



REPUBLIC OF MACEDONIA
MINISTRY OF FINANCE



***STRATEGY
FOR DEVELOPMENT OF THE PUBLIC INTERNAL
FINANCIAL CONTROL IN THE REPUBLIC OF
MACEDONIA FROM 2010 UNTIL 2012 YEAR***

Skopje, June 2010

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1. SUMMARY

The process of strengthening the financial control in the public sector in the Republic of Macedonia has started and is implementing through development and application of the principles of decentralized responsibility of the management and establishing functionally independent internal audit, meaning development of all three components of the public internal financial control: financial management and control, internal audit and their harmonization. The objective of this process is building a system that will ensure reasonable use of the public funds through introduction of sound financial management with public funds.

This strategy is a document which outlines the measures and actions to be taken in order to strengthen the financial control in the public sector in the Republic of Macedonia through implementation of already defined operating model of EU for public internal financial control which is a consistent combination of the managerial responsibility and the functionally independent internal audit. This model will enable redesigning of the internal control environment and improvement of the control system in the public sector in the Republic of Macedonia in accordance with the international standards and best practices of EU.

The Strategy for development of the public internal financial control in the Republic of Macedonia from 2010 to 2012 are processed future activities to be undertaken for development and promotion of the public internal financial control in the Republic of Macedonia and the timeframe for their implementation in accordance with the requirements of Chapter 32 Financial control in the future negotiations for membership in the European Union.

The implementation of activities determined by this strategy is a responsibility of the public sector entities, so that the Ministry of Finance - Public Internal Financial Control Department besides that will undertake the activities from own competence also will coordinate the implementation of all planned activities.

According to this strategy, the concept of the public internal financial control will be developed through implementation of the new Law on Public Internal Financial Control adopted in July 2009, bylaws and guidelines from the Ministry of Finance, which provides the legal framework for the functioning of it.

With aim of strengthening the public internal financial control in the Republic of Macedonia will be undertaken measures to increase the capacities of the financial affairs units and internal audit units and the capacities of the Central Harmonization Unit in the Ministry of Finance. Strengthening of the internal control, among other things, will be realized through the establishment of the Committee on financial management and control and Audit Committee in the Ministry of Finance and will also be undertaken measures for preventing irregularities, suspicions of frauds or corruption by appointing persons for reporting irregularities in the public sector entities and by establishment of financial inspection in the public sector in the Ministry of Finance.

The establishment and the full development of a comprehensive and effective system of public internal financial control is a part of the reform of the public administration in the Republic of Macedonia.

2. INTRODUCTION

The delivering of the Strategy for development of the public internal financial control in the Republic of Macedonia from 2010 until 2012 year is in accordance with the requirements of the *acquis* of the European Union for strengthening the financial control which means delivering and application of consistent legislation for the entire area of the internal control defined as: managerial accountability, independent internal audit, consolidation on central level and fraud prevention.

The recommendation of the EC contained in chapter 32: Financial Control, as well as the highlights of the World Bank and SIGMA were taken into consideration during the preparation of the Strategy.

The process of strengthening the financial control in the Republic of Macedonia is initiated and is implementing through development and application of the principles of decentralized accountability of the management and establishing functionally independent internal audit, meaning development of all three components of public internal financial control: financial management and control, internal audit and their harmonization. The aim of this process is creation of a system that will guarantee reasonable use of the public assets.

The goal of the measures contained in this strategy is providing improvement of the existing public internal financial control system and they are result of the analysis and the activities of the Ministry of Finance in cooperation with experts engaged by SIGMA and the MATRA Project "Strengthening and Implementing Public Internal Financial Control at Central Level", that is continuation of the cooperation of the Ministry of Finance of the Republic of Macedonia with the Ministry of Finance of the Kingdom of the Netherlands.

3. ELEMENTS OF THE PUBLIC INTERNAL FINANCIAL CONTROL SYSTEM

The term “Public Internal Financial Control (PFIC)”, (as used by the European Commission in the frames of negotiations for Chapter 32), is completely consolidated system for management, monitoring, control and audit of the national public assets and the EU assets established by the Government. It is consisted of the following basic elements:

- financial management and control,
- internal audit and
- central harmonization of the financial management and control and the internal audit.

3.1 Financial management and control

Financial management and control is a system of policies, procedures and activities established by the head of the entity in order to provide reasonable assurance that the objectives of the entity are achieved. The financial management and control covers the financial processes of planning, execution, monitoring and reporting for: the collection of revenues provided in the budget, management and control for execution of the expenditures approved in the budget and protection of the assets and liabilities whose value is recorded in the balance sheet. The financial management and control is implementing in all organizational units and at all levels of the subject and covers all assets of the entity, including the funds from the European Union and other sources. The system of financial management and control should be constantly evaluated and developed to effectively achieve the mission and goals of the subject.

Responsible persons for financial management and control are the head of the entity and heads of subordinate organizational units in the subject. The Head of the Financial Affairs Unit is not the only one who should be responsible for financial management and control besides the head of the entity. Decentralized mode of governance, means undertaking responsibility for the financial management and control by the heads of all organizational units in the subject within the frames of the approved budget and received mandates by the head of the subject.

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

Objective of the financial management and control is improvement of the financial management due to achieving of the following general goals: performing tasks on correct, ethical, economical, effective and efficient manner; consolidation of the operations with the laws, other regulations, ascertained policy, plans and procedures; protection of the property and other resources from losses caused by bad management, unjustified spending and utilization, as well as from irregularities and abuses; strengthening the accountability for successful accomplishment of tasks; proper recording of the financial transactions and timely financial reporting and monitoring the results of operations.

Responsibility. The head of the entity is responsible for: budget preparation, budget execution and reporting on the budget of the entity that manages; financial management and control and internal audit in all organizational structures, programs, operations and processes managed by him/her; control of the accounting, undertaking financial commitments and execution of payments, collecting revenues and protection of the assets and liabilities; constant assessment of the system for financial management and control, setting and achieving the objectives of the entity and preparation and implementation of the strategic and other plans as well as programs for achieving the general and specific objectives of the entity, establishing an organizational structure and working procedure that will ensure the operation, monitoring and development of sound financial

management and control; establishment of a line for reporting in accordance with transferred authorizations and responsibilities; competence of all employees to perform tasks in accordance with financial management and control; risk management and implementing appropriate and effective internal controls.

