

Ministry of finance

Public Internal Financial Control in the Republic of North Macedonia

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Regulatory framework for PIFC

- Law on Public Internal Financial Control („Official Gazette of the Republic of Macedonia “ no. 90/2009, 188/2013 and 192/2015)
- This Law regulates the public internal financial control system that covers
 - financial management and control,
 - internal audit and their harmonization
- established in compliance with the international standards for internal control and internal audit.

DRAFT LAW ON THE PUBLIC INTERNAL FINANCIAL CONTROL SYSTEM

- The Draft Law is in the second (last) phase of adoption in the Parliament and its adoption is expected after the local elections, by the end of 2021.
- The law will be applied by all public sector entities, ie
 - all legal entities that are directly or indirectly established by the state or the municipalities and
 - public enterprises and trade companies that are in the majority ownership of the central government or in the majority ownership of the City of Skopje or one or more local self-government units.

Harmonization and Coordination of the PIFC system

- The Minister of Finance shall be in charge for the harmonization and coordination of establishment and development of the public internal financial control system, and on his behalf the Central Harmonization Department of the Public Internal Financial Control System within the Ministry of Finance as
- **Central Harmonization Unit (CHU).**

The role of CHU

- The coordination shall be executed by the Minister of Finance through:
 - harmonization and review of the quality of financial management and control and internal audit and
 - preparation and adoptions of bylaws, manuals and instructions.
- The heads of the public sector entities is responsible for the establishment, implementation and maintenance of the public internal financial control within their entity.



FINANCIAL MANAGEMENT AND CONTROL

Key Processes for Financial Management and Control

- Financial management and control directs and controls the financial impacts of operations through a comprehensive system of controls based on risk management.
- Financial Management and Control provide reasonable assurance that in pursuit of the objectives budgetary and other funds will be used in a proper, ethical, economical, effective and efficient manner in compliance with laws and other regulations, safeguarding resources against loss, misuse and damage.

Key Processes for Financial Management and Control

- planning processes
- budget planning
- budget execution process
- assets management process and
- accounting processes

Obligation for adopting internal acts for FMC

- preparing and adopting internal acts/rulebooks, instructions and similar in which
- will be elaborated procedures for the implementation of key FMC processes
- taking into account the relevant laws and by-laws and operational and organizational specifics of the public sector entity

Creating a new system of managerial accountability in FMC

- According to which
 - The head of the parent budget user is accountable to the body that appointed him and is obliged to regulate the manner of cooperation and reporting with the budget users and the publicly owned enterprises in his competence.
 - the head of the budget user is accountable to the head of the parent budget user and is obliged to follow the procedures and instructions issued by the parent budget user
 - the head of the publicly owned enterprise is accountable to the supervisory body, but is obliged to follow the procedures and instructions issued by the parent budget user

Creating a system of managerial responsibility

- The heads of internal organizational units within the delegated authorities and responsibilities is responsible to the head of the public sector entity, whereby
- The heads of the internal organizational units in the parent budget user shall cooperate with the budget users and the publicly owned enterprises under its authority.

Ministry of Finance - CHU will prepare and publish on the website

- FMC Manual in which
 - will develop the manner of preparation of internal acts for financial management and control, and also
 - will prescribe the manner of performing the quality review of FMC, which will regulate the purpose, scope, planning, execution, reporting, documentation as well as the form and content and the manner of keeping a register for performed quality reviews.

Financial Affairs Unit (FAU) is responsible for

- the coordination of activities connected with
- **development** of the FMC
- on the level of the public sector entity

Financial Affairs Unit (FAU) in the parent budget user is responsible for

- drafting, monitoring and proposing amendments of internal acts for key FMC processes in cooperation with heads of appropriate internal organizational units responsible for achievement of objectives of budget user.
- managing internal accounting systems in the parent budget users and budget users under its authority, including cost accounting.

Financial Affairs Unit (FAU) in the parent budget user is responsible for

- providing advices and support to the heads of internal organizational unit and the heads of budget users under the authority of the parent budget user
- coordinating the self-assessment of the internal control system and preparing of the Annual report on internal control system and
- coordinating the preparation of Annual plan on internal control system development for key FMC processes.



INTERNAL AUDIT

Mission and purpose of internal audit

- **Internal Audit Mission** is to enhance and protect the public sector entity value by providing risk-based and objective individual audits and advisory services.
- **Purpose of internal audit** is an independent and objective assessment of the internal control system and to provide assurance and advice to improve the effectiveness of risk management, controls and management of business i.e. corporate governance.

