit		
	9.	Monitoring and review of the progress (Establishing of controls needed plan)	Head of Financial Affairs Unit		
	10.	Preparing an Annual report on establishing a system of financial management and control.	Head of Entity , Head of Financial Affairs Unit		
	11.	Training for persons included in Financial Management and control	Head of Entity , Head of Financial Affairs Unit		

HEAD OF THE ENTITY

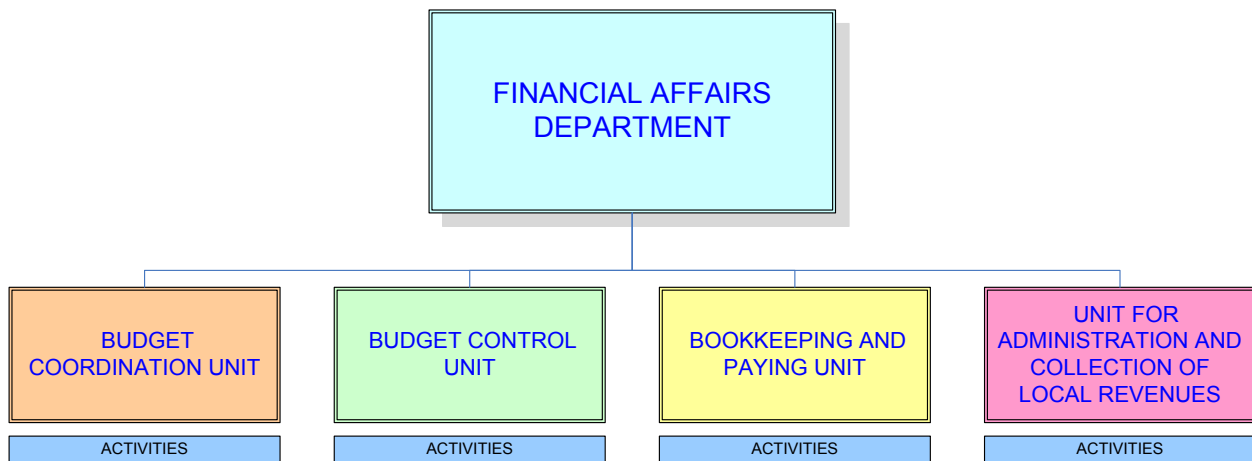
ANNEX 7

ORGANIZATION CHART OF THE FINANCIAL AFFAIRS UNIT IN ENTITY ON THE CENTRAL AND LOCAL LEVEL

Organization chart of the financial affairs unit in entity on the central level



Organization chart of the financial affairs unit in entity on the local level



ANNEX 8

DECISION FOR PROVIDING THE GENERAL AUTHORITY



REPUBLIC OF MACEDONIA

Ministry of _____

Number and Date _____

Pursuant to Article ___ paragraph ___ from Law on Organization and Functioning of State Administration (Official Gazette of the Republic of Macedonia no. 58/2000, 44/2002 and 82/2008), Article 8, paragraph 1 and Article 20 of the Public Internal Financial Control Law ("Official Gazette of the Republic of Macedonia" br.90/2009) and Article 2, paragraph 1 of the Rulebook on the manner of giving authorization ("Official Gazette of the Republic of Macedonia " br.147/10) Minister for _____ adopted

DECISION

for giving general mandate

1. _____, Head of _____ Department, is given general mandate for management and signing of documents and correspondence from the scope of the Department of _____ and undertaking financial commitments for the implementation of programs, projects and activities defined by the strategic plan and budget of the Department _____ approved for the decision on internal allocation of budget.
2. Recipient of the mandate can act only within the limits laid down in point 1 of this decision and is responsible to the mandate giver for using of the authorization.
3. Based on this general mandate, mandate receiver may give general sub mandate to the managers who hierarchy are directly aligned, and cannot make decisions with significant political or financial influence, without prior approval from the mandate giver.
4. This decision shall enter into force on the date of adoption.

Explanation

According to Article 8 of the Public Internal Financial Control Law, head of the entity can give mandate (generally or specific) to one or more managers who are directly hierarchical aligned. If with the act for mandating is regulated, the mandate receiver of the general mandate may give sub mandate. Act for mandating or sub mandating may contain conditions for use of the mandate. Based on the authorization or sub mandate cannot make decisions with significant political or financial influence, without prior approval by the head of the entity.

According to Article 2, Paragraph 1 of the Rulebook on the manner of giving authorization Head of the entity gives general or specific mandate for imposing financial management and control.

Instruction on legal remedy: Against this decision, the civil servant has the right to appeal to _____ within _____ day of delivery of the decision.

SUBMITTED TO:

- Civil servant;
- The personnel file;
- Archive of the Ministry and
- The Ministry of Finance - Public Internal Financial Control Department

MINISTER FOR _____

(Name)

Prepared: _____ (name)

Approved: _____ (name)



REPUBLIC OF MACEDONIA

Ministry of _____

Number and Date _____

Pursuant to Article ___ paragraph ___ from Law on Organization and Functioning of State Administration (Official Gazette of the Republic of Macedonia no. 58/2000, 44/2002 and 82/2008), Article 8, paragraph 1 and Article 20 of the Public Internal Financial Control Law ("Official Gazette of the Republic of Macedonia" br.90/2009) and Article 2, paragraph 1 of the Rulebook on the manner of giving authorization ("Official Gazette of the Republic of Macedonia " br.147/10) Minister for _____ adopted

**DECISION
for giving generally mandate**

1. _____, Head of Financial Affairs Department, is given general mandate for management and signing of documents and correspondence from the scope of the Financial Affairs Department and undertaking financial commitments as Payment Ordonnator.
2. Payment Ordonnator laid down in point 1 of this decision, could issue orders for payment only for the programs, projects and activities defined in the strategic plan and budget of the Ministry of _____, approved by the decision on internal distribution of the budget.
3. Payment Ordonnator laid down in point 1 of this decision is responsible to the mandate giver and State Secretary for the use of mandate.
4. Based on this general mandate, mandate receiver may give general sub mandate to the managers who hierarchy are directly aligned.
5. Mandate Receiver cannot give general or specific sub mandate for issuing payment order.
6. Based on this general authorization mandate receiver cannot make decisions with significant political or financial influence without prior approval from the mandate giver.
7. This decision shall enter into force on the date of adoption.

Explanation

According to Article 8 of the Public Internal Financial Control Law, head of the entity can give mandate (generally or specific) to one or more managers who are directly hierarchical aligned. If with the act for mandating is regulated, the mandate receiver of the general mandate may give sub mandate. Act for mandating or sub mandating may contain conditions for use of the mandate. Based on the authorization or sub mandate cannot make decisions with significant political or financial influence, without prior approval by the head of the entity.

According to Article 2, Paragraph 1 of the Rulebook on the manner of giving authorization Head of the entity gives general or specific mandate for imposing financial management and control.

