



2019

Ministry of Finance

**Public Internal Financial
Control Department**

**ANNUAL REPORT
ON THE FUNCTIONING OF THE 2019 PUBLIC INTERNAL FINANCIAL CONTROL SYSTEM**

Skopje, July 2020

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SUMMARY

Annual Report on the functioning of the public internal financial control system shows the level of development of financial management and control and the internal audit for the purpose of informing the Government of the Republic of North Macedonia and other stakeholders about the activities carried out in the reporting period.

Report has been prepared on the basis of the 2019 annual financial reports submitted by the budget users at central and local level, the records of the Central Harmonization Unit and the data from the State Audit Office.

Obligation for submitting the 2019 annual financial report was met by 84% of the budget users at central level and 78% of the budget users at local level, being 4% increase at central level and 8% increase at local level compared to the previous year.

Although the analysis of the data from the submitted self-assessments indicates that the employees in 94.3% of the budget users at central and local level are familiar with the Code of Ethics for Civil Servants or the special code of the budget user, there is a need to improve its implementation by adopting additional internal guidelines for the behavior of employees so as to prevent and report fraud and irregularities and internal acts to define potential conflicts of interest and the manner of acting when they occur.

Management and management style of the budget users is at a high professional level, however, it is necessary to improve the participation of the heads of the affiliated bodies at the high-level meetings, and as for the planning approach, it is necessary to improve the annual operational plans/programs, by defining the goals each organizational unit should achieve throughout the year.

Analysis of the data from the submitted self-assessments has shown that, although 80% of the budget users at central level and 69% of the municipalities and the City of Skopje have allocated the respective budgets by organizational units, only 54% of the heads of the organizational units in the budget users at central level and 39% of the municipalities and the City of Skopje have general authorization for assuming liabilities, pointing out to insufficiently determined clear lines of responsibility and accountability of the heads thereof.

As for 39% of the budget users at central level and local level, practice has been established for assigning tasks/activities per each employee separately under the annual operational plans of the organizational units, being by 3 percentage points less compared to 2018.

Risk Management Strategy was adopted by 69% at central level and 44% at local level, around 74% of the budgets users at central level and 405 at local level document the risks in the Risk Registry, while around 60% at central level and 55.6% at local level document the risks in their planning documents. Budget users at central and local level mainly focus on the risk assessment related to harmonization of the operations with the regulations, assessing to a lesser extent the risks affecting the results achieved from their operations.

One half of the budget users at central and local level (51%) have written procedures for the key process in the financial management and control. Therefore, there is a need to strengthen the controls at all budget users by adopting, i.e. improving and updating the

adopted procedures and determining control activities focused on the performance results in line with the set goals.

In the further period, it is necessary to increase the exchange of information between the institution and the competent institutions and the communication with the citizens / users of services, as well as the preparation and public announcement of performance indicators, which will lead to greater transparency and accountability of the institutions

For the purpose of improving the situation in the field of monitoring, it is necessary to strengthen the implementation of self-assessment of certain processes of the financial management and control system, and prepare a plan for elimination the determined weakness and irregularities, as well as enhance the internal audit and increase the degree of realization of the external audit recommendations.

Out of total of 175 budget users, report on performed audits and internal audit activities, was submitted by 111 (63%), i.e. 59 at central and 52 at local level, being by 2% less compared to the previous year, as result of the lower number of reports submitted by 2 local government units.

Budget users not having submitted report on the internal audit operations, accounted for 37%, 13% out of which are budget users having internal audit functional unit, but not having submitted annual report, 15% of them are budget users having established internal audit unit, but not being functional since they do not have auditors, 9% are budget users having obligation to establish but failing to establish internal audit function.

The data analysis has shown that the number of internal auditors at central and local level decreased by 17 (9.2%) in 2019 compared to the previous year. This tendency is expected to continue in the next years as well, mostly due to the age structure of internal auditors and the fulfillment of retirement requirements (around 10%-15%) This will contribute to significant reduction of the number of internal auditors in the public sector, which average number of auditors at central level is 1.48 auditors per internal audit unit (1.61 in 2018), while this average is 0.93 at local level (1.07 in 2018).

Therefore, a need arises for increasing the number of internal auditors and merging the internal audit units by changing the criteria for their establishment.

In 2019, the percentage of implemented internal audit recommendations at central and local level increased by 5% compared to the previous year, accounting for 62%.

1. INTRODUCTION

Public internal Financial Control Department within the Ministry of Finance is an organizational unit responsible for harmonization of the activities aimed at development of the internal financial controls system in the public sector (hereinafter referred to as: Central Harmonization Unit), which pursuant to the Law on Public Internal Financial Control¹, is in charge of preparing the Annual Report on the Functioning of the Public Internal Financial Control System (hereinafter referred to as: Annual Report).

The Annual Report is aimed at showing the status of the internal financial control system at budget users at central and local level.

Internal financial control system is established for the purpose of providing sound financial management in the public sector, meaning achievement of the set goals by using the funds in a legal, proper, cost-effective, efficient and effective manner.

Heads of the budget users at central and local level are responsible for developing an efficient and effective internal financial control system via risk management and provision of reasonable assurance that the budget and the other funds are used in a regular, ethical, efficient and effective manner, for the purpose of realizing the set goals.

Due its complexity, the internal financial controls require continuous monitoring and assessment of their appropriateness and functionality carried out through self-assessment of the system by the management, as well as the internal and external audit activities.

On the basis of the above-mentioned, the degree of development of the internal financial control system in 2019 has been observed, and the Annual Report also includes measures for its further development.

1.1. Legal basis for the preparation of the Annual Report

Pursuant to indent 11 in Article 48 of the Law, the Annual Report was prepared on the basis of analysis of the Questionnaire for the Self-Assessment of the Financial Management And Control System and the Report on Performed Audits and Internal Audit Activities submitted with the Annual Financial Report by the budget users to the Ministry of Finance, as well as the activities of the Central Harmonization Unit related to the development of internal financial control systems.

1.2. Purpose of the Annual Report

The Annual Report is prepared in order to fully observe the level of development of internal financial control system, as well as inform the Government of the Republic of North Macedonia and the other stakeholders about the activities implemented in 2019, as well as determine activities for further development of the financial management and control and the internal audit.

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

1.3. Basis for Preparation and Scope of the Annual Report

2019 Annual Report was prepared on the basis of the analysis of the following:

- completed Questionnaire for Self-Assessment of Financial Management and Control System, as part of the submitted reports on activities for establishing and developing financial management and control,
- submitted Report on Performed Audits and Internal Audit Activities and
- submitted Statement on Quality and Status of Internal Controls,

as well as the submitted financial reports:

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

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

Apart from the aforementioned information, for the purposes of this Report, information has been used from the audit reports of the State Audit Office, also including data about the perceived weaknesses in the internal control system. Thereby, the Annual Report on Performed Audits and the Operations of the State Audit Office in 2019² have been taken into account, including information about the opinions of the State Audit Office from the audits performed in 2019, as well as information about the systemic weaknesses and ambiguities in the legal acts in certain areas. Findings and recommendations given in the reports of the State Audit Office are used by budget users during the self-assessment of the internal control systems in the areas where irregularities and omissions are identified during the operations.

The review of the opinions expressed by the State Audit Office on the financial statements and the harmonization with laws and regulations is given in Attachment no.1 of this Report, according to which the State Audit office abstained from giving an opinion on the financial statements on both Funds³, whereby unfavorable opinion was given about 8 beneficiaries of the Health Insurance Fund and 8 Central Budget spending units.

1.4 Submitted 2019 Annual Financial Reports

Total number of the budget users obliged to submit annual financial report in 2019 was 174⁴, 93 out of which are at central and 81 are at local level (municipalities and the City of Skopje.

In 2019, 78 budget users at central level submitted annual financial report, being an increase by 4 percentage points compared to the previous year, while 63 local government units

²https://dzt.mk/sites/default/files/2020-06/Godisen_izvestaj_2019_MKD.pdf

³ Pension and Disability Insurance Fund of North Macedonia and Employment Agency of the Republic of North Macedonia.

⁴ ANational Security Agency started its operations at the end of 2019 and the Inspectorate for the Use of Languages started its operations at the beginning of 2020.

submitted annual financial report, increasing by 8 percentage points compared to the previous year.

Table 1. Review of the number budget users being obliged to submit 2019 annual financial report and budget users having submitted annual financial report

Budget users	Number of budget users, which should submit annual financial report	Number of budget users, having submitted annual financial report	Number of budget users, failing to submit annual financial report	% of budget users, failing to submit annual financial report	
				2018	2019
Central level	93	78	15	20%	16%
Local level	81	63	18	30%	22%
Total	174	141	33	25%	19%

(Attachment 2. Review of Budget Users at Central and Local Level not having submitted Annual Financial Report).

2. STATE OF PLAY OF THE INTERNAL FINANCIAL CONTROL SYSTEM IN 2019

In March 2019, the Government of the Republic of North Macedonia adopted the "Public Internal Financial Control Policy Paper (with 2019-2021 Action Plan) as a strategic document for further development of the internal control system in the public sector.

