

# 2021

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**Ministria e Financave**

**ANNUAL REPORT  
ON THE FUNCTIONING OF THE 2021 PUBLIC INTERNAL FINANCIAL CONTROL SYSTEM**

**Skopje, July 2022**

# CONTENTS

## SUMMARY.

### 1. INTRODUCTION

- 1.1. Legal basis for the preparation of the Annual Report
- 1.2 Purpose of the Annual Report
- 1.3 Basis for Preparation and Scope of the Annual Report
- 1.4 Submitted 2021 Annual Financial Reports

### 2. STATE OF PLAY OF THE INTERNAL FINANCIAL CONTROL SYSTEM IN 2021

#### 2.1 ANALYSIS OF THE QUESTIONNAIRE FOR SELF-ASSESSMENT OF FINANCIAL MANAGEMENT AND CONTROL

- A. CONTROL ENVIRONMENT
- B. RISK MANAGEMENT
- B. CONTROLS
- D. INFORMATION AND COMMUNICATIONS
- E. MONITORING AND ASSESSMENT OF THE SYSTEM

### 3. REPORT ON PERFORMED AUDITS AND INTERNAL AUDIT ACTIVITIES IN 2021

- 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
  - 3.1.2 Organization and Staffing of the Internal Audit at Budget Users at Central and Local Level
  - 3.1.2 Organization and Staffing of the Internal Audit in the Ministries
- 3.2 Status of Internal Audit as per Submitted 2021 Annual Reports
  - 3.2.1 Status of Internal Audit at Central Level as per Submitted 2021 Annual Reports
  - 3.2.2 Status of Internal Audit at Local Level as per Submitted 2021 Annual Reports

### 4. CENTRAL HARMONIZATION UNIT

- 4.1 Activities Realized by the Central Harmonization Unit in 2021
  - 4.1.1 Activities related to Chapter 32 - Financial Control
- 4.2 Reporting on government conclusions pertaining to the 20220 Annual Report on the Functioning of the Public Internal Financial Control System

## CONCLUSIONS

## ATTACHMENTS

1. *Review of Budget Users at Central and Local Level not having submitted Annual Financial Report*
2. *Review of Budget Users at Central and Local Level not having Adopted Risk Management Strategy*
3. *Review of Budget Users at Central and Local level not having prepared Risk Registry Document*
4. *Review of Budget Users at Central and Local Level not having submitted Reports on Performed Audits and Internal Audit Activities*

## SUMMARY

Annual Report on the functioning of the public internal financial control system showed 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 was prepared on the basis of the 2021 annual financial reports submitted by the budget users at central and local level and the records of the Central Harmonization Unit.

Obligation for submitting the 2021 Annual Financial Report was met by 89% of the budget users at central level and 82% of the budget users at local level, being a decrease by 3 percentage points at central level and 5 p.p. increase at local level compared to the previous year.

Analysis of the data from the submitted self-assessments indicated that the employees in 92% of the budget users at central and local level were familiar with the Code of Ethics for Civil Servants or the special code of the budget user, however, there were difficulties in reporting and preventing potential conflict of interests.

Management and management style of the budget users was at a high professional level, high-level meetings were held on regular basis (these regular collegiums were held in 91.4% of the institutions), whereby they regularly covered topics related to financial management and control (achievement of strategic goals, implementation of programs and projects, degree of achieved results, key operational risks and realization of the financial plan/budget execution).

Analysis of the data from the submitted self-assessments showed that, although 67% of the budget users at central level and 53% of the municipalities and the City of Skopje allocated the respective budgets by organizational units, only 48% of the heads of the organizational units in the budget users at central level and 33% of the municipalities and the City of Skopje had general authorizations for assuming liabilities, pointing out to insufficiently determined clear lines of responsibility and accountability of the heads thereof.

At central level, around 71% of budget users adopted Risk Management Strategy, around 71% of the budget users recorded the risks in the operations in the risk registries, while around 66% recorded the respective risks in their planning documents. At central level, approximately 46% of budget users adopted Risk Management Strategy, around 33% of the budget users recorded the operational risks in the risk registries, while around 36% recorded the respective risks in their planning documents.

It was necessary to improve the documentation of risks in the risk register, as well as the system for reporting the identified risks and implementation of measures to reduce them in a way that the responsible person of the institution would receive timely information on the most significant risks of the institution and the institutions under its competence.

When identifying the risks, the various forms of fraud were still not considered, such as forgery of documents, providing false information about the financial status and the success in meeting the set goals, fictitious contracts and invoices, bribery and similar.

Out of total 177 budget users at central and local level, 104 budget users submitted report on performed audits and internal audit activities (58.8%, being by 2.3 percentage points less compared to the previous year), i.e. 57 budget users at central (59.4%) and 47 budget users (58%) at local level.

Data analysis showed that total number of internal auditors at central and local level increased by 4 (2.8%) in 2021, while the number of heads reduced by 4 (6.3%) compared to the previous year.

In 2021, average number of auditors at central level was 1.45 auditors per internal audit unit, amounting to around 1 on average at local level.

In 2021, percentage of implemented internal audit recommendations at central and local level increased by approximately one percentage point, compared to the previous year, accounting for around 60%, i.e. 60.3% recommendations were implemented at central level with 59.2% being implemented at local level.

For the purpose of overcoming the identified weaknesses in this report, conclusions were given, for further acting thereupon, with the implementation being monitored by the Ministry of Finance - Public internal Financial Control Department.

## **1. INTRODUCTION**

Public internal Financial Control Department within the Ministry of Finance, as Central Harmonization Unit (CHU), is an organizational unit responsible for harmonization of the activities aimed at development of the internal financial controls system in the public sector. Pursuant to the Law on Public Internal Financial Control<sup>1</sup>, CHU is in charge of preparing Annual Report on the Functioning of Public Internal Financial Control System.

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

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

Due its complexity, 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 audit activities.

On the basis of the above-mentioned, the degree of development of the internal financial control system in 2021 was observed, whereby the Annual Report also included 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 the Performed Audits and the 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 system.

### **1.2. Purpose of the Annual Report**

Annual Report was 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 2021, as well as determine activities for further development of the financial management and control and the internal audit.

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<sup>1</sup>“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

2021 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 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 contracts,
- annual statements or consolidated annual statement, and
- Report on carried out self-assessment

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

### 1.4 Submitted 2021 Annual Financial Reports

Total number of the budget users obliged to submit annual financial report in 2021 was 177, 96 out of which were at central and 81 were at local level (municipalities and the City of Skopje).

In 2021, 85 budget users at central level submitted annual financial report, being an increase by 3 percentage points compared to the previous year, while 66 local government units submitted annual financial report, increasing by 5 percentage points compared to the previous year.

*Table 1. Review of the number budget users being obliged to submit 2020 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		Increase/d ecrease (percentage points)
				2020	2021	2019-2020
Central level	96	85	11	8%	11%	-3
Local level	81	66	15	23%	18%	5
Total	177	151	26	15%	15%	0

*(Attachment 1. Review of Budget Users at Central and Local Level failing to submit Annual Financial Report).*

## 2. STATE OF PLAY OF THE INTERNAL FINANCIAL CONTROL SYSTEM IN 2021

### 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 systems was 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 indicated that employed persons in around 92% of the budget users at central and local level, were familiar with Code of Ethics for Civil Servants. However, there was still a small number of public sector organizations, having their own special Code of Ethics, which was published on the website of the respective institution, whereby the employees were familiar with the Code of Ethics and the ethical values of the institution.

There is still a simplistic view in public sector organizations that decisions are regulated either by law or by free will. This leads to wrongful assumption that if something is legal it must be ethical, thereby not recognizing the field of Ethics. As a result, disagreements and **ethical dilemmas** often arise, and good and bad cannot be clearly identified and determined.

The code of ethics in practice should help employees to start thinking about ethical issues before facing them, as well as allow them to refuse to perform unethical activities, i.e. to define the boundaries between acceptable and unacceptable conduct. In addition, the code of ethics and the instructions for its application should help in introducing and teaching the employees about ethical conduct, whereby the heads should clearly define what they consider as unethical conduct as a prevention of the risk from damaging the reputation of the respective institution.