Accountability. The head of the entity is accountable for achieving the objectives of the subject from the public sector through management with public funds on legal, economical, efficient and effective manner. Accountability is an obligation of public sector entities and individuals in it, for delivered decisions and activities, including the management with public funds and all aspects of performance to report to the appropriate external supervision. Accountability is an obligation to respond to the granted responsibility. In this, special importance is the determination and achievement of general and specific objectives of the subject through development and implementation of strategic and other plans and programs, establishment of clear lines of reporting in accordance with the transferred responsibilities and ensuring competency of all employees to perform tasks, as well as risk management when implementing appropriate and effective internal controls.

Responsibility and giving authorization. The head of the entity is the most responsible person in the organization because he is on top in the hierarchy of the organization. He sets the main goals of the organization and has crucial importance in delivering most important decisions, defined in the strategic plan and budget for next year. The head of the entity¹ is a mandate giver to one or more heads who are hierarchically subordinated directly to him. Mandate receivers are acquiring the right for bringing decisions on behalf of the mandate giver. He/she makes this with special act (decision). The mandate may be general or specific. The general mandate is authorization for implementation of the full authority for which the mandate giver is responsible. Such mandate should have for example the State Secretary in the ministries for the jurisdiction of the entire ministry, and heads of departments should also be given general sub-mandate for the area of jurisdiction of the respective departments.

Sub-mandate is an approval for the mandate receiver to transfer the received mandate completely or partially to the head of the basic organizational units which are under his direct responsibility. Sub-mandate is giving with an act (decision) for authorization.

Act for mandate or sub-mandate may contain conditions for using the mandate. Based on the mandate or sub-mandate can not be delivered decisions with significant political or financial influence without prior approval from the head of the subject. Heads of organizational units in the entity that received mandate through delegation or sub-delegation can act only within the limits defined by the act for delegation or sub-delegation and they are accountable to the mandate giver for use of the mandate.

Mandate receiver is a person who has received mandate from the mandate giver for delivering decisions and taking actions on his behalf. Decisions from the mandate are preparing and signing on behalf of the head of the subject. The head of the entity upon given mandate continues to be responsible for all decisions made including the decisions relating to financial management and control.

The internal control system designed in accordance with performed risk assessment should provide reasonable assurance that for the achievement of the objectives, resources are used regularly, ethically, economically, effectively and as earmarked. This means that heads of entities in accordance with the laws and other regulations should establish a system of internal controls that will ensure protection of assets from loss, misuse and damage. This system should cover all business

¹ According to Article 49 of the Law on organization and operation of the state administration bodies ("Official Gazette of the Republic of Macedonia" no.58/2000, 44/02 and 82/08) the Minister represents the ministry, organizes and provides a legitimate and efficient performance of the work and tasks; adopt regulations and other acts for which he is authorized and takes other measures within the competence of the ministry in accordance with the law, decides on the rights, duties and responsibilities of civil servants and other employees in the ministry who do not have a status of civil servants, unless regulated with law otherwise. According to Article 52 of the same law, "the Minister may authorize a civil servant to sign acts, to decide on certain matters and to perform other duties within the competence of the ministry, except for acts and things that in accordance with the law are in the jurisdiction of the minister."

transactions, and especially those related to revenues, expenditures, public procurements and concluding contracts, return of incorrectly paid money, assets and liabilities.

Implementation of the internal controls is responsibility of all heads and employees in the entity.

Establishment, development and implementation of the internal controls are responsibility of the head of the subject and the persons to whom these responsibility is transferred.

The method of establishment of efficient and effective financial management and control system, the head of the subject can be provided it through: accurate determination of general and specific objectives of the organization; timely development and implementation of strategic and other plans and programs for achieving the objectives of the organization; regular risk assessment and introducing adequate and effective internal controls in accordance with international standards for internal control, establishing clear lines of reporting (accountability) in accordance with transferred authorizations and responsibilities and ensuring competence (expertise) of employees for successful execution of the set tasks.

Components of the financial management and control. Financial management and control is implementing based on internationally accepted standards for internal control, by applying the following interrelated components: control environment, risk management, controls, information and communications and monitoring.

Control environment. The control environment includes the personal and professional integrity of the heads and employees in the subject, the way of thinking and working style of the heads, the organizational structure that ensures segregation of responsibilities, hierarchy and clear rules, rights, responsibilities and levels of reporting, policies and practices of the human resource management and competence of the employees.

Risk management. Risk is the probability of occurrence of an event with negative impact on achieving the objectives of the entity. Risk management is a process of ascertaining and assessment of the internal and external risks that can negatively affect the implementation of the objectives of the entity and implementing the necessary controls in order the risk exposure to be on acceptable level or to reduce the consequences of possible risk to acceptable level. Risk management includes ascertaining, assessment and control of possible events or situations that may have negative impact on the achievement of the objectives of the entity to provide reasonable assurance that objectives will be achieved. Reasonable assurance means obtaining a satisfactory level of confidence for a particular question taking into consideration the costs, benefits and risks. Enforcement of activities related to risk management, the head of the entity should adopt a Strategy for risk management, which should be updated every three years, but more frequently if the risk is significantly changed. Controls related to minimizing risks should be analyzed and updated at least annually.

Controls. Control are all activities undertaken in order to avoid or reduce risks. Effective controls mean existence of clear procedures for authorization and approval for what should be taken specifically into consideration the segregation of duties in a manner that does not allow one official person at the same time to be responsible for approval, execution, accounting and control; establishment of a system of double signatures; rules for access to resources and information; ex - ante and ex post financial control; procedures for comprehensive, accurate, precise and updated accounting of all transactions; reporting and review activities - assessment of the efficiency and effectiveness of the transactions; procedures for monitoring, procedures for human resource management and rules for documentation of all transactions and activities associated with the activities of the entity.

Information and communications. Information and communications include processes for identifying, collecting and distribution of confidential and reliable information in appropriate form and timeframe that enables each responsible person to take appropriate responsibility. In this, particular account should be taken for effective horizontal and vertical communication at all hierarchical levels in the subject, building proper information system for management of the entity in a sense that employees have to know the clear and precise rules and instructions for their role

and responsibilities related to financial management and control, documentation and graphical display of the system that contains rules for the preparation, execution, transfer, use and archiving of documents, documentation of all operating processes and transactions in order to ensure proper audit trail for tracking and monitoring and developing an effective, timely and confidential reporting system that includes: levels and deadlines for reporting. An important part of information and communications in the organization are the reports that are presented to heads and forms of notification upon detecting errors, irregularities, abuse, fraud or inappropriate use of the funds.