This document includes the main challenges when implementing the internal control in the public sector, pertaining to the following: linking sectoral policies with medium-term budget planning, preparation of evidence-based policies, compliance with the legislative procedure and consistent implementation of the Rules of Procedure of the Government of the Republic of North Macedonia, expert and analytical capacities of the administrative officers, hierarchical set-up, overlapping of competences of the authorities and the clear competences of the sectors, risk management, non-adopted procedures for key operational processes and quality management. These challenges significantly affect the quality of delivered public services and the occurrence of arrears, fraud and corruption.

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

Due to their complexity, the internal control systems require monitoring and assessment of the appropriateness and the functionality through:

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

Self-assessment of the system is carried out by filling in the Questionnaire for Self-Assessment of the Financial Management and Control System, by responding to questions grouped in the following components:

- control environment,

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

A. CONTROL ENVIRONMENT

The control environment covers the following areas:

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

a) Ethics and Integrity

Analysis of the data from the submitted self-assessments indicates that employed persons in 94.3% of the budget users at central and local level are familiar with Code of Ethics for Civil Servants or the separate code of the budget user, being an increase by 2 percentage points compared to the previous year, however, only 49.6% of them have additional internal guidelines and/or instruction for behavior of the employed persons for preventing and reporting on frauds and irregularities, being an increase by 1.6 percentage points compared to the previous year. Only 36.2% have clear rules (internal acts), defining the status of potential conflict of interest and the manner of acting in case they occur, being an increase by 1.9 percentage points compared to the previous year.

This pointed out to the need to improve the status as regards the preparation of additional internal guidelines and/or instructions for behavior of the employed persons for preventing and reporting on frauds and irregularities and internal acts defining the status of potential conflict of interest and the manner of acting in case they occur.

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

Ethics and Integrity	2019						2018	+/- 2019-2018
	Central level		Local level		Total			
	78 budget users		63 budget users		141 budget users			
	Number	%	Number	%	Number	%	%	
Familiarity of the employees with the Code of Ethics for Civil Servants or the separate code of ethics of the respective budget user	74	94.9	59	93.6	133	94.3	92.3	+2

Appointed person for ethics (ethics commissioner)	12	15.4	2	3.2	14	10	10.6	-0.6
Existence of additional internal guidelines and or/instructions for behavior of the employees	47	60.3	23	36.5	70	49.6	48.0	+1.6
Existence of clear rules (internal acts) defining the status of potential conflict of interests and the manner of acting	32	41	19	30.2	51	36.2	34.3	+1.9

B) Governance and style of management

Analysis of the obtained data obtained indicates the fact that the governance and the style of management at budget users is at high professional level, that high level meetings (collegiums) are held on regular basis and that they regularly cover topics related to the field of financial management and control (achievement of strategic goals, implementation of programs/projects and achieved results, key challenges in the operations and the realization of the financial plan/budget execution).

In fact, in 2019 improvements compared to the previous year, were recorded in the following:

- discussion about the strategic goals by 1.6 percentage points,
- implementation of programs/projects and achieved results by 2.8 percentage points and
- key challenges in the operations by 7.3 percentage points.

However, the need remains to improve the participation of the heads of the affiliated bodies at the meetings at the highest level of management

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

Governance and style of management	2019						2018	+/- 2019-2018 percentage Points
	Central level		Local level		Total			
	78 budget users		63 budget users		141 budget users			
	Number	%	Number	%	Number	%		
High-level meetings (collegiums) are held on regular basis	74	94.9	54	85.7	128	90.8	90.8	0
Topics discussed at the high-level meetings are the following:								
a) strategic goals	74	94.9	53	84.1	127	90.1	88.5	+1.6
b) implementation of programs/projects and achieved results	74	94.9	58	92.1	132	93.6	90.8	+2.8
c) key operational risks	69	88.5	51	80.9	120	85.1	77.8	+7.3
d) realization of the financial plan/budget execution	71	91	56	88.9	127	90	90.0	0
Heads of the affiliated bodies of the budget users also take part in the high level meetings	27	34.6	47	74.6	74	52.5	49.6	+2.9

C) Planning approach to operating

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

In 2019, minimum improvements in defining the vision and the mission, as well as the determined strategic goals have been recorded, however decline by 3.3 percentage points was observed at defining the goals, which each organizational unit should realize throughout the year, in the annual operational plan/program.

Table 4: Results in the field of „Planning approach to operating“

Planning approach to operating	2019						2018	+/- 2019-2018
	Central level		Local level		Total			
	78 budget users		63 budget users		141 budget users		%	percentage points
	Number	%	Number	%	Number	%		
Determined vision and mission of the institution	74	94.9	46	73	120	85	84,7	+0,3
Determined strategic goals	74	94.9	55	87.3	129	91.5	90.8	+0.7
Determined programs	68	87.2	59	93.6	127	90	90.8	-0.8
Determined goals of the programs	67	85.9	58	92.1	125	88.6	90.0	-1.4
Goals of the programs are related to the strategic goals	68	87,2	55	87.3	123	87	87.0	0
Adopted annual operational plan/program	67	85.9	48	76.2	115	81.6	80.9	+0.7
Goals, which every organizational unit should realize throughout the year are defined in the annual operational plan/ program	59	75.6	44	69.8	103	73	76.3	-3.3
Goals of the annual operational plans/ programs are related and harmonized with the strategic goals	66	84.6	47	74.6	113	80	79.4	+0.6
Planning documents including data on the goals, comprise data on the estimated financial resources necessary for realizing the set goals	63	80.8	44	69.8	107	75.9	76.3	-0.4
There are determined performance indicators, through which the implementation of the set goals is monitored	58	74.4	27	42.9	85	60	60.3	-0.3
Second line budget users are also included in the preparation of the strategic documents	13	16.7	37	58.7	50	35.5	34.3	+1.2

d) Organizational structure, authorizations, responsibilities and reporting system

Division of authorizations and responsibilities in spending the approved budget funds is carried out by adopting decision on internal allocation of the total approved budget and decisions on giving general authorizations for assuming liabilities and general authorization for paying the head of the financial affairs unit.

Decisions on internal allocation of the total approved budget were adopted by 80% of the budget users at central level and 69% of the municipalities and the City Of Skopje. Decisions

for general authorizations were adopted by 54% of the budget users at central level and 39% of the municipalities and the City of Skopje, being higher by 1 i.e. 2 percentage points compared to 2018. This minimum increase is insufficient for determining clear lines of accountability and greater responsibility and accountability of the respective heads.

Improvement of the status, compared to the previous year, was recorded as regards the preparation of reports for realization of the goals, the programs and the projects by 2.7 percentage points and preparation of report on execution of the approved budget by 4.2 percentage points.

Table 5: Results achieved in the field of „Organizational structure, authorizations, responsibilities and reporting system“

ORGANIZATIONAL STRUCTURE, AUTHORIZATIONS, RESPONSIBILITIES AND REPORTING SYSTEM	2019						2018	+/- 2019- 2018
	Central level		Local level		Total			
	78 budget users		63 budget users		141 budget users		%	perce ntage points
	Num ber	%	Num ber	%	Num ber	%		
Clearly defined competences and responsibilities of the organizational units in the strategic planning process	67	85.9	39	61.9	106	75	75.6	-0.6
Clearly defined authorizations and responsibilities for realizing the goals agreed under the program/project/activity	63	80.8	46	73	109	77	77.9	-0.9
Activities for coordination of the financial management and control development are under the competence of the financial affairs unit	60	76.9	50	79.4	110	78	78.6	-0.6
Finance-related working posts are determined in the other organization units/bodies	17	21.8	13	20.6	30	21.3	21	+0.3
Heads of the organizational units are authorized to manage the approved budget funds aimed at realizing the activities under their competence	47	60.3	41	65.1	88	62.4	62.6	-0.2
Top management has introduced reporting lines for realization of the goals and accordingly the realization of the financial plan/budget execution (realized goals, spent budget funds, generated income, incurred liabilities, and similar)	61	78.2	52	82.5	113	80.1	79.4	+0.7
Organizational units prepare reports on realization of the goals, programs, projects	66	84.6	53	84.1	119	84.4	81.7	+2.7
Organizational units prepare report on realization of the approved budget (spent budget funds for realization of programs, projects, activities, revenues, contractual obligations, and similar)	41	52.6	51	80.9	92	65.2	61	+4.2

e) Human resource management

Results from the analysis show that 92% of the budget users at central and local level prepare training plans for the employees related to the scope of the work they perform,

whereby records/registry is being kept for the implemented trainings per each employee separately in 75.9%, being by 2.7 percentage points less compared to 2018.

As for 39% of the budget users at central level and local level, practice has been established for assigning tasks/activities per each employee separately under the annual operational plans of the organizational units, being by 3 percentage points less compared to 2018.

In 2019, the number of budget users at central and local level who the employees sent to trainings related to financial management and control, increase by 0.9 percentage points.