Manners of establishing internal audit

- by establishing an internal audit unit
- by establishing a joint internal audit unit
- by Agreement on performing internal audit

Criteria for establishing internal audit on the central and local level

Institutions	Average budget execution in the last three years	Obligation for establishing internal audit unit
Budget users which are not reporting to the Parliament	<ul style="list-style-type: none"> • Over 500 million denars 	<ul style="list-style-type: none"> • Have an obligation to establish their own Internal Audit Unit
	<ul style="list-style-type: none"> • less then 500 million denars 	<ul style="list-style-type: none"> • They have no obligation to establish their own IAU, and internal audit is conducted by the IAU in the ministries
Budget users which are reporting to the Parliament	<ul style="list-style-type: none"> ▪ From 100 to 500 million denars and over 50 employees 	<ul style="list-style-type: none"> • May establish own internal audit unit with the prior consent of the Minister of finance
	<ul style="list-style-type: none"> ▪ Over 350 million denars and more than 50 employees ▪ Under 350 million denars and less than 50 employees 	<ul style="list-style-type: none"> ▪ Have an obligation to establish their own Internal Audit Unit. ▪ They are not obliged to establish an internal audit function, but may establish a joint internal audit or by an Agreement on performing internal audit
The City of Skopje and municipalities	<ul style="list-style-type: none"> • Over 100 million denars and over 50 employees. • Under 100 million denars and under 50 employees 	<ul style="list-style-type: none"> ▪ Have an obligation to establish Internal audit unit that shall perform internal audit function in the budget users and the publicly owned enterprises under its authority in which it is not established an internal audit unit ▪ May establish a joint internal audit or by an Agreement on performing internal audit
Publicly Owned Enterprises	<ul style="list-style-type: none"> ▪ Average income not less than 500 million denars and not less than 50 employees ▪ Average income less than 500 million denars and less than 50 employees 	<ul style="list-style-type: none"> ▪ Have an obligation to establish their own Internal Audit Unit. ▪ Internal audit will be performed by the internal audit unit on its parent budget user.

Minimum Number of Employees in Internal Audit Units

Minimum number of auditors	Average budget / financial plan execution in the last three years	Number of employees
1 auditor and head of the IAU	100 and 500 million denars	at least 50
2 auditors and head of the IAU	from 500 million denars to 2 billion denars	at least 80
3 auditors and head of the IAU	more than 2 billion denars	at least 150

Responsibilities of the Head of Internal Audit Unit

- preparing the strategic and annual plan of internal audit based on risk assessment in cooperation with managers i.e. responsible persons in the public sector entity,
- ensuring the performance of internal audit activities in accordance with the International Professional Practices Framework as well as regulations that regulate internal audit in the public sector, including participation in implementation of internal audit,
- ensuring the monitoring of the implementation of the recommendations given by internal and external audit i.e. whether the recommendations are implemented in accordance with the action plan,
- preparing the individual, periodic or annual reports on internal audit work,

Responsibilities of the Head of Internal Audit Unit

- preparing the quality assurance and improvement program
- For the purpose of performing audits of specific areas the head of public sector entity, upon the recommendation of the head of internal audit unit, may engage experts with specialist knowledge to provide professional assistance in performing audit.
- The Head of internal audit unit shall attend the collegiums of the management of the public sector entity and shall present the strategic and annual audit plan, the annual report on the performed audits and reports on the implementation of the internal audit recommendations.

Audit Committee

- Public sector entities accredited for decentralized management system to which more than 50 million euros from European Union funds have been allocated, establish an Audit Committee.
- The Audit Committee has three members, of which one member is from the public sector entity and two external members with at least 10 years of experience in the field of public finance and auditing.
- The Minister of Finance shall prescribe by instructions in more detail the manner of establishment and work of the Audit Committee.

REPORTING ON FINANCIAL MANAGEMENT AND CONTROL AND INTERNAL AUDIT

- The head of the parent budget user shall submit an Annual report on public internal financial control system to the CHU the latest by 15-th of April in the current year for the previous year.
- The head of the budget users shall be obliged to submit to the parent budget users annual report on public internal control system the latest by 15-st of March the current year for the previous year.

