Audit manual

PART ONE
REGULATION

Table of content

I. GENERAL PROVISIONS..................................................................................................................4

(4) NOTWITHSTANDING PARAGRAPHS (1) AND (2) OF THIS ARTICLE, THE GOVERNMENT OF THE REPUBLIC OF MACEDONIA MAY, UPON PROPOSAL BY THE MINISTER OF FINANCE, ON THE BASIS OF CARRIED OUT RISK ASSESSMENT, DETERMINE OBLIGATION FOR ESTABLISHING INTERNAL AUDIT UNIT WITHIN OTHER PUBLIC SECTOR ENTITIES AS WELL. ...............................................................................................17

4. RULEBOOK ON THE MANNER OF PERFORMING INTERNAL AUDIT OPERATIONS...39
   INTERNATIONAL STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING..................................................................................................................40
   THE INSTITUTE OF INTERNAL AUDITORS.........................................................................................52

5. INTERNAL AUDIT CHARTER.........................................................................................................55
   IN CONTINUANCE IS GIVEN MODEL OF THE INTERNAL AUDIT CHARTER THAT SHOULD BE ADJUSTED FOR EVERY SPECIFIC SUBJECT FROM THE PUBLIC SECTOR....................................................................................55

1. SUBJECT OF THE CHARTER.......................................................................................................55
2. INTERNAL AUDIT FUNCTION ....................................................................................................55
3. INTERNAL AUDIT OBJECTIVE ....................................................................................................55
1. INTRODUCTION

The internal audit in the public sector in the Republic of Macedonia is implemented in compliance with:

- Law on public internal financial control ("Official Gazette of RM", no. 90/09);
- Rulebook for the basic elements of the manual for work, charter, annual plan and programme for internal audit ("Official Gazette of RM", no. 38/05); and
- Rulebook on the manner for performing internal audit operations ("Official Gazette of RM", no. 72/03), when are adopted International standards for professional performing internal audit, issued by the Institute for Internal Auditors from USA.

Performance of the internal audit and the rights of the internal auditors in the internal audit unit are defined with Charter for internal audit, brought by the Head i.e. by the official who manages with the subject from the public sector.
REPUBLIC OF MACEDONIA

LAW ON
PUBLIC INTERNAL FINANCIAL CONTROL
(Official Gazette No.90/2009)
Skopje 22\textsuperscript{nd} July 2009

LAW ON PUBLIC INTERNAL FINANCIAL CONTROL

\textbf{I. GENERAL PROVISIONS}

1. Subject

\textbf{Article 1}

(1) This Law regulate the public internal financial control system that covers the financial management and control, internal audit and their harmonisation, established in compliance with the international standards for internal control and internal audit.

(1) This Law regulate the organisation, standards, methodology, relations and responsibilities as well as the competences of the Minister of Finance and the consultancy bodies for public internal financial control.

2. Coordination of the Public Internal Financial Control System

\textbf{Article 2}

(1) The Minister of Finance shall be in charge of the coordination of the development, the establishment, the implementation and the maintenance of the public internal financial control system, and on his behalf the Central Harmonisation Unit of the Public Internal Financial control System within the Ministry of Finance (hereinafter: Central Harmonisation Unit).

(2) The coordination referred to in paragraph (1) of this Article shall be executed by the Minister of Finance through:

- harmonisation and supervision of the financial management and control;
- harmonisation and supervision of the internal audit; and
- preparation and issuance of bylaws, manuals and directives

3. Definitions

\textbf{Article 3}

Certain terms used in this Law shall have the following meaning:

(1) \textbf{Public funds} shall mean all collected, received, acquired, allocated and spent funds by the subjects from the public sector, also including budget revenues, credits, expenditures and subsidies.
(2) Public sector entities shall mean users of the funds of the Budget of the Republic of Macedonia, the Funds, the municipalities and the City of Skopje, agencies and other institutions established by law, public enterprises, public institutions and other legal entities owned by the state or in which, the state shall be shareholder.

(3) Financial management and control shall mean 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 have been accomplished.

(4) Reasonable assurance shall mean a satisfactory level of confidence for certain issue taking into account the costs, the benefits and the risks.

(5) Responsible persons for financial management and control shall mean the Head of the Entity and the Heads of Subordinated Units within the Entity.

(6) Financial controller shall mean a person within the Entity, authorised for control of the legality and the regularity of the proposed financial decisions, as well as their approval or negation, taking into consideration the principles of cost-effectiveness, efficiency and effectiveness.

(7) Ex-ante financial control shall mean a procedure, by which the financial commitment shall not be undertaken and the expenditure shall not be paid without prior approval by an official hierarchically independent of the credit official and the payment ordonnator.

(8) Credit ordonnator shall mean an authorised official who can undertake financial commitments.

(9) Payment ordonnator shall mean an authorised official who can give payment orders;

(10) Ex-post financial control shall mean a procedure being implemented within the entity, which shall ensure for the financial transactions in the form of commitments, expenditures or revenues, to be checked after the transaction is fully completed.

(11) Sound financial management and control shall mean transparent, regular, economical, efficient and effective use of the available funds;

(12) Economy shall mean minimising the resources used for achieving the planned goals or outcomes of certain activity, taking into account the determined quality of those effects or outcomes.

(13) Effectiveness shall mean the extent to which the objectives of certain activity are achieved or the relation between the planned impact and actual impact of certain activity.

(14) Efficiency shall mean maximising the effects or outcomes of certain activity in relation to the invested funds.

(15) Audit trail shall mean documented flow of the financial and other transactions from their beginning until the end, in order to provide reconstruction of all separate activities and their approval. It shall cover the systems of documenting, reporting, accounting and archiving;
(16) **Cashier** shall be an authorised official in charge of paying and receiving cash;

(17) **Mandate** shall mean the right for bringing decisions on behalf of the mandate giver and it can be general or special;

(18) **General mandate** shall mean giving authorisation for implementing the overall competence, for which the mandate giver shall be responsible;

(19) **Special mandate** shall mean authorisation given for specific cases;

(20) **Sub-mandate** shall mean approval for the mandate receiver to transfer completely or partially the received authorisation to the Head of the Basic Organisational Units being under his direct responsibility.

(21) **Mandate giver** shall be the head of the entity giving authorisation;

(22) **Mandate receiver** shall mean an official who received authorisation by the mandate giver to decide and to act on his behalf.

(23) **Financial commitment** shall mean a payment commitment expressed in the form of money, material assets, property or rights;

(24) **Risk** shall be the probability of occurrence of event with a negative impact on the achievement of the objectives of the entity;

(25) **Risk management** shall mean a process of ascertaining and assessing the internal and external risks which may negatively affect the fulfilment of the objectives of the entity and the implementation of the necessary controls in order to keep the exposure of the risks to an acceptable level or to decrease the consequences of possible risk to an acceptable level;

(26) **Control** shall mean all activities undertaken in order to avoid or decrease the risks;

(27) **Mission** shall be the main reason for existence and operations of the entity and it shall consist of working area, values and objectives that should be accomplished;

(28) **Supervision** shall be managerial responsibility helping the entities in accomplishing the objectives, finishing, review and approval of the affairs, clear segregation of the duties and responsibilities awarded to each employee, systematic review of the performance of the activities of each employee at the necessary level and approval of the performance of the activities in the important areas, thus ensuring execution of the planned activities.

(29) **Basic financial reports** shall mean balance sheet, balance of revenues and expenditures, consolidated balance of the capital property (inventory of the capital property), balance of obligations and notes/justification for the financial reports;

(30) **Internal audit** shall mean 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.
(31) **Audit on the internal control systems** shall mean an in-depth assessment of the functioning of the internal control systems;

(32) **Performance (execution) audit of the working** shall mean an assessment of the economy, efficiency and effectiveness of the operations and the usage of funds in a defined area of activities or programmes;

(33) **Financial audit** shall mean control of the accuracy, the completeness and the lawfulness of the accounting records and the financial statements;

(34) **Compliance (regularity) audit** shall mean an assessment whether the operations are in compliance with the effective laws, bylaws and internal acts;

(35) **IT audit** shall mean detailed assessment of the performance of the informational and technical systems.

(36) **Independence of the internal audit** shall mean non-existence of conditions impairing the objectivity;

(37) **Objectivity in the internal audit** shall mean an unbiased behaviour not being based on judgment of others;

(38) **Competence in the internal audit** shall mean having relevant knowledge and skills;

(39) **Professionalism in the internal audit** shall mean implementation of careful relation and skills of attentive and competent official;

(40) **Integrity in the internal audit** shall mean conscientiously non-participation in an illegal activity or non-undertaking of activities discrediting the profession of the internal auditor or the entity;

(41) **Confidentiality in the internal audit** shall mean respecting the value and ownership of information that should not be disclosed without authorisation, except in cases of legal or professional commitment;

(42) **Suspicion of fraud** shall mean undertaken or not undertaken act, from which, one can excusably bring a conclusion for intentional or wrong presentation of the material or financial facts;

(43) **Code of Ethics of the Internal Auditors** shall mean the Code of Ethics of the Institute of Internal Auditors.