Table 6: Results achieved in the field of „development of human resources“

Development of human resources (planning of the operations and monitoring the achieved results)	2019						2018	+/- 2019-2018
	Central level		Local level		Total			
	78 budget users		63 budget users		141 budget users		%	percentage points
	Number	%	Number	%	Number	%		
There are training plans for the employees related to the scope the work they perform	72	92.3	58	92.1	130	92.2	91.6	+0.6
Records/registry for training per each employee separately is being kept	66	84.6	41	65.1	107	75.9	78.6	-2.7
Employees are sent to trainings related to financial management and control (including training in the field of strategic planning, preparation and drafting of budget request, risk management, procurement and conclusion of agreements, accounting systems, irregularities and frauds, and similar)	69	88.5	55	87.3	124	87.9	87	+0.9
Under the annual operational plans of the organizational units, tasks/activities are assigned per each employee separately	33	42.3	22	34.9	55	39	42	-3

B. RISK MANAGEMENT

At central level, around 69% of budget users adopted Risk Management Strategy, around 74% of the budget users record the risks in the operations in the risk registries, while around 69% in their planning documents, being by 2 percentage points i.e. 3 percentage points more compared to 2018.

This percentage was lower at the budget users at local level (the municipalities and the City of Skopje), whereby around 44% of them have adopted Risk Management Strategy, being by 1 percentage point more compared to 2018, around 40% of them record the risks in the risk registries, while 55.6% in the planning documents, being by 1.6 percentage points more compared to 2018. At central level, 57.7% of the budget users have appointed a person responsible for coordinating the risk management process at the level of the whole institution, while 35.9% of them have appointed risk coordinators per organizational units.

At **local level**, around 22% of the budget users have appointed a person responsible for coordinating the risk management process at the level of the whole institution, while 8% of them have appointed risk coordinators per organizational units.

Only around 14% of the budget users at **central level** obtain information about the most significant risks from their bodies and the second line budget users. This percentage is somewhat bigger at **local level**, accounting for 35%.

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

(Attachment 3: Review of Budget Users at Central and Local Level not having Adopted Risk Management Strategy)

(Attachment 4. Review of Budget Users at Central and Local level not having prepared Risk Registry)

Table 7: Results achieved in the field of „risk management“

Risk Management	2019						2018	+/- 2019- 2018
	Central level		Local level		Total			
	78 budget users		63 budget users		141 budget users			
	Number	%	Number	%	Number	%		
Determination of risks that may affect the realization of the following:								
a) strategic goals	61	78.2	41	65.1	102	72.3	71	+1.3
b) goals of the program/project/activity	58	74.4	42	66.7	100	70.9	71.7	-0.8
c) goals included in the annual operational program	52	66.7	35	55.6	87	61.7	63.4	-1.7
Risks are included in writing in the following:								
a) planning documents (strategic documents/ plan of development programs/annual operational plans)	54	69.2	35	55.6	89	63.1	61	+2.1
c) in the Risk Registry, determined in line with the instructions for implementing the risk management process at budget users	58	74.4	25	39.7	83	58.9	58	+0.9
As regards the determined risks, their probability and effects are estimated	57	73.1	36	57.1	93	65.9	64.9	+1
System on reporting the most significant risks was established	41	52.6	18	28.6	59	41.8	42.7	-0.9
Person responsible for coordinating the establishment of risk management process, was appointed	45	57.7	14	22.2	59	41.8	40.4	+1.4
Risk coordinators were appointed in the organizational units	28	35.9	5	7.9	33	23.4	24.4	-1
Budget users within the respective entity submit reports on the main risks	11	14.1	22	34.9	33	23.4	21.4	+2

C. CONTROLS

The analysis of the data related to the controls indicates that when compared to 2018, minimal improvements have been recorded as regards the procedure for carrying out ex post controls on the earmarked spending of the paid budget funds, the written internal procedures contain instructions on the manner of cooperation and activities for second line budget users and the familiarity with the extent to which the second line budget users have regulated the control activities in the processes of preparation and realization of the financial plans / budgets, procurement and contracting, property management and similar.

Decrease in relation to 2018 was observed as regards written internal procedures for the process of:

- preparing and realizing the strategic plan by 7.4 percentage points,
- drafting and implementing the budget request/draft budget by 1.8 percentage points,
- preparing and recording the business events and transactions by 6.7 percentage points,
- procurement and contracting by 2.7 percentage points,
- property management - tangible and intangible assets by 7.9 percentage points,
- own revenue collection by 1 percentage point and
- refund of unjustifiably spent or erroneously paid budget funds, as well as updating of the internal procedures by 4.1 percentage points.

One half of the budget users at central and local level (51%) have written procedures for the key process in the financial management and control. Therefore, there is a need to strengthen the controls at all budget users by adopting, i.e. improving and updating the adopted procedures and determining control activities focused on the results from the operations in line with the set goals.

Table 8: Results achieved in the field of controls

CONTROLS	2019						2018	+/- 2019- 2018
	Central level		Local level		Total			
	78 budget users		63 budget users		141 budget users		%	percentage points
	Number	%	Number	%	Number	%		
There are written internal procedures (rulebooks, guidelines, instructions), which, as an extension of the regulations, more thorough regulate the following processes:								
a) process of preparing and realizing the strategic plan	40	51.3	24	38.1	64	45.4	52.8	-7.4

b) process of preparing and realizing the budget request/draft budget	59	75.6	46	73	105	74.5	76.3	-1.8
c) process of recording the operations and the business transactions	59	75.6	37	58.7	96	68.1	74.8	-6.7
d) process of procuring and contracting	64	82	43	68.2	107	75.9	78.6	-2.7
e) process of managing the property - tangible and intangible assets	48	61.5	28	44.4	76	53.9	61.8	-7.9
f) process of collecting own revenues	23	29.5	38	60.3	61	43.3	44.3	-1
g) process of refunding the unjustifiably spent or erroneously paid budget funds	30	38.5	30	47.6	60	42.5	46.6	-4.1
Internal procedures are updated	62	79.5	43	68.2	105	74.5	78.6	-4.1
It is ensured for the principle of segregation of duties to be applied pursuant to the law and the standards, i.e. for the same person not to be responsible for approval, execution, accounting and control	63	80.8	40	63.5	103	73	74	-1
ex post controls over the earmarked spending of the paid budget funds are carried out. (For instance, on-site controls for the paid subsidies, grants, assistance, various fees, transferred budget funds to the final beneficiaries, and similar)	46	59	36	57.1	82	58.2	58.8	-0.6
Procedure of carrying out ex post controls is regulated under written procedures	33	42.3	12	19	45	31.9	35.1	-3.2
Procedure for carrying out ex post controls over the earmarked spending of the paid budget funds is:								
a) part of the regular operations of the organization units in the institution in charge therefor	51	65.4	36	57.1	87	61.7	61.1	+0.6
b) ad hoc task in cases when there is a need for ex post controls (for instance in case of anonymous reporting for potential irregularities when using the budget funds)	42	53.8	32	50.8	74	52.5	52.7	-0.2
Written internal procedures referring to preparation and realization of the strategic plans, preparation and realization of the financial plans/budget execution, procurement and contracting, ex post control and similar, include guidelines on the manner of cooperation and the activities for the second line budget users	8	10.3	19	30.2	27	19.1	18.3	+0.8
There is information about the extent to which the second line budget users have regulated the control activities in the processes of preparation and realization of the financial plans/budget execution, procurement and contracting, property management and similar.	4	5.1	16	25.4	20	14.2	13	+1.2

D. INFORMATION AND COMMUNICATIONS

The analysis of the data obtained from the Annual Financial Report with respect to the determined information and communications, indicates that among the budget users at central and local level, an internal reporting system is generally established which provides timely, accurate and complete data and information and their exchange between the internal organizational units for the needs of budget planning and execution, i.e. the financial plan, implementation of programs, projects and activities, monitoring of the realization of the work goals and the spent funds.

Improvement compared to 2018 was recorded as regards the following:

- established regular system for monitoring and analyzing the realization of the financial plan/budget execution by 2 percentage points,
- participation of the organizational units in the preparation of the financial plan/budget and IT connection with the second line budget users by 0.8 percentage points,

- obtaining information about the approved budget funds for implementing the programs/projects/activities under their competence by 2.4 percentage points,
- elaborated economic classification by 1.4 percentage points and
- monitoring the expenditures/revenues by projects and activities on the accounting systems by 1.8 i.e. 2.2 percentage points.

Reduction compared to 2018 was recorded as regards the following:

- defined reporting lines referring to the realization of the strategic goals included in the strategic documents by 2.4 percentage points,
- established reporting system referring to the realization of the programs/projects by 0.2 percentage points,
- preparing additional internal reports about the financial management needs by 2.3 percentage points,
- integration of the processes supporting the IT systems by 0.8 percentage points and
- recording the key working processes in the organizational units by 3.2 percentage points.