Instruction on legal remedy: Against this decision, the civil servant has the right to appeal to _____ within _____ day of delivery of the decision.

SUBMITTED TO:

- Civil servant;
- The personnel file;
- Archive of the Ministry and
- The Ministry of Finance - Public Internal Financial Control Department

MINISTER FOR _____

(Name)

Prepared by: _____ (name)
Approved by: _____ (name)

ANNEX 9

FORM SETTING / INVENTORY OF BUSINESS PROCESSES

Form Setting / inventory of business processes

Organizational unit:	
Head of unit:	

WORKING PROCESS	ACTIVITIES IN THE PROCESS

Example: Setting Form / inventory of business processes

Organizational unit:	Financial Affairs Unit – Accounting and Payment Unit
Head of organisational unit:	Head of Accounting and Payment Unit

WORKING PROCESS ¹⁶	ACTIVITIES IN THE PROCESS
The process of calculation and payment of salaries	Collecting the data necessary to calculate payments Calculation of changes compared to the previous month (Sick leave, overtime, vacation) Request for approval of funds from the responsible ministry Data entry into the system to calculate the salary Calculation of salary for the current month Requests for payment of salary to the Treasury in the Ministry of Finance Requests for transfer of funds transaction accounts of employees and Division of Cash Out lists of employees
Process of cashiered operations	
Procurement process	
Recording process	
Payment process	
Process of preparation of prescribed financial and statistical reports	
Process of preparation of the financial plan (budget)	

¹⁶ If the process has more than 10 activities, it is recommended that it be divided into 2 or more sub-processes.

ANNEX 10

MAP OF BUSINESS PROCESSES

Form: Business Process Map

Name of entity: _____		Process Code: _____
Document: MAP OF PROCESS		Version of the document: No. ___
Prepared by: _____		Date: ____ 20__
Department _____		Approved by the Head of entity: _____ (Signature)
Unit of _____		
Name of process _____		
Main process : _____		
Sub process: _____		
I.	Owner of the process (Person responsible for implementing the process)	
II.	Aim of process	
III.	Mandate / Authorization Organizational and provision for authorization or act of (notification date, etc.).
IV.	Workflow	Chronological activities (flow diagram) Fill in the form No.IV and VI.
		Involving employees 1. 2. 3. 4.
		Minimum separation of duties
		Documents reporting Report: Report: Report:
		Time period - By days - By days
		Rules and regulations -
		Profile Risk
V.	Analysis of risks and control measures	Fill in the Form No. V

IV. Workflow - Procedure

No.	Workflow	Result / Official Document	Critical Time	Employees						Risk Profile
1.										
2.										
3.										
			T = 1day	A = Approved E = Execution W = Storage R = Registration C = Checking						H = high M = medium L = low

V. Analysis of risks and control measures

Act. No.	Activity	Essence of Risk	Example of Risk	Control Measure (s)	Employed	Frequency

Main essences of risk:

1. Legality
2. Timeliness
3. Completeness
4. Accuracy
5. Actuality
6. Economy

* The map of the process is accompanied by all forms

** For any complex activity are accompanied by operating instructions (detailed description of activities)

VI. Form: Diagram of flows and activities - audit trail

DIAGRAM OF FLOWS	DESCRIPTION OF ACTIVITIES	ENFORCEMENT		DOCUMENTS
		RESPONSIBILITY	DEADLINE	

Example: Map Process

Name of entity: Ministry of Finance Document: MAP PROCESS	Process Code: _____
Prepared by: Department of Financial Affairs Department of Accounting and Payments	Version of the document: Br. _____ Date: _____ 20__
Release process Main process: Calculation and payment of salary Sub process: _____	Approved the Head of entity: _____ SP (Signature)

I.	Owner of the process (Person responsible for implementing the process)	Head of Department for Financial Affairs
II.	The aim of the process	Timely and accurate calculation and payment of salaries to employees
III.	Mandate / Authorization	Act for organization and systematization of br. _____ 20__. Decision on appointment of br. _____ 20__.
IV.	Workflow	Chronological description of activities (flow diagram) Completed application form and No.IV VI •
		Employees involved 1. Officer salary 2. Advisor for the calculation of salary 3. Head of Department of Accounting and Payments 4. Head of Department for Financial Affairs
		Minimum separation of duties • Officer salary - data entry into the system to calculate the salary and calculate the salary • Advisor for the calculation of salary - collect data needed to calculate • Head of the Department for accounting and payment control the input and calculation.
		Documents reporting • Report: Application for transfer of funds • Report: Request for payment of salaries • Report: Cash Out lists
		Time period • payment of wages until the 15th of the month
		Rules and regulations • Act on payment of salaries, • Law on Civil Servants, • Labor Law
V.	Risk analysis and control measures	Completed application form no. V.

IV. Workflow

P.6 p.	Procedure	Result / Official Document	Critical Period (10 days - from 1st to 10th of the month)	Employees						Risk Profile
				Officer for salary	Adviser for salary calculations	Head of Accounting and Payments Unit	Head of the Financial Affairs Department			
1.	Collection of data needed to calculate		T ¹⁷ =0		E					M
2.	Control of completeness and accuracy T = 0-2	Checklist 1	T ¹⁸ =0-2			C				H
3.	Calculation of changes compared to the previous month (sick leave, replacement, help, jubilee awards)		T ¹⁹ =2-4	E						M
4.	Submitting data to the competent department for approval of asset		T=5			E				L
5.	Entering data into the system for calculating wage		T=5-6	E						M
6.	Calculation of salary (gross, net benefits, contributions, taxes and fees)		T=7	E						H
7.	Control input and calculation. Adjustment of the amount of salaries and appropriations	Checklist No. 2	T=7-8			R				H
8.	Delivery of data for payment of salaries of staff to Treasury	Request for transfer of funds	T=8			E	A			M
9.	Division of Cash Out lists of employees	Cash Out lists	T=9-10	E						L
			T = 1day	A = Approved E = Execution W = Storage R = Registration C = Checking				H = high M = medium L = low		

¹⁷ Last day of previous month

¹⁸ By the 2nd of the month

¹⁹ From 2nd to 4th of the month

V. Analysis of risks and control measures

Act. No.	Activity	Essence of risk	Example of risk	Control Measures	Employed	Frequency ²⁰
2	Control of completeness and accuracy of data	1, 2, 3, 4	<ul style="list-style-type: none"> erroneous records in the list of present, certificates for sick leave are not submitted or not submitted timely wrong solution for vacation 	<ul style="list-style-type: none"> Standardized evident sheets, separation of duties Checklist of submitted documents 1, electronic records of attendance, using software to calculate the salary 	Heads of departments / divisions, head of an accounting	1
6	Calculation of salary (gross, net benefits, contributions, taxes and fees)	1, 2, 3, 4	<ul style="list-style-type: none"> incorrectly calculated the salary deductions, incorrectly calculated the salary supplements incorrectly calculated the title of an employee. 	<ul style="list-style-type: none"> Separation of duties Using software calculation of salary controls built into the system 	Head of Accounting Officer for a salary	1
7	Control input and calculation. Adjustment of the amount of salaries and appropriations	1, 2, 3, 4	<ul style="list-style-type: none"> incorrectly calculated data for calculation of salary inconsistent amount of approved and required funds for payment of salary 	<ul style="list-style-type: none"> Separation of duties proper planning, Control of output data ex - post control 	Head of the accounting unit, officer for a salary	1 1 / 10 for ex post control

Main essences of risk:

1. Legality
2. Timeliness
3. Completeness
4. Accuracy
5. Actuality
6. Economy

²⁰ 1 = control of all cases

½ = controlling 50% of the total number of cases

1 / 10 = controlling 10% of the total number of cases and so on.