(44) **Internal Audit Charter** shall mean an internal act signed by the Head of the Internal Audit Unit and the Head of the Entity, determining the objectives, the authorisations and the responsibilities of the internal audit.

(45) **International standards for internal audit** shall mean the International Standards for the Professional Practise of Internal Audit of the Institute of Internal Auditors (USA/IA, Inc.).

(46) **International audit standards** shall mean the standards of the International Federation of Accountants / IFAC.

II. FINANCIAL MANAGEMENT AND CONTROL

1. Scope of the Financial Management and Control
Article 4

(1) Financial management and control pursuant to this Law shall be applicable to budget users in the field of legislative, executive and judicial authorities (central government), Funds, the municipalities and the City of Skopje (hereinafter: entities).

Article 5

(1) The financial management and control of the entity shall cover the financial processes of planning, executing, monitoring and reporting on:
- collection of the revenues determined in the budget;
- management and control of the execution of the expenditures approved in the budget and
- protection of the assets and liabilities, the value of which shall be recorded in the balance sheet.

(2) The financial management and control should be implemented in all organisational units and at all levels of the entity and it shall cover all funds of the entity, including the funds from the European Union and from other sources.

(3) The financial management and control system should be continually assessed and developed for the purpose of efficient accomplishment of the mission and the objectives of the entity.

2. Financial Management and Control Objective

Article 6

The objective of the financial management and control shall be improving the financial management for the purpose of achieving the following general objectives:
- Performing the activities in a proper, ethical, economical, effective and efficient manner,
- Conformity of the operations with the laws, the other regulations, the established policy, the plans and the procedures,
- Protecting the property and the other resources from losses caused by bad management, unjustified spending and usage, as well as from irregularities and misuses,
- Strengthening the responsibility for successful realisation of the tasks,
- Proper record of financial transactions
- Timely financial reporting and monitoring the work results.

3. Responsibility and Accountability of the Head of Entity
INTERNAL AUDIT MANUAL - Part One

Article 7

(1) The head of the entity shall be in charge of the following:
- Budget preparation, budget execution and reporting on the budget of the entity managed by him;
- Financial management and control and internal audit in all organisational structures, programs, operations and processes, managed by him;
- Control on keeping accounting, undertaking financial commitments, executing the payments, collecting revenues and safeguarding assets and liabilities;
- Continuous assessment of the financial management and control system;
- Determination and accomplishment of the objectives of the entity and preparation and realisation of the strategic and other plans as well as programs for accomplishment of the general and specific objectives of the entity;
- Establishing an organisational structure and working procedures to ensure functioning, monitoring and development of sound financial management and control;
- Establishing a reporting line in compliance with the transferred authorisations and responsibilities;
- Competency of all employees for execution of the tasks in line with the financial management and control; and
- Risk management and establishment of appropriate and efficient internal controls.

(2) The head of the entity shall be accountable for achieving the objectives of the entity by managing public funds in a legal, economical, efficient and effective manner.

4. Responsibility and Awarding Mandate

Article 8

(1) The head of the entity may, by an act give a mandate (general or special) to one or more managing officials being hierarchically placed directly subordinated to him.

(2) By a mandate act a sub-mandate may be given.

(3) The mandate or sub-mandate act may include conditions for using the authorisation.

(4) On the basis of mandate or sub-mandate, decisions with an important political or financial impact shall not be reached without prior approval by the Head of the entity.

(5) Heads of Internal Organisational Units within the Entity, who have received an authority with mandate or sub-mandate can act only within the framework of the
limits determined by the mandate or sub-mandate act and they shall be responsible to the mandate giver for the usage of the mandate.

(6) Decisions regarding the mandate shall be made and signed on behalf of the head of the entity. The head of the entity shall, after the given mandate continue to be responsible for all reached decisions also including the decisions referring to financial management and control.

(7) The Minister of Finance shall closely stipulate the manner for granting mandates.

5. Financial Affairs Unit

Article 9

(1) Head of the Entity shall establish a special Organisational Unit for Financial Affairs (hereinafter: Financial Affairs Unit) as Department or Unit, the Head of which shall be directly responsible to the head of the entity and the highest managing civil servant.

(2) Financial Affairs Unit shall be in charge of performing the activities in the field of financial management and control. The Minister of Finance shall stipulate the manner of performance of the task under the competence of the Financial Affairs Unit.

6. Requirements to be fulfilled by the Head of the Financial Affairs Unit

Article 10

Person, who despite the general employment requirements determined by law, should also meet other requirements, may be appointed as Head of Financial Affairs Unit, those being:

- University degree in the field of economics;
- At least three years of working experience in the field of finance; and
- He/she has not been, by a court decision prohibition to perform activity or profession, during the prohibition.

7. Competences of the Head of Financial Affairs Unit

Article 11

(1) Head of Financial Affairs Unit shall supervise and advises the management of the entity particularly for:

1. Budget control (control of budget formulation and execution);
2. Ex-ante financial control;
3. Control of the execution of the established policy and the operational management (supervision over the whole process of the internal management and control);
4. Accounting and
5. Budget and financial reporting.

(2) Head of Financial Affairs Unit shall:

- co-ordinate the process for preparation and amendments and modifications to the budget and the strategic plan of the entity.
- co-ordinate the process for development, establishment, implementation and maintenance of the financial management and control.
- co-ordinate the process of accounting recording of the budget execution and the preparation of the annual account and the Annual Finance Report referred to in Article 49 of this Law.
- obligatory give an opinion upon the draft acts prepared by the other Organisational Units within the entity and the draft acts of other entities that have or may financial implications on the budget of the entity.
- implement ex ante and ex post financial control.
- protect the assets and liabilities, the value of which shall be recorded in the balance sheet.

Article 12

Head of Financial Affairs Unit shall prepare a plan for the establishment of the financial management and control as well as a methodology for implementation of the plan being approved by the head of the entity.

Head of Financial Affairs Unit may adequately to the needs and specifications in the operations of the entity appoint a Coordinator for Financial Management and Control operationally implementing and coordinating the establishment and the development of the financial management and control within the entity. The Coordinator for Financial Management and Control shall not be allowed to fulfil ex ante and ex post control activities.

Persons in charge of the establishment and the development of the financial management and control referred to in paragraphs (1) and (2) of this Article and the persons in charge of the implementation of special types of control referred to in Article 21 paragraph (1) of this Law, shall be obliged to undergo a training in accordance with a Programme for Training in Establishment and Development of Financial Management and Control adopted by the Minister of Finance, as well as to cooperate with the Central Harmonisation Unit within the Ministry of Finance in relation to the establishment and the development of financial management and control.

The Central Harmonisation Unit shall prepare and update a Manual for Financial Management and Control being approved by the Minister of Finance. The Manual for Financial Management and Control shall include guidelines for establishment and implementation of the financial management and control.

8. Financial Management and Control Components

Article 13
(1) Financial management and control shall be implemented on the basis of internationally accepted standards for internal control, through the application of the following, mutually related components:
- Control environment,
- Risk management,
- Controls,
- Information and communication, and
- Monitoring.

(2) The internationally accepted standards for internal control shall be published in the “Official Gazette” by the Minister of Finance.

9. Control Environment

Article 14

The control environment shall include the following:
- Personal and professional integrity of the management and the staff of the entity,
- Management philosophy and style of work of the management,
- Organisational structure, ensuring segregation of responsibilities, hierarchy and clear rules, rights, obligations and levels of reporting,
- Policies and practices of human resource management,
- Competence of staff.

10. Risk Management

Article 15

(1) The risk management shall include identification, assessment and control over potential events or situations that might have an adverse effect on the achievement of the entity objectives for the purpose of ensuring reasonable assurance that the objectives will be attained.

(2) Regarding the implementation of the activities referred to in paragraph (1) of this Article, the Head of the Entity shall adopt Risk Management Strategy, which shall be updated every three years and in the cases when the risks significantly change. The controls aimed at minimising the risk should be analyzed and updated at least once a year.

11. Controls

Article 16

Controls shall include the following:
- Procedures for authorisation and approval;
- Segregation of duties in a manner not allowing to an official y be at the same time responsible for authorisation, execution, accounting and control;
- Double signature system;
- Rules for access to assets and information;
- Ex-ante and ex post financial control;
- Procedures for full, correct, precise and prompt accounting of all transactions;
- Report and review of activities - assessment of the transactions' efficiency and effectiveness;
- Monitoring procedures;
- Procedures for human resources management;
- Rules on the documentation of all transactions and actions related to the entity's activities.

12. Information and Communication

Article 17

Information and communication shall include the following:
- Identification, collection and dissemination of reliable and trustworthy information in appropriate form and timeframe, enabling to any responsible official to undertake certain responsibility;
- Effective horizontal and vertical communication at all hierarchical levels in the entity;
- Building of an appropriate information system for management of the entity so as for all employees' to get acquainted with the clear and precise guidelines and instructions on their role and responsibilities related to the financial management and control;
- Documentation and and graphic display containing rules for drafting, execution, transfer, usage and archiving of documents;
- Documentation of all operational processes and transactions to the end of ensuring an adequate audit trail;
- The development of an effective, timely and reliable reporting system including: levels and final deadlines for reporting; reports presented to managers; forms of reporting upon detection of errors, irregularities, misuse, frauds or misappropriations.