Number of public sector organizations (approximately 36%), having identified situations of potential conflict of interest and measures for prevention of potential conflicts of interest was small, and also an ethics commissioner was appointed and the manner of handling reported cases of unethical conduct was not been determined, i.e. ethical structures were not been built in public sector institutions such as: **Ethics committees** as a group of employees, obliged to supervise the ethical conduct of the institution and manage the disputable cases and discipline those who make mistakes and the **Ethics Units**, operating as counseling centers, which help employees deal with day-to-day problems or issues and implement specialized training programs.

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

Ethics and Integrity	2021						2020	+/- 2021-2020
	Central level		Local level		Total			
	85 budget users		66 budget users		151 budget users		%	percentage points
	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	83	97.65	56	84.85	139	92	94.6	-2,55
Appointed person for ethics (ethics commissioner)	15	17.65	4	6.06	19	12.6	12.2	0.4
Existence of additional internal guidelines and or/instructions for conduct of the employees	50	58,82	27	40.91	77	50.9	51.3	-0.4
Existence of clear rules (internal acts) defining the status of potential conflict of interests and the manner of acting	36	42.35	18	27.27	54	35.8	35.8	0



## b) Governance and style of management

Analysis of the obtained data indicated the fact that the governance and the style of management at budget users was at a high professional level, with high-level meetings (collegiums) being held on a regular basis (these regular collegiums were held in 91.4% of the institutions) and regularly covering topics related to financial management and control (achievement of strategic goals, implementation of programs and projects, degree of achieved results, key operational risks and realization of the financial plan/budget execution).

Communication was established between heads and employees, so that employees were familiar with the work goals, results and impact/effects, which were expected, as well as with the manner in which their projects and activities contribute to achieving the work goals of the institution.

Regular communication was established between the highest levels of management and the other heads. Heads of the institutions in charge were not regularly informed about the work goals and the expected results and effects, as evident from the fact that participation of the heads of affiliated bodies at the high-level meetings, primarily in the ministries, was being reduced (by -3.2 percentage points). The similar case applied to the involvement of the second line budget users, as well as public enterprises and state-owned joint stock companies under their competence.

In 2021, discussions held at high-level meetings, pertained to the following: strategic goals at 88.1% of the institutions, implementation of programs/projects and achieved results at 90.1% of the institutions, key operational risks at 82.1% of the institutions and realization of the financial plan/budget execution.

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

Governance and style of management	2021						2020	+/- 2021-2020
	Central level		Local level		Total			
	85 budget users		66 budget users		151 budget users		%	percentage points
	Number	%	Number	%	Number	%		
High-level meetings (collegiums) were held on regular basis	82	96.47	56	84.85	138	91.4	91.9	-0,5
Topics discussed at the high-level meetings were the following:								
a) strategic goals	81	95.29	52	78.79	133	88.1	91.9	-3.8
b) implementation of programs/projects and achieved results	82	96.47	54	81.82	136	90.1	94.6	-4.5

c) key operational risks	75	88.24	49	74.24	124	82.1	86.5	-4.4
d) realization of the financial plan/budget execution	84	98.82	53	80.3	137	90.7	93.2	-2.5
Heads of the affiliated bodies of the budget users also took part in the high-level meetings	27	31.76	47	71.21	74	49	49.3	-0.3

### c) Planning approach to operating

Mission and vision of the institutions were identified and published on the website of the institutions, however, they were not being updated and improved, while the work goals of the institution were not defined as strategic, program and operational goals, according to which:

- the strategic goals were contained in the strategic planning documents, according to which definition, they were specific, measurable and time-bound, with established indicators of results and impact/effects.
- the objectives of the programs were contained in the explanation of the programs determined by the budget, i.e. the financial plan, including indicators of results and impact/effects.
- the operational objectives were contained in the operational plans (annual work plan, public procurement plan, employment plan, investment plan, current and investment maintenance plan, project implementation plan, and similar), in which funds were determined for their realization.

19.2% of the institutions still faced difficulties during the mutual harmonization of the strategic, program and operational goals, and the institutions under their competence (affiliated bodies, second line budget users and public enterprises and state-owned joint stock companies), being rarely familiar with the strategic and program goals of the competent institution, not being involved in their implementation, and they did not always ensure compliance with the strategic and program goals of the competent institution within their operational plans.

Greater inclusion of second line budget users was needed in the preparation of the strategic documents.

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

Planning approach to operating	2021						2020	+/- 2021-2020 percentage points
	Central level		Local level		Total			
	85 budget users		66 budget users		151 budget users		%	
	Number	%	Number	%	Number	%		
Determined vision and mission of the institution	79	92.94	43	65.15	122	80.8	84.5	-3.7
Determined strategic goals	80	94.12	53	80.3	133	88.1	91.2	-1.1

Determined programs	72	84.71	56	84.85	128	84.8	89.2	-4.4
Determined goals of the programs	72	84.71	56	84.85	128	84.8	88.5	-3.7
Goals of the programs being related to the strategic goals	71	83.53	51	77.27	122	80.8	86.5	-5.7
Adopted annual operational plan/program	70	82.35	47	71.21	117	77.5	80.4	-2.9
Goals, which every organizational unit should realize throughout the year are defined in the annual operational plan/program.	66	77.65	45	68.18	111	73.5	76.3	-2.8
Goals of the annual operational plans/programs being related and harmonized with the strategic goals	72	84.71	45	68.18	117	77.5	80.4	-2.9
Planning documents including data on the goals, comprised data on the estimated financial resources necessary for realizing the set goals	70	82.35	41	62.12	111	73.5	76.3	-2.8
There were determined performance indicators, through which the implementation of the set goals was monitored	67	78.82	21	31.82	88	58.3	60	-1.7
Second line budget users were also included in the preparation of the strategic documents.	8	9.41	37	56.06	45	29.8	30.4	-0.6

#### d) Organizational structure, authorizations, responsibilities and reporting system

Internal organizational structure was in line with the regulatory framework, providing in most cases a clear segregation of the authorizations and the responsibilities for implementing the competencies and the professional objectives of the public sector entities. Difficulties existed in the segregation of the authorizations and the responsibilities for carrying out supervision of the competent institutions.

Internal organizational structure is governed by regulations, Statute or Rulebook for Internal Organization, whereby the act for systematization and general decisions regulates the authorizations and the responsibilities of the heads of the organizational units for implementing the goals and managing the financial resources allocated thereto in order to fulfill the goals, the authorizations and the responsibility for the purpose of realizing projects, including several organizational units and/or institutions under their competence.

Segregation of authorizations and responsibilities in spending the approved budget funds was 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 67% of the budget users at central level and 53% of the municipalities and the City Of Skopje.

Decisions on general authorizations were adopted by 48% of the budget users at central level, while 33% of the municipalities and the City of Skopje adopted such decisions.

Additional efforts were needed to establish clear lines of reporting, thus enabling the heads to monitor the implementation of the work goals, the allocated funds, the results and the impact, and in particular to monitor the operations of the institutions under competence.

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

ORGANIZATIONAL STRUCTURE, AUTHORIZATIONS, RESPONSIBILITIES AND REPORTING SYSTEM	2021						2020	+/- 2021-2020
	Central level		Local level		Total			
	85 budget users		66 budget users		151 budget users			
	Number	%	Number	%	Number	%		
Clearly defined competences and responsibilities of the organizational units in the strategic planning process	73	85.88	39	59.09	112	74.2	78.4	-4.2
Clearly defined authorizations and responsibilities for realizing the goals agreed under the program/project/activity	70	82.35	44	66.67	114	75.5	78.4	-2.9
Activities for coordination of the financial management and control development are under the competence of the financial affairs unit	65	76.47	45	68.18	110	72.8	76.4	-3.6
Finance-related working posts were determined in the other organization units/affiliated bodies	17	20	12	18.18	29	19.2	20.3	-1.1
Heads of the organizational units were authorized to manage the approved budget funds aimed at realizing the activities under their competence	53	62.35	34	51.52	87	57.6	60.8	-3.2
Top management 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)	68	80	50	75.76	118	78.1	81.1	-3
Organizational units prepared reports on realization of the goals, programs, projects	63	74.12	48	72.73	111	73.5	82.4	-8.9
Organizational units prepared report on realization of the approved budget (spent budget funds for realization of programs, projects, activities, revenues, contractual obligations, and similar)	44	51.76	49	74.24	93	61.6	64.9	-3.3

### e) Human resource management

Results from the analysis showed that around 87% of the budget users at central and local level prepared training plans for the employees related to the scope of the work they performed, whereby records/registry was being kept for the realized trainings per each employee separately in around 79% thereof, being by 3.8 percentage points more compared to 2020.