In the further period, it is necessary to increase the exchange of information between the institution and the competent institutions and the communication with the citizens / users of services, as well as the preparation and public announcement of performance indicators, which will lead to greater transparency and accountability of the institutions

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

INFORMATION AND COMMUNICATIONS	2019						2018	+/- 2019- 2018
	Central level		Local level		Total			
	78 budget users		63 budget users		141 budget users		%	percenta ge points
	Num ber	%	Num ber	%	Nu mbe r	%		
Defined appropriate reporting lines referring to the realization of the strategic goals included in the strategic documents	46	59	25	39.7	71	50.3	52.7	-2.4
Established reporting system referring to the realization of the programs/projects	57	73.1	45	71.4	102	72.3	72.5	-0.2
Established regular system for monitoring and analyzing the realization of the financial plan/budget execution	74	94.9	58	92.1	132	93.6	91.6	+2
Organizational units participate in preparation of the financial plan/budget	66	84.6	59	93.6	125	88.6	87.8	+0.8
Organizational units obtain information about the approved budget funds for implementing the programs/projects/activities under their competence	66	84.6	58	92.1	124	87,9	85.5	+2.4

For the purpose of monitoring the realization of the financial plan/budget execution, there is more thoroughly elaborated economic classification than the one stipulated in the Rulebook on the Accounting Plan for Budgets and Budget Users, i.e. there is analytics of the accounting plan.	53	67.9	47	74.6	100	70.9	69.5	+1.4
Accounting systems enable monitoring of expenditures/revenues by:								
a) programs	66	84.6	61	96.8	127	90	90.1	-0.1
b) projects	47	60.3	48	76.2	95	67.4	65.6	+1.8
c) activities	42	53.8	44	69.8	86	61	58.8	+2.2
d) organizational units	42	53.8	38	60.3	80	56.7	57.2	-0.5
Do you have centralized records of all signed agreements and contractual obligations and are they supported by the IT system	54	69.2	39	61.9	93	66	66.4	-0.4
In addition to the stipulated financial reports (balance sheet, income statement and consolidated balance sheet), there are additional internal reports on the financial management needs (for instance reports on unpaid liabilities by programs/projects/organizational units, reports on contracted, but still not invoiced liabilities, reports on the achieved results of the programs/projects, and similar)	54	69.2	45	71.4	99	70.2	72.5	-2.3
Working systems (finances, procurement and contracting, operational records, personnel, and similar) are sufficiently supported under the IT technology (IT system)	65	83.3	51	80.9	116	82.3	82.4	-0.1
IT systems supporting certain processes are integrated with each other	42	53.8	29	46	71	50.3	51.1	-0.8
Key operational processes, which are implemented within the organizational units are documented, i.e. are the procedures, the tasks of the separate participants, the authorizations and the responsibilities clearly defined? (for instance, are there internal guidelines, instructions, rulebooks, are maps/books of the operational processes and similar, prepared?)	63	80.8	38	60.3	101	71.6	74.8	-3.2
Second line budget users also prepare other reports apart from the stipulated financial reports, which they submit to the first line budget users*	9	11.5	20	31.7	29	20.6	20.6	0
IT connection with the second line budget users was achieved (for instance, through the Treasury Department system and similar)	14	18	41	65.1	55	39	38.2	+0.8

E. MONITORING AND ASSESSMENT OF THE SYSTEM

The analysis of the data obtained in the Annual Financial Report with respect to the determined monitoring and assessment of the system, indicates that what is mostly implemented at the budget users at central and local level is as follows: continuous monitoring, self-assessment and internal and external audit, procedures have been determined, ensuring for the internal acts to be implemented in practice, as well as to be updated, except as regards the existence of systems for monitoring the functioning of the financial management and control system at the second line budget users, which is a result of the fact that some first line budget users do not have a second line budget users.

Reduction compared to 2018 was recorded as regards the following:

- established monitoring system at top management by 5.1 percentage points;

- implementation of recommendations of the external auditors by 4.1 percentage points and
- implementation of the internal audit recommendations by 6.1 percentage points.

For the purpose of improving the situation in the field of monitoring, it is necessary to strengthen the implementation of self-assessment of certain processes of the financial management and control system, and prepare a plan for elimination of the determined weakness and irregularities, as well as enhance the internal audit and increase the degree of realization of the external audit recommendations.

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

Monitoring and assessment of the system	2019						2018	+/- 2019-2018
	Central level		Local level		Total			
	78 budget users		63 budget users		141 budget users		%	percent age points
	Number	%	Number	%	Number	%		
Top management has established reporting system, by which they obtain reports on the functioning of the financial management and control system, for which they are responsible	44	56.4	35	55.6	79	56	61.1	-5.1
Established procedures providing for the internal acts (rulebooks, guidelines, instructions and similar) to be implemented in practice, as well as to be updated	50	64.1	35	55.6	85	60.3	59.5	+0.8
Recommendations of external auditors are being implemented	64	82	54	85.7	118	83,7	87.8	-4.1
Internal audit recommendations are implemented in line with the actions plans for implementation of the recommendations	50	64.1	50	79.4	99	70.2	76.3	-6.1
There are appropriate reporting systems established by the first line budget users, providing for monitoring the functioning of the financial management and control system at second line budget users.	7	9	23	36.5	30	21.3	22.1	-0.8

3. REPORT ON PERFORMED AUDITS AND INTERNAL AUDIT ACTIVITIES

3.1. Status of Internal Audit in accordance with the records of the Central Harmonization Unit

3.1.1 Organization and Staffing of the Internal Audit at Public Sector Entities at Central and Local Level

In line with the records of the Central Harmonization Unit, as of 2019 inclusive, 90 internal audit units⁵ have been established at public sector entities at central level, having employed 133 internal auditors, 50 out of whom (around 38%) are heads. In 2019 compared to the previous year, the number of internal auditors at central level decreased by 9, 5 out of whom are heads.

As for budget users at **local level**, as of 2019 inclusive, 73 internal audit units have been established⁶, employing 68 internal auditors, 19 out of whom (around 28%) are heads. In 2019 compared to the previous year, the number of internal auditors at local level decreased by 8, 4 out of whom are heads.

Having in mind the afore-mentioned, it can be concluded that the number of internal auditors at central and local level decreased by 17 (9.2%) in 2019 compared to the previous year. This tendency is expected to continue in the next years as well, mostly due to the age structure of internal auditors and the fulfillment of retirement requirements (around 10%-15%).

This will contribute to significant reduction of the number of internal auditors in the public sector, which average number of auditors at central level is 1.48 auditors per internal audit unit (1.61 in 2018), while this average is 0.93 at local level (1.07 in 2018).

Therefore, a need arises for increasing the number of internal auditors and merging the internal audit units by changing the criteria for their establishment.

21 public sector entities at central level and 20 municipalities concluded agreement for performing internal audit with internal audit unit from another entity, which competed to the previous year is a decrease by 1 agreement at central and 5 at local level.

3.1.2 Organization and Staffing of the Internal Audit at Budget Users at Central and Local Level

Out of 80 budget users at **central level**, having established internal audit function, 63 (around 79%) have established their own internal audit unit, 15 (around 19%) have concluded agreement, while 2 (around 2%) have at the same time established their own internal audit unit and have concluded the respective agreement.

Out of the total established 65 internal audit units, 20 (around 30.8%) are not staffed, 23 (around 35.4%) are staffed with one internal auditor each, while 22 (33.8%) are staffed with

⁵ <https://finance.gov.mk/node/564>

⁶ <https://finance.gov.mk/node/564>

two and more auditors. The remaining 15 budget users at central level not having established internal audit function, are 8 inspectorates, 4 commissions and 3 agencies.

Out of 77 budget users at **local level**, having established internal audit function, 57 (around 74%) have established their own internal audit unit, 10 (around 13%) have concluded agreement, while 10 (around 13%) have at the same time established their own internal audit unit and have concluded the respective agreement. Out of the total established 65 internal audit units, 30 (45%) are not staffed, 23 (37%) are staffed with one internal auditor each, while 12 (18%) are staffed with two and more auditors. The remaining municipalities (Staro Nagoricani, Studenicani, Aracinovo and Dolneni) have not established internal audit function.

Table 11: Review of First Line Budget Users, Funds and Municipalities, which Established Internal Audit Function

First line budget users, funds and municipalities	Total number of budget users (first line budget users, funds and municipalities)	Number of first line budget users, funds and municipalities having established internal audit function by 31 st December 2019				% of budget users, which established internal audit function by 31 st December 2019
		Internal audit unit	Agreement	Internal audit unit and agreement	Total	
Central level	95	63	15	2	80	84%
Local level	81	57	10	10	77	95%
Total	176	120	25	12	157	89 %

Internal audit function was also established in 35⁷ budget users established by law, holders of public authorizations and spending units (29 out of which at central and 6 at local level).