13. Monitoring

Article 18

(1) Monitoring shall mean check of the adequate functioning of the financial management and control system.

(2) Monitoring of the financial management and control should be carried out particularly through constant monitoring, self-assessments and internal audits.

(3) Head of the Entity shall, through the Financial Affairs Unit during the year, perform self-assessments of the separate processes of the financial management and control system in the entity managed by him, and once in five years he shall
implement self-assessment of the structure and the functioning of the whole financial management and control system.

(4) Notwithstanding paragraph (3) of this Article, the self-assessment may not be implemented in specific organisational part within the entity or for specific financial process if the result from the risk management gives good arguments for non-implementation of the self-assessment.

(5) Head of Financial Affairs Unit shall inform the Head of Internal Audit Unit about the results of the executed self-assessments.

(6) With regard to the Annual Financial Report referred to in Article 47 of this Law, the head of entity shall report on both the self-assessments referred to in paragraph (3) of this Article being performed in the respective year and the results from these self-assessments not being completely positive.

(7) Report referred to in paragraph (6) of this Article shall include the comments of the head of the entity referring to the recommendations of the self-assessments.

(8) Head of entity shall give opinion on the financial management and control in the Annual Financial Report referred to in Article 47 of this Law.


Article 19

(1) The head of the entity shall establish accounting and financial reporting providing him with relevant information in order to be able to monitor and to be responsible for the functioning of the financial management and control within the entity.

(2) Accounting shall be established and shall function in compliance with the principles of regularity, efficiency, economy, verifiability and orderliness.

(3) The head of the entity shall be in charge of verification of the conformity of the data received by third parties with the principles referred to in paragraph (2) of this Article, if the revenues or the expenditures depend on those data.

15. Financial Commitments Ordonnator, Payment Ordonnator and Cashier

Article 20

(1) The head of the entity may assign persons authorised for undertaking financial commitments, persons authorised for payment and cashiers.

(2) One person may perform only one of the tasks referred to in paragraph (1) of this Article and should be hierarchically independent of the other persons of referred to in paragraph (1) of this Article.

(3) The Minister of Finance shall prescribe the manner of conducting the general financial processes.
16. Ex-ante and Ex-post Financial Control

Article 21

(1) The head of the entity shall be in charge of ex-ante and ex-post financial control.

(2) The head of entity shall decide for the manner of implementing the ex-ante and ex-post controls taking into consideration the need and the specifications of the operations after the implemented risk analyses.

(3) Ex-post financial control shall provide the instruments for removing the detected irregularities of the internal controls and it should not be implemented by persons being in charge of ex-ante financial control;

(4) The ex-post control shall also include detective control carried out after full implementation of the approved financial decisions and transaction for the purpose of minimising the risk of undesirable consequences and improving the procedures or ex-ante controls.

17. Special Financial Commitments

Article 22

(1) The head of the entity can assume financial commitments in the form of money, material assets, property or rights on behalf of the Republic of Macedonia for awarding subsidies, grants, pecuniary assistance, loans or guarantees to a third party and share in equity, only if it is determined by law.

(2) When proposing adoption of Law on Assuming Financial Commitments referred to in paragraph (1) of this Article, prior written consent by the Minister of Finance shall be necessary.

III. INTERNAL AUDIT

1. Objective, Role and Internal Audit Principles

Article 23

The objective of the internal audit shall be providing the head of public sector entity with an independent reasonable objective assurance and advice to the end of improving the operations of the entity and increasing the effectiveness of the internal control systems.

Article 24

Role of the internal audit shall be giving support to the heads of the public sector entity in the accomplishment of the objectives of the entity through:

a. Preparation of strategic and annual plans for internal audit on the basis of an objective risk assessment, as well as performing separate internal audits in accordance with the adopted audit plans.
b. Assessment of the adequacy, economy, efficiency, effectiveness of the financial management and control system for determination assessment and risk management by the management of the entity in relation to:

- Conformity with the laws, by-laws and the internal acts and contracts;
- Credibility and completeness of the financial and operational information;
- Safety of the property and the information; and
- Performance of the tasks and accomplishment of the objectives.

c. Giving recommendations for improving the operations and the work procedure.

d. Monitoring of the implementation of measures undertaken by the head of public sector entity on the basis of executed audits.

Article 25

The internal audit shall be implemented in compliance with the principles of legality, independence, objectivity, competency, professionalism, integrity and confidentiality.

2. Standards and Methodology for Execution of Internal Audit

Article 26

The internal audit shall be executed in compliance with the accepted standards for professional execution of the internal audit, this Law, the by-laws adopted on the basis of this Law, the Internal Audit Charter and the internal acts of the public sector entity harmonised with this Law.

The internal auditors shall, with regard to their operations, in addition to the acts referred to in paragraph (1) of this Article, be also obliged to implement the Code of Ethics of the internal auditors and the guidelines and the Internal Audit Manual referred to in Article 27 of this Law.

The Standards for Professional Practice of the Internal Audit shall mean the International standards for internal audit published in Official Gazette by the Minister of Finance.

Minister of Finance shall proscribe the Internal Audit Charter and the Code of Ethics of Internal Auditors.

Article 27

The Central Harmonisation Unit shall prepare and update Internal Audit Manual being approved by the Minister of Finance. The internal Audit Manual shall determine the methodology for work and execution of the internal audit.
3. Types of Internal Audit

Article 28

Internal audit shall include the following:
- Financial audit;
- Compliance audit (regularity);
- Audit on the internal control systems;
- Performance audit (execution); and
- IT audit

4. Internal audit Scope and Organisation

Article 29

(1) Internal audit shall be performed in all organisational structures, programmes, activities and processes in the public sector entities.

(2) Internal Audit Unit shall be established as a Unit with at least two internal auditors, also including the Head of Internal Audit Unit i.e. as a Department with at least five internal auditors, also including the Head of Internal Audit Department.

Article 30

(1) Internal Audit Unit shall be mandatory established in:

(2) Internal Audit Unit shall be also mandatory established as in all public sector entities, which average annual budget/financial plan was above Denar 50 million in the last three years.

(3) Public sector entity, which average annual budget/financial plan did not exceed Denar 50 million in the last three years shall organise the internal audit by engaging:
- Internal auditor/s from Internal Audit Unit from other public sector entity, on the basis of an agreement concluded between the heads of the both public sector entities; or
- Auditor/s listed in the internal auditors registry referred to in Article 48 of this Law.

(4) Notwithstanding paragraphs (1) and (2) of this Article, the Government of the Republic of Macedonia may, upon proposal by the Minister of Finance, on the basis of carried out risk assessment, determine obligation for establishing Internal Audit Unit within other public sector entities as well.
Article 31
Head of public sector entity shall establish an Internal Audit Unit in line with the following criteria:

- With at least one internal auditor and Head of Internal Audit Unit if the average budget/financial plan of the respective public sector entity was at least Denar 50 million in the last three years also including the EU-financed Funds and Programmes.

- with at least three internal auditors and Head of Internal Audit Unit if the average budget/financial plan of the respective public sector entity was at least Denar 500 million in the last three years, also including EU-financed Funds and Programmes.

- With at least one internal auditor of every five budget users.

The minimum number of employees in the Internal Audit Unit referred to in paragraph (1) of this Article shall not include the trainees auditors referred to in paragraph (4) Article 36, of this Law.

Article 32
(1) The Internal Audit Unit shall perform internal audit in the public sector entity, the spending units, all structures, programmes, activities and processes, also including those of the beneficiaries of the resources from the EU Funds, as well as the legal entities and natural persons using public funds and with which the entity performing internal audit shall have business relations. The Internal Audit Unit, within the entity in charge of the management of inter-agency programmes/projects, shall coordinate the operations of the Internal Audit Units of the public sector entities participating in the implementation of the programmes/projects.

5. Organisational, Professional and Functional Independence of the internal Audit Unit

Article 33
(1) The Internal Audit Unit shall be organisationally and functionally independent and directly and solely responsible to the head of the public sector entity.

(2) The functional independence of the Internal Audit Unit shall be ensured through its independence of the other organisational units of the entity in the planning of the operations, the execution of the internal audit and the reporting.

(3) The head of the Internal Audit Unit and the internal auditors shall be independent when performing the internal audit, being executed skilfully and professionally by applying methodology based on the international standards for internal audit, as well as the principles and the rules for behaviour determined under of the Code of
Ethics of Internal Auditors as well as the instructions or the guidelines by the Minister of Finance.

(4) Head the Internal Audit Unit and the internal auditors should not perform financial management and control tasks and other tasks in the entity not arising from the internal audit function.

(5) The head of the Internal Audit Unit and the internal auditors may not be dismissed or transferred to another working post due to reporting on certain situations or giving certain recommendations.

(6) 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 shall be obliged to inform the Central Harmonisation Unit and to enclose the necessary documentation.

(7) The transfer or dismissal of the head of the internal audit unit and internal auditors shall be made after receiving written consent by the Minister of Finance.