Monitoring. Monitoring of financial management and control is check of the proper functioning of this system. Monitoring of financial management and control is implementing through constant following, self-assessments and internal audits. Through the Financial Affairs Unit, the head of the entity during the year carries out self-assessment of the individual processes of the system for financial management and control in the entity that manages and once in five years conducts self-assessment of the structure and functioning of the entire financial system for financial management and control. By exception, self-assessment may not be conducted in a separate organizational part of the entity or of a specific financial process if the outcome of the risk management gives good arguments for not implementing the self-assessment. The head of the Financial Affairs Unit informs the head of the Internal Audit Unit for the results of conducted self-assessments. The head of the entity in the annual financial report, submits a report on self-assessments that were made in the corresponding year and about the results of the self-assessments that are not entirely positive. The annual financial report contains the comments of the head of the subject relating to the recommendations of self-assessments. The head of the entity in the annual financial report gives an opinion on the financial management and control.

Principles of accounting and financial reporting. The head of the entity should establish accounting and financial reporting that will provide adequate information in order to be able to oversee and be responsible for the functioning of the financial management and control in the subject. Accounting should be established and operate under the principles of regularity, efficiency, economy, verifiability and tidiness. The head of the entity is responsible for verifying the compatibility of data obtained by third parties under the principles of regularity, efficiency, economy, verifiability and tidiness, especially if the revenue or costs depend on those data.

Authorized person for undertaking financial commitments, authorized person for payments and treasurer. The head of the entity may appoint persons authorized for undertaking financial commitments, persons authorized for payments and treasurers. One person can perform only one of these tasks and should be hierarchically independent from one another.

Ex-ante and ex-post financial control. The head of the entity is responsible for ex-ante and ex-post financial control. Ex-ante financial control is a procedure that provides financial obligation not to be taken and expenditure not to be paid without prior approval from the official hierarchical independent of the person authorized for undertaking financial commitments and the person authorized for payments. Ex-post financial control is a procedure that is being conducted at the entity with which is ensuring that the financial transactions in form of liabilities, expenditures or revenues, to be reviewed after the transaction will be fully completed. The head of the entity decides for the manner of implementation of ex-ante and ex-post controls taking into consideration the needs and specifics of the operation, after conducted analysis of risk. Ex-post financial control provides instruments for removal of detected irregularities of the internal controls and should not be conducted by persons who are responsible for ex-ante financial control. Ex-post controls includes also a detective control that is performing upon full implementation of approved financial decisions and transactions with aim to reduce the risk of side effects and improving procedures or ex-ante controls.

Financial Controller is a person authorized in the subject for verification of legality and regularity of proposed financial decisions as well as their approval or denial, taking into consideration the principles of economy, efficiency and effectiveness.

Financial Affairs Unit. The head of the entity establishes separate organizational unit based on financial affairs as a department or unit, whose head is directly accountable to the head of the subject and the highest civil servant. Financial Affairs Unit is responsible for performing the work in the area of financial management and control.

Head of Financial Affairs Unit conducts supervision and advises the management of the subject, especially for control of the budget², ex-ante financial control, control of the execution of established policies and operational management³, accounting and budgetary and financial reporting. Head of Financial Affairs Unit should coordinate the process of drafting and amending and supplementing the budget and strategic plan of the subject, as well as the process of developing, establishing, implementing and maintaining financial management and control, process of accounting records for budget execution and preparing the annual account and annual financial report. He/she is obliged to give opinions on draft acts that are produced by other organizational units in the subject and draft acts of other entities that have or may have financial implications for the budget of the entity. He/she should also conduct ex-ante and ex-post financial control⁴ and protection of assets and liabilities whose value is recorded in the balance sheet.

Besides the head of the entity responsible for establishing, implementing and developing the financial management and control system is also the head of the Financial Affairs Unit⁵. Head of the Financial Affairs Unit should prepare a plan for the establishment of financial management and control as well as a methodology for implementing the plan that should be approved by the head of the entity. He/she, appropriately to the needs and specifics of the operations of the entity, may appoint a coordinator for financial management and control that will operationally implement and coordinate the establishment and development of financial management and control of the entity. The coordinator for financial management and control must not conduct ex-ante and ex-post control activities. Persons responsible for the establishment and development of financial management and control and persons responsible for implementation of specific types of control are required to undergo training according to training program for establishment and development of financial management and control, as well as to cooperate with the Central Harmonization Unit within the Ministry of Finance regarding the establishment and development of financial management and control. The head of the organization is responsible for preventing the risk of irregularities and frauds, but also to take actions (measures) if they occur. For this purpose he should appoint a person who reports for irregularities and suspicions for frauds or corruption and independently to take actions against irregularities, frauds and corruption. All employees including the internal auditors report to the head of the subject from the public sector and the person responsible for irregularities, suspicions for frauds or corruption.

3.2 Internal Audit

² Control of the budget preparation and budget execution.

³ Supervision of the whole process of internal management and control.

⁴ By giving sub-mandate on hierarchically directly subordinated employees in the unit.

⁵ The head of the department/unit for financial affairs.

Internal audit⁶ is an independent activity for providing objective assurance and consulting, established with aim to increase the value and improve the performance of the subject. It helps the subject to accomplish its goals by applying systematic, disciplined approach for assessment and increasing the efficiency in the processes of risk management, control and management.

The aim of the internal audit is to the head of the subject of the public sector to provide an independent reasonable assurance and advise with aim to improve the working of the subject and increasing the effectiveness of the internal control systems.

The role of internal audit is to provide support to the heads in the subject of the public sector to achieve the objectives of the subject. This support the internal audit is realizing through independent development of strategic plans for internal audit based on previously conducted objective risk assessment and conducting individual Internal audits in accordance with the adopted audit plans. The purpose of the individual internal audits is to assess the adequacy, economy, effectiveness and efficiency of the system of financial management and control. The internal auditors are conducting this by assessment of the success of the ascertaining, assessing and risk management from the management of the entity in respect of: compliance with laws, bylaws and internal acts and contracts, reliability and comprehensiveness of the financial and operational information, security of property and information and execution of tasks and achieving goals.