VI. Completed application form: Diagram of flows and activities - audit trail

Calculation and payment of salaries					
Diagram of flows	Description of Activity	Responsibility	Deadline	Documents	
<pre> graph TD Start([Start]) --> DataCollection[Data collection] DataCollection --> D1{ } D1 -- No --> DataCollection D1 -- Yes --> CalcChanges[Calculation of changes] CalcChanges --> DelData[Delivery of data from the Ministry] DelData --> EntrySystem[/Entry into the system/] EntrySystem --> ProcData[Processing data] ProcData --> D2{ } D2 -- No --> ProcData D2 -- Yes --> ReqPay[Request for payment of salaries] ReqPay --> DivList[Divide the list of salaries] DivList --> End([The End]) </pre>	<p>Collection of data required for calculation.</p>	<p>Head of Department of Personnel Affairs</p>	<p>To end of the month</p>	<p>Information for employees</p> <p>Records of attendance</p> <p>Certificates of sick leave</p> <p>Decision on vacation</p> <p>Salary deductions</p> <p>Calculation of hours spent at work more than full time</p>	
	<p>Control of completeness and accuracy of data</p>	<p>Head of Department of Accounting</p>	<p>By the second day of the month</p>		
	<p>Calculation of changes compared to the previous month (sick leave, replacement, help, jubilee awards)</p>	<p>Officer salary</p>	<p>By the fourth of the month</p>		
	<p>Submitting data to the competent department for approval of funds</p>	<p>Submitting data to the competent department for approval of funds</p>	<p>By the fifth day of the month</p>		
	<p>Data entry into the system to calculate the salary</p>	<p>Officer salary</p>			
	<p>Calculation of salary (gross, net benefits, contributions, taxes and fees)</p>	<p>Officer salary</p>	<p>By the seventh day of the month</p>		
	<p>Control input and calculation. Adjustment of the amount of salaries and appropriations</p>	<p>Head of Department of Accounting</p>			
	<p>Delivery of data for payment of salaries of employees to the Treasury</p>	<p>Head of Department of Accounting</p>	<p>By the eighth day of the month</p>		<p>List of payments with the account numbers of employees and the amount of wages</p>
	<p>Divide the list of salaries of employees</p>	<p>Officer salary</p>	<p>By ten in the month</p>		

No.	Workflow	Operating Instruction ²¹
1.	Collecting the data necessary to calculate	the Head of the Department of Human Resources by the end of the previous month data needed to calculate the salary shall submit to the adviser for the calculation of salary in the Department of Accounting and payment.
2.	Control of completeness and accuracy of the dates	Head of the accounting and payment control the completeness and accuracy of received data for calculation of pay for the completed checklist No.1 attached to this instruction. If the received data is not complete and accurate returns to the same adviser for the calculation of salary which it returns to the Department of Human Resources. Head of the Department of Accounting and payment complete and accurate data to submit to the officer for salary.
3.	Calculation of changes compared to the previous month (sick leave, replacement, help, jubilee awards)	Officer salary to calculate the salary changes for employees who have a change from the previous month (sick leave, replacement, help, jubilee awards) and prepare payment List the amount of gross salary, which is submitted to the Head of the Department of Accounting and payment.
4.	Submitting data to the competent ministry for approval	The Head of accounting and Payment Unit payroll submit to the Ministry of Finance for approval of funds.
5.	Entering data into the system for calculation of salaries	Upon approval of funds from the Ministry of Finance Officer's salary data entered into the system for calculating wages.
6.	Calculation of salary (gross, net benefits, contributions, taxes and fees)	Officer salary based on the entries made the calculation of salary (gross, net benefits, contributions, taxes and fees).
7.	Control input and calculation. Adjustment of the amount of salaries and appropriations	Head of the accounting and payment control the input and the calculation and adjustment of the amount of the salaries and appropriations. If finds errors (inconsistencies) it returns a reference to paycheck.
8.	Delivery of data for payment of salaries to the Treasury in the Ministry of Finance	Head of the Department of Accounting and payment to the Treasury in the Ministry of Finance submitted a list of payments with numbers on transaction accounts of employees and the amounts of salaries, demanding payment of wages.
9.	Division of Cash Out lists to staff	Officer salary separate the salary lists to all employees.

Operating Instruction

²¹ Working instruction should include a detailed description of the conduct of activities, so that for each activity from the process should provide a written explanation which contains answers to the questions: What are the incoming and outgoing documents and data, which, why, when and where it conducts operations. Work instructions are prepared only for more complex activities in the process.

Form: Example of a checklist for control the completeness and accuracy of received data for calculating the salary



REPUBLIC OF MACEDONIA

(Name of entity)

(Organizational unit)

CHECKLIST FOR CONTROL OF COMPLETENESS AND ACCURACY OF DATA REQUIRED FOR CALCULATION OF SALARIES
--

- | | | |
|---|-----|----|
| • Evident from the attendance sheets for all organizational units are supplied | Yes | No |
| • Submitted evidence forms were signed by the heads of the unit not | Yes | No |
| • Data on attendance in the submitted evidence forms are identical to the electronic records of employee attendance | Yes | No |
| • Data on sick leave in obvious forms, electronic records and submitted certificates of illness overlap | Yes | No |
| • Data for vacation in evidence sheets, electronic records and provide decisions for vacation are overlap | Yes | No |
| • Data reported for overtime work are identical to electronic records | Yes | No |
| • Data reported for overtime work are identical to electronic records | Yes | No |

- Data reported for paid and unpaid leave are identical to electronic records

Yes

No

.....

(Depending of the assessment of risks may be possible and other issues)

Note:

In _____ per day _____ 20__ year

Drew: _____
(Name and signature)

Controlled: _____
(Name and signature)

ANNEX 11

RISKS REGISTER FORM

Risk register

Risk	Process Owner	Probability/ effect	Activities	Responsible Person	Date	Date of next Review

ANNEX 12
**EXAMPLE FOR RISK MANAGEMENT
STRATEGY**

Annex 12 Example for risk management strategy

RISK MANAGEMENT STRATEGY IN

(Name of entity)

The following document states the general principles of the internal risk management in the Entity x.