### Article 34

(1) The Head of Internal Audit Unit shall be obliged to directly inform the head of the public sector entity on all audit affairs within the public sector entity, and particularly on the following:

- The regularity, effectiveness and the efficiency of the budget/financial plan execution
- The regularity and the efficiency of the internal financial control also including the management of the funds and
- The conformity of the accounting reports on the budget/financial plan execution with the accounting standards.

(2) Head of Internal Audit Unit shall give 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.

(3) The head of Internal Audit Unit shall advice all managing officials in the public sector entity about the risk management.

### 6. Requirements to be fulfilled by the Head of Internal Audit Unit, Certified Internal auditors and Internal Auditors

#### Article 35

(1) Certified internal auditor may be appointed as head of internal audit who in addition to the requirements referred to in Article 36, paragraph (2) indents 1, 2 and 4 of this Law shall have at least 3 years of work experience in the field of internal or external audit.

(2) The following persons cannot be appointed as head of internal audit: Person whose spouse, relative in a direct line without limitation, in a collateral line up to the fourth degree, or by marriage up to the fourth degree are or have been employed in a managing position in the public sector entity in the previous two years.
(3) The head of the entity shall be informed in writing about the circumstances referred to in paragraph (2) of this Article, by the applicant for the position of Head of Internal Audit Unit during the appointment.

**Article 36**

(1) Certified Internal Auditors and internal auditors shall be appointed by the head of the entity.

(2) Individuals, who in addition to the general requirements determined by law also meet specific requirements may be assigned as certified internal auditors, those being the following:

- higher education;
- training and passed exam for certified internal auditor in the public sector according to a Programme for Taking Exam for Certified Internal Auditor or possession of internationally recognised audit certificate;
- At least 2 years working experience in internal or external audit; and
- He/she has not been pronounced, by a court decision prohibition to perform activity or profession, during the prohibition,

(3) Individuals, who in addition to the general requirements determined by law also meet specific requirements may be appointed as internal auditors, those being the following:

- higher education;
- At least 2 years of working experience in the field of internal or external audit; and
- He/she has not been , by a court decision prohibition to perform activity or profession , during the prohibition

(4) Individuals, who addition to the general requirements determined by law also meet specific requirements may be appointed as internal auditors, those being the following:

higher education; and
He/she has not been , by a court decision prohibition to perform activity or profession , during the prohibition;

(5) After the period of 2 years, the trainee auditor shall be appointed as an internal auditor.

(6) The training referred to in paragraph (2), indent 2 of this Article shall be coordinated by the Central Harmonisation Unit.

(7) Minister of Finance shall proscribe the programme and the manner for taking the exam for acquiring certificate for certified internal auditor referred to in paragraph (2) of this Article.

7. Internal Auditor Rights
Article 37

(1) The Internal Auditor shall have the following rights:

- To enter the premises of the public sector entity being audited, taking into account the rules for security and good behaviour.
- To have access to the relevant documents related to the audit within the public sector entity, as well as the documents including data with certain degree of secrecy and other documents and data kept in electronic form, observing the regulations for protection of both classified information and personal data. To request certified copies, statements or certificates of these documents and in specific cases to take the original documents leaving a copy with acknowledgement of receipt;
- To request oral or written information from any employee or head in the public sector entity being audited;
- To request information from any information holder in the public sector entity; and
- To request information from other institutions in relation to the operations and the management of the public sector entity, being audited.

8. Conflict of Interests

Article 38

The Head of Internal Audit Unit i.e. the internal auditor should participate in audit if one of the following conflicts of interests is present:

- During the previous year, the Head of Internal Audit Unit i.e. the Auditor was employed by the organisational unit of the public sector entity, being audited;
- During the previous year the Head of Internal Audit Unit i.e. the Auditor, his spouse or relative up to second degree managed the public sector entity, being audited;
- The Head of Internal Audit Unit i.e. the Auditor, his spouse or relative up to second degree have stake or shares in entities using funds being state expenditures and having business relations with the public sector entities, being audited.
- Other circumstances exist that could lead to conflict of interests upon assessment by the Head of Internal Audit Unit, for which, he shall give written explanation.

Article 39

The Head of the public sector entity i.e. the heads and the employees in the public sector entity, being audited shall have the following obligations:

- To assist and cooperate during the audit;
- To provide oral or written information, statements upon request by the auditor’ request, access to documents, electronic data bases or any information bearer;
- To submit certified copies of the requested documents, as well as to submit the requested original documents with acknowledgment of receipt thereof;

- Upon request by the auditor, to give a statement for the completeness of documents and the data;

- According to the audit findings and recommendations, to prepare and submit to the Head of Internal Audit Unit an action plan for implementation of the recommendations, identifying the responsible persons and the final deadlines for undertaking the necessary measures within their competences;

- To implement the recommendations and to inform the head of public sector entity and the Head of Internal Audit Unit on the implementation of the action plan; and

- To provide appropriate working conditions for the auditors.

9. Planning the Internal Audit

Article 40

(1) The internal audit shall be performed on the basis of:

- Strategic Plan for period of three years,
- Annual Plan and
- Individual Audit Plan.

(2) The strategic and the annual plan for performing the internal audit shall be adopted by the Head of Internal Audit Unit after consent obtained by the head of the public sector entity on the basis of the carried out risk assessment.

(3) The Head of Internal Audit Unit shall, for each individual audit approves a plan and programme, describe more specifically the audit procedures.

(4) The Head of Internal Audit Unit shall, by 15th December in the current year at the latest, submit the Strategic Plan for the next three years and the Annual Audit Plan for the next year to the Central Harmonisation Unit and to the heads of the organisational units of the public sector entities covered under the Annual Plan.

10. Amendments to the Annual Audit Plan

Article 41

(1) The Annual Audit Plan may be amended if a significant change of the assessed risk or the planned resources occurs during the preparation of the Annual Plan.

(2) The Head of Internal Audit Unit shall inform the Central Harmonisation Unit on the amendments to the Annual Plan.

11. Performance of Internal Audit

Article 42
(1) The Audit shall be performed by determining, analysing, assessing, and documenting the data, sufficient for giving expert opinion on the set goals.

(2) The Head of Internal Audit Unit may, in accordance with the head of the public sector entity, also engage experts to assist during the execution of the internal audit in separate areas.

(3) Audit Report including a summary, objectives and scope of the audit, findings, conclusions and recommendations shall be prepared for each performed internal audit.

(4) Minister of Finance shall prescribe the manner of performing the internal audit and the manner reporting on the audit to the public sector entity.

12. Specific Audit Rules within Public Sector Entity

Article 43

(1) The Internal Audit Unit can prepare own Annex to the Internal Audit Manual referred to in Article 27 of this Law, if there specifications in the operations.

(2) The Annex to the Manual referred to in paragraph (1) of this Article shall be submitted to the Central Harmonisation Unit.

IV. COMMITTEES FOR FINANCIAL MANAGEMENT AND CONTROL AND INTERNAL AUDIT

1. Financial Management and Control Committee

Article 44

(1) The Minister of Finance shall establish a Financial Management and Control Committee as a consultative body for issues related to financial management and control.

(2) The Financial Management and Control Committee may have its members the Heads for Financial Affairs Units of the Ministries. The State Secretary of the Ministry of Finance shall act as chairperson over the Committee, and the Head of the Central Harmonization Unit shall be Secretary.

(3) The Financial Management and Control Committee shall have meetings at least once in three months, and in case of emergency the president may call extraordinary meeting

2. Audit Committee

Article 45

The Minister of Finance shall establish Audit Committee as consultative body for issues related to the internal audit.

The Audit Committee may have as its members the Heads of Internal Audit Units, i.e. internal auditors from the Ministries. The State Secretary of the Ministry of Finance shall act as chairperson over the Committee and the Head of the Central Harmonisation Unit shall be Secretary.

The Audit Committee shall meet at least once in three months, and in case of emergency, the president may call extraordinary meeting.

The Audit Committee shall adopt Rules of Procedure.

Article 46

Financial Management and Control Committees and Audit Committees may be established in the entities referred to in Article 4 of this Law.

V. REPORTING ON FINANCIAL MANAGEMENT AND CONTROL AND INTERNAL AUDIT

Article 47

(1) The head of the first line budget users, users in the field of legislative, executive, and judicial authorities (except the State Audit Office), the Funds, the municipalities and the City of Skopje shall be obliged to submit to the Central Harmonisation Unit an Annual Financial Report by 10-th May in the current year for the previous year at the latest.

(2) The Annual Financial Report shall particularly include the following:

- Report on planed and spent funds by items (comparative overview tables)
- Report on realised programmes, projects and agreements;
- The annual accounts or consolidated annual account;
- Report on the performed self-assessments referred to in Article 18 paragraphs (3) and (8) of this Law (results from the self-assessments not being fully positive, comments of the heads of the entity referring to the recommendations of the self-assessments and opinion on the financial management and control);
- Quality statement and the condition of the internal controls;
- Report on the activities for establishment and development of the financial management and control; and
- Report on the performed audits and the internal audit activities.