Supporting the heads in the public sector entities to achieve the objectives of the entity, the internal audit is providing it by giving recommendations for improvement of the working and the working procedures and monitoring the implementation of the measures undertaken by the head of the public sector entity on the basis of the performed audits.

The internal audit is implementing in compliance with the principles of legality, independence, objectivity, competency, professionalism, integrity and confidentiality and with the accepted international standards for professional execution of the internal audit, by-laws, the Internal Audit Charter and the internal acts of the public sector entity. The Internal Audit Unit has an authorization to conduct internal audit in all organizational structures, programs, activities and processes of the subjects in the public sector.

The Head of public sector entity establishes an Internal Audit Unit in line with the criteria ascertained in the Law on public internal financial control.

In the subjects from the public sector whose average annual budget meaning financial plan in he last three years is not exceeding the amount of 50 million denars, the internal audit is organizing by engaging: internal auditor/s from the Internal Audit Unit from other subject from the public sector based on a contract concluded between heads of both subjects from the public sector or auditor/s stated in the registry of auditors.

The Internal Audit Unit is organizationally and functionally independent and directly and solely responsible to the head of the public sector entity. The functional independence of the Internal Audit Unit is ensured through its independence of the other organizational units of the entity in the planning of the operations, the execution of the internal audit and the reporting.

The head of the Internal Audit Unit and the internal auditors are independent when performing the internal audit, being executed skillfully and professionally by applying methodology based on the international standards for internal audit, as well as the principles and the rules for behavior determined with the Code of Ethics of Internal Auditors as well as the instructions or the guidelines by the Minister of Finance. The Head the Internal Audit Unit and the internal auditors should not perform financial management and control tasks and other tasks in the entity that do not arise from the internal audit function.

⁶ **Internal audit** means an independent objective assurance and consulting activity, designed to add value and improve the entity's operations. It shall help the entity in accomplishing its objectives, by applying a systematic, disciplinary approach for assessing and improving the effectiveness in the process related to risk management, control and governance.

The head of the Internal Audit Unit and the internal auditors can not be dismissed or transferred to another working post due to reporting on certain situations or giving certain recommendations. Before undertaking disciplinary measures, redeployment, or dismissal of the Head of the Internal Audit Unit and the internal auditors, the head of the public sector entity is obliged to inform the Central Harmonization Unit and to enclose the necessary documentation. The transfer or dismissal of the Head of the Internal Audit Unit and internal auditors shall be realized after receiving written permission by the Minister of Finance.

The Head of Internal Audit Unit is obliged directly to inform the head of the public sector entity for all audit affairs within the public sector entity, and particularly for: regularity, effectiveness and the efficiency of the budget/financial plan execution; regularity and efficiency of the internal financial control and asset management and the consolidation with the accounting reports for the execution of the budget/financial plan with the accounting standards.

The head of Internal Audit Unit gives opinions on the internal rules and acts of the public sector entity with regard to issues related to internal financial control and internal audit before these rules and acts become effective. The head of Internal Audit Unit advises all management officials in the public sector entity about the risk management.

Head of the subjects from the public sector appoints an internal auditor on training, who after a period of two years will be appointed as an internal auditor.

The internal audit is performing on the basis of: strategic plan for period of three years, annual plan and individual audit plan. The audit is performing by determining, analysing, assessing, and documenting the data, sufficient for giving an expert opinion on the set goals. The head of the Internal Audit Unit in accordance with the head of the public sector entity may engage experts to assist during the execution of the internal audit in separate areas. Audit Report including a summary, objectives and scope of the audit, findings, conclusions and recommendations shall be prepared for each performed internal audit.

3.3 Central harmonization of the financial management and control and the internal audit

The Minister of Finance is in charge for coordination of the development, the establishment, the implementation and the maintenance of the public internal financial control system. On his behalf this function is implemented by the Central Harmonization Unit of the public internal financial control system organized in the Ministry of Finance as Public Internal Financial Control Department.

The Central Harmonization Unit is responsible for coordination of the standards and methodologies of financial management and control and the internal audit as well as for assessment, analysis, promotion, development and support of those functions in the institutions of the public sector.

The Central Harmonization Unit is in charge for preparation of laws and by-laws in the field of the financial management and control and the internal audit as well as for preparation of methodology and working standards for the financial management and control and the internal audit. It is also in charge for coordination of the trainings for the heads and employees involved in the financial management and control and the internal audit, coordination during the establishment and the development of the internal financial control system, preparation of approval for redeployment and dismissals of internal auditors, establishment and maintenance of databases for the internal audit units and the adopted charters, establishment and maintenance of registry of certified internal auditors who passed the exam for authorized internal auditor in the public sector and/or have internationally recognized audit certificate. The Central Harmonization Unit is in charge for cooperation with institutions responsible for public internal control affairs in the country and abroad and exchange of information for development of the public internal financial control as well as

supervision of the quality of the financial management and control system and supervision of the quality of the operations of the Internal Audit Units. Based on the Annual Financial Reports submitted by the first line budget users from the area of legislation, executive and court authority (except the State Audit Office), funds and municipalities and the City of Skopje, the Central Harmonization Unit is obliged to prepare Annual Report on the functioning of the public internal financial control system and to submit it to the Government of the Republic of Macedonia, by the end of July in the current year for the previous year at the latest.

4. PUBLIC INTERNAL FINANCIAL CONTROL SYSTEM IN THE REPUBLIC OF MACEDONIA –CURRENT SITUATION

The internal financial control systems on central level are set in the frames of the bodies of the state

4.1 Institutional frame of the public internal financial control

administration⁷.

Main institutions within the frames to which financial and other forms of control are performed are:

The Assembly of the Republic of Macedonia is representative body of the citizens and bearing body of the legislation authority in the Republic of Macedonia that, among other things, delivers the laws and the Budget of the Republic of Macedonia, the law on budget execution and closing account, determines the public fees, elects Government of the Republic of Macedonia, conducts elections, appoints and dismisses bearers of public and other functions, performs political control and supervision over the Government and over other bearers of public functions accountable to the Assembly.