As for 35.8% of the budget users at central level and local level, practice was established for assigning tasks/activities per each employee separately under the annual operational plans of the organizational units, being by 2.7 percentage points less compared to 2020.

In 2021 compared to 2020, the number of budget users at central and local level, which sent their employees to trainings related to financial management and control, decreased by 7 percentage points.

By establishing the Public Finance Academy, additional measures will be taken to carry out trainings that will provide for gaining knowledge and acting pursuant to the laws, other regulations, internal acts, as well as procedures used by institutions to reduce errors, irregularities throughout the operations, thereby also ensuring cost-effective, efficient and effective use of funds.

*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)	2021						2020	+/- 2021-2020
	Central level		Local level		Total			
	85 budget users		66 budget users		151 budget users			
	Number	%	Number	%	Number	%		
There were training plans for the employees related to the scope of work they perform	77	90.59	54	81.82	131	86.7	89.9	-3.2
Records/registry for training per each employee separately was being kept	70	82.35	38	57.58	119	78.8	75	3.8
Employees were 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 contracts, accounting systems, irregularities and frauds, and similar)	74	87.06	49	74.24	123	81.5	88.5	-7
Under the annual operational plans of the organizational units, tasks/activities were assigned per each employee separately	33	38.82	21	31.82	54	35.8	38.5	-2.7

## B. RISK MANAGEMENT

At central level, around 71%<sup>2</sup> of budget users adopted Risk Management Strategy, 71 of the budget users recorded the risks throughout the operations in the risk registries, while around 66% recorded the respective risks in their planning documents.

At local level, approximately 46%<sup>3</sup> of budget users adopted Risk Management Strategy, 33% of the budget users recorded the risks throughout the operations in the risk registries, while around 36% recorded the respective risks in their planning documents.

Despite that majority of the budget users adopted risk management strategies, they were not updated on regular basis at most of them.

In 2021, at central level, 58% of the budget users appointed a person responsible for coordinating the risk management process at the level of the whole institution, while 37% of them appointed risk coordinators per organizational units. At local level, around 20% of the municipalities appointed a person responsible for coordinating the risk management process at the level of the whole institution, while around 11% of them appointed risk coordinators per organizational units.

The practice of budget users at central and local level was not sufficiently developed for strategic, program and operational purposes to determine the risks taking into account the most important internal and external factors, i.e. changes in the internal and external environment of the institution and the institutions under their competence. They were primarily focused on the risk assessment related to harmonization of the operations with the regulations, and to a lesser extent on the risks affecting the results achieved from their operations.

It was necessary to improve the documentation of risks in the risk register, as well as the system for reporting the identified risks and implementation of measures to reduce them in a way that the responsible person of the institution would receive timely information on the most significant risks of the institution and the institutions under its competence.<sup>4</sup>

When identifying the risks, the various forms of fraud were still not considered, such as forgery of documents, providing false information about the financial status and the success in meeting the set goals, fictitious contracts and invoices, bribery and similar.

*(Attachment 2: Review of Budget Users at Central and Local Level not having Adopted Risk Management Strategy)*

*(Attachment 3. Review of Budget Users at Central and Local level not having prepared Risk Registry)*

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<sup>2</sup> From the Central Harmonization Unit records

<sup>3</sup> From the Central Harmonization Unit records

<sup>4</sup> Only around 13% of the budget users at central level obtained information about the most significant risks from their affiliated bodies and the second line budget users. This percentage was somewhat bigger at local level, accounting for 30%.

Table 7: Results from under “Risk Management” Component

Risk Management	2021						2020	+/- 2021-2020
	Central level		Local level		Total			
	85 budget users		66 budget users		151 budget users		%	percentage points
	Number	%	Number	%	Number	%		
Determination of risks that may affect the realization of the following:								
a) strategic goals	67	78,82	34	51,52	101	66,9	70,9	-4
b) goals of the program/project/activity	61	71,76	35	53,03	96	63,6	68,9	-5,3
c) goals included in the annual operational program	56	65,88	30	45,45	86	56,9	60,8	-3,9
Risks were included, in writing, in the following:								
a) planning documents (strategic documents/ plan of development programs/annual operational plans)	56	65,88	24	36,36	80	53	56,8	-3,8
c) in the Risk Registry, determined in line with the instructions for implementing the risk management process at budget users	60	70,59	22	33,33	82	54,3	60,1	-5,8
As regards the determined risks, their probability and effects were estimated	61	71,76	33	50	94	62,2	66,2	-4
System on reporting the most significant risks was established	48	56,47	16	24,24	64	42,4	44,6	-2,2
Person responsible for coordinating the establishment of risk management process, was appointed	49	57,65	13	19,7	62	41,1	44,6	-3,5
Risk coordinators were appointed in the organizational units	31	36,47	7	10,61	38	25,2	25,7	-0,5
Budget users within the respective entity submitted reports on the main risks	11	12,94	20	30,30	31	20,5	20,9	-0,4

### C. CONTROLS

Budget users at central and local level adopted, as for most of the important work processes<sup>5</sup>, written rules, i.e. internal acts (guidelines and instructions) regulating, based on laws and other regulations, in more details, the rules of conduct, defining the participants, their authorizations and responsibilities, control activities, including previous and additional controls, and prescribing templates.

The procedures were available to heads and employees, being updated depending on amendments to the laws and other regulations on which they were based, the changes in the operations of the institution and the institutions under its competence, as well as the

<sup>5</sup>Processes related to budget planning, programing and budget execution, i.e. financial plan, procurement and conclusion of contracts, recording business events and transactions, property management (tangible and intangible), project management, own revenue collection, refund of unjustifiably spent or erroneously paid funds.

results from the external evaluation of the internal control system and the self-assessment of the internal control system.

Decrease in relation to 2020 was observed as regards written internal procedures for the process of:

- preparing and realizing the strategic plan by 3.6 percentage points,
- drafting and implementing the budget request/draft budget by 5.5 percentage points,
- preparing and recording the business events and transactions by 5.5 percentage points.
- procurement and contracting by 4.2 percentage points,
- property management - tangible and intangible assets by 1.7 percentage points, and
- own revenue collection by 2.1 percentage point and

There was still a small percentage of written internal procedures, containing instructions on the manner of cooperation and the activities for second-line budget users and little was known about the extent to which second line budget users regulated the control activities in the processes of preparation and realization of financial plans/budget execution, procurement and contracting, property management, etc.

Principle of “segregation of duties” was generally applied (in 71% of the institutions), thus, no individual was simultaneously responsible for initiating, approving and recording transactions, payment, harmonization and review of the reports.

In cases where it is not possible to apply the principle of “segregation of duties“ due to the limited number of employees, the respective heads determine other measures so as to reduce the risk of a person being in a position to make and hide mistakes, irregularities and fraud when performing his/her duties.