(3) The Minister of Finance shall closely prescribe the form and contents of the reports referred to in paragraph 2, indents 1,2,4, 6 and 7 and the statement referred to in paragraph 2, indent 5 of this Article.
VI. CENTRAL HARMONISATION UNIT

Article 48

The Central Harmonisation Unit shall be in charge of the following:

- Preparation of laws and by-laws in the field of the financial management and control and the internal audit;

- Preparation of methodology and working standards for the financial management and control and the internal audit;

- 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 referred to in Article 33, paragraph (7) of this Law;

- Establishment and maintenance of databases for the internal audit units and the adopted charters;

- Establishment and maintenance of registry of certified internal auditors who took the exam for internal auditor in the public sector and who have internationally recognised audit certificate.

- Cooperation with institutions responsible for public internal control affairs in the country and abroad and exchange of information for the development of the public internal financial control;

- Supervision of the quality of the financial management and control system;

- Supervision of the quality of the operations of the Internal Audit Units; and

- Preparation of an Annual Report on the Functioning of the Public Internal Financial Control System on the basis of the Annual Financial Report referred to in Article 47 of this Law, the Ministry of Finance shall submit to the Government of the Republic of Macedonia by the end of July in the current year for the previous year at the latest;

- Organisation of ad hoc audits to be performed by internal auditors from certain public sector entities, when the subject of such audit goes beyond the scope i.e. the competence of the certain entity or the subject of the audit has such a nature that the multidisciplinary approach of the internal audit is more beneficial. The findings and recommendations of this type of audit shall be discussed with the audited entities and the final report submitted to the involved entities.

Article 49

(1) The head of the entity shall be obliged to provide access to the employees from the Central Harmonisation Unit to documents, accounting records and the other information necessary for monitoring the functioning of the financial management
and control and the internal audit to the employees from the Central Harmonisation Unit.

(2) The access referred to in paragraph (1) of this Article shall be provided upon received written authorisation by the Minister of Finance.

VII. UNDERTAKING MEASURES AGAINST IRREGULARITIES AND FRAUDS

Article 50

(1) The head of the public sector entity shall be obliged to both prevent the risk of irregularities and frauds and to undertake activities against irregularities and frauds.

(2) The head of the public sector entity shall appoint a person reporting on irregularities and suspicions for frauds or corruption and shall independently undertake activities referred to in paragraph (5) of this Article.

(3) All employees, including the internal auditors shall inform the head of the public sector entity or the person in charge of irregularities or suspicions of frauds or corruption.

(4) If the Internal Auditor has suspicion of fraud or corruption during the performance of the audit, he shall inform the Head of Internal Audit Unit, being obliged to submit written information to the head of the public sector entity and the person in charge of irregularities thereon.

(5) After the received report on existence of irregularities or suspicions of frauds or corruption, the person in charge of irregularities shall undertake the necessary measures and shall inform the Public Prosecutor’s Office of the Republic of Macedonia and the Ministry of Finance – Financial Police Office and Financial Inspection of the Public Sector thereon., and within 15 days he/she shall inform in writing the person pointing out to the irregularities or frauds on the undertaken measures, except in case of an anonymous report.

(6) If the persons referred to in paragraph (3) of this Article are not informed on the appropriately undertaken measures, they shall inform the bodies referred to in paragraph (5) of this Article. The Central Harmonisation Unit shall not be body in charge of irregularities and frauds.

(7) Employees including the internal auditors reporting irregularities or suspicions of frauds shall be provided with protection on the identity and the acquired employment –related rights pursuant to law.

(8) The Government of the Republic of Macedonia, upon proposal by the Minister of Finance, shall prescribe the procedure for preventing irregularities, the manner of mutual cooperation, the form and, the contents, the deadlines and the manner of informing on the irregularities.

VIII. INSPECTION SUPERVISION OVER THE PUBLIC FINANCES

Article 51
(1) The Ministry of Finance shall be in charge of inspection supervision the public finance.

(2) Main objective of the inspection supervision of the public finance shall be undertaking activities in relation to complaints or reported suspicions of fraud or corruption.

(3) The inspection supervision of the public finance shall be carried out in compliance with the principles of legality, objectivity, and confidentiality.

(4) The tasks of the inspection supervision of the public finances shall be directly performed by public finance inspectors.

IX. CONTROL OF USAGE OF RESOURCES FROM THE EU FUNDS

Article 52

(1) Entities using resources from the European Union Funds shall be also obliged, in addition to the provisions of this Law, to take into consideration and to apply the special requirements for financial management, internal controls and internal audit, determined by the European Commission.

(2) All beneficiaries of the resources from the European Union Funds should enable the authorised officials from the Ministry of Finance, the inspectors from the European Commission and the European Court of Auditors free access to the whole documentation, the offices, the funds and the staff, taking into account the rules for security and good behaviour.

X. VIOLATION PROVISIONS

Член 53

Fine in the amount of EUR 1,000 to 2,000 in Denar equivalent shall be imposed on the head of the entity for perpetrated misdemeanor if:

1. he/she fails to establish Financial Affairs Department/Unit (Article 9);
2. he/she undertakes financial obligation for awarding subsidy, loan or guarantee to a third party or share in equity, not being determined by law. (Article 22 paragraph (1));
3. he/she fails to submit an Annual Financial Report to the Central Harmonisation Unit (article 47);

Article 54

Fine in the amount of EUR 1,000 to 2,000 in Denar equivalent shall be imposed to the head of the public sector entity for perpetrated misdemeanor if:

1. He/she fails to establish an Internal Audit Unit. (Articles 30 and 31);
2. He/she redeploys or dismisses Head of Internal Audit or internal auditor without prior written approval by the Minister of Finance. (Article 33 paragraph (7));

3. Responsible person or employed in the public sector entity internal audit is performed do not fulfils the obligations referred to in Article 39;

4. He/she fails provide access for the employees of the Central Harmonisation Unit to the documents, accounting records, and other information necessary for monitoring the functioning of the financial management and control and the internal audit. (Article 49);

5. He/she fails to undertake the necessary activities against irregularities and frauds. (Article 50 paragraph (1));

6. He/she fails to appoint a person in charge of irregularities. (Article 50 paragraph (2));

7. He/she fails to provide protection of the identity and the acquired employment related rights to an employee or an internal auditor, in cases of report on irregularities and suspicions of fraud or corruption, (Article 50 paragraph (7));

8. He/she fails to provide the authorised officials from the Ministry of Finance, inspectors from the European Commission and the European Court of Auditors, with free access to the whole documentation, the offices, the funds and the staff. (Article 52 paragraph (2));

**Article 55**

(1) Competent court shall conduct misdemeanour procedure and shall impose sanction for misdemeanours referred to in Articles 53 and 54 of this Law.

(2) The Ministry of Finance shall request for initiating misdemeanour procedures to competent court.

(3) Settlement or mediation procedure shall not be carried out with regard to the provisions referred to in Articles 53 and 54 of this Law.

**XI. TRANSITIONAL AND FINAL PROVISIONS**

**Article 56**

(1) The by-laws referred to in this Law shall be adopted within one year from the date of entering into force of this Law.

(2) Until the day of entering into force of the by-laws referred to in paragraph of this Law, adopted pursuant to the Law on Public Internal Financial Control (“Official Gazette of the Republic of Macedonia”, no. 22/07) and the Law on Internal Audit in the Public Sector (“Official Gazette of the Republic of Macedonia ”, no. 69/04 and 22/07).

**Article 57**
(1) The head of the entity shall appoint Head of Financial Affairs Unit referred to in Article 9 of this Law, within 90 days from the day of entering into force of this Law.

(2) The Head of Financial Affairs Unit, in accordance with the head of the entity, shall adopt plan for implementation and development of financial management and control referred to in Article 12, paragraph (1) of this Law, within six months from the day of entering into force of this Law.

(3) The head of the entity shall appoint a person in charge of irregularities pursuant to Article 50 of this Law, within 90 days from the day of entering into force of this Law.

**Article 58**

The public sector entities shall be obliged to perform internal audit pursuant to Article 30, paragraph (3), indent 2 and Article 31 of this Law, within one year from the day of entering into force of this Law.

**Article 59**

The provisions referred to in Article 30 paragraph (3), indent 2, Article 36, paragraph (2) shall be in force as of 1st January 2011.

**Article 60**

The provisions referred to in Article 51 of this Law, shall be valid until the regulation of the operations of the financial inspection in the public sector by specific law.

**Article 61**

With the day of entering into force of this Law the Law on Public Internal Financial Control (“Official Gazette of the Republic of Macedonia”, no. 22/07) and the Law on Internal Audit in the Public Sector (“Official Gazette of the Republic of Macedonia”, no. 69/04 and 22/07) shall cease to be valid on the day of entering into force of this Law.

**Article 62**

This law shall enter into force on the eighth day from the day it is published in the “Official Gazette of the Republic of Macedonia”.