Government of the Republic of Macedonia determines the policy of execution of the laws and other regulations of the Assembly and is responsible for their execution, suggest laws and Budget of the Republic of Macedonia and other provisions delivered by the Assembly, delivers decrees for execution of laws, determines directions for the inner organization and for the work of the ministries and other state bodies, directs and supervises their work, performs appointments and dismissal to bearers of public and other functions and for its own work (the Government and every member) is accountable to the Assembly.

Ministry of Justice performs the tasks related to: judiciary, public prosecution office, state attorney office, state administration, criminal justice and misdemeanor responsibility, performing sanctions for crimes and misdemeanors, criminal, misdemeanor, legal, non trial, executive and administrative proceedings and administrative supervision.

Ministry of Finance performs the tasks related to: financing system, treasury system, customs system, taxation system and tax policy, international payments system, banking and savings bank system and other financial institutions, accounting system, audit and payment system, loan and credits, macroeconomic policy and development of the national economy policy, preparation of projection of the payment balance, preparation and follow up of the macroeconomic balances, property and individual insurance, games of chance, preparation and execution of the Budget of the Republic of Macedonia, closing balance of the Budget of Republic of Macedonia, right to property and other legal property relations, reserves, supervision from its competency and performs other duties ascertained in law.

Inspection supervision covers supervision over implementation and application of the laws and other regulations by the state bodies, public enterprises, trade associations, institutions, individuals

⁷The executive authority (state administration bodies) are organized in: 15 ministries, 5 independent organs of the state administration, 40 organs in composition of the ministries and 3 administrative organizations

and legal entities. The inspection supervision is performed by 14 state inspectorates⁸. The work of the inspection supervision is performed by inspectors. Every citizen has the right to give an initiative for inspection supervision and for undertaking appropriate measures by the ministries and the state administrative bodies responsible for inspection supervision. The inspection supervision proceeding is initiated by the inspector by official duty, in line with the regulations in the administrative proceeding. In performing the inspection supervision the inspector is obliged to act according law and other regulations.

The administrative bodies performing inspection works are obliged, during performing the duties, to cooperate between each other for mutual interest, as well as with other administrative bodies.

State Audit Office as highest audit institution executes external audit to: financial statements of institutions of public sector and the legal, intended, economic, efficient and effective use of the public expenditures. For its work and performed audits it reports to the Assembly of the Republic of Macedonia at least once a year.

4.2 Legal frame for the public internal financial control and external audit

The public internal financial control and the external audit in the Republic of Macedonia is regulated with: the Law on public internal financial control ("Official Gazette of the Republic of Macedonia" no. 90/2009) and the Law on state audit ("Official Gazette of the Republic of Macedonia" no. 66/2010).

4.2.1 Financial management and control

The law on public internal financial control, the Rulebook for the basic elements of the financial management and control and the standards for internal control in the public sector ("Official Gazette of the Republic of Macedonia" no. 130/07) and the Rulebook for the form, content and way of delivery of the statement for quality and condition of the internal controls ("Official Gazette of the Republic of Macedonia" no. 8/08) define the legal frame for the financial management and control system.

In the Rulebook for the form, content and way of delivery of the statement for the quality and condition of the internal controls ("Official Gazette of the Republic of Macedonia" no. 8/08) is provided the template for the Annual report for the quality and condition of the financial management and control that is using since 2008 year.

The functioning of the financial management and control system is regulated also with other laws and by-laws, among which more important are the Law on budget, Law on budget execution, Law on financing units of the local self government, Law on accounting of budgets and budget users, regulation for treasury etc.

Department for budgets and funds in the ministry of finance coordinates the budget process (prepares fiscal strategy, budget circular with ascertained ceilings for financing expenditures, negotiates with budget users for certain budgets) and prepares the draft budget of the Republic of Macedonia. Besides this, this department is responsible for preparation of regulation in the area of budgeting.

⁸ State Administrative Inspectorate, State Inspectorate for currencies, the State Market Inspectorate, State Inspectorate for Technical Inspection, the State Inspectorate for Agriculture, State Inspectorate for Forestry and Hunting, State Sanitary and Health Inspectorate, State Education Inspectorate, State Inspectorate for Labour, State Inspectorate for Local Self-Government, State Inspectorate for Transport, State Inspectorate for Construction and Urban Planning, State Communal Inspectorate and State Environmental Inspectorate.

Within the frames of the determined ceilings from the budget circular, every budget user prepares own draft budget and submits it to the Ministry of Finance – Budgets and funds department. Draft budgets of the respective budget users are prepared mainly in the Accounting units that function in the frames of the departments for general, legal and administrative affairs, and in the part of the ministries and other institutions on central level the accounting records are executed by persons employed in the Common Service within the Government of the Republic of Macedonia.

After entry into force of the Law on public internal financial control (“Official Gazette of the Republic of Macedonia” no.90/09) dated 31st July 2009 started the process of establishment of units for financial affairs responsible for financial management and control of the subjects: budget users from the area of legislative, executive and judicial authority (central government), funds, municipalities and the city of Skopje.

According to Article 9 of the Law on public internal financial control and the guidelines from the Central Harmonization Unit in the Ministry of Finance, inclusive April 2010, 28%⁹ of the direct beneficiaries of the Budget of the Republic of Macedonia have established a special unit (Department or Unit) for financial affairs. Considering the fact that 16 direct budget users have started the procedure for establishing units for financial affairs, this percentage is expected to increase to 50%.

Heads of Financial Affairs Units are appointed in 10 direct budget users: Ministry of Culture, Ministry of Transport and Communications, Ministry of Labour and Social Policy, the Fund for pension and disability insurance, the Assembly of the Republic of Macedonia, the Ministry of Defence, Macedonian Academy of Arts and Sciences, the Agency for Cadastre and Real Estate, the State Election Commission and the Weather Bureau.

At local level 39%¹⁰ started the procedure for establishment of Financial Affairs Unit, and 3% of the local self government units have completed the procedure.

Regarding the initiative of the Central Harmonization Unit in the Ministry of Finance requesting all budget users of central and local level to determine responsible accountant in accordance with Article 16, paragraph 1 of the Law on accounting of budgets and budget users, till April 2010, responsible accountants have been appointed in 86% of the direct budget users and 65% of the local self government units. Responsible accountants are appointed also 190 second line budget users on central and local level.