*Table 8: Results under the “Controls” Component*

CONTROLS	2021						2020	+/- 2021- 2020
	Central level		Local level		Total			
	85 budget users		66 budget users		151 budget users		%	percent age points
	Number	%	Number	%	Number	%		
There were written internal procedures (rulebooks, guidelines, instructions), which, as an extension of the regulations, more thorough regulated the following processes:								
a) process of preparing and realizing the strategic plan	44	51.76	23	34.85	67	44.4	48	-3.6
b) process of preparing and realizing the budget request/draft budget	64	75.29	45	68.18	109	72.2	77.7	-5.5
c) process of recording the business events and transactions	66	77.65	36	54.55	102	67.5	73	-5.5



d) process of procuring and contracting	69	81.18	42	63.64	111	73.5	77.7	-4.2
e) process of managing the property - tangible and intangible assets	50	58.82	29	43.94	79	52.36	54	-1.7
f) process of collecting own revenues	22	25.88	37	56.06	59	39.1	41.2	-2.1
g) process of refunding the unjustifiably spent or erroneously paid budget funds	36	42.35	31	46.97	67	44.4	43.9	0.5
Internal procedures were updated	67	78.82	42	63.64	109	72.2	75	-2.8
It was 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	67	78.82	40	60.61	107	70.9	73	-2.1
Ex post controls over the earmarked spending of the paid budget funds were carried out. (For instance, on-site controls for the paid subsidies, grants, assistance, various fees, transferred budget funds to the final beneficiaries, and similar)	50	58.82	34	51.52	84	55.6	58.8	-3.2
Procedure of carrying out ex post controls was regulated under written procedures	40	47.06	10	15.15	50	33.1	35.1	-2
Procedure for carrying out ex post controls over the earmarked spending of the paid budget funds was:								
a) part of the regular operations of the organization units in the institution in charge therefor	54	63.53	34	51.52	88	58.3	62.2	-3.9
b) ad hoc task in cases imposing a need for ex post controls (for instance in case of anonymous reporting for potential irregularities when using the budget funds)	46	54.12	33	50	79	52.3	50	2.3
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, included guidelines on the manner of cooperation and the activities for the second line budget users	9	10.59	22	33.33	31	20.5	18.2	2.3
There was information about the extent to which the second line budget users 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	4.71	18	27.27	22	14.6	13.5	1.1

## INFORMATION AND COMMUNICATIONS

Analysis of the data obtained from the Annual Financial Report with respect to the determined information and communications, indicated that among the budget users at central and local level, an internal reporting system was generally established, providing 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.

Budget users generally have not yet established an automated internal reporting system, which provides timely, accurate and complete data and information and their exchange between internal organizational units for the needs of budget planning and execution, implementation of programs, projects and activities, as well as monitoring the realization of the work goals and the spent financial resources.

Automated accounting systems have not yet been developed, including cost and management accounting and other recording systems and databases for objectives, risks and other financial and non-financial information depending on the needs and the specifics of the operations.

Process for document management and filing was defined in line with the legal framework and the internal acts, however, the systems, providing for exchange of information between the institutions and the institutions under their competence, were not developed.

Due to reduced results in 2021 in the field of “Information and communications”, compared to 2020, the conditions needed to be improved in the following segments:

- establishing reporting system referring to the realization of the programs/projects;
- Including the organizational units in the preparation of the financial plan/the budget

*Table 9: Results under the “Information and Communications” Component*

INFORMATION AND COMMUNICATIONS	2021						2020	+/- 2021- 2020
	Central level		Local level		Total			
	85 budget users		66 budget users		151 budget users		%	percenta ge points
	Number	%	Num ber	%	Number	%		
Defined appropriate reporting lines referring to the realization of the strategic goals included in the strategic documents	55	64.71	22	33.33	77	51	53.4	-2.4
Established reporting system referring to the realization of the programs/projects	63	74.12	40	60.61	103	68.2	73.6	-5.4
Established regular system for monitoring and analyzing the realization of the financial plan/budget execution	80	94.12	54	81.82	134	88.7	93.2	-4.5
Organizational units participated in preparation of the financial plan/budget execution	71	83.53	54	81.82	125	82.8	89.2	-6.4
Organizational units obtained information about the approved budget funds for implementing the programs/projects/activities under their competence	70	82.35	53	80.3	123	81.5	87.8	-6.3
For the purpose of monitoring the realization of the financial plan/budget execution, there was more thoroughly elaborated economic classification than the one stipulated in the Rulebook on the Accounting Plan for Budgets and Budget Users, i.e. there was analytics of the accounting plan.	59	69.41	45	68.18	104	68.9	70.3	-1.4
Accounting systems enabled monitoring of expenditures/revenues by:								
a) programs	72	84.71	59	89.39	131	86.8	90.5	-3.7
b) projects	48	56.47	47	71.21	95	62.9	65.5	-2.6
c) activities	45	52.94	42	63.64	87	57.6	57.4	0.2
d) organizational units	44	51.76	36	54.55	80	53	54.7	-1.7

Are there centralized records of all signed contracts and contractual obligations and are they supported by the IT system?	59	69.41	38	57.58	97	64.2	67.6	-3.4
In addition to the stipulated financial reports (balance sheet, income statement and consolidated balance sheet), there were 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)	65	76.47	47	71.21	112	74.2	75.7	-1.5
Working systems (finances, procurement and contracting, operational records, personnel, and similar) were sufficiently supported under the IT technology (IT system)	71	83.53	51	77,27	122	80.8	83.8	-3
IT systems supporting certain processes were integrated with each other	44	51.76	30	45.45	74	49	52	-3
Key operational processes, being 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?, have maps/books of the operational processes and similar, been prepared?)	65	76.47	39	59.09	104	68.9	72.3	-3.4
Second line budget users also prepared other reports apart from the stipulated financial reports, which they submitted to the first line budget users*	9	10.59	22	33,33	31	20.5	18.9	1.6
IT connection with the second line budget users was achieved (for instance, through the Treasury Department system and similar)	12	14.12	43	65.15	55	36.4	36.5	-0.1

## E. MONITORING AND ASSESSMENT OF THE SYSTEM

Analysis of the data obtained in the Annual Financial Report with respect to the determined monitoring and assessment of the system, indicated that what was mostly implemented at the budget users at central and local level was the following: continuous monitoring, self-assessment and internal and external audit, as well as determined procedures, providing for the internal acts to be implemented in practice, as well as to be updated.

As for the upcoming period, the following areas should be improved:

- Implementation of internal audit recommendations, as per the action plans (reduction by 4 percentage points was recorded in 2021, when compared to 2020, per institutions) and
- It is necessary to develop appropriate systems for monitoring the functioning of the financial management and control system at second-line budget users (by implementing the new Draft Law on Public Internal Financial Control System, these conditions are expected to be significantly overcome).

*Table 10: Results under the “Monitoring and Assessment of the System” Component*

Monitoring and assessment of the system	2021						2020	+/- 2021-2020
	Central level		Local level		Total			
	85 budget users		66 budget users		151 budget users		%	percent age points
	Number	%	Number	%	Number	%		
Top management established reporting system, thus obtaining reports on the functioning of the financial management and control system, for which they are responsible	54	63.53	32	48.48	86	56.9	58.8	-1.9
Established procedures providing for the internal acts (rulebooks, guidelines, instructions and similar) to be implemented in practice, as well as to be updated	61	71.76	38	57.58	99	65.6	63.5	2.1
Recommendations of external auditors were implemented	70	82.35	53	80.3	123	81.5	82.4	-0.9
Internal audit recommendations were implemented in line with the actions plans for implementation of the recommendations	52	61.18	46	69.7	98	64.9	68.9	-4
There were 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.	9	10.59	26	39.39	35	23.2	21.6	1.6

### 3. REPORT ON PERFORMED AUDITS AND INTERNAL AUDIT ACTIVITIES IN 2021

#### 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

According to the records of the Central Harmonization Unit, as of 31st December 2021 inclusive, 91 internal audit units<sup>6</sup> were established at public sector entities at central level, having employed 132 internal auditors, 42 out of whom (around 32%) were heads. In 2021, compared to the previous year, number of internal auditors at central level decreased by 1, while number of heads dropped by 3.

<sup>6</sup><https://finance.gov.mk/%D1%81%D0%BE%D1%81%D1%82%D0%BE%D1%98%D0%B1%D0%B0-%D0%BD%D0%B0-%D1%81%D0%B8%D1%81%D1%82%D0%B5%D0%BC%D0%BE%D1%82-%D0%B7%D0%B0-%D0%B2%D0%BD%D0%B0%D1%82%D1%80%D0%B5%D1%88%D0%BD%D0%B0-%D1%80%D0%B5%D0%B2/>

As for budget users at local level, as of 31st December 2021 inclusive, 73 internal audit units were established<sup>7</sup>, employing 72 internal auditors, 17 out of whom (around 23.6%) were heads. In 2021, compared to the previous year, number of internal auditors at local level increased by 5, while number of heads decreased by one.