**3. RULEBOOK ON THE BASIC ELEMENTS OF THE MANUAL FOR THE PERFORMANCE, CHARTER, ANNUAL PLAN AND PROGRAMME OF THE INTERNAL AUDIT**

**I. GENERAL PROVISIONS**

**Article 1**

1 The Rulebook for the basic elements of the manual for performance, charter, annual plan and programme of the internal audit is published in “Official Gazette of RM”, no.38/05.
(1) The present Rulebook shall stipulate the basic elements of the Internal Audit Guidelines, Charter, Annual Plan and Programme of Public Sector Institutions.

**Article 2**

(1) Internal Auditors shall perform audit and prepare audit report based on the Annual Audit Plan and Audit Programme for each individual audit, in line with: International Standards for Professional Performance of the Internal Audit prepared by the Institute of Internal Audit (IIA) and the best practices of the EU member countries.

**Manner of performing Central Internal Audit Activities**

**Article 3**

(1) The Central Internal Audit Department (hereinafter: CIAD) shall regulate, develop and harmonize the Internal Audit system in the public sector institutions through the following activities:

- Drafting Internal Audit legislations and by-laws;
- Developing and updating an Internal Audit Manual and Technical Guide;
- Determining the form and elements of the Quarterly and Annual Internal Audit Reports;
- Providing assistance to all Internal Audit units in developing and updating their internal regulations for internal audit;
- Supervision of the performance of all Internal Audit units and providing recommendations for the improvement of their work;
- Development and enhancement of training curricula and plans for internal auditors in the public sector;
- Organization, realization, enhancement and monitoring of training of internal auditors in the public sector;
- Evaluation and verification of knowledge, skills and other capacities of internal auditors required for performing the Internal Audit function;
- Preparation of the consolidated Quarterly Internal Audit Reports;
- Preparation of an Annual Report on the execution of Annual Plans of the Internal Audit units, which should be submitted to the Government of the Republic of Macedonia by June 15 of the following year at the latest;
- Exchange of information with the State Audit Office relevant to the functioning of the Internal Audit in the public sector; and
- Collaboration with other professional organizations in the areas of auditing and accounting.

**Manner of performing Internal Audit Unit Operations**

**Article 4**

Internal Audit unit shall be an organizational unit of the subject of the audited institution, and fall under direct authority of the management of the audited institution.
Internal Auditors shall be appointed by the management of the audited institution and fall under the authority of the Head of the institution.

**Functional independence of the Internal Audit unit**

*Article 5*

(1) Functional independence of the Internal Audit unit shall be secured through the following:

- Placing the Internal Audit unit as high in the organizational structure of the institution as possible;
- Authorization given to the Internal Audit Head to directly report to the Head of the institution;
- Application of International Internal Audit Standards and Internal Audit Charter in the course of performing internal audits;
- Application of instructions and basic documents issued by the Central Internal Audit Department (CIAD);
- Preparation of the Annual Internal Audit Plan based on the risk assessment and 3-year outlook;
- Submission of the Annual Internal Audit Plan signed by the Head of the institution to the CIAD;
- Reporting to the CIAD once a year on the execution of the Internal Audit Plan;
- Possibility to directly report to CIAD on the course of action in case of inadequately addressed issue of huge or serious irregularities or corruption.

**Functional independence of the Internal Auditor**

*Article 6*

Functional independence of an Internal Auditor shall be secured through the following:

- His/her appointment as an Internal Auditor in the Internal Audit unit in line with the legal regulations;
- Adequate training for the professional performance of activities relevant to the Internal Audit;
- Application of International Internal Audit Standards and Internal Audit Charter in performing of any internal audit;
- Application of methodology and basic guidelines prepared by CIAD at the national level;
- Possibility directly to report to the CIAD if the Unit Head should fail to undertake adequate measures in case of serious and huge irregularities or corruption; and
- Possibility directly to report to the State Audit Office in case of emergency or in case CIAD fails to undertake adequate measures.

**II. BASIC ELEMENTS OF THE OPERATIONAL GUIDELINES**
Internal Audit Planning

Article 7

(1) Internal Audit planning shall consist of the preparation of:
- Annual Internal Audit plan; and
- Audit Programme for each individual internal audit.

Annual Internal Audit Plan

Article 8

(1) The Internal Audit unit Head shall prepare an Annual Internal Audit Plan based on the Risk Assessment and in line with the institution’s objectives and International Internal Audit Standards.
(2) The Annual Internal Audit Plan shall be signed by the Head of the institution.
(3) The Internal Audit unit Head shall inform in writing the audited organizational units on the sections of the Plan relating to them.

Preparation and content of the Internal Audit Plan

Article 9

(1) Based on the list of systems and processes identified in the course of risk assessment in a three-year perspective an Annual Internal Audit Plan shall be prepared in line with the readily available and potential resources of the Internal Audit unit in the course of one year.
(2) The Annual Internal Audit Plan shall consist of:
   - List of systems and processes that are planned to be audited;
   - Clear, achievable and measurable objectives for each individual audit;
   - All available indicators in the sense of time-frame, available resources and possible engagement of external experts.
(3) Engagement of external experts shall be envisaged for performance of certain forms of internal audit depending on volume, complexity, required qualifications and readily available home resources. The budget shall be planned in line with the requirements for engagement of external experts.
(4) In planning the Internal Audit unit activities considered shall be time necessary for preparation of Internal Audit Reports, as well as Annual and Quarterly Report as required by law.

Modification of the Annual Audit Plan

Article 10

(1) The Annual Internal Audit Plan may be modified if there should occur a significant change in the assessed risk or planned resources during the preparation of the Annual Plan.
(2) The modifications of the Annual Plan shall be approved by the Head of the institution.
(3) The modifications of the Annual Plan shall be reported to the Central Internal Audit Department.

Preparation and contents of the Internal Audit Programme

Article 11

(1) The Internal Audit Programme shall be prepared by auditors and its content shall be communicated to the Head of the audited organizational unit at least one week prior to the commencement of field work.

(2) The Audit Programme shall specify the following basic elements:
   - Planned dates for preliminary analysis, field work, period for preparation of draft report, reporting on the preliminary audit results, submission of draft report and distribution of the final report;
   - Objectives set before the audit of systems and processes that are the subject to the audit;
   - Objectives in terms of internal controls that are subject to internal audit analysis;
   - Scope and level of the testing required for the accomplishment of objectives;
   - Procedures pertaining to collection, analyses, interpretation and corroboration of data;
   - List of persons to be interviewed;
   - Division of tasks among team members down to the level of individual auditors;
   - Specific and strictly limited tasks distributed to external experts if such are engaged;

(3) If necessary, the Audit programme may be modified during the course of the audit with the approval of the Head of the Internal Audit unit.

Letter of Authorization

Article 12

(1) The Letter of Authorization of Internal Auditors and external experts shall be signed by the person in charge of the Internal Audit unit, whereas the appointment of the Head of the Internal Audit unit is signed by the person in charge of the institution prior to the performance of any of the audits within the Annual Plan.

(2) The Letter of Authorization shall specify:
   - Systems and procedures subject to the audit;
   - Objectives of the audit set out in the Annual Internal Audit Plan;
   - Audit team and Team Leader; and
   - Time-frame and deadline for submission of Final Internal Audit Report.

Preliminary Investigation

Article 13

(1) Prior to the commencement of the audit, the Head of the Internal Audit unit shall send a letter to the audited organizational units asking for information on the systems and processes that are the subject of the audit.
(2) The Internal Audit Team shall organize an initial meeting with heads of organizational units pertaining to the audited subject, in order for the auditors to acquire additional information on:
- Envisaged objectives of the audit;
- Objectives of analysis of audited systems and procedures;
- Key controls and control objectives;
- Data on activities, financial reports etc.
- Other available documentation;
- System or work objectives/risks;
- Previous audit reports and implementation of the received recommendations;
- Key persons to be interviewed.

(3) A copy of the Internal Audit Charter shall be handed to all persons present at the meeting.

(4) Based on the information received at the meeting, the Internal Audit Team shall complete the Internal Audit Programme in line with Article 11 of the present Rulebook.

**Field work**

**Article 14**

(1) Field work shall be a systematic process of objective collection of evidence for passing professional assessment on the systems and processes subject to the audit. It shall contain percentage assessment of the strong and weak points of the systems and processes and their relation to the identified risks and objectives.

(2) The objective of the field work shall be to perform all audit procedures specified in the Audit Programme in order to accomplish the audit objectives.

(3) In performance of field work, applied shall be the following audit methodology in line with the International standards and the best international professional practice:
- Monitoring;
- Confirming;
- Verifying;
- Research;
- Analysis; and
- Evaluation.

(4) The evidence should corroborate the claims about the audited processes. Special attention shall be paid to the efficiency of processes in line with the objectives set out in the Audit Programme.

(5) The internal auditor shall also assess the quality and efficiency of controls implemented by the management in order to keep the audited process under ongoing control. The evaluation will be based on the comparison between the control objectives described in the opening statement and the reality discovered through testing and inquiries. The economic effects of over-control shall also be highlighted.

(6) The existing system shall be objectively described with prorating the use of flowcharts.

**Preparation and content of the Internal Audit Report**

**Article 15**
The Internal Audit shall prepare audit reports providing the management of the institution with the expert assessment of the audited systems and processes, as well as financial management and control systems, listing all irregularities, inconsistencies and weak points.