4.2.2 Internal audit

The Law on public internal financial control (“Official Gazette of RM” no. 90/09), the Rulebook on the basic elements of the working manual, the charter, the annual plan and the internal audit programme (“Official Gazette of RM” no 38/2005), the Rulebook for the method of performance of the internal audit ¹¹(“Official Gazette of RM” no. 72/03), the Rulebook for the form, content and method of delivery of the statement for quality and condition of internal controls (“Official Gazette of RM” no. 8/08) and the Guide for internal audit, represent legal frame for the internal audit in the public sector of the Republic of Macedonia.

⁹ 33 of total 85 units of local self government

¹⁰ 33 of total 85 units of local self government

¹¹ By which are adopted the International standards for professional performance of the internal audit issued by the Institute of Internal Auditors of USA.

Ministry of Finance – Department for public internal financial control is competent for regulation, development and synchronization of the internal audit in the public sector.

In the period September 2009 until April 2010, 11 new subjects from the public sector at central and local level have established internal audit units, i.e. the number of internal audit units in the public sector has increased from 88 to 99 or 12.5 %. The number of internal auditors at central and local level has increased by 15%, meaning from 120 in September 2009, increased to 138 internal auditors. Eight subjects from the public sector at central level have started procedure for staffing the Internal Audit Units according to the Action Plan adopted by the Government of the Republic of Macedonia.

At local level the number of concluded contracts for performance of internal audit has increased for 2. At central level in two subjects is ongoing the procedure for concluding a contract on conducting an internal audit, and 3 subjects have launched an initiation for concluding a contract with another entity from the public sector.

In the framework of the MATRA project "Strengthening and implementation of the public internal financial control system at central level", in January this year the Ministry of Finance of the Republic of Macedonia in cooperation with the Ministry of Finance of the Netherlands organized a training for trainers on which attended 22 internal auditors of 21 subjects from the public sector at central level.

The internal audit units in the public sector on central and local level are organizationally and functionally independent and are directly accountable to the manager of the entity. The independence of the internal audit units is provided by adopting charter on internal audit. In line with the recommendations from the European Commission – The General Directorate for Budget, the Ministry of Finance prepared new template on the internal audit charter. The entities of the public in which the units for internal audit are established, in 2008 adopted new charters on internal audit.

4.2.3 Harmonization of the financial management and control and internal audit

With change and amend of the Rulebook for organization and systematization of the job positions of the Ministry of Finance from 30th April 2007, the Department for central internal audit grew up into Department for public internal financial control and represents Central Harmonization Unit for the financial management and control and the internal audit. For that purpose in the Department are established: Unit for harmonization of the financial management and control, Unit for harmonization of the internal audit that are competent to: create the standards and methodology of financial management and control and internal audit, assessment, analyze, promote, development and support of these functions in public sector entities as well as for organization, coordination and follow up the trainings for financial management and control and internal audit.

In the Unit for harmonization of the financial management and control are employed 4 persons, and in the Unit for harmonization of the internal audit are employed 5 persons.

Ministry of Finance - Public Internal Financial Control Department (as Central Harmonization Unit) prepared and submitted to the Government of the Republic of Macedonia, an Annual Report for the quality and condition of the internal controls in the public sector in the Republic of Macedonia.

Together with the annual statement, the Government delivered also the action plans for new employments¹² planned according to the NPAA for 2009 year.

4.2.4 Undertaking measures against irregularities and frauds

According to Article 50 of the Law on public internal financial control the head of the subject in the public sector has an obligation to prevent the risk of irregularities and frauds and to take appropriate actions against irregularities and frauds. Therefore, he/she is obliged to appoint a person to report for irregularities and suspicions for frauds or corruption, who alone takes measures and informs the Public Prosecutor of the Republic of Macedonia, Ministry of Finance - Financial Police Office and the financial inspection of the public sector. Also, within 15 days this person in writing should inform the person who reported on irregularities or frauds, except in case of anonymous report. All employees including the internal auditors are obliged to inform the head of the public sector entity and the person in charge of irregularities, for the irregularities or suspicions for frauds or corruption.

According to the Law on public internal financial control 63%¹³ of the direct budget users and 47%¹⁴ of the local self government units have appointed a person who will report for irregularities and suspicions for frauds or corruption.

4.2.5 External audit

The implementation of the external audit and the activities of the State Audit Office (SAO) is regulated with the Law on state audit ("Official Gazette of RM" no. 66/2010). With this law are regulated the conditions and the method of conducting the state audit as well as the organization and the competences of the State Audit Office. SAO is managed by General State Auditor. The General State Auditor and the Deputy are electing and dismissing by the Assembly of the Republic of Macedonia and their mandate is 9 years without right for second election. The General State Auditor and the Deputy can not be held criminally liable or be held for stated positions, opinions and recommendations regarding the audits. This provides functional independence of SAO.

The funds for operation of SAO are providing from the Budget of the Republic of Macedonia, and set out by the Assembly upon a proposal of SAO. The SAO budget is preparing within the frames of the annual limits according to the established fiscal strategy and it represents an integral part of the Budget of the Republic of Macedonia. The Assembly of the Republic of Macedonia separately votes for the part intended for SAO in the Budget of the Republic of Macedonia. With this is ensuring the financial independence of the SAO.

The General State Auditor appoints authorized auditors. The number of executives is determined by the acts for organization and systematization of the work and the tasks of SAO, which are delivered by the General State Auditor.

The state audit is performing in compliance with audit standards of the International organization of the high audit institutions (INTOSAI) and the regulations determined by the Code of ethics of INTOSAI, that are published by the Minister of Finance in "Official Gazette of the Republic of Macedonia". SAO performs an audit on regularity and an audit on performance.

¹² The Action plan for establishment and staffing of the units for financial affairs and employment of 130 new executors in 65 subjects on central level and the Action plan for establishment and staffing of internal audit units and employment of 144 new internal auditors on central level.

¹³ 45 of 71 direct budget users on central level

¹⁴ 40 of 85 units of the local self government

SAO prepares an annual report for performed audits and for the work of SAO that is submitting to the Assembly of Republic of Macedonia for reviewing latest by 30th June in the current year for the previous year. The Assembly of Republic of Macedonia adopts findings after reviewing the report. Also, the Assembly of Republic of Macedonia receives all final audit reports.

SAO and the Ministry of Finance – Public Internal Financial Control Department (Central Harmonization Unit) in line with the signed Protocol for mutual cooperation exchange information for standards for auditing, methodology manuals and guidelines for the internal and state audit, annual programs for audit activities, risk areas during audit planning, educational programs and other information of mutual interest.