Given the aforementioned, it can be concluded that, in 2021 compared to 2020, total number of internal auditors at central and local level increased by 4 (2.8%), while number of heads reduced by 4 (6.3%). This decreasing tendency of the number of heads is expected to continue in the coming years, primarily due to their age structure.

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

Out of 79 budget users at central level, having established internal audit function, 64 (around 87.7%) established their own internal audit units, 8 (around 10.9%) concluded agreements for performing IA, while 1 (around 1.3%) established its own internal audit unit and concluded agreement for performing IA at the same time.

Out of the 65 established internal audit units, 25 (38.5%) were not staffed, 17 (26.1%) were staffed with one internal auditor each, while 23 (35.4%) were staffed with two and more auditors. The remaining 22 budget users at central level not having established internal audit function are entities with a budget below Denar 50 million and have no legal obligation to establish internal audit unit (5 commissions, 4 agencies, 9 inspectorates and 4 other bodies).

Out of 77 budget users at local level, having established internal audit function, 57 (around 74%) established their own internal audit units, 10 established their internal audit units and concluded agreement for performing IA at the same time (around 13%), while 10 of them only concluded agreement for performing IA. Out of the 67 established internal audit units, 28 (41.8%) were not staffed, 28 (41.8%) were staffed with one internal auditor each, while 11 (16.4%) were staffed with two and more auditors. The remaining 4 municipalities (Staro Nagoricane, Studenicani, Aracinovo and Dolneni) did not establish internal audit function.

As regards the above-mentioned data, it can be seen that there is a high percentage of established internal audit units (around 64.6% at central level, and 83% at local level), not being staffed, i.e. staffed with one internal auditor each. In order to meet the minimum criteria of two auditors in each internal audit unit, what is necessary in the following period is to undertake activities for staffing the internal audit units.

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

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<sup>7</sup><https://finance.gov.mk/%D1%81%D0%BE%D1%81%D1%82%D0%BE%D1%98%D0%B1%D0%B0-%D0%BD%D0%B0-%D1%81%D0%B8%D1%81%D1%82%D0%B5%D0%BC%D0%BE%D1%82-%D0%B7%D0%B0-%D0%B2%D0%BD%D0%B0%D1%82%D1%80%D0%B5%D1%88%D0%BD%D0%B0-%D1%80%D0%B5%D0%B2/>

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 31st December 2021				% of budget users, having established internal audit function by 31st December 2021
		Internal Audit Unit	Agreement	Internal Audit Unit and signed agreement	Total	
Central Level	97	64	8	1	73	75.3%
Local Level	81	57	10	10	77	95%
Total	178	121	18	11	150	84.3 %

Internal audit function was also established in 358 budget users established by law, holders of public authorizations and spending units (29 out of which at central and 6 at local level).

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<sup>8</sup>For which CHU has records

Table 12: Review of Budget Users Established by Law, being given Public Authorization, and Spending Units having 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 having established internal audit function by 31st December 2021				% of budget users, having established internal audit function by 31st December 2021
		Internal Audit Unit	Agreement	No internal audit unit established, only internal auditor	Total	
Central Level	29	26	0	3	29	100
Local Level	6	6	0		6	100
Total	35	32	0	3	35	100

### 3.1.2 Organization and Staffing of the Internal Audit in the Ministries

Out of 16 ministries in total, internal audit units in 3 ministries were not staffed, internal audit units in 5 ministries employed one person each, while 8 ministries had no appointed head of internal audit units.

This points out to the fact that the ministries have not met the working requirement as regards the internal audit units.

With respect to 13 ministries, internal audit units are organized as units within a department.

By taking into account that, pursuant to the new Law on Public Internal Financial Control, ministries will be given the role of parent budget users, which are to perform internal audit in their affiliated bodies, second line budget users and public enterprises and state-owned joint stock companies under their competence, it is necessary to take urgent measures to reorganize the internal audit units and their staffing.

Table 13: Organization and Staffing of the Internal Audit Units in the Ministries<sup>9</sup>

No.	Institution	Number of employees in IAU	Head appointed (yes/no)	Organizational form of IAU
	Ministry of Finance	6	Yes	Department
	Ministry of Agriculture, Forestry and Water Economy	4	Yes (with authorization)	Department
	Minister of Labour and Social Policy	3	Yes	Department
	Ministry of Defense	6	Yes	Unit
	Ministry of Internal Affairs	2	Yes	Unit
	Ministry of Foreign Affairs	1	No	Unit
	Ministry of Health	1	Yes	Unit
	Ministry of Culture	0	No	Unit
	Ministry of Justice	1	No	Unit
	Ministry of Environment and Physical Planning	3	Yes	Unit
	Ministry of Transport and Communications	2	No	Unit
	Ministry of Education and Science	2	No	Unit
	Ministry of Local Government	1 (leave of absence)	Yes	Unit
	Ministry of Economy	1	No	Unit
	Ministry of Information Society and Administration	0	No	Unit
	Ministry of Political System and Inter-Community Relations	0	No	Unit

### 3.2. STATUS OF INTERNAL AUDIT AS PER SUBMITTED 2021 ANNUAL REPORTS

177 budget users were obliged to submit reports on performed audits and internal audit activities, 96 out of which at central and 81 at local level.

Out of total of 177 budget users, reports were submitted by 58.8% of them, i.e. 10410, whereas 41.2%, i.e. 7311 entities failed to submit the respective reports.

Except for the budget users, 4 public sector entities<sup>12</sup> at central level submitted reports, although being no obliged to submit such reports. In total, 61 entities at central level submitted reports.

<sup>9</sup>As of July 2022 inclusive

<sup>10</sup> 57 at central and 47 at local level

<sup>11</sup>39 at central and 34 at local level



(Attachment 4: 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 2021 Annual Reports

Out of 61 budget users at central level having submitted reports, 45 established internal audit units, with 243 working positions according to the Systematization Act, 82 being filled, i.e. accounting for only 33.7%.

According to the 2021 Annual Plans, 179 audits were planned to be performed at central level (221 audits in 2020), 168 initially planned and 11 ad hoc additional audits upon request by the respective heads thereof.

Out of the total 179 planned audits, 145 audits<sup>13</sup> were performed, i.e. 81%<sup>14</sup>, being an increase by 16.7 p.p. as regards the performing of the planned audits.

In 2021, 19 audits related to EU programs<sup>15</sup> were initially planned, 17<sup>16</sup> out of which were performed, i.e. accounting for around 89.5%<sup>17</sup>, being an increase by 20.5 p.p. as regards the performing of the planned audits.

Planned and performed audits by year are shown below:

Out of the 145 performed audits,  
46.2% (67) were systemic audits,  
around 36.6% (53) were regularity audits,  
around 6.9% (10) were follow-up audits,  
around 9.6% (14) were combined audits and  
0.7% (1) IT audits.

In 2021, out of 2,713 recommendations (from the previous and the current year, with implementation deadline in 2021), 1,636, i.e. 60.3%, of the recommendations were implemented (60% in 2020).<sup>18</sup>

In 2021, 694 recommendations were given for the audits performed at central level, 468 out of which with implementation deadline in 2021, with 274 of them being implemented.

Out of 2,245 recommendations under the reports from the previous years, 1,362 recommendations<sup>19</sup> were implemented in 2021.

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<sup>13</sup>142 audits in 2020

<sup>14</sup> 64.3% in 2020

<sup>15</sup>25 in 2020

<sup>16</sup>18 in 2020

<sup>17</sup>69% in 2020

<sup>18</sup>Calculated by applying “passport” indicator - “Percentage of implemented internal audit recommendations”

Internal Audit Units at central level performed 145 audits in 2021 (142 audits in 2020), 11,637 audit days being spent therefore (11,325 audits in 2020), i.e. 80.5 audit days on average, being almost identical with the average in 2020.

### 3.2.2 Status of Internal Audit at Local Level as per Submitted 2021 Annual Reports

Out of 81 entities at local level, being obliged to submit report on performed audits and internal audit activities, 47 municipalities (46 in 2020) submitted the respective reports.

Out of 47 entities at local level, which submitted reports, 34 had established internal audit units with 114 working positions according to the Systematization Act, 58 of which being filled, accounting for around 51%.