Apart from the professional assessment, the Internal Audit shall also provide the Head of the audited institution with the recommendations for improvement of the existing situation, minimalization of weaknesses and strengthening of efficiency. Recommendations will be based on existing legal framework, professional experience, and best practices of the EU member countries in order to help the management of the public institution to:

- Reduce risks;
- Increase efficiency;
- Improve the quality of financial management system and controls.

(4) The Internal Audit report shall contain the following:

- Introduction usually including brief description of the specificities of the audit methodology used in the particular case, audited scope and Names of Auditees, objectives and Scope of Audit, eventual limitations (lack of documentation available for review or staff for interview);
- Draft executive summary which would be followed up for the final report;
- Description of findings with clear evidences and testing results;
- Recommendations and timetable for their implementation;
- All necessary appendices usually containing:
  - Flow charts of processes;
  - Interview schedules and summaries;
  - Tables and graphs;
  - Abstracts from legal framework; and
  - Draft proposal of Implementation and Follow Up timetable of Recommendations.

(5) Preparation of the Report shall follow the three-stage path:

- Interim report;
- Draft report; and
- Final report.

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**Interim Internal Audit Report**

**Article 16**

(1) Interim Internal Audit Report shall be the first draft of the Internal Audit Report which is presented to the audited unit at the final meeting with the aim of achieving agreement on the content of the report and acceptance of the Auditors’ recommendations.

(2) The Interim Internal Audit Report shall contain all elements provided in Article 15, paragraph 1 of the present Rulebook, except the executive summary that is finalized at a later stage. At the final meeting, the recommendations shall be communicated.
with the aim to give the Management the opportunity to take part and enhance the plan for implementations of the recommendations.

(3) The objectives of the final meetings shall be:

To keep faith with Internal Audit's promise to be transparent and consultive at all times and maintain a professional approach;
To achieve agreement on the facts of the Audit findings. In case of any disagreement remains, Internal auditors shall have the last word;
To achieve agreement for recommendations and explain the expected implementation;
To give Management opportunity to challenge Internal Audit opinion before the final report issue; and
To achieve agreement on the composition of the timetable for implementation of the recommendations.

Draft Internal Audit Report
Article 17

(1) Draft Internal Audit Report shall be the first official version of the Internal Audit Report including the conclusions reached at the final meeting as well as executive summary.
(2) The Head of the Internal Audit unit shall send the Draft Audit Report to the management of the audited unit with the obligation to receive a reply within 10 working days.
(3) The reply to the Draft Audit Report from the head of the audited unit shall include comments on the contents of the draft report and plan for the implementation of the recommendations with a detailed schedule.

Final Internal Audit Report
Article 18

(1) The Final Internal Audit Report shall contain the final version of the executive summary modified in line with the accepted comments from the Auditee, reply from the Auditee and final schedule for the implementation of the recommendations.
(2) Head of the Internal Audit unit shall send the Final Report to the Head of the audited public institution as well as the Head of the audited organizational unit.

Article 19

(1) Internal Audit unit shall keep track of all issued recommendations with the aim of always having complete and timely information.
(2) Head of the audited organizational unit shall submit a quarterly report to the to the Head of the institution and also to the Head of the Audit unit with the aim of monitoring the progress on the implementation of recommendations in relation to the envisaged time frame. The quarterly report should be used to adjust the deadlines for the implementation of recommendations if necessary.
(3) In the course of the following audits the Internal Auditors shall assess the implementation of the recommendations by the audited organizational units.

Article 20
The Internal Auditor suspecting an intentional irregularity or misrepresentation of facts shall immediately abort further audit and report to the Head of the Internal Audit unit without delay.

Corruption is defined as intentional irregularity or intentional misrepresentation of facts with the aim of obtaining advancement, material or intangible benefit or money. Corruption includes:
- Forging or altering of evidence or documents;
- Covering or avoiding to present transactions in the evidence or documentation;
- Entering into evidence false transactions;
- Theft of premeditated destruction of assets;
- Irregular implementation of accounting procedures, other regulations or policies.

(3) The Head of the Internal Audit unit shall inform the person in charge of the public institution or otherwise relevant authority responsible for undertaking measures in case of irregularities.

(4) Head of the institution and relevant authority shall undertake adequate measures against parties involved in activities referred to under (2) and shall set up adequate controls for elimination of such activities.

(5) Initial reporting on the serious irregularities or corruption shall be oral. The Internal Auditor may be requested to provide a written version of the report when the Head of the institution or the relevant authority initiates the investigation.

(6) Upon reporting on the serious irregularity or corruption, the Internal Auditor and the Head of the Internal Audit unit shall not discuss the irregularity of corruption with any person other than the person in charge of the institution or the relevant authority.

(7) In case of emergency and/or absence of the relevant person or authority the Internal Auditor shall report to the head of the CIAD and demand that adequate measures be undertaken without delay.

**Article 21**

(1) Internal Audit reports shall be submitted to the State Audit Office (SAO) on its request.

**Article 22**

(1) The Internal Audit unit monitors the implementation of the audit recommendations issued by the State Audit Office.

(2) The Internal Auditors perform assessment of implementation of recommendations issued by the State Audit Office in the field that was the subject of the audit and include the findings in their report.

**III. WORKING AUDIT TOOLS**

(1) In the course of their activities Internal Auditors shall use as their working tools the following: Internal Audit Charter, Internal Audit Technical Instruction and other aids prepared by CIAD for the purpose of effective performance of Internal Audit.

(2) The Internal Audit Charter shall define the performance of internal audit and the rights of the Internal Auditors.
INTERNAL AUDIT MANUAL - Part One

(3) A copy of the Charter shall be distributed to the participants of the initial meeting. This document should be made readily available and accessible on the internet page of the Internal Audit.

(4) CIAD shall prepare a Technical Instruction for the performance of the Internal Audit containing a detailed description of the Internal Audit methodology to be applied by every Internal Audit unit.

(5) The Instruction shall be used as the basis for the training of Internal Auditors. The Instruction is to be periodically updated in order to incorporate the most recent tendencies and experiences obtained in the course of performance of Internal Audit of the public sector institutions in the Republic of Macedonia.

(6) The Technical Instruction shall be published on the Internet page of the Ministry of Finance within six months of the publication of the present Rulebook.

IV. CONTENT OF THE INTERNAL AUDIT CHARTER

Article 24

1. MAIN OBJECTIVE

To help the management to maintain and enhance internal control in line with working risks.

2. SPECIFIC OBJECTIVES

To provide for the adequacy of controls within the framework of activities and systems within the public sector institutions, i.e.: to provide comments and propose amendments to the mechanisms set up by the management aimed at realization of the aims of the activities and systems; to monitor implementation of the agreed measures; to draw attention of the executive management and in the last instance to the Head of the institution to the discovered weaknesses.

To undertake annual risk analysis and to provide aid to the financial sector management in the process of financial management and control reporting.

To perform audit, research and review separately from the institution Head.

To communicate with the External Auditors with the aim of finding the most economical manner of applying Internal and External Audit resources.

To advise the Management on the most economical controls to be implemented in the now systems and activities.

To point to the possible ways of decreasing costs and economical and efficient manner of operating the systems and performing activities.

To examine the current situation.

3. SCOPE OF AUDIT
The audit should include all systems and activities in all organizational units and locations of the institution, current as well as those in the development phase. This is performed based on the list of priorities based on risk assessment, assessment of the Internal Audit unit Head and the approval of the Head of the institution. The Audit includes performance all needed types of audit.

4. INDEPENDENCE

The Internal Audit Head is directly responsible to the Head of the institution.

5. APPROACH

A person in possession of classified information has the right to request to be accessed solely by the Internal Audit unit Head.

Internal Audit has the right to access all members of the council and management board, management, staff, executives, supplier, clients and External Auditors.

Closing provisions

Article 25

(1) The present Rulebook comes into effect on the following day from its publication in the “Official Gazette of the Republic of Macedonia”.

4. RULEBOOK ON THE MANNER OF PERFORMING INTERNAL AUDIT OPERATIONS

Article 1

2 The Rulebook for the manner of performing internal audit operations is published in “Official Gazette of RM”, no. 72/03.
This Rulebook shall regulate the manner of performing internal audit operations pursuant to the standards on professional execution of internal audit.

Article 2

Standards on professional execution of internal audit of the Institute of Internal Auditors (IIA) shall be an integral part of this Rulebook.

Article 3

This Rulebook shall enter into force on the day it is published in the "Official Gazette of the Republic of Macedonia".

INTERNATIONAL STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING

ATTRIBUTE STANDARDS

1000 – Purpose, Authority, and Responsibility
The purpose, authority, and responsibility of the internal audit activity should be formally defined in a charter, consistent with the Standards, and approved by the board.

1000.A1 - The nature of assurance services provided to the organization should be defined in the audit charter. If assurances are to be provided to parties outside the organization, the nature of these assurances should also be defined in the charter.

1000.K1 - The nature of consulting services should be defined in the audit charter.