5. MEASURES FOR DEVELOPMENT OF THE PUBLIC INTERNAL FINANCIAL CONTROL IN THE REPUBLIC OF MACEDONIA

5.1 Measures for strengthening the capacities in the Ministry of Finance

Ministry of Finance – Public Internal Financial Control Department carries out the harmonization of the financial management and control and the internal audit through the Central Harmonization Unit of the financial management and control that has 4 employees and the Central Harmonization Unit of the internal audit that has 5 employees.

Within the Ministry of Finance, a Committee for financial management and control will be founded, as a consultative body to the Minister of Finance for questions related to the financial management and an Audit Committee as a consultative body to the Minister of Finance for questions related to the internal audit. The Committee for financial management and control will be consisted from heads of Financial Affairs Units from the subjects on central level. The Audit Committee will be consisted from heads of Internal Audit Units from the public sector subjects. The state secretary of the Ministry of Finance will chair the committees and the Head of the PIFC Department will be Secretary. The meetings of the committees will be held at least once in three months, and in urgent cases, the chairperson may call for irregular meeting. Committees will work according Working manual

In the second half of 2009 started the realization of the new MATRA project for strengthening and implementation of the public internal financial control at central level, funded by the Kingdom of the Netherlands. It's planned the MATRA project to be completed by the end of 2010, or until the launch of the new twinning project funded by IPA 2008.

In 2010 within the frames of the MATRA project will be strengthened the capacities of the Ministry of Finance - Public Internal Financial Control Department that should be a leader to changes in the process of implementation of the decentralized system of governance and management with the public funds regulated by the Law on public internal financial control. Because of this, for the employees in the Ministry of Finance - Public Internal Financial Control Department, within the frames of the MATRA project will be carried out trainings by Dutch experts with aim to gain knowledge, competence, and skills for initiating, stimulating, and ensuring assistance for the employees of the public sector entities in this area.

Particular attention will be put on strengthening the capacities of the Ministry of Finance - Public Internal Financial Control Department for improving the process of strategic planning of the Financial Affairs Units and the Internal Audit Units in line ministries and other public sector entities. In addition, adequate measures (trainings, working meetings with the subjects etc.) will be undertaken for increasing the capacities for preparation of the Annual financial report of each subject separately and the consolidated Annual Report for functioning of the public internal

financial control system¹⁵ that is prepared by the Ministry of Finance - Public Internal Financial Control Department and submitted to the Government of Macedonia for adoption.

In the second half of 2010 will be adopted the Law on financial inspection in the public sector. With the Law on financial inspection in the public sector will be regulated the way of organization, objectives, tasks, principles and activities of the financial inspection in the public sector.

5.2 Measures for strengthening the capacities for financial management and control

In 2010, within the first line budget users from the area of legislative, executive and judicial power, funds, municipalities and the City of Skopje will be undertaken measures for strengthening the capacities for financial management and control.

In 2010 will be undertaken measures and activities whose aim will be to increase the awareness and reduce the resistance to reforms in the public internal financial control. For this purpose will be organized separate working meetings with the top management in ministries and other major subjects at central and local level, which will include heads of financial affairs units and other employees. Such meetings will be organized also in the Ministry of Finance with the Budget and Funds Department and the Treasury Department on which will be discussed and set out measures and activities to increase the efficiency and effectiveness of the public expenditures through releasing the budgets from details that restrict the attention to money and control of the expenditures.

With aim the Financial Affairs Units to realize the authorizations for establishment and development of the financial management and control according to the Law on public internal financial control, the following measures will be undertaken:

1. Will be delivered the following by-laws:
 - the Rulebook on the manner for granting authorization,
 - the Rulebook on the manner of execution of the affairs under jurisdiction of the Financial Affairs Unit,
 - the Rulebook on the internal control standards,
 - the Rulebook on the manner of implementation of the general financial processes,
 - the Rulebook on the form and content of the reports and the statement of the Annual financial report, and
 - the Manual for financial management and control, that will contain directions for the manner of establishment and implementation of the financial management and control.
2. Heads of Financial Affairs Units will prepare:
 - Plan for establishment of the financial management and control and
 - Methodology for implementation of the plan
 - Strategy for risk management that will be updated every three years and in cases when the risk will be changing significantly, and
 - Procedures for the financial processes in which the controls that refer to minimizing the risk will be analyzed and updated at least once a year.

¹⁵ As a summary report for all first line budget users in the area of legislative, executive and judicial authority, funds, municipalities and the City of Skopje.

3. The Minister of Finance shall deliver a Program for training for development of financial management and control according to which persons who are responsible for establishing and developing financial management and control will be obliged to attend training in financial management and control.

The advancement of the public internal financial control system at local level will be conducted within the project "Support to the decentralization process by strengthening the capacities for sound financial management and internal financial control at local and central level", financed by the EU through IPA 2008, which will start at the end of 2010 or at the beginning of 2011 and will be implementing by the end of 2012 with 25 institutions at the central level and 40 units of the local self government.

5.3 Measures in the area of internal audit

According to the Law on public internal financial control ("Official Gazette of RM" no. 90/09) will be delivered the following by-laws:

- the Rulebook for the Internal Audit Charter,
- the Rulebook for the manner of conducting the exam for authorized internal auditor in the public sector,
- Program for conducting an exam for authorized internal auditor in the public sector,
- The Rulebook on the manner of execution of the internal audit and the manner of reporting for the audit of the public sector entity,
- Rulebook on the standards for professional performance of the internal audit,
- Code of ethics of the internal auditors in the public sector, and
- Amendment to the Internal Audit Manual.

With the Rulebook for the manner of conducting the exam for authorized internal auditor in the public sector will be regulated the right each person who has two years working experience in the internal or external audit to be able to take an exam and to acquire the title of certified internal auditor in the public sector.

Applicants for acquiring a certificate for authorized internal auditor in the public sector will take the exam in writing. The test will include questions from the area of internal audit standards, Code of ethics and the status of the internal audit units, the internal audit manual and other methodological guidelines for internal audit and financial management and control, regulations on internal audit and financial management and control in the public sector and a regulation concerning the public sector (budget process, public administration, accounting and public procurements).