In line with the 2021 Annual Plans, 177 audits were planned to be performed at local level, 161 out of which were initially planned and 16 were ad hoc audits requested by the managers<sup>20</sup>, 128 audits<sup>21</sup> out of which, i.e. around 72%<sup>22</sup>, were performed.

One ad hoc audit as regards EU programs was performed in 2021, no audit was initially planned, although 16 municipalities<sup>23</sup> reported they used EU funds.

Planned and performed audits by year are shown below:

Out of the 128 performed audits,  
around 15.6% (20) were systemic audits,  
around 37.5% (48) were regularity audits,  
around 2.3% (3) were performance audits,  
around 4.6% (6) were financial audits,  
around 7% (9) were follow-up audits,  
around 32.8 (42) were combined audits

In 2021, out of 2,158 recommendations (from the previous and the current year, with implementation deadline in 2021), 1,278, i.e. 59.2%, of the recommendations were implemented (58.4% in 2020) <sup>24</sup>.

In 2021, 709 recommendations were given for the audits performed at local level, 412 out of which with implementation deadline in 2021, with 270 of them being implemented.

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<sup>19</sup>As for 200 recommendations from previous years and 226 recommendations from 2021, the deadline for their implementation has not still expired.

<sup>20</sup>172 in 2020

<sup>21</sup>113 in 2020

<sup>22</sup>66% in 2020

<sup>23</sup>16 in 2020

<sup>24</sup>Calculated by applying “passport” indicator - “Percentage of implemented internal audit recommendations”

Out of 1,746 recommendations under the reports from the previous years, 1,008 recommendations<sup>25</sup> were implemented in 2021.

Internal Audit Units at local level performed 128 audits in 2021, 6,585 audit days (5,351 in 2020) being spent therefore, i.e. 51.5 audit days on average (47.35 in 2020).

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

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<sup>25</sup>As for 150 recommendations from previous years and 272 recommendations from 2021, the deadline for their implementation has not still expired.

Progress Achieved in Internal Audit in 2021 compared to the previous year	
<p><b>CENTRAL LEVEL</b></p> <p>reduced number of performed ad hoc audits by 47.6% (from 21 to 11);</p> <p>increased number of performed audits by 2.1% (from 142 to 145);</p> <p>increased percentage of implemented recommendations from 60% to 60.3%;</p> <p>increased number of performed system-based audits by 71.8 (from 39 to 67);</p> <p>increased percentage of audits performed compared to planned one by 16.7 p.p.</p>	<p><b>LOCAL LEVEL</b></p> <p>increased number of internal auditors by 5.8% (from 68 to 72)</p> <p>increased number of performed audits by 13.2 % (from 113 to 128)</p> <p>increased percentage of implemented recommendations from 58.3 % to 59.2 %</p> <p>increased percentage of audits performed compared to planned one by 6.7 p.p.</p> <p>increased number of performed follow-up audits from 6 to 9 audits;</p> <p>increased number of performed combined audits from 1 to 42 audits;</p> <p>increased number of given recommendations by 11% (from 637 to 709)</p>
Weaknesses Detected in Internal Audit in 2021 compared to the previous year	
<p><b>CENTRAL LEVEL</b></p> <p>total number of internal auditors dropped by 2.9% (from 136 to 132);</p> <p>number of heads reduced by 6.7% (from 45 to 42);</p> <p>number of given recommendations reduced by 0.4% (from 697 to 694);</p> <p>number of initially planned audits reduced by 16% (from 200 to 168);</p> <p>no performance audit and financial audit were performed in 2021;</p> <p>number of performed combined audits reduced by 51.7% (from 29 to 14);</p> <p>number of follow-up audits dropped from 14 to 10, declining by 28.6%;</p> <p>internal auditors in 5 public sector entities at central level<sup>26</sup> did not perform solely internal audit activities.</p>	<p><b>LOCAL LEVEL</b></p> <p>number of heads reduced by 5.5% (from 18 to 17);</p> <p>number of performed financial audits decline by one;</p> <p>number of performed compliance audits reduced by 35% (from 74 to 48);</p> <p>number of performed performance audits dropped by 40% (from 5 to 3);</p> <p>number of performed financial audits reduced by 14% (from 7 to 6);</p> <p>no IT audit was performed;</p> <p>internal auditors in one local government unit<sup>27</sup> did not perform solely internal audit activities;</p> <p>number of performed ad hoc audits increased from 8 to 16</p>

<sup>26</sup>Ombudsman, State Archives of Republic of North Macedonia, Ministry of Health, Agency for Financial Support in Agriculture and Rural Development and Ministry of Labour and Social Policy

<sup>27</sup> Berovo LGU

#### 4. CENTRAL HARMONIZATION UNIT

##### 4.1 Activities Implemented by the Central Harmonization Unit in 2021

In 2021, Central Harmonization Unit continued to implement the public internal financial control reforms through the following activities:

At the beginning of January 2021, draft Law on Public Financial Control System was submitted to the Parliament of the Republic of North Macedonia for its adoption in two stages, the first one being completed.

Implementation of measures and activities stated in the PRO Reform Program and the PIFC Strategy, supported by the EU IPA 2018 Twinning Project “Strengthening the Functions of Budget Planning, Execution and Internal Control”, within Component 2: “Strengthening the System of Public Internal Financial Control through Effective Implementation of the PIFC Policy” continued. In 2021, due to COVID-19, part of the project activities were carried out with in-person presence of the experts, while the rest of them was carried through on-line meeting platforms.

In cooperation with the Twinning Project experts, in 2021, Central Harmonization Unit prepared the following:

Draft Financial Management and Control Manual,

Draft simplified Risk Management Guidelines,

report with proposals for possible models of national program on certification of internal auditors,

draft Rulebook on Conducting Training and Exam and Program for Certification of Internal Auditors,

draft Rulebook on the Form and the Contents of the Certificate for Chartered Internal Auditor in the Public Sector,

analysis of the training needs,

Training program and plan for MoF and the budget users on the basis of PIFC Policy and the new PIFC Law,

Report on the assessment of legal acts related to PIFC with recommendations on improvement (final version of the Report was prepared on the basis of meetings held between PIFC Department and experts with the authorities competent for preparing the laws subject to analysis in the Report),

In addition, following workshops were organized by CHU within the Twinning Project: “Establishing a Cascading Model of Goals in Strategic and Annual Plans”, “Presentation of Draft Version of the Financial Management and Control Manual” and “Presentation of Draft Version of Internal Audit Manual”.

In order to ensure continuous training in public finances (including PIFC), activities pertaining to establishment of Public Finance Academy were commenced within the Twinning Project.

In October 2021, Ministry of Finance - Central Harmonization Unit, in cooperation with PEMPAL IACOP, organized a joint event “Sharing Experience and Presentation of Knowledge Products on Implementation of Public Sector Internal Audit and Internal Control”, attended by more than 70 internal auditors from the public sector in our country.

On 17th August 2021, Government of the Republic of North Macedonia adopted the 2020 Annual Report on the Functioning of the Public Internal Financial Control System.

Further reforms in the field of public internal financial control will be carried out through two priorities (Financial management and Control and Internal Audit) under the new “2022-2025 Public Finance Management Program”. Part of the reform activities are continuation of the preceding activities, with some of them upgraded and expanded. Activities envisaged under the respective Program support the implementation of the conclusions under the 2020 Annual Report on the Functioning of the Public Internal Financial Control System.

#### 4.1.1. Activities related to Chapter 32 - Financial Control

Government of the Republic of North Macedonia is informed, on regular basis, about the status and the implementation of the measures and the activities under Chapter 32 - Financial Control through the Secretariat for European Affairs, while the progress achieved therein was presented at the meeting of the Sub-Committee on Economic and Financial Affairs and Statistics, virtually held on 5th October 2021.

#### 4.2. Reporting on government conclusions pertaining to the 2020 Annual Report on the Functioning of the Public Internal Financial Control System

At its 99th session held on 17th August 2021, Government of the Republic of North Macedonia reviewed and adopted the 2020 Annual Report on the Functioning of the Public Internal Financial Control System, including the conclusions. Adopted conclusions were aimed at advancement of the public internal financial control system, however, the most appropriate timing for their implementation will be once the draft PIFC Law is adopted.