Table 12: Review of Budget Users Established by Law, which are Given Public Authorization and Spending Units which Established Internal Audit Function

Budget users established by law, being given public authorization and spending units	Total number of budget users established by law, being given public authorization and spending units for which CHU has records	Number of budget users established by law, being given public authorization and spending units, which established internal audit function by 31 st December 2019				% of budget users, which established internal audit function by 31 st December 2019
		Internal audit unit	Agreement	It has no internal audit unit, it has internal auditor	Total	
Central level	29	25	0	4	29	100
Local level	6	6	0		6	100
Total	35	31	0	4	35	100

⁷For which CHU has records

3.1.3 Implemented internal audit recommendations

For the purpose of enhancing the monitoring of the quality of the operations of the internal audit units as regards the implementation of the internal audit recommendations, the Central Harmonization Unit prepared "passport" indicator - "Percentage of implemented internal audit recommendations" in line with which, distinction of the given recommendations by deadlines and years for their implementation, was carried out.

In line with the submitted data, out of 50 internal audit units at central level and 32 internal audit units at local level, the percentage of implemented internal audit recommendations is 69%, 65.2% out of which are at central level and 72.9% are at local level.

3.2 Status of Internal Audit as per Submitted 2019 Annual Reports

The number of budget users being obliged to submit reports on carried out audits and internal audit activities was 175, out of which 94 at central and 81 at local level.

Out of total of 175 budget users, report was submitted by 111 entities (63%), i.e. 59 at central and 52 at local level.

In addition thereto, 4 public sector entities at central level and 1 at local level submitted report, although they were not obliged to submit it. Thus, the number of submitted reports at central level was 63, and 53 at local level.

Out of 175 budget users at central and local level, 37% or 60 entities (out of which 35 at central and 29 at local level) failed to submit reports.

By having in mind the afore-mentioned, it can be concluded that the percentage of budget users failing to submit report on the internal audit operations was 37% (35% in 2018), out of which: 13% (12% in 2018) are budget users having functional internal audit unit, but failing to submit annual report, 15% are budget users having established internal audit unit, however, not being functional given they have no auditors therein and 9% (8% in 2018) are budget users being obliged to establish internal audit function.

(Attachment 5: Review of Budget Users at Central and Local Level not having submitted Reports on Performed Audits and Internal Audit Activities)

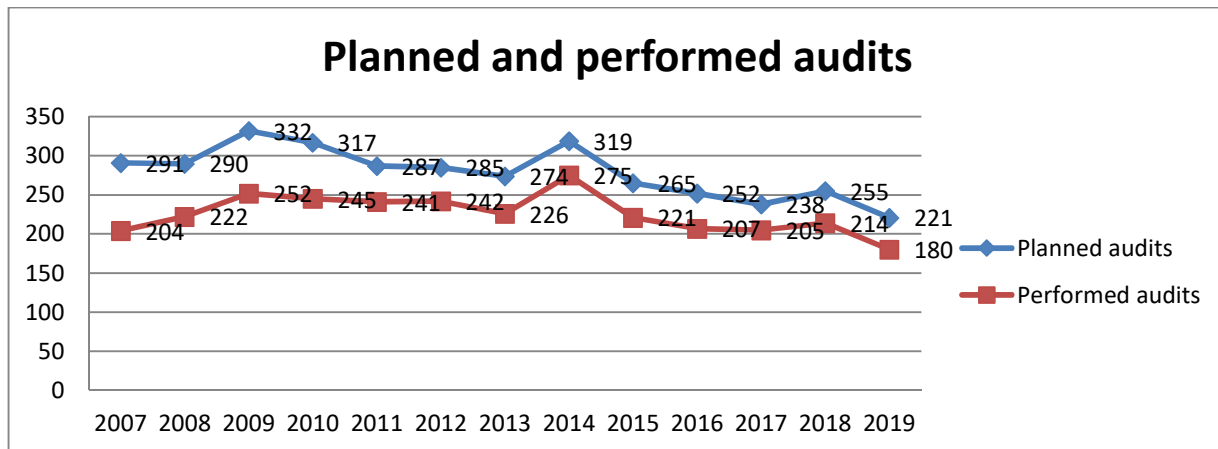
3.2.1 Status of Internal Audit at Central Level as per Submitted 2019 Annual Reports

Out of 63 budget users at central level which submitted reports, 48 have established internal audit units, with 259 working positions according to the Systematization Act, 95 being filled (107 in 2018), i.e. only around 36.7% (42% in 2018).

In line with the 2019 annual plans, 221 audits are planned to be carried out at central level (255 in 2018) (204 initially planned and 17 ad hoc audits upon request by the heads), 180 audits out of which (214 in 2018) have been carried out, i.e. around 81.4% (84% in 2018).

In 2019, 27 audits were initially planned (30 in 2018) related to the EU Programs and one ad-hoc audit, out of which 23 (26 in 2018) i.e. around 82% (87% in 2018) were carried out.

Planned and carried out audits by year are shown below:



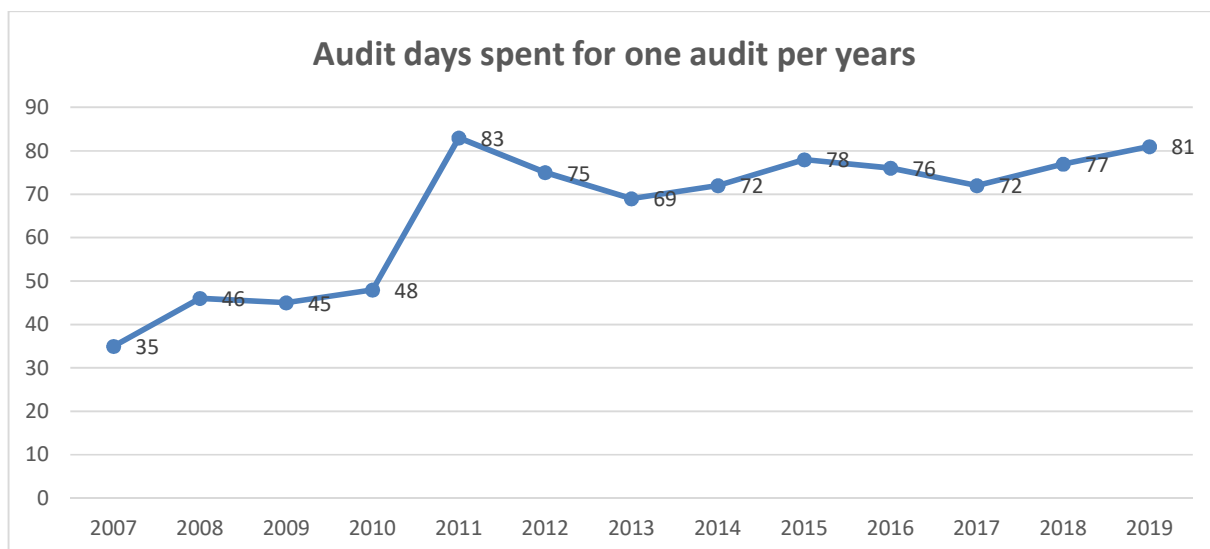
Out of the 180 carried out audits,

- 26.1% (47) are systemic audits,
- around 34% (61) are regularity audits,
- around 3.3% (6) are financial audits,
- around 2.2% (4) are performance audits,
- around 11.1% (20) are audits for monitoring the recommendations,
- around 22.2% (40) are combined audits and
- around 1.1% (2) IT audits.

In 2019, 925 recommendations were given for the performed audits, 692 out of which have a deadline to be implemented in 2019, whereby 399 have been realized. Out of 2,077 recommendations under the reports from the previous years, 1,432 recommendations⁸ were realized in 2019. In line with these data, in 2019, 66.1% of the recommendations (52% in 2018) were realized, while 33.9% were not realized (48% in 2018).

Internal Audit Units at central level carried out 180 audits in 2019, (214 in 2018), 14,658 audit days being spent therefore (16, 473 in 2018), i.e. 81 audit days (77 in 2018) on average, being by 4 days more compared to the previous year (5 in 2018).

⁸As for 282 recommendations from previous years and 233 from 2019, the deadline for their implementation has not still expired.