In 2011 and 2012 will be realized the project "Support to the decentralization process through strengthening the capacities for sound financial management and internal financial control at local and central level" financed by EU through IPA 2008 within which frames will be organized trainings for internal audit for 25 institutions at central level and 40 units of the local self government.

5.4 Strengthening the measures against irregularities frauds

Based on the new Law on public internal financial control ("Official Gazette of the Republic of Macedonia" no.90/09), the Government of the Republic of Macedonia will deliver a Decree for the procedure for preventing irregularities, the way of mutual cooperation, form and content, deadlines and manner of reporting for irregularities.

In function of protection of the financial interests of the European Communities, the Department for financial police in the Ministry of Finance will coordinate the activities for the needs of OLAF and will provide guidance to the institutions for reporting irregularities so that all information for irregularities detected by the subjects when using European Union funds or funds obtained from the European funds by co-financing of the country will be submitted to the Department for Financial police – Unit for coordination for preventing frauds.

The Unit for coordination for preventing frauds in the Department for financial police (AFCOS) is national contact point in the Republic of Macedonia whose role will be assisting and supporting the OLAF¹⁶ in the member states in preventing frauds. The Unit for coordination for preventing frauds (AFCOS) will act as coordinative body which exchanges information with officials of OLAF in the area of preventing frauds, corruption and any other illegal activities (irregularities)

The Unit for coordination for preventing frauds will have operational independence, but also will develop coordinative activities with a development of multidisciplinary nature of the operations (ability to maintain inter-institutional cooperation).

The Unit for coordination for preventing frauds (AFCOS) will cooperate with the institutions that are directly or indirectly involved in protecting the financial interests of EU, while at the same time will propose measures to strengthen the legislative and administrative environment in this area

Due to providing additional education of the employees appropriate trainings will be conducted.

According to Article 50 of the Law on public internal financial control ("Official Gazette of the Republic of Macedonia" no.90/09) will continue the activities of the public sector entities to appoint a person who reports for irregularities and suspicions of fraud or corruption.

5.5 Measures in the area of use of the EU funds

In May 2010 is adopted a new Law on audit of the instrument for Pre-Accession Assistance (IPA) ("Official Gazette of the Republic of Macedonia" no.66/2010). By adoption of this law are regulated the operations of the Audit Authority as a body that is accountable to the Government of the Republic of Macedonia.

The law provides a legal frame for audit of IPA as a precondition for full implementation of the IPA, the manner of performing audits, organization, competence and the audit subject, the authorizations and responsibilities of the Audit Authority as separate and independent legal entity that will be functionally independent from all participants in the management and control systems with the pre-accession instrument,

The Audit Authority during 2010 will continue with the continuous implementation of the activities necessary to review the IPA system in the Republic of Macedonia, through further strengthening of the institutional capacities, providing appropriate working conditions and continuous education and professional development of the employees in the Audit Authority

¹⁶ OLAF is specialized administration of the European Commission responsible for preventing frauds. The mission of OLAF is to protect the interests of EU in terms of preventing frauds, corruption and any other illegal activities (irregularities), including the irregularities and frauds within the European Commission. The work of OLAF has a legal basis in Article 280 of the Treaty establishing the European Community

In 2010 the Audit Authority will continue the cooperation with the European Court of Auditors through participation of representatives of the Audit Authority on specialized trainings for auditing of the EU funds.

In the period 2011-2012, will be revised and updated the manuals for auditing the IPA and other developed methodological guidelines for conducting audit under competence of the Audit Authority

6. ACTION PLAN WITH TIME FRAME OF ACTIVITIES			
<i>No.</i>	<i>MEASURE/ACTIVITY</i>	<i>Deadline</i>	<i>Competent institution</i>
REGULATION			
1	Adoption of a Law for financial inspection in the public sector	31.12.2010	MoF
2	Adoption of the Rulebook for the form and content of the reports and statement of the annual financial report	31.07.2010	MoF
ACTIVITIES RELATED TO THE FINANCIAL MANAGEMENT AND CONTROL			
3	Adoption of the Rulebook for the manner for giving authorization	31.07.2010	MoF
4	Adoption of the Rulebook on the manner of execution of the operations that are under competence of the Financial Affairs Unit	31.07.2010	MoF
5	Adoption of the Rulebook for the standards for internal control in the public sector	31.07.2010	MoF
6	Adoption of the Rulebook on the manner of implementation of the general financial processes	31.07.2010	MoF
7	Manual for financial management and control	31.07.2010	MoF
8	Plan for establishment of the financial management and control	31.12.2010	MoF and the subjects
9	Methodology for implementing the plan for establishment of the financial management and control	31.12.2010	MoF and the subjects
10	Strategy for risk management that will be updated every three years and in cases when the risk will be changing	30.06.2011	MoF and the subjects

	significantly		
11	Procedures for the financial processes in which the controls that refer to minimizing the risk will be analyzed and updated at least once a year	30.06.2011	MoF and the subjects
12	Adoption of a Program for training for establishment and development of financial management and control	31.07.2010	MoF
13	Establishment of a Committee for financial management and control in the Ministry of Finance	31.12.2010	MoF
ACTIVITIES RELATED WITH THE INTERNAL AUDIT			
14	Adoption of a Rulebook for the Internal Audit Charter	31.07.2010	MoF
15	Adoption of a Rulebook for the manner of conducting the exam for authorized internal auditor in the public sector	31.07.2010	MoF
16	Adoption of a Program for taking an exam for authorized internal auditor in the public sector	31.07.2010	MoF
17	Adoption of a Rulebook on the standards for professional performance of the internal	31.07.2010	MoF
18	Adoption of Code of ethics of the internal auditors	31.07.2010	MoF
19	Adoption of a Rulebook on the manner of execution of the internal audit and the manner of reporting for the audit of the public sector entity	31.07.2010	MoF
20	Amendment to the Internal Audit Manual	31.07.2010	MoF
21	Establishment of an Audit Committee in the Ministry of Finance	31.12.2010	MoF
ACTIVITIES RELATED WITH THE STRENGTHENING OF THE CAPACITIES FOR PREVENTING IRREGULARITIES AND FRAUDS			
22	Adoption of a Decree on the procedure for preventing irregularities, the way of mutual cooperation, the form and content, deadlines and manner of reporting for irregularities	31.07.2010	Government upon a proposal from MoF