On 29th December 2020, Government of North Macedonia submitted the draft PIFC Law to the Parliament of North Macedonia. Draft Law underwent its first reading at the 34th session of the Parliament held on 5th May 2021, with its second reading pending the scheduling of the respective session.

At the beginning of March 2022, CHU, together with Twinning Project experts, organized a two-day workshop focusing on: „ Guidelines for Implementation of Conclusions under the Annual Report on the Functioning of the Public Internal Financial Control System.” All conclusions and the way of their implementation were elaborated in details. Around 100 representatives of the ministries (heads of financial affairs units, internal audit units, human resources and strategic planning) took part in the workshop.

On 7<sup>th</sup> March 2022, Ministry of Finance submitted request for amending the conclusions adopted under number 16-1609/1 to the General Secretariat of the Government of the Republic of North Macedonia, as a result of the draft Law still pending parliamentary procedure for its adoption.

Under the Annual Report, Ministry of Finance, through CHU, on the basis of continuously monitoring the ongoing status of the PIFC system and prepared analysis, revised the conclusions in last year's Report and proposed new, updated and modified conclusions for advancement of the PIFC system.



As per the above-mentioned, Ministry of Finance proposes for the Government of the Republic of North Macedonia to review the 2021 Annual Report on Functioning of Public Internal Financial Control System and adopt the following:

## CONCLUSIONS

1. Government of the Republic of North Macedonia reviewed and adopted the 2021 Annual Report on Functioning of Public Internal Financial Control System.
2. By 10<sup>th</sup> May 2023, all ministries are entrusted with:
  - adopting their own special Code of Ethics which, among other things, will define the manner of handling the reported cases of unethical conduct, as well as appointing ethics commissioner and establishing Ethics Committees;
  - revising, updating and improving the mission and the vision of the institution, and publishing them on their website;
  - strengthening the risk management process by: updating the risk management strategies, adequately documenting the operating risks in the Risk Registry Document and their respective plan documents, as well as improving the reporting of identified risks in a way that the responsible person at the institution will receive timely information on the most important risks of the ministry and the institutions under its competence. In addition, when identifying the risks, they will review the various forms of fraud (forgery of documents, providing false information about the financial status and the accomplished goals, the fictitious contracts and invoices, bribery and similar).
  - preparing/updating the plan for internal control system development for the key processes of financial management and control, together with a plan for elimination of weaknesses and irregularities, as well as monitoring its implementation in the ministry and the institutions under its competence, prepared on the basis of the carried out self-assessment and the statement for the quality and the conditions of internal controls.
  - ensuring implementation of external and internal audit recommendations in the ministry and the institutions under its competence.
3. All ministries are entrusted to submit a Plan for Organizational Setup and Staffing the Internal Audit Units (organizational setup of the respective Unit and draft plan on their staffing for the next 3 years (2022, 2024 and 2025)) to the Government by 31st December 2022, having in mind the number of employees and the budget of the ministry itself, the affiliated bodies, the second line budget users and the public enterprises and the state-owned joint stock companies under their competence, wherein they will have to perform internal audit, if they do not have their own internal audit unit or in case the unit is non-functional.
4. On the basis of individual plans for organizational setup and staffing of internal audit units received by all ministries, Ministry of Finance - PIFC Department is entrusted to analyze them and

to prepare and submit an Information to the Government of the Republic of North Macedonia by 31st March 2023.

5. Ministry of Culture, Ministry of Information Society and Administration and Ministry of Political System and Inter-Community Relations are entrusted with staffing the internal audit units with at least two internal auditors by 31st March 2023.

6. All ministries are entrusted to inform the Ministry of Finance - PIFC Department by 10th May 2023 about the activities undertaken upon the conclusions.

7. Along with the 2022 Annual Report on the Functioning of the Public Internal Financial Control System, Ministry of Finance - PIFC Department is entrusted to inform the Government about the implementation of the conclusions under the 2021 Annual Report on the Functioning of the Public Internal Financial Control System.

## ATTACHMENTS

Attachment 1

Review

of Budget Users at Central and Local Level not having submitted

Annual Financial Report

No.	Name of Institution
	Commission for Prevention and Protection Against Discrimination
	Constitutional Court of the Republic of North Macedonia
	Bureau for Representation of Republic of North Macedonia before the European Court of Human Rights
	Inspectorate for the Use of Languages
	State Foreign Exchange Inspectorate
	State Bureau for Protection of Industrial Property
	State Transport Inspectorate
	State Labor Inspectorate
	Ministry of Education and Science
	Ministry of Culture
	Ministry of Health

No.	Local Government Unit	No.	Local Government Unit	No.	Local Government Unit
1.	Vasilevo	6.	Kicevo	11.	Rosoman
2.	Gostivar	7.	Lozovo	12.	Saraj
3.	Demir Kapija	8.	Mavrovo and Rostuse	13.	Studenicani
4.	Dojran	9.	Petrovec	14.	Cair
5.	Zelino	10.	Rankovce	15.	Suto Orizari

## Attachment 2

### 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 Services 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.	National Security Agency
13.	Vital Records Office
14.	Inspectorate for the Use of Languages
15.	State Foreign Exchange Inspectorate
16.	Directorate for Technological Industrial Development Zones
17.	State Market Inspectorate
18.	Ministry of Environment and Physical Planning and Waters
19.	State Environmental Inspectorate
20.	State Utilities Inspectorate
21.	Agency for Financial Support of Agriculture and Rural Development
22.	State, Sanitary and Health Inspectorate
23.	State Local Government Inspectorate
24.	Emigration Agency
25.	State Archives of Republic of North Macedonia

26.	Regional Development Bureau
27.	Judicial Council of Republic of North Macedonia
28.	Public Prosecutor's Office of Republic of North Macedonia
29.	Council of Public Prosecutors

No.	Local Government Unit	No.	Local Government Unit	No.	Local Government Unit
1.	Aracinovo Municipality	16.	Zelino Municipality	31.	Pehcevo Municipality
2.	Bogovinje Municipality	17.	Zelenikovo Municipality	32.	Plasnica Municipality
3.	Bosilovo Municipality	18.	Zrnovci Municipality	33.	Radovis Municipality
4.	Brvenica Municipality	19.	Kavadarci Municipality	34.	Rankovce Municipality
5.	Vasilevo Municipality	20.	Kisela Voda Municipality	35.	Rosoman Municipality
6.	Vrapciste Municipality	21.	Kicevo Municipality	36.	Saraj Municipality
7.	Gevgelija Municipality	22.	Konce Municipality	37.	Sveti Nikole Municipality
8.	Gradsko Municipality	23.	Lipkovo Municipality	38.	Sopiste Municipality
9.	Debar Municipality	24.	Lozovo Municipality	39.	Staro Nagoricane Municipality
10.	Debarca Municipality	25.	Mavrovo and Rostuse Municipality	40.	Studenicani Municipality
11.	Delcevo Municipality	26.	Makedonska Kamenica Municipality	41.	Tearce Municipality

12.	Demir Kapija Municipality	27.	Mogila Municipality	42.	Tetovo Municipality
13.	Demir Hisar Municipality	28.	Negotino Municipality	43.	Cair Municipality
14.	Dojran Municipality	29.	Novaci Municipality	44.	Caska Municipality
15.	Dolneni Municipality	30.	Novo Selo Municipality		/

### Attachment 3

#### Review

of Budget Users at Central and Local Level not having prepared

Risk Registry Document

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 Services 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.	Ministry of Internal Affairs
17.	National Security Agency
18.	Vital Records Office
19.	Inspectorate for the Use of Languages
20.	State Foreign Exchange Inspectorate
21.	Agency for Foreign Investments and Export Promotion of Republic of North Macedonia
22.	Directorate for Technological Industrial Development Zones
23.	State Market Inspectorate
24.	State Inspectorate for Technical Inspection
25.	State Bureau for Protection of Industrial Property
26.	Ministry of Environment and Physical Planning and Waters
27.	State Environmental Inspectorate
28.	State Transport Inspectorate
29.	State Utilities Inspectorate
30.	State Labor Inspectorate
31.	State, Sanitary and Health Inspectorate
32.	State Local Government Inspectorate
33.	Emigration Agency
34.	State Archives of Republic of North Macedonia
35.	Regional Development Bureau
36.	Judicial Council of Republic of North Macedonia
37.	Public Prosecutor's Office of Republic of North Macedonia
38.	Council of Public Prosecutors
39.	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



	Municipality		Municipality		Municipality
2.	Bitola Municipality	19.	Zelino Municipality	36.	Pehcevo Municipality
3.	Bogdanci Municipality	20.	Zelenikovo Municipality	37.	Plasnica Municipality
4.	Bogovinje Municipality	21.	Zrnovci Municipality	38.	Radovis Municipality
5.	Bosilovo Municipality	22.	Kavadarci Municipality	39.	Rankovce Municipality
6.	Brvenica Municipality	23.	Kisela Voda Municipality	40.	Rosoman Municipality
7.	Vasilevo Municipality	24.	Kicevo Municipality	41.	Saraj Municipality
8.	Vinica Municipality	25.	Konce Municipality	42.	Sveti Nikole Municipality
9.	Vrapciste Municipality	26.	Kriva Palanka Municipality	43.	Sopiste Municipality
10.	Gevgelija Municipality	27.	Lipkovo Municipality	44.	Staro Nagoricane Municipality
11.	Gradsko Municipality	28.	Lozovo Municipality	45.	Struga Municipality
12.	Debar Municipality	29.	Mavrovo and Rostuse Municipality	46.	Studenicani Municipality
13.	Debarca Municipality	30.	Makedonska Kamenica Municipality	47.	Tearce Municipality
14.	Delcevo Municipality	31.	Mogila Municipality	48.	Tetovo Municipality
15.	Demir Kapija Municipality	32.	Negotino Municipality	49.	Caska Municipality

16.	Demir Hisar Municipality	33.	Novaci Municipality	50.	Stip Municipality
17.	Dojran Municipality	34.	Novo Selo Municipality		/

#### Attachment 4

#### Review

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

	Institution
	Cabinet of the President of Republic of North Macedonia
	Commission for Protection of Competition
	Directorate for Protection of Personal Data
	Regulatory Housing Commission
	State Commission for Second-Instance Decision-Making in Administrative Procedure and Employment Procedure <sup>28</sup>
	Constitutional Court of the Republic of North Macedonia
	Legislative Secretariat <sup>29</sup>
	Ministry of Political System and Inter-Community Relations
	Agency for the Use of Languages <sup>30</sup>
	Crisis Management Center
	National Security Agency
	Ministry of Justice <sup>31</sup>

<sup>28</sup>Notification that no internal audit function was established despite the several attempts for concluding agreement for performing the internal audit with another entity

<sup>29</sup>Notification submitted on termination of agreement with the Ministry of Justice and new agreement with the General Secretariat of the Government dated 9th March 2022

<sup>30</sup>Entirely empty Annual IA Report was signed and submitted, with the statement including the internal audit data

<sup>31</sup>No Annual IA Report was submitted due to vacated IAU Head position

	Sanctions Enforcement Office
	Vital Records Office
	Bureau for Representation of Republic of North Macedonia before the European Court of Human Rights <sup>32</sup>
	Inspectorate for the Use of Languages <sup>33</sup>
	State Foreign Exchange Inspectorate
	Ministry of Economy
	Agency for Tourism Promotion and Support
	Directorate for Technological Industrial Development Zones <sup>34</sup>
	State Inspectorate for Technical Inspection
	State Environmental Inspectorate <sup>35</sup>
	State Transport Inspectorate
	State Inspectorate for Construction and Urbanism <sup>36</sup>
	State Utilities Inspectorate
	State Labor Inspectorate
	Ministry of Education and Science
	Bureau for Education Development
	Ministry of Information Society and Administration <sup>37</sup>
	State Administrative Inspectorate <sup>38</sup>
	Ministry of Culture

<sup>32</sup>Notification that they signed agreement for performing internal audit with the Ministry of Justice, however no internal audit was performed because IAU had no head appointed

<sup>33</sup>Empty Annual IA Report was submitted, with a notification that IAU was established, but not staffed, with the statement of the entity's manager including the internal audit data

<sup>34</sup>Notification about establishment of IAU was submitted, however it was not staffed and no Annual IA Report was submitted

<sup>35</sup>Signed, but empty, Annual IA Report and unsigned statement were submitted

<sup>36</sup>As indicated in the letter, no internal audit function was established, with the statement including the internal audit data

<sup>37</sup> Notification was submitted that IAU was not staffed and therefore no Annual IA Report was prepared

<sup>38</sup>Signed, but empty, Annual IA Report was submitted.

	State, Sanitary and Health Inspectorate <sup>39</sup>
	Ministry of Local Government <sup>40</sup>
	State Local Government Inspectorate
	Emigration Agency
	Commission for Relation with Religious Communities and Religious Groups <sup>41</sup>
11	Bureau of Court Expertise <sup>42</sup>
	Public Prosecutor's Office of Republic of North Macedonia <sup>43</sup>
	Council of Public Prosecutors <sup>44</sup>

No.	Institution
1.	Aracinovo Municipality
2.	Bogdanci Municipality
3.	Bosilovo Municipality <sup>45</sup>
4.	Vasilevo Municipality
5.	Gazi Baba Municipality <sup>46</sup>
6.	Gevgelija Municipality
7.	Gorce Petrov Municipality
8.	Gostivar Municipality
9.	Debar Municipality <sup>47</sup>
10.	Debarca Municipality

<sup>39</sup>Notification was submitted that no conditions were created for development of the internal audit function in 2021

<sup>40</sup>Notification that internal audit activities were not performed due to auditor's leave of absence

<sup>41</sup>Notification that agreement for performing internal audit with the Ministry of Justice was terminated

<sup>42</sup>Notification that agreement for performing internal audit with the Ministry of Justice was terminated

<sup>43</sup>No Annual IA Report was submitted, with the statement including the internal audit data

<sup>44</sup>Signed, but empty, Annual IA Report was submitted.

<sup>45</sup>Notification that no internal audit was performed

<sup>46</sup>Documents prepared by the Internal Audit Department would be additionally submitted as notified with the letter accompanying the reports pertaining to financial management and control

<sup>47</sup>Only statement for the quality and the conditions of internal controls was submitted. No internal audit was performed in 2021 due to the internal auditor being on a maternity leave

11.	Demir Kapija Municipality
12.	Dojran Municipality 48
13.	Dolneni Municipality 49
14.	Zelino Municipality
15.	Karpos Municipality 50
16.	Kisela Voda Municipality
17.	Kicevo Municipality
18.	Konce Municipality 51
19.	Lipkovo Municipality
20.	Mavrovo and Rostuse Municipality
21.	Negotino Municipality
22.	Novo Selo Municipality 52
23.	Petrovec Municipality
24.	Plasnica Municipality 53
25.	Radovis Municipality 54
26.	Rankovce Municipality
27.	Resen Municipality 55
28.	Saraj Municipality
29.	Sopiste Municipality
30.	Staro Nagoricani Municipality
31.	Studenicani Municipality

<sup>48</sup>Only statement for the quality and the conditions of internal controls was submitted. No internal audit was performed in 2021 due to the internal auditor being on a maternity leave

<sup>49</sup>Only statement for the quality and the conditions of internal controls, signed by the mayor, was submitted, confirming the data included in the Annual IA Report. However, it contained only general information about the municipality and the established IAU and it was not signed

<sup>50</sup>Notification that no internal auditor was appointed, hence they would not submit Annual IA Report

<sup>51</sup>Notification that that no IAU was established. They submitted signed statement for the quality and the conditions of internal controls.

<sup>52</sup> Entirely empty Annual IA Report submitted

<sup>53</sup>Notification that the head of IAU of Kicevo Municipality would submit annual IA report, on the basis of a concluded agreement for performing IA

<sup>54</sup>Notification that the IAU in the municipality had no employee, despite the job announcement at which not candidates applied

<sup>55</sup>Statement on the quality and the conditions of internal controls submitted. The Annual Report included data only about the mayor and the municipal budget, and it was not signed by the mayor.

32.	Tearce Municipality
33.	Cair Municipaliity
34.	Suto Orizari Municipality