3.2.2 Status of Internal Audit at Local Level as per Submitted 2019 Annual Reports

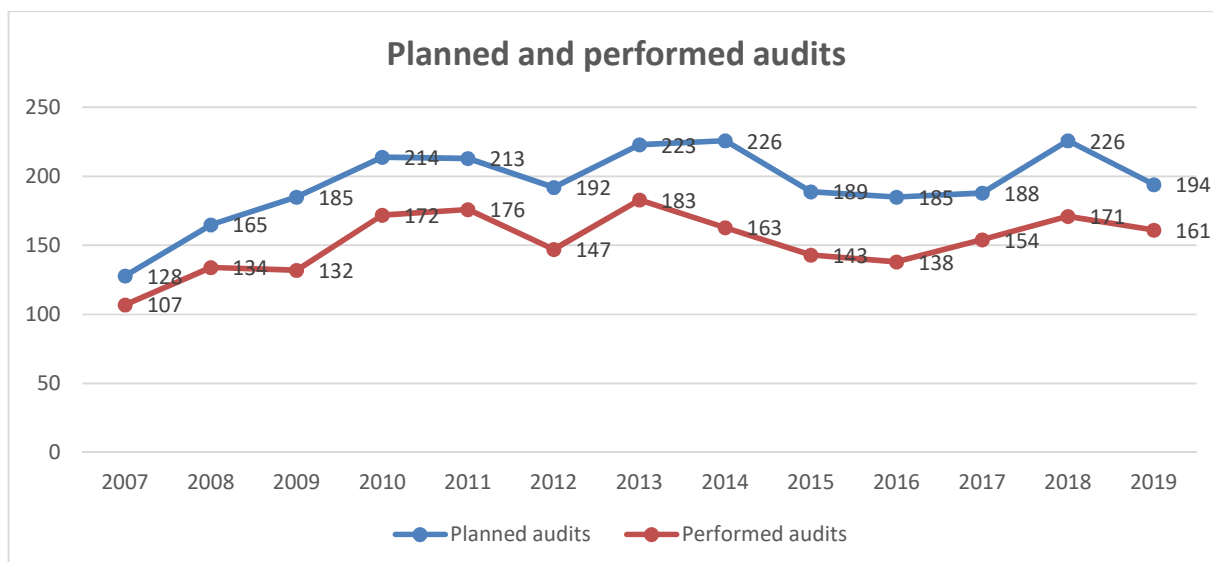
Out of 81 entity at local level, being obliged to submit report on performed audits and internal audit activities at local level, 52 municipalities (54 in 2018) submitted the respective reports (54 in 2018). In addition, one public sector entity at local level submitted report, although not being obliged to submit it, by which the number of submitted reports is 53.

Out of the 53 entities at local level which submitted reports, 40 have established internal audit units (42 in 2018) with 126 working positions according to the Systematization Act (140 in 2018), 58 of which being filled, accounting for only around 46%.

In line with the 2019 annual plans, 194 audits are planned to be carried out at local level (226 in 2018) (184 initially planned and 10 ad hoc audits upon request by the heads), 161 audits out of which (171 in 2018), i.e. around 83% (76% in 2018) were carried out.

No audits as regards EU Programs were planned or performed in 2019, although 17 municipalities (14 in 2018) reported they used EU funds.

Planned and carried out audits by year are shown below:



Out of the 161 carried out audits,

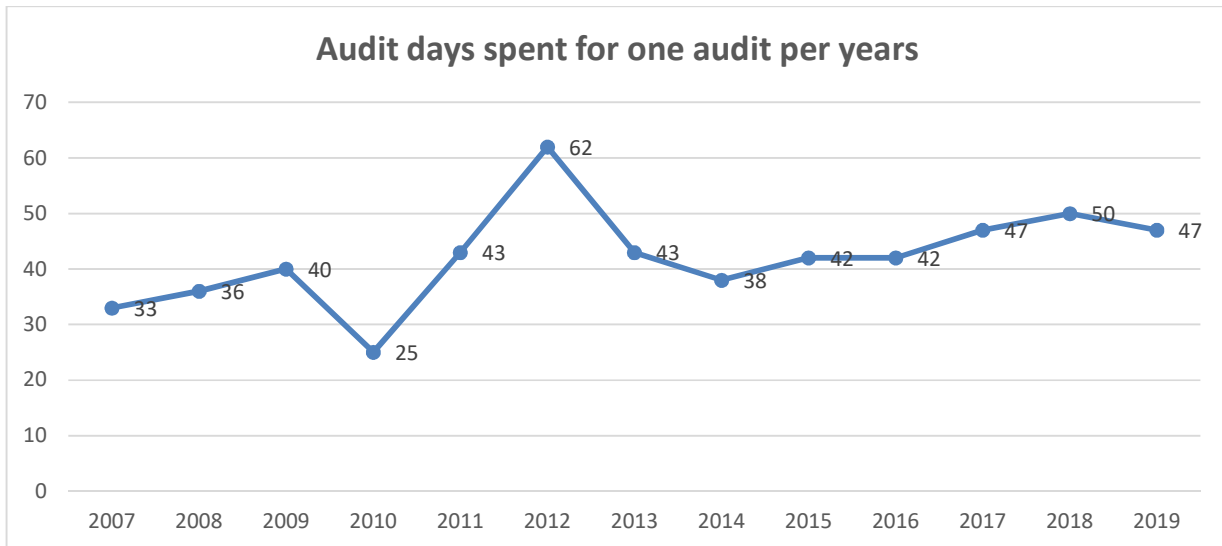
- around 22.3% (36) are systemic audits,
- around 44.7% (72) are regularity audits,
- 2.4% (4) are performance audits,
- around 12.4% (20) are financial audits,
- around 3.1% (5) are audits for monitoring the recommendations,
- around 14.2% (23) are combined audits and
- 0.6% (1) IT audits

In 2019, 990 recommendations were given for the performed audits, 740 out of which have a deadline to be implemented in 2019, whereby 393 have been realized. Out of 1,045 recommendations under the reports from the previous years, 639 recommendations⁹ were realized in 2019. In line with these data, in 2019, 57.8% of the recommendations (62% in 2018) were realized, while 42.2% were not realized (38% in 2018).

Internal Audit Units at local level carried out 161 audits in 2019, 7,939 audit days (8,549 in 2018) being spent therefore, i.e. 47 audit days on average (50 in 2018).

Number of audit days spent for a single audit by year is presented in the chart below:

⁹As for 282 recommendations from previous years and 233 from 2019, the deadline for their implementation has not still expired.



Progress Achieved in Internal Audit in 2019 compared to the previous year

CENTRAL LEVEL	LOCAL LEVEL
<p>Data in submitted annual reports on internal audit functioning and records at the Central Harmonization Unit in 2019, compared to the previous year, lead to the following conclusion:</p> <ul style="list-style-type: none"> • number of established internal audit units increased by 2.2% (from 88 to 90); • Decrease in the percentage of ad hoc audits upon request by Heads of entities by 1.3 percentage points (from 10.7% to 9.4 out of the total carried out audits form which final audit reports were produced); • increased number of performed audits by one audit (from 3 to 4) • In 2019, 2 IT audits were performed, unlike 2018 when no audit was performed; • increased number of performed combined audits by 43% (from 28 to 40). 	<p>Data in submitted annual reports on internal audit functioning and records at the Central Harmonization Unit in 2019 lead to the following conclusion:</p> <ul style="list-style-type: none"> • number of established internal audit units increased by 2.8% (from 71 to 73); • increased number of performed internal control system-based audits by 57% (from 23 to 36); • 1 IT audit was preformed, no audit was performed in the previous year; • reduced number of audit days spent on average by 6% (from 50 to 47) and • reduced number of performed ad hoc audits upon request by the Head from 32 to 10;

Weaknesses Detected in Internal Audit in 2019 compared to the previous year

CENTRAL LEVEL	LOCAL LEVEL
<p>Following weaknesses were detected in implementing and functioning of internal audit at central level in 2019:</p> <ul style="list-style-type: none"> • reduced number of Heads by 9% (from 55 to 50); • reduced number of carried out audits by 15.9% (from 214 to 180); • reduced number of given recommendations by 19.5% (from 1149 to 925); 	<p>Following weaknesses were detected in establishing and functioning of internal audit at local level in 2019:</p> <ul style="list-style-type: none"> • reduced number of internal auditors by 10.5% (from 76 to 68); • reduced number of Heads by 17.4% (from 23 to 19); • reduced number of internal audits by 5.8% (from 171 to 161); • decreased number of performed compliance audits by 8.9% (from 79 to 72);

<ul style="list-style-type: none"> • reduced number of internal auditors by 6.3% (from 142 to 133); • reduced number of initially planned audits by 12% (from 232 to 204); • increased number of audit days spent on average for performing an audit by 5.2% (from 77 to 81); and • internal auditors in 7 public sector entities at central level¹⁰ did not solely perform internal audit activities. • reduced number of carried out financial audits by 1.8 percentage points (from 5.15 to 3.3%); • decreased number of performed compliance audits by 32% (from 90 to 61); 	<ul style="list-style-type: none"> • reduced number of performed financial audits by 13% (from 23 to 20); • reduced number of carried out performance audits by 43% (from 7 to 4); • reduced number of given recommendations by 4% (from 1028 to 990) and • reduced number of performed combined audits by 25% (from 31 to 23); • reduced number of performed Follow up audits by 37% (from 8 to 5) and • internal auditors in 3 local government units¹¹ did not solely perform internal audit activities.
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¹⁰ Ombudsman, State Archives of the Republic of North Macedonia, Ministry of Health, Ministry of Culture, Ministry of Information Society and Administration, Agency for Financial Support in Agriculture and Rural Development and State Appeals Commission.

¹¹ LGUs Gostivar, LGUs Berovo and LGUs Struga

4. CENTRAL HARMONIZATION UNIT

4.1 Activities Realized by the Central Harmonization Unit in 2019

In March 2019, the Government of the Republic of North Macedonia adopted the "Public Internal Financial Control Policy Paper" (with 2019-2021 Action Plan), as a strategic document for further development of the internal financial control system in the public sector.