1100 – Independence and Objectivity
The internal audit activity should be independent, and internal auditors should be objective in performing their work.

1110 – Organizational Independence
The chief audit executive should report to a level within the organization that allows the internal audit activity to fulfil its responsibilities.

1110.A1 - The internal audit activity should be free from interference in determining the scope of internal auditing, performing work, and communicating results.
1120 – Individual Objectivity
Internal auditors should have an impartial, unbiased attitude and avoid conflicts of interest.

1130 – Impairments to Independence or Objectivity
If independence or objectivity is impaired in fact or appearance, the details of the impairment should be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

1130.A1 – Internal auditors should refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an auditor provides assurance services for an activity for which the auditor had responsibility within the previous year.

1130.A2 – Assurance engagements for functions over which the chief audit executive has responsibility should be overseen by a party outside the internal audit activity.

1130.K1 - Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.

1130.K2 - If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure should be made to the engagement client prior to accepting the engagement.

1200 – Proficiency and Due Professional Care
Engagements should be performed with proficiency and due professional care.

1210 – Proficiency
Internal auditors should possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively should possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

1210.A1 - The chief audit executive should obtain competent advice and assistance if the internal audit staff lacks the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1210.A2 – The internal auditor should have sufficient knowledge to identify the indicators of fraud but is not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

1210.K1 - The chief audit executive should decline the consulting engagement or obtain competent advice and assistance if the internal audit staff lacks the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1220 - Due Professional Care
Internal auditors should apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

1220.A1 - The internal auditor should exercise due professional care by considering the:
• Extent of work needed to achieve the engagement’s objectives.
• Relative complexity, materiality, or significance of matters to which assurance procedures are applied.
• Adequacy and effectiveness of risk management, control, and governance processes.
• Probability of significant errors, irregularities, or non-compliance.
• Cost of assurance in relation to potential benefits.

1220.A2 – The internal auditor should be alert to the significant risks that might affect objectives, operations, or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.

1220.K1 - The internal auditor should exercise due professional care during a consulting engagement by considering the:
• Needs and expectations of clients, including the nature, timing, and communication of engagement results.
• Relative complexity and extent of work needed to achieve the engagement’s objectives.
• Cost of the consulting engagement in relation to potential benefits.

1230 – Continuing Professional Development
Internal auditors should enhance their knowledge, skills, and other competencies through continuing professional development.

1300 – Quality Assurance and Improvement Program
The chief audit executive should develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity and continuously monitors its effectiveness. The program should be designed to help the internal auditing activity add value and improve the organization’s operations and to provide assurance that the internal audit activity is in conformity with the Standards and the Code of Ethics.

1310 – Quality Program Assessments
The internal audit activity should adopt a process to monitor and assess the overall effectiveness of the quality program. The process should include both internal and external assessments.

1311 – Internal Assessments
Internal assessments should include:
• Ongoing reviews of the performance of the internal audit activity; and
• Periodic reviews performed through self-assessment or by other persons within the organization, with knowledge of internal auditing practices and the Standards.

1312 – External Assessments
External assessments, such as quality assurance reviews, should be
conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization.

1320 – Reporting on the Quality Program
The chief audit executive should communicate the results of external assessments to the board.

1330 – Use of "Conducted in Accordance with the Standards"
Internal auditors are encouraged to report that their activities are "conducted in accordance with the Standards for the Professional Practice of Internal Auditing." However, internal auditors may use the statement only if assessments of the quality improvement program demonstrate that the internal audit activity is in compliance with the Standards.

1340 – Disclosure of Non-compliance
Although the internal audit activity should achieve full compliance with the Standards and internal auditors with the Code of Ethics, there may be instances in which full compliance is not achieved. When non-compliance impacts the overall scope or operation of the internal audit activity, disclosure should be made to senior management and the board.

PERFORMANCE STANDARDS
2000 – Managing the Internal Audit Activity
The chief audit executive should effectively manage the internal audit activity to ensure it adds value to the organization.

2010 – Planning
The chief audit executive should establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals.

2010.A1 - The internal audit activity's plan of engagements should be based on a risk assessment, undertaken at least annually. The input of senior management and the board should be considered in this process.

2010.K1 - The chief audit executive should consider accepting consulting engagements based on the engagement's potential to improve management of risks, add value, and improve the organization's operations. Those engagements that have been accepted should be included in the plan.

2020 – Communication and Approval
The chief audit executive should communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and to the board for review and approval. The chief audit executive should also communicate the impact of resource limitations.

2030 – Resource Management
The chief audit executive should ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

2040 – Policies and Procedures
The chief audit executive should establish policies and procedures to guide the internal audit activity.

2050 – Coordination
The chief audit executive should share information and coordinate activities
with other internal and external providers of relevant assurance and consulting services to ensure proper coverage and minimize duplication of efforts.

**2060 – Reporting to the Board and Senior Management**
The chief audit executive should report periodically to the board and senior management on the internal audit activity’s purpose, authority, responsibility, and performance relative to its plan. Reporting should also include significant risk exposures and control issues, corporate governance issues, and other matters needed or requested by the board and senior management.

**2100 – Nature of Work**
The internal audit activity evaluates and contributes to the improvement of risk management, control and governance systems.

**2110 – Risk Management**
The internal audit activity should assist the organization by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems.

- **2110.A1** - The internal audit activity should monitor and evaluate the effectiveness of the organization's risk management system.
- **2110.A2** - The internal audit activity should evaluate risk exposures relating to the organization's governance, operations, and information systems regarding the
  - Reliability and integrity of financial and operational information.
  - Effectiveness and efficiency of operations.
  - Safeguarding of assets.
  - Compliance with laws, regulations, and contracts.
- **2110.K1** - During consulting engagements, internal auditors should address risk consistent with the engagement’s objectives and should be alert to the existence of other significant risks.
- **2110.K2** – Internal auditors should incorporate knowledge of risks gained from consulting engagements into the process of identifying and evaluating significant risk exposures of the organization.

**2120 – Control**
The internal audit activity should assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

- **2120.A1** - Based on the results of the risk assessment, the internal audit activity should evaluate the adequacy and effectiveness of controls encompassing the organization's governance, operations, and information systems. This should include:
  - Reliability and integrity of financial and operational information.
  - Effectiveness and efficiency of operations.
  - Safeguarding of assets.
  - Compliance with laws, regulations, and contracts.
2120.A2 - Internal auditors should ascertain the extent to which operating and program goals and objectives have been established and conform to those of the organization.

2120.A3 - Internal auditors should review operations and programs to ascertain the extent to which results are consistent with established goals and objectives to determine whether operations and programs are being implemented or performed as intended.

2120.A4 - Adequate criteria are needed to evaluate controls. Internal auditors should ascertain the extent to which management has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors should use such criteria in their evaluation. If inadequate, internal auditors should work with management to develop appropriate evaluation criteria.

2120.K1 - During consulting engagements, internal auditors should address controls consistent with the engagement’s objectives and should be alert to the existence of any significant control weaknesses.

2120.K2 – Internal auditors should incorporate knowledge of controls gained from consulting engagements into the process of identifying and evaluating significant risk exposures of the organization.

2130 – Governance
The internal audit activity should contribute to the organization's governance process by evaluating and improving the process through which (1) values and goals are established and communicated, (2) the accomplishment of goals is monitored, (3) accountability is ensured, and (4) values are preserved.

2130.A1
Internal auditors should review operations and programs to ensure consistency with organizational values.

2130.K1 – Consulting engagement objectives should be consistent with the overall values and goals of the organization.

2200 – Engagement Planning
Internal auditors should develop and record a plan for each engagement.

2201 - Planning Considerations
In planning the engagement, internal auditors should consider:

- The objectives of the activity being reviewed and the means by which the activity controls its performance.
- The significant risks to the activity, its objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level.
- The adequacy and effectiveness of the activity’s risk management and control systems compared to a relevant control framework or model.
- The opportunities for making significant improvements to the activity’s risk management and control systems.
2210 – Engagement Objectives
The engagement’s objectives should address the risks, controls, and governance processes associated with the activities under review.

2210.A1 - When planning the engagement, the internal auditor should identify and assess risks relevant to the activity under review. The engagement objectives should reflect the results of the risk assessment.

2210.A2 - The internal auditor should consider the probability of significant errors, irregularities, non-compliance, and other exposures when developing the engagement objectives.

2210.K1 – Consulting engagement objectives should address risks, controls, and governance processes to the extent agreed upon with the client.

2220 – Engagement Scope
The established scope should be sufficient to satisfy the objectives of the engagement.

2220.A1 - The scope of the engagement should include consideration of relevant systems, records, personnel, and physical properties, including those under the control of third parties.

2220.K1 – In performing consulting engagements, internal auditors should ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations should be discussed with the client to determine whether to continue with the engagement.

2230 – Engagement Resource Allocation
Internal auditors should determine appropriate resources to achieve engagement objectives. Staffing should be based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources.

2240 – Engagement Work Program
Internal auditors should develop work programs that achieve the engagement objectives. These work programs should be recorded.

2240.A1 - Work programs should establish the procedures