PUBLIC INTERNAL FINANCIAL CONTROL COUNCIL

- The Council for Internal Financial Control in the Public Sector is established in the Ministry of Finance shall for the purpose of promoting the development of financial management and control system and internal audit in the public sector.
- The Council shall be an advisory body to the Minister of Finance, and without any management authorities.
- By the proposal of the Minister of Finance, the Government of Republic of North Macedonia shall appoint and dismiss the members of the Council.

Collaboration with

- The State Audit Office, which concluded a formal protocol for cooperation and exchange of information and contribution to the implementation of its recommendations
- Association of Internal Auditors of Macedonia, member of IIA Global and the implementation of IIA and the national certification of internal auditors
- Financial inspection in the public sector in speeding up the process of drafting internal acts (procedures) for key financial management processes.



Internal audit indicators

Internal audit indicators

	Central level	Local level	Total
Established Internal Audit Units	91	71	162
Internal auditors	91	53	144
Heads of Internal Audit Units	42	17	59
Total	133	70	203
Reports of IAU	142	113	255
Recommendations of IAU	697	637	1334
% of implemented recommendations	60%	58,4%	59,2%
Number of active certified auditors	43	10	53

Internal audit indicators

Average number of auditors and Heads per Internal Audit Unit	1,25
Average number of reports of IAU	1,57
Average number of recommendations of IAU	8,23
% of active certified auditors	26,1%

SIGMA - report for 2021

- The small average number of internal audit units combined with insufficient staff and low qualifications have an impact on the quality of audit activities.
- Although 70% of internal audit units prepare strategic and annual audit plans based on risk assessment, these plans generally lack ambition and fail to cope with the high risk and complex issues.
- Audit reports, although showing a reliable link between evidence and conclusions, are generally focused on narrow range compliance issues.

Internal audit in the ministries

- In more than half (56%) of the ministries the legal requirements for the operation of the internal audit units are not met.
- This is indicated by the data according to which out of a total of 16 ministries, in the internal audit units in 4 ministries there are no employees, in 3 ministries there is one employee, and in 9 there is no head of the internal audit units.
- Having in mind that with the new Law on the public internal financial control system, the ministries will get the role of parent budget users who will have to conduct internal audit in their bodies, the second line of budget users and public enterprises and state-owned joint stock companies, under their authority.
- Urgent measures need to be taken to reorganize the internal audit units and their staffing.

Strengthening the IAU in the ministries

(Conclusion of the Government on the Annual Report for PIFC for 2020)

- All ministries are entrusted, to submit to the Government, by 28th February 2022, a Plan for Organization of the Internal Audit, being prepared on the basis of carried out functional analysis of the ministry as parent budget user, 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 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.

Strengthening the IAU in the ministries (Conclusion of the Government on the Annual Report for PIFC for 2020)

- Ministries, whose internal audit units have neither head nor internal auditors (Ministry of Culture, Ministry of Economy, Ministry of Information Society and Administration and Ministry of Political System and Inter-Community Relations) are entrusted with staffing the internal audit units by 31st January 2022 with at least two internal auditors.
- All ministries are entrusted to inform the Ministry of Finance - Public internal Financial Control Department about the activities undertaken upon the conclusions.

Strengthening the IAU in the ministries

(Conclusion of the Government on the Annual Report for PIFC for 2020)

- Upon approving the Plan for Organization of Internal Audit by the Government, based on the previously received positive opinion by the Ministry of Finance, the ministries should
- make modifications and amendments to the acts for organization and systematization as regards the internal audit units, the staffing of which should be completed by 31-st December 2022.



To strengthen the quality of work of the internal audit units in the ministries it's needed:

- Strengthening the capacities of the CHU for reviewing the quality of operation of the internal audit units,
- reorganization and staffing of internal audit units and
- providing continuous training.
- Establishment of a network of institutions / internal audit units in coordination with the CHU, for exchange of experiences and best practices.

IT and performance audits

- Although a greater focus on the value for money in service delivery and digitalisation of services should be expected, the number of IT and performance audits performed by internal auditors is small.
- The skills required for these audits may not be available enough to meet demand.
- Centralization of the authorizations and capacities for advanced types of audits (performance audit and IT internal audits) in the MoF.

Academy of Public Finance

- Strengthening the administrative capacities for FMC and IA at central and local level by establishing a system
- for continuous training and on-the-job training and
- National certification of internal auditors
- through the Academy of Public Finance within the Ministry of Finance.



Thank you for your attention