This document determines the priorities, the measures and the activities for further development of the internal financial control system, by which responsible, accountable, successful and transparent management of the budget funds and the EU funds, will be provided.

This document combines the measures related to the internal financial control in the public sector and the activities included in the 2019-2022 Public Administration Reform Strategy and the 2019-2021 Public Financial Management Reform Program, envisaging new measures, for the purpose of further enhancement of the internal financial control in the public sector, in the following areas: strategic planning and the planning of resources, managerial accountability, risk management, control activities, reporting, communication and monitoring, internal audit and financial inspection.

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

In line with the Action Plan of the 2019-2021 Public Financial Management Reform Program, and in cooperation with the Twinning Light Project:

- Draft Law on Internal Financial Control System in the Public Sector was prepared;
- new manuals and guidelines for practical implementation of the financial management and control (FMC) and internal audit (IA) were prepared;
- pilot internal audits were performed in three budgetary organizations;
- new methodology for monitoring and checking the quality of the determined financial management and control system and the internal audit, was also prepared.
- draft programs for continuous training of the employees related to FMC and IA were prepared and
- trainings for the FMC -related employees, as well as the internal auditors at central and local level were organized, being attended by 528 participants.

Under the Dutch bilateral support and the National Academy for Finance and Economics, the implementation of the Action Plan of the "Internal Financial Control Policy in the Public Sector" was launched, by implementing the Measure 4.1: Identification of weaknesses in the key control activities in one pilot institution and the Activity 4.1.1 : Carrying out an assessment of the control activities in achieving the goals, preventing fraud and corruption

in public procurement and preventing further debt creation, by carrying out an assessment of the key control activities in the Ministry of Labor and Social Policy.

During the first working meeting of the working group, which was held on 8th October 2019, the criteria and the questionnaire about the assessment of the key control activities, were discussed. During the second working meeting, being held on 7th November 2019, the replies to the questionnaire were presented, pertaining to the control activities in achieving the goals, preventing fraud and corruption in public procurement and preventing further debt creation. As for the third working meeting, being held on 17th December 2019, the replies to the additional questions were presented, being related to preparing a draft report from the self-assessment, which was considered on 21st January 2020.

4.1.1 Activities of the Committee for Monitoring the Implementation of PIFC Policy Paper

On 21st May 2019, minister of finance adopted decision on establishing Committee for Monitoring the Implementation of PIFC Policy Paper. The purpose of this Committee is providing for full implementation of PIFC Policy Paper (with 2019-2021 Action Plan). The Committee meets at least once in six months, so as to consider the progress in the implementing the PIFC Policy Paper

Members of the Committee for Monitoring the Implementation of PIFC Policy Paper are representatives of the General Secretariat of the Government, the Ministry of the Information Society and Administration and the Ministry of Finance, PIFC Department. The Committee held its first meeting on 15th July 2019, wherein the Report on the Progress in the Implementation of PIFC Policy Paper (with 2019-2021 Action Plan) was approved, pertaining to the March-June 2019 period. This Report was considered at the session of the PFM Council held on 4th November 2019.

4.1.2. Activities related to Chapter 32 - Financial Control

Government of the Republic of North Macedonia is regularly informed on the status and the realization of the measures and the activities under Chapter 32 - Financial Control through the Secretariat for European Affairs, while the progress achieved therein is presented at the meeting of the Sub-Committee on Economic and Financial Affairs and Statistics held on 2nd October 2019 in Skopje.

5. CONCLUSIONS

Taking into account the pandemic caused by COVID 19, in 2020, activities for which there is possibility to be realized on line, through video conference, will be carried out, under the:

1. Action Plan of the 2018-20202 Public Financial Management Program for Priority 6: Internal Control and
2. 2019-2021 Action Plan of the Internal Financial Control Policy in the Public Sector.

The realization of the action plans will be carried out within the Twinning Project “Strengthening Budget Planning, Execution and Internal Control Functions”, which realization started at the beginning of February 2020, and which will be completed in 2023.

As per the above-mentioned, Ministry of Finance proposes for the Government of the Republic of North Macedonia to consider the 2019 Annual Report on Functioning of Public Internal Financial Control System and to adopt the following:

CONCLUSION

Government of the Republic of North Macedonia considered and adopted the 2019 Annual Report on Functioning of Public Internal Financial Control System as a material for information purposes.

ATTACHMENTS

Review
of Opinions Expressed by the State Audit Office, Related to the Financial Reports and the
Harmonization with the Laws and the Regulations in 2019

No.	Type of opinion	Audit of the financial reports (%)	Compliance audit with the laws and the regulations (%)
1.	without reservations (positive)	32	26
2.	with reservations	27	34
3.	Unfavorable	27	35
4.	Abstention from giving opinion	14	5
5.	Total	100	100

Review
of Opinions Expressed Opinions by the State Audit Office, Related to the 2019 Financial Reports
(without Political Parties)

No.	Without reservations (positive)	Without reservations (positive)	with reservations	Unfavorable	Abstention from expressing an opinion
1.	Funds	1	1	-	2
2.	Users of funds of the Health Insurance Fund of the Republic of North Macedonia	2	4	7	1
3.	Users of the Central Budget funds	14	7	2	1
4.	Central Budget Spending Units	0	1	5	5
5.	Budgets of LGUs	4	4	0	0
6.	Other legal entities	1	1	3	1
	Total (71)	20	16	20	11
	% (100)	28.1	22.5	28.1	15.5

Review
of Opinions Expressed by the State Audit Office, Related to Harmonization with the Laws and the
Regulations in 2019 (without Political Parties)

No.	Without reservations (positive)	Without reservations (positive)	With reservations	Unfavorable	Abstention from expressing an opinion
1.	Funds	0	2	0	2
2.	Users of funds of the Health Insurance Fund of the Republic of North Macedonia	2	4	8	0
3.	Users of the Central Budget funds	12	9	3	0
4.	Central Budget Spending Units	0	2	8	1
5.	Budgets of LGUs	2	0	4	0
6.	Other legal entities	0	3	3	0
	Total (65)	16	20	26	3
	% (100)	24.3	30.7	40	4.6

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

No.	Name of Institution
1,	State Election Commission
2,	Commission for Protection against Discrimination
3,	Secretariat for European Affairs
4,	Bureau for Representation of Republic of North Macedonia before the European Court of Human Rights
5,	Ministry of Foreign Affairs
6,	State Foreign Exchange Inspectorate
7,	State Bureau for Protection of Industrial Property
8,	State Environmental Inspectorate
9,	State Transport Inspectorate
10,	State Utilities Inspectorate
11,	State Labor Inspectorate
12,	Ministry of Health
13,	State Local Government Inspectorate
14,	Emigration Agency
15,	Public Prosecutor's Office of Republic of North Macedonia

No.	Local Government Unit	No.	Local Government Unit	No.	Local Government Unit
1.	Bogdanci	7.	Zelino	13.	Rankovce
2.	Butel	8.	Kicevo	14.	Rosoman
3.	Vasilevo	9.	Konce	15.	Staro Nagoricane
4.	Vrapciste	10.	Lipkovo	16.	Studenicani
5.	Demir Kapija	11.	Mavrovo and Rostuse	17.	Tearce
6.	Dojran	12.	Petrovec	18.	Cair

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

No.	Name of Institution
1.	State Election Commission
2.	Commission for Protection of Competition
3.	Regulatory Housing Commission
4.	Commission for Protection against Discrimination
5.	Operational - Technical Agency
6.	Constitutional Court of the Republic of North Macedonia
7.	Common Service Agency
8.	Ministry of Political System and Inter-Community Relations
9.	Agency for Management of Confiscated Property
10.	Agency for the Use of Languages
11.	Ministry of Defense
12.	Protection and Rescue Directorate
13.	National Security Agency
14.	Vital Records Office
15.	Inspectorate for the Use of Languages
16.	State Foreign Exchange Inspectorate
17.	Directorate for Technological Industrial Development Zones
18.	State Market Inspectorate
19.	Ministry of Environment and Physical Planning and Waters
20.	State Environmental Inspectorate
21.	State Utilities Inspectorate
22.	Agency for Financial Support of Agriculture and Rural Development
23.	State Sanitary and Health Inspectorate
24.	State Local Government Inspectorate
25.	Emigration Agency
26.	State Archives of Republic of North Macedonia
27.	Macedonian Academy of Science and Arts
28.	Regional Development Bureau
29.	Judicial Council of Republic of North Macedonia
30.	Public Prosecutor's Office of Republic of North Macedonia

No.	Local Government Unit	No.	Local Government Unit	No.	Local Government Unit
1.	Aracinovo	16.	Dolneni	31.	Novo Selo
2.	Bogdanci	17.	Zelino	32.	Pehcevo
3.	Bogovinje	18.	Zelenikovo	33.	Plasnica
4.	Bosilovo	19.	Zrnovci	34.	Radovis
5.	Brvenica	20.	Kavadarci	35.	Rankovce