1. Risk Management Policy Declaration:

I hereby accept the following rules of the Internal Risk Management Policy in the **Entity x** and consider these rules to be guidelines for the internal risk management policy in the **Entity x**.

2. The goal of the risk management policy is to:

Identify the risk areas, to make an assessment of risk and subsequently to eliminate or to reduce the risk to an acceptable level, while maintaining the social and financial costs (postulate of economy) to the indispensable minimum.

3. To achieve these goals, the following is helpful:

1. Enhancing the awareness of the **Entity x** employees, directed towards issues of the risk management policy.
2. Defining the risk areas and sensitive tasks in the **Entity x** activity.
3. Permanent monitoring of the risk areas.
4. Taking remedy measures to either eliminate risk, or to reduce the risk to the acceptable level.

4. Course of the risk management process:

1. Risk identification, assessment and management are closely related with the realization of the **Entity x** goals.
2. Risk management is one of the elements of both planning cycle and of decision taking process.

3. Defining all risk areas.
4. Adoption of a unified risk identification and risk analysis method.
5. Adoption of a unified method for reporting risks.
6. Functioning of the risk assessment process and risk counteracting activities across all the treasury offices subordinate to the **Entity x**.
7. Risk limitation through adequate and timely corrective and preventive actions.
8. Risk analysis is a continuous process.

5. Obligations linked with the implementation of the risk management Policy:

1. The management of different units has the responsibility to conduct monitoring and periodic reviews of the risks that jeopardize the realization of the main strategic goals.
2. Persons responsible with the risk management should have sufficient qualifications to identify and assess risks.
3. Employees undergo trainings, with regard to the implementation of the adopted method for the identification, analysis and management of risks.
4. Any employees' actions aiming at assuming the responsibility for risks will be supported by the Management. Each employee has the obligation to report on the occurrence of both positive and negative events.

5. To guarantee the realization of the Risk Management Policy, the following framework procedures for risk management are introduced.

INTERNAL RISK MANAGEMENT FRAMEWORK PROCEDURE

Internal risk management process is handled according to the following procedure:

- 1) Preparation of the **Entity x** Annual Plan
- 2) Designation of the **Entity x** main activity areas;
- 3) Identification of the risk areas within the designated activity areas;
- 4) Definition and description of these risks;
- 5) Assessing the impact of a given risk;
- 6) Assessing the chance for a given risk occurrence;
- 7) Response to risk - preventive and counteracting measures, both implemented and necessary in the future (planned);
- 8) Assignment of particular tasks with regard to the prevention of a certain risk to **Entity x** employees;
- 9) Drafting of the risk map;
- 10) Monitoring and reporting

SCHEMATIC OVERVIEW OF THE INTERNAL RISK MANAGEMENT CYCLE:

Methodology of proceedings in the realization of the above-mentioned trial is as follows:

1) Preparing the Annual Plan of Entity x Activities

Preparation of the final working plan for a given year shall be completed at the latest on the 30th day from the date of receiving Working Instructions of the Minister of Finance for the **Entity x** and Offices in a given year - stipulated in the Current Decision no. xx/OS. Up to that time, the **Entity x** will continue to work based on the draft working plan for a given year, which shall be prepared and approved by the Director, at the end of the previous year. Annual plan of activities shall take into account main tasks and assessment indicators included in the current decision no. xx/OS of the Ministry of Finance, duties stemming from legal provisions, recommendations and guidelines issued after controls, and shall encompass the most important areas of **Entity x** work. Tasks indicated in the annual plan shall be described with an appropriate level of generalization, while establishing clear and radable goals (quantitative, indicative, etc), with deadlines for their completion and the relevant employee responsible for their implementation.

2) Designation of the Entity x main activity areas.

Designation of the **Entity x** main activity areas is based on the „Catalogue of the processes implemented in the **Entity x** which states and describes the unit's real tasks.

3) Identification of the risk areas within the designated activity areas

Identification of risk areas in the context of the **Entity x** activity areas consists in establishing risks, then dividing them into:

- 1) Internal and external risks;
- 2) Risks associated with units and risks associated with tasks

4) Definition and description of these risks

This key moment consists in identification of commonly acknowledged risks and newly identified risks.

The analysis aims to provide such a description of risks that will enable their assessment and selection of appropriate measures. Risk can be classified as per their object (events, declarations, etc), or as per the subjects handling them (groups of persons, units, etc). There are several factors that influence the result of analysis, such as:

- 1) Unit's financial situation,
- 2) Number of employees in the unit and their qualifications,

- 3) Issues related to the ethical conduct of employees,
- 4) External pressure on the unit (such as political, criminal, etc),
- 5) Number, type and dimensions of the financial operations,
- 6) Quality of the legal provisions,
- 7) Change of the material, or territorial jurisdiction of the unit,
- 8) Change of the operative method, personnel fluctuation, organizational restructuring,
- 9) Change of the information systems,
- 10) Results and time lag from earlier controls, or audits
- 11) Unit's working conditions.

For the risk identification to be objective, thorough and to display a systematic approach and logic in the longer run, the following principles have to be observed:

- 1) risk identification is performed by an especially created team,
- 2) risk identification and risk analysis methods are unified for the entire unit,
- 3) works in this area are planned and performed in a systematic way,
- 4) key criteria are treated with priority (such as attaining unit's most important goals)
- 5) risk identification is performed in close connection with the risk areas.

The analysis should take into account also the factors that encourage the occurrence of certain risks, such as:

- Past failures in achieving the objectives: uncompleted tasks or unrealized goals; surpassing of planned expenses, failures in the realization of the revenue plan;
- Past irregularities: irregular expenses, infringement of procedures, infringement of laws, internal regulations, or recommendations from SAI controls, etc;
- inherent risk factors (internal): nature of activities, unit's dimension, number of employees, dimensions of the fixed assets, number of transactions, peculiarity of the activity's geographical area, etc.

5) Assessing the impact of a given risk

In analyzing the impact of a given risk, one should bear in mind that this process consists in a subjective assessment of the analytical group or **Entity x**'s management. Assessment of a given risk's impact should be made, based on the following impact scale:

High: Resolving the problem will require a great amount of time/resources. Elimination of consequences will be difficult, if not impossible. The risk will have a significant influence on the organization and will become an important public event.

Moderate: Resolving the problem will require a moderate amount of time/ resources. Elimination of the consequences will take time. It can become a public event.

Low: Resolving the problem will require time, but the problem will not provoke a sustained damage. It will not become a public event.

6) Estimating the probability of occurrence of specified risk;

In analyzing the probability of occurrence of specified risk should be borne in mind that this process consists of a subjective assessment of the working group or the management of the entity x.

Agreed that the likelihood is:

High: When the probability that the risk will occur is 60%, if not previously limited (or risk going to happen in a systematic or routine basis).

Moderate: When the probability that the risk will occur is 10% to 60% if the prior risk is limited (or the risk will occur occasionally, or accidentally as a result of unusual circumstances).

Low: When the probability that the risk will occur is less than 10%, if not previously been tampered with (or risk will appear occasionally in certain cases).

Risk analysis in terms of its impact and probability to help the Entity x in determining the priority directions and taking corrective measures, as well as highlighting the real threats in the implementation of tasks and objectives of the unit.

7) Responding to risk

In describing the existing and planned corrective measures should be considered internal documents and reports on the subject, such as decisions of the Director / Head and written instructions / guidelines for employees and implemented measures that have been incorporated into various segments work. If the analysis shows that measures taken so far are insufficient to reduce the risk, then you should consider and prepare other actions and decisions in order to reduce the risk to the lowest possible level.

At the same time, you should remember that there are different responses to risk:

- **Transfer the risk** - the risk transfer to another unit, such as insurance policy.
- **Risk tolerance** - limited scope of action, limiting the operations necessary minimum, consistent with the scope of responsibility or legal provisions for delegation of certain goals, the high costs of event risk (necessary supervision and monitoring by management of the Subject x).
- **Action** - the largest group, in order: reducing the risk to an acceptable level, actions taken within the organization of internal controls, assigned a specific level of management in accordance with the level of competencies, and the impact of risk.

8) Provide specific tasks to employees to prevent a risk in the Entity x

Provision of specific tasks should be done rationally and in accordance with the annual plan and procedures.

You should also take into account the principle of avoiding the merging of responsibilities with the provision of certain tasks to a very large group of employees.

Then, it is necessary to perform the collection of results, findings and recommendations following this form:

LP	DETERMINATION OF RISK	ANALYSIS OF RISK	RESPONSE TO RISK					
	AREAS OF ACTIVITY OF THE ENTITY	AREAS OF RISK	DESCRIPTION OF THE RISK	IMPACT OF RISK	PROBABILITY RISK	CARRIED MEASURES	PLANNED MEASURES	PERSONS RESPONSIBLE FOR IMPLEMENTATION
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)

9) Preparation of a matrix of risks

The preparation of the diagram of groups of certain risks in terms of their influence on the likelihood of their implementation (risk matrix) is the simplest method that shows the graphic way those activities **Entity X**, which are special risk and who should to pay greater attention by the head of the subject.

The Matrix of risks is made in the following form:

III.	II.	I.
VI.	V.	IV.
IX.	VIII.	VII.

Matrix of risks points to areas of risks from multiple influences and probabilities.

You can distinguish nine areas:

I. Area absolute priority, which requires constant supervision by management of the entity x

II. An important area that requires constant supervision

III. An important area, but unlikely to achieve - cyclic control

IV. An important area that requires continuous monitoring of low and high level of leadership

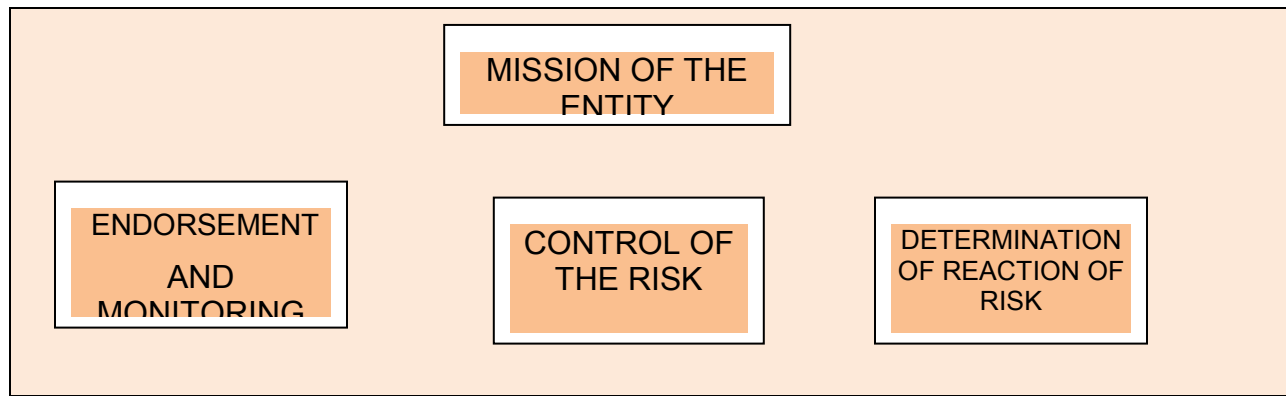
V. An important area that requires supervision by cyclical low and high level of leadership

VI. Area that is potentially important, but low probability of occurrence

VII. Area of risk with little impact requiring monitoring of the appropriate level of staff

VIII. Area of risk with little impact requiring only periodic monitoring and reporting for long periods of time,

IX. Area of risks that have no effect



10) Monitoring and Reporting

This phase gives the head of the **Entity X** full discretion in the selection (determination) and evaluation of resources and oversight in the process of managing risk. This discretion is still conditioned by two basic methods for providing effective control of risks - such as:

- 1) **Reporting system**: team risk management, semi-prepared written information about the work of the team, which is submitted to the Head of the institution. Additionally, when you place an event with impact on risk management, each employee has an obligation to inform the President of the working group on risk management or his / her supervisor.
- 2) **Internal audit** conducted by the appropriate unit in **Entity x**.

ANNEX 13

ROLE OF INTERNAL AUDIT IN THE DEVELOPMENT OF SYSTEM OF FINANCIAL MANAGEMENT AND CONTROL

1. Internal Audit

1.1. Definition

Internal auditing is an independent, objective assurance and improvement advising activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

To this end it furnishes them with analysis, appraisals, recommendations, counsel and information concerning the activities reviewed. The objective includes promoting effective financial management and internal control at reasonable cost.

1.2. Purpose

The main purposes of the internal auditing include the following:

- To determine whether there is *reasonable* assurance that the objectives and goals will be achieved, the processes, activities and operations are functioning as intended and to provide recommendations for improving the SAB's operations, in terms of both efficient and effective performance.
- To add value to the SAB.
- To appraise the overall management process, notably all business systems, processes, operations, functions, and activities within the SAB.
- To provide reasonable assurance that management's:
 - Risk assessment is effective.
 - System of financial management and internal control is effective and efficient.
 - Governance process is effective by establishing and preserving values, setting goals, monitoring activities and performance, and defining measures of accountability.

1.3. Key Point

The key points with regard to internal auditing are listed below:

- Affects every aspect of an organisation: all of its systems, processes and activities.
- It is an element that helps an organisation, not a feature that adds burden on.
- It is dependent upon the support and right use by management.
- It is effective when all of the people support it.
- It provides a level of comfort regarding the likelihood of achieving SAB's objectives.
- It helps SABs achieve their mission.

2. Organisational Roles

2.1. Managers

Managers deliver great support for the setting-up and functioning of an independent and effective internal auditing. This great support will be the basis for the best use of the internal auditing and thus leading to assisting the managers in the achievement of SAB's objectives by providing advice and recommendations for the improvement of the risk assessment and management, adequate and effective implementation of financial management and internal control, and appropriate governance of the processes.

The milestones of this support are listed below:

- Setting-up of internal audit capabilities within the organisational structure of the SABs.
- Establishing a direct reporting line to the highest level of management of SAB in order to ensure that the results of the internal audit work must be effectively communicated and will be seen to be acted upon.
- Agreement on the objectives of internal auditing.
- Establishing adequate scope of internal audit work that should cover the entire SAB, not simply the financial aspects or those systems or processes, which management decides are appropriate for audit review.
- Adequate communication of these objectives, scope and responsibilities across all levels of management and staff in order to ensure that they are clearly understood.
- This is achieved through both production and circulation of an Internal Audit Charter and continuing and concerted educational process to ensure the message is properly spread.
- Participation of management in the process of developing Strategic and Annual Audit Plans covering the audit activities to be implemented in long and short period of time.
- Approval by the Management of these Strategic and Annual Audit Plans.
- The internal audit must be, and must be seen by Managers to be, completely independent from the day-to-day operations of the SAB.
- Managers may (exceptionally) require the internal audit to undertake non-audit work, but where this is absolutely essential, then it should be understood that they are not operating as Internal Audit.
- Managers are in charge for the implementation of all recommendations delivered by the internal audit if agreed for such implementation.

2.2. Internal Audit Capabilities/Auditors

One of the most vital roles internal audit can play is in the support and assurance it can give to the Manager of any SAB. With an honest, objective approach coupled with operational independence, internal audit is well placed to tell the Manager what is really happening in the SAB and not what officials would like the Manager to know. When so much of good governance is dependent upon the Manager having a realistic idea of what is involved in certain courses of action, or having unbiased facts on a particular case or situation, then the internal auditor can really prove his value.

This value could be emphasised by listing the following:

- The internal auditor provides continuity in the monitoring process. Internal audit's evaluations, recommendations and reports, being on a continuous basis throughout the year, provide management with valuable additional comfort. Also, thanks to continuity, management is able to implement corrective measures and improvements on a timely basis.
- The Internal auditor has a considerable insight and knowledge of the SAB. This enables internal auditors to combine their professional skills with an understanding of the SAB's activities, programme and projects in order to make judgements about the effectiveness and efficiency of those activities, programme and projects, and management's achievements of defined objectives and goals.
- The internal auditor contributes to the SAB's quality assurance. The quality of implementation of activities, programme and projects, including compliance with policies, procedures, and internal regulations is of fundamental importance if the SAB is to achieve its

objectives in an economical and efficient manner. Internal auditors have an important role to play in periodically monitoring compliance with internally defined control procedures and regulations.

- The internal auditor represents a service to the SAB. Internal auditors are in a unique position to furnish management with necessary analyses, appraisals, and recommendations. As such internal audit provides a service of great value as regards the risk assessment and management, internal controls, and governance structure of the activities, programme and projects.

2.3. The Central Harmonisation Unit within Ministry of Finance

The overall mission of the Central Harmonisation Unit (CHU) is to provide coordination and harmonisation of the methodology and guidelines for financial management and internal control and internal audit across the public sector.

Its overall role is to train and educate Managers and Auditors and to manage the process of change and development of financial management and internal control and internal audit.

With regard to the financial management and internal control, the CHU is in charge of:

- Publishing internal audit methodology of work.
- Coordinating the establishment of internal audit units with SABs.
- Organising training and examinations for acquiring internal auditors' certification.
- Coordinating the work of internal audit units with SABs for the purposes of applying the passed methodology, rules and regulations from the field of internal audit.
- Collecting, analysing and consolidating strategic and annual plans for internal audit unit and preparing the consolidated annual report on the activities of internal audit units which has to be submitted to the Government of the Republic of Croatia.
- Monitoring quality of internal audit performance in internal audit units.
- Establishing and maintaining the internal auditors' network.
- Keeping permanent contacts with other organisations (public, private, national and international) dealing with internal financial control and internal audit.
- Keeping a registry of certified internal auditors.

3. The Auditors' Role with regard to Risk Assessment and Management

Risk assessment and management is a key responsibility of managers. Developing assessments and reports on the SAB's risk management processes is a high audit priority. Evaluating management's risk processes is different than the requirement that auditors use risk analysis to plan audits.

Each SAB may choose a particular methodology to implement its risk assessment and management process. The internal auditor should determine that the methodology is understood by key groups or individuals involved by SAB. Additionally, the internal auditors should satisfy themselves that the SAB's risk assessment and management process addresses five key objectives, notably:

- Risks arising from activities, programme and projects are identified and prioritised.

- Management has determined the level of risks acceptable to SAB.
- Risk mitigation activities are designed and implemented to reduce, or otherwise manage, risk at levels that were determined to be acceptable to management.
- Ongoing monitoring activities are conducted to periodically reassess risk and the effectiveness of controls to manage risk.
- The management receives periodic reports of the results of the risk assessment management processes.

4. The Auditors' Role with regard to Control

The high level management is in charge to establish and maintain the SAB's risk management, control and governance processes and obtain reasonable assurance concerning the effectiveness of the risk management and control processes. Senior management's role is to oversee the establishment, administration, and assessment of those processes. The purpose of that multifaceted system of control processes is to support people of SAB in the management of risks and the achievement of the established and communicated objectives of the budget organisation. More specifically, those control processes are expected to ensure, among other things, that the following conditions exist:

- Financial and operational information is reliable and possesses integrity;
- Operations are performed efficiently and achieve effective results;
- Actions and decisions of the SAB are in compliance with applicable laws, regulations and contracts;
- Assets are safeguarded.

The internal audit activity should evaluate the adequacy and effectiveness of controls encompassing the SAB's governance, operations and information system.

The evaluation of the system of internal controls should provide reasonable, but not absolute, assurance that the fundamental elements of the system are sufficient to accomplish their intended purpose. The study and evaluation should be adequately documented and properly supported by results of tests, observations and inquiries, and recommendations.

5. The Auditors' Role with regard to Governance Processes

High level management is in charge to establish and maintain the SAB's governance processes. The internal audit activity should assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within SAB.
- Ensuring effective management performance and accountability.
- Effectively communicating risk and control information to appropriate areas of the SAB's activities programme and projects.
- Effectively coordinating the activities of and communicating information among the management and the auditors.

6. Checkpoints for the Auditors with regard to the 5 Components of Internal Control

6.1. Control environment

The checkpoints for auditors regarding the Control Environment are summarised in Box No 1 below:

BOX No 1
AUDITORS' CHECKPOINTS FOR CONTROL ENVIRONMENT
<p><u>INTEGRITY</u></p> <ul style="list-style-type: none"> ■ The code of conduct designed and approved by management is clear, comprehensive and contains rules for disciplinary actions in case of its violation. ■ The code of conduct and rules with regard to the conflict of interests are communicated to all staff. ■ The code of conduct and rules with regard to the conflict of interests are properly applied. ■ The code of conduct and rules with regard to the conflict of interests are properly up-dated in order to reflect changes in circumstances resulting from activities, programme and projects implemented by the SAB. <p><u>ORGANISATION AND ASSIGNMENT OF RESPONSIBILITY AND DELEGATION OF AUTHORITY</u></p> <ul style="list-style-type: none"> ■ Detailed internal instructions and/or procedure manuals set out the rules for implementing core activities, programme and projects. ■ Approved organisation chart with clear reporting lines that integrates vertically and laterally the activities, programme and projects in a way which best enables achievement of the objectives. ■ Employee responsibilities, limits to authority, accountability, performance standards, control procedures, and reporting relationships are clarified in writing. ■ The segregation of duties is appropriate. ■ Job descriptions exists, are up-to date and accurate. ■ There is a register for delegation of authority; the delegation is communicated to the proper management level and staff. The register is kept up to date. ■ The employees are well acquainted with the SAB's policies and procedures that pertain to their job responsibilities.

6.2. Risk assessment

The checkpoints for auditors regarding the Risk Assessment are summarised in Box No 2 below:

BOX No 2
AUDITORS' CHECKPOINTS FOR RISK ASSESSMENT
<p><u>IDENTIFICATION AND DEFINITION OF OBJECTIVES</u></p> <ul style="list-style-type: none"> ■ The objectives defined by management are <i>SMART</i> (Specific, Measurable, Achievable, Realistic and Time dependent). ■ The objectives are properly incorporated into the strategic and yearly plans of the SAB. ■ There are performance indicators measuring the progress, or lack of progress, towards achievement of the objectives. ■ Appropriate actions are taken if and when the objectives could not be achieved.

IDENTIFICATION OF RISKS

- The risks are identified in relation to the objectives.
- The risks identified take account to failures, misinterpretations, mistakes, errors, weaknesses, loss, damages, and other internal and external factors.
- The identified risks encompass the activities, programme, and projects that are more at stake.

ASSESSMENT OF RISKS

- The assessment of the risk in terms of impact and likelihood is reliable and relevant.
- The assessment of the risks leads to the prioritisation of activities, programme and projects needing urgent actions to be undertaken for their minimisation.

MANAGEMENT'S RESPONSE TO RISK

- The management's response to risk is adequate, thus resulting in taking no action or accepting the risk as such, establishing a control for mitigating the risk, transferring the risk to an external body if and where appropriate, cancelling the related activity, programme or project if and when appropriate in order to avoid risk at all.
- Or the risk assessment methodology developed and implemented by management is translated into risk management practice incorporated into the day-to-day operations.
- The risk methodology and related components are up-dated on a regular basis.
- The risk assessment and management is adequate and effective and contributes for achieving the objectives.

6.3. Control activities

The checkpoints for auditors regarding the Control activities are summarised in Box No 3 below:

BOX No 3
AUDITORS' CHECKPOINTS FOR CONTROL ACTIVITIES
<p><u>SEGREGATION OF DUTIES (PREVENTIVE AND DETECTIVE CONTROL)</u></p> <ul style="list-style-type: none"> ■ The segregation of the duties is appropriate thus leading to the separation of the functions with regard to: <ul style="list-style-type: none"> ■ Initiating a transaction, ■ Approving a transaction, ■ Recording a transaction, ■ Reconciling balances, ■ Handling assets, ■ Reviewing reports. ■ The people in charge for the functions listed here under are not subordinated to each other. <p><u>ORGANISATION (PREVENTIVE AND DIRECTIVE CONTROL)</u></p> <ul style="list-style-type: none"> ■ The organisational chart is available to all staff, up-to-date and approved by management. ■ The managers have the necessary authority to do their jobs effectively; thus the delegation of authority is adequate. ■ There is an adequate and effective span of command thus avoiding receiving orders from two different people with regard to the implementation of the same task. ■ Authority, responsibility and accountability of all staff are appropriate to the respective tasks and are defined in writing. ■ The organisation and split of the work between staff and teams contributes for the timely,

reliable and effective implementation of the activities, programme, and projects.

- The Manuals, internal instructions, and procedures are clear, comprehensive, up-to-date, and communicated to all staff.

AUTHORISATION AND APPROVAL (PREVENTIVE CONTROL)

- The authorisation (or delegation of authority) is aligned to appropriate hierarchical level.
- The authorisation is general or specific or a combination of both. For instance, a general authorisation means that a department has the permission to spend funds from an approved budget. A specific authorisation means that a department has to obtain prior signature and/or approval of each transaction by a person with an approval authority.
- All approvals are evidenced by supporting documentation. The approvers are satisfied that the respective, activity, programme and project are appropriate, accurate and complies with applicable laws, regulations, policies, and procedures.
- All unusual items are questioned by the approvers. Additionally, they are documented and reported with a view to take appropriate corrective measures.
- The approvers give approval only if they are provided with documentation and information justifying the activity, programme, and project.

PHYSICAL (PREVENTIVE AND DETECTIVE)

- There is evidence that adequate access controls are implemented such as passwords, identity cards, guards, computer logging.
- There is evidence that the access controls are regularly up-dated.
- The organisation has perpetual inventory control for assets and inventories that embodies all purchases (acquisitions) and issuances.
- There is evidence that periodically, the assets and the items in the inventory are counted.
- These counts are performed by persons who are independent from the purchase (acquisition), authorisation and asset custody.
- There is evidence for reconciliation of the results of the counts to the balances of records in the perpetual inventory.
- There is evidence that adequate measures are undertaken in case of discrepancy between the physical counts and the information in the records. Additionally, appropriate adjustments are also made to the perpetual records.
- The assets are aligned to the needs of the SAB.

SUPERVISION (PREVENTIVE, DETECTIVE AND DIRECTIVE CONTROL)

- There is evidence for compliance checks performed by management and/or control teams.
- There is an evidence for output inspection carried out if and where needed.
- There is appropriate review of reconciliations, reports, and achievements against a defined standard and/or requirement.

PERSONNEL (DIRECTIVE CONTROL)

- Appropriate, clear, and transparent selection criteria are set up.
- Career development is ensured.
- Performance evaluation is made at least annually on the basis of transparent methodology that stimulates personal motivation and better achievements.
- The training plan is adequate and meets the training needs of the staff.
- The training plan is upgraded annually.
- The quality standards are clear, communicated to the staff and applied.

ARITHMETICAL AND ACCOUNTING (PREVENTIVE AND DETECTIVE)

- Accounting standards are adopted and applied.
- Chart of accounts is available and appropriate.
- Adequate accounting records kept, including journals and general ledgers.

- Reconciliation between the invoices and supporting documents and the accounting ledgers.
- Trial balance produced and reconciled to the accounting records.
- Reconciliation between the accounting ledgers and the bank statements.
- Adequate monitoring is in place on the accounts payables.
- Adequate monitoring is in place on the accounts receivables.
- Adequate write-off procedure is in place for.
- Adequate cut-off procedure is in place.
- Adequate depreciation (amortisation) policy is in place.
- Interim and financial statements are produced and they reflect the activities, programme and projects.
- Deadlines set for the production of financial reports.
- Control totals performed.
- Re-calculation of amounts as per invoices and supporting documents performed.
- Checks and supervision on the accounting records performed and evidenced.

MANAGEMENT (DIRECTIVE CONTROL)

- Strategic and Annual plans are developed.
- The objectives are set up in written, communicated to the appropriate staff and regularly reviewed.
- Scoreboard available for follow-up of performance indicators.
- The performance indicators are appropriate.
- Outputs are identified and measured in line with the performance indicators.
- The activities programme and projects are forecasted.
- There are tools developed to follow-up the forecasted activities, programme and projects.
- Review of the availability and appropriateness of the financial and operational information.
- Annual and interim reports for the implementation of the Strategic and Annual plans are produced and enhance the decision-making process.
- Reports are produced on particular activities, programme and projects if and where necessary.

6.4. Information Technology Systems

The checkpoints for auditors regarding the Information Technology Systems are summarised in Box No 4 below:

Box No 4	
AUDITORS' CHECKPOINTS FOR INFORMATION TECHNOLOGY SYSTEMS	
<u>GENERAL CONTROLS</u>	
<ul style="list-style-type: none"> ■ There is an effective and efficient acquisition, implementation and maintenance of system software required for the functioning of the system and the performance of applications. ■ Appropriate segregation of duties is in place and operational. ■ Appropriate access is authorized for those needing the systems to perform desired work. ■ A variety of practices can be used to grant or limit access, for example, special "dial up" numbers, review of user profiles, use of passwords or user ID's. ■ There is coexistence of information technologies. 	
<u>APPLICATION CONTROLS</u>	
<ul style="list-style-type: none"> ■ Review of input controls: proper authorisation, hash controls, digit controls etc. ■ Review of processing controls: validity checks, control totals etc. ■ Review of output controls: edit lists, reconciliation with the input etc. 	

6.5. Information and communication

The checkpoints for auditors regarding the Information and Communication are summarised in Box No 5 below:

Box No 5
AUDITORS' CHECKPOINTS FOR INFORMATION AND COMMUNICATION
<p><u>INFORMATION</u></p> <ul style="list-style-type: none"> ■ There are regular and occasional reports on the SAB's performance relative to established objectives that are provided to management. ■ The above reports are provided to the right people in sufficient detail and on time to enable them to carry out their responsibilities efficiently and effectively. ■ The information systems are developed and reviewed in accordance with the strategic plan of the SAB and are responsive to achieving the SAB-wide and activity-level objectives. ■ The mailing registration and filling systems are appropriate and ensure effectiveness and efficiency when operations and transactions are performed. ■ Managers and other staff receive regular, reliable and easily accessible management information on budget execution, use of resources and progress of their strategic and operational plans. <p><u>COMMUNICATION</u></p> <ul style="list-style-type: none"> ■ There are clear communication and reporting lines enabling people to discharge their responsibilities effectively. ■ There are proper feedback mechanisms that enable management be aware of problematic areas and/or accomplishments achieved in a specific field. ■ There are channels to report inadequacies. The reports have proper content and format that enhances further actions. ■ Review of the contractual and/or other arrangements with third parties to ensure that the SAB's interests are protected. ■ There is evidence of receptivity of management to employee suggestions for ways to enhance effectiveness and efficiency, quality and control or other similar improvements. ■ There is timely and appropriate follow-up action by management resulting from communications from outside the organisation.

6.5. Monitoring

The checkpoints for auditors regarding the Monitoring are summarised in Box No 6 below:

Box No 6
AUDITORS' CHECKPOINTS FOR MONITORING
<p><u>MONITORING</u></p> <ul style="list-style-type: none"> ■ There is evidence for regular monitoring by management on the application of the laws, rules, policies, and procedures. ■ Scoreboards are developed, used and monitored. ■ There are formal procedures for reporting weaknesses and for ensuring appropriate corrective measures are undertaken accordingly. ■ There is responsiveness to internal and external auditors' recommendations on means to

strengthening internal controls.

- Action plans are prepared, implemented and followed-up.
- The monitoring regime is not occasional and thus applied only in cases of failures, errors, mistakes, and weaknesses. It is rather ongoing and integrated in the day-to-day carrying out of activities, programme, and projects.
- There are reports from quality control evaluations carried out on a year or three years basis by independent evaluators. There is evidence for adequate measures undertaken as a result of these reports.
- There is evidence for identification of change in the activities, programme, and projects, and their environment that may require changes to internal control systems.
- There is adequate support for public statements on internal control.

7. What Internal Audit Can Do

Management is responsible for managing risk and establishing an effective control framework. Internal audit can assist management in this and can also provide advice to management on what it needs to do to establish appropriate policies, systems of control, and procedures necessary to manage risk effectively and efficiently.

The scope of work of any internal audit function will invariably need to be agreed with management but nevertheless the following list, drawn in part from the IIA Standards, is a commonly pursued range of work for internal auditors:

- Understanding the key business risks and reviewing the adequacy and effectiveness of the processes in place to manage the risks.
- Reviewing the controls, which ensure the reliability and integrity of management information and the means, used to identify measure, classify and report such information.
- Reviewing the processes and systems established by management to ensure adherence with those policies, plans, procedures, laws and regulations which could have an impact on activities, programme, and projects, and determine whether the organisation is in compliance.
- Reviewing the means of safeguarding assets (including both tangible and intangible assets).
- Appraising the economy, efficiency and effectiveness with which resources are used.
- Reviewing activities, programme, and projects to establish whether results are consistent with established objectives and whether the activities, programme, and projects are being carried out as planned.
- Monitoring corrective action plans to ensure they are implemented effectively and promptly.

Key to the success and contribution of internal audit is that it must focus on the critical risks to the organisation and review the adequacy of the underlying activities to manage those risks. This will add value to the organisation and strengthen its ability to deal with the issues and risks facing it. The understanding and evaluation of the risks will generally come together into an Audit Needs Assessment that identifies those aspects of the organisation that should form part of the overall strategic and annual plans for Internal Audit. From these plans comes the day-to-day work of Internal Audit.

8. Limitations to the Internal Audit

Limitations to the internal audit result from the following realities:

- It cannot be a factor on which depends the successful implementation of the activities, programme and projects of the SAB.
- It cannot implement risk assessment and management.
- It cannot implement internal controls.
- It cannot govern processes with regard to the activities, programme and projects of the SAB.
- It cannot a factor on which depends the absence of fraud or other irregularities.

All of the above remain, as it has always been, clearly the responsibility of management.