6.	Vasilevo	21.	Kisela Voda	36.	Rosoman
7.	Vrapciste	22.	Kicevo	37.	Saraj
8.	Gevgelija	23.	Konce	38.	Sveti Nikole
9.	Gradsko	24.	Lipkovo	39.	Sopiste
10.	Debar	25.	Lozovo	40.	Staro Nagoricane
11.	Debarca	26.	Mavrovo and Rostuse	41.	Studenicani
12.	Delcevo	27.	Makedonska Kamenica	42.	Tearce
13.	Demir Kapija	28.	Mogila	43.	Tetovo
14.	Demir Hisar	29.	Negotino	44.	Cair
15.	Dojran	30.	Novaci	45.	Caska

Attachment 4

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

No.	Name of Institution
1.	Cabinet of the President of Republic of North Macedonia
2.	State Audit Office
3.	State Election Commission
4.	Commission for Protection of Competition
5.	Regulatory Housing Commission
6.	Commission for Protection against Discrimination
7.	State Commission on Second Instance Decision Making in the field of Inspection Supervision and Misdemeanor Procedure
8.	Operational -Technical Agency
9.	Constitutional Court of the Republic of North Macedonia
10.	General Secretariat of the Government of Republic of North Macedonia
11.	Common Service Agency
12.	Ministry of Political System and Inter-Community Relations
13.	Agency for Management of Confiscated Property
14.	Agency for the Use of Languages
15.	Ministry of Defense
16.	Protection and Rescue Directorate
17.	Ministry of Internal Affairs
18.	National Security Agency
19.	Vital Records Office
20.	Inspectorate for the Use of Languages
21.	Financial Police Office
22.	State Foreign Exchange Inspectorate

23.	Agency for Foreign Investments and Export Promotion of Republic of North Macedonia
24.	Directorate for Technological Industrial Development Zones
25.	State Market Inspectorate
26.	State Inspectorate for Technical Inspection
27.	State Bureau for Protection of Industrial Property
28.	Ministry of Environment and Physical Planning and Waters
29.	State Environmental Inspectorate
30.	State Transport Inspectorate
31.	State Utilities Inspectorate
32.	State Labor Inspectorate
33.	Bureau for Education Development
34.	State Sanitary and Health Inspectorate
35.	State Local Government Inspectorate
36.	Emigration Agency
37.	Commission for Relations with Religious Communities and Religious Groups
38.	State Archives of Republic of North Macedonia
39.	Academy of Science and Arts of the Republic of North Macedonia
40.	Regional Development Bureau
41.	Judicial Council of Republic of North Macedonia
42.	Public Prosecutor's Office of Republic of North Macedonia
43.	Employment Agency of Republic of North Macedonia

No.	Local Government Unit	No.	Local Government Unit	No.	Local Government Unit
1.	Aracinovo	18.	Dolneni	35.	Petrovec
2.	Bitola	19.	Zelino	36.	Pehcevo
3.	Bogdanci	20.	Zelenikovo	37.	Plasnica
4.	Bogovinje	21.	Zrnovci	38.	Radovis
5.	Bosilovo	22.	Kavadarci	39.	Rankovce
6.	Brvenica	23.	Kisela Voda	40.	Rosoman
7.	Vasilevo	24.	Kicevo	41.	Saraj
8.	Vinica	25.	Konce	42.	Sveti Nikole
9.	Vrapciste	26.	Kriva Palanka	43.	Sopiste
10.	Gevgelija	27.	Lipkovo	44.	Staro Nagoricane
11.	Gradsko	28.	Lozovo	45.	Struga
12.	Debar	29.	Mavrovo and Rostuse	46.	Studenicani
13.	Debarca	30.	Makedonska Kamenica	47.	Tearce
14.	Delcevo	31.	Mogila	48.	Tetovo
15.	Demir Kapija	32.	Negotino	49.	Caska
16.	Demir Hisar	33.	Novaci	50.	Stip
17.	Dojran	34.	Novo Selo		/

Review of
Budget Users at Central and Local Level not having submitted Reports on Performed
Audits and Internal Audit Activities

No.	Name of Institution
1.	Cabinet of the President of Republic of North Macedonia
2.	State Election Commission
3.	Commission for Protection of Competition
4.	Personal Data Protection Agency ¹²
5.	Regulatory Housing Commission
6.	Commission for Protection against Discrimination
7.	State Commission on Second Instance Decision Making related to Administrative Procedure arising from Labor Relations ¹³
8.	Operational -Technical Agency ¹⁴
9.	Legislative Secretariat ¹⁵
10.	Secretariat for European Affairs
11.	Secretariat for Implementation of Ohrid Agreement
12.	Agency for Exercising the Communities' Rights
13.	Agency for the Use of Languages ¹⁶
14.	Crisis Management Center
15.	Sanctions Enforcement Office
16.	Vital Records Office
17.	Bureau for Representation of Republic of North Macedonia before the European Court of Human Rights ¹⁷
18.	Inspectorate for the Use of Languages
19.	State Foreign Exchange Inspectorate
20.	Ministry of Economy ¹⁸
21.	Agency for Foreign Investments and Export Promotion of Republic of North Macedonia
22.	Agency for Tourism Promotion and Support
23.	Directorate for Technological Industrial Development Zones ¹⁹
24.	State Inspectorate for Technical Inspection
25.	State Environmental Inspectorate
26.	State Transport Inspectorate
27.	State Inspectorate on Civil Engineering and Urbanism ²⁰
28.	State Utilities Inspectorate

¹² No Annual Report on Internal Audit was submitted, although they concluded Agreement for Performing Internal Audit with the Ministry of Justice

¹³ Notification that no internal audit function was established despite the several attempts for concluding agreement for performing the internal audit function with another entity

¹⁴ Notification that no internal audit function was established, however, in 2020, positive opinion was obtained, pertaining to the performing the internal audit function by the Internal Audit Unit of the Intelligence Agency.

¹⁵ Notification that even though they have signed Agreement for Performing Internal Audit with the Ministry of Justice, audit has been planned, however it was not performed and no Annual Report was prepared

¹⁶ Notification that there is no employed person in the Internal Audit Unit, there is no filled in form for Internal Audit Annual Report, although being contained in the Statement by the Head of the Entity

¹⁷ Notification that they have signed Agreement for Performing Internal Audit with the Ministry of Justice

¹⁸ Notification that the IAU is not able to submit Internal Audit Annual Report due to understaffing

¹⁹ Notification that IAU was established, has been submitted, however it is understaffed and no filled in form for Annual Report was submitted

²⁰ What is indicated in the letter is that no internal audit function was established, and therefore, empty written report was submitted, whereby the statement also refers to IA

29.	State Labor Inspectorate ²¹
30.	Bureau for Education Development
31.	State Administrative Inspectorate
32.	State, Sanitary and Health Inspectorate
33.	State Local Government Inspectorate
34.	Emigration Agency
35.	Public Prosecutor's Office of Republic of North Macedonia ²²

No.	Institution
1.	Dolneni Municipality
2.	Gazi Baba Municipality ²³
3.	Radovis Municipality ²⁴
4.	Stip Municipality ²⁵
5.	Kicevo Municipality
6.	Aracinovo Municipality
7.	Bogdanci Municipality
8.	Bosilovo Municipality
9.	Vasilevo Municipality ²⁶
10.	Gevgelija Municipality
11.	Debarca Municipality
12.	Demir Kapija Municipality
13.	Karpos Municipality ²⁷
14.	Konce Municipality
15.	Lipkovo Municipality
16.	Mavrovo and Rostuse Municipality
17.	Negotino Municipality ²⁸
18.	Novo Selo Municipality
19.	Petrovec Municipality
20.	Plasnica Municipality
21.	Rankovce Municipality
22.	Saraj Municipality ²⁹
23.	Sopiste Municipality ³⁰
24.	Staro Nagoricane Municipality
25.	Studenicani Municipality
26.	Tearce Municipality
27.	Dojran Municipality
28.	Cair Municipality ³¹
29.	Gorce Petrov Municipality

²¹ Notification that no internal audit function was established

²² Notification that no Annual Report on Performed Audits and Internal Audit Activities was submitted due to understaffing.

²³ As for the telephone conversation, it was reported that Annual Report had been prepared, however, due to the COVID 19 measures, they failed to sign and submit it.

²⁴ Unit with 2 employees, out of which the Head of the Unit is on maternity leave

²⁵ Unit with 1 employee, who, according to the information from the telephone conversation, is on maternity leave

²⁶ Notification that they have no internal auditor

²⁷ Notification that they have no internal auditor and that they will not submit the respective report

²⁸ Notification that they have no internal auditor and that they are not in the position to submit the respective report

²⁹ Agreement with Cair Municipality, previous internal audit report was submitted, Statement on Credibility of the Data was not submitted neither a Form was submitted (Attachment 5)

³⁰ Agreement with Kisela Voda Municipality

³¹ The Head of the Unit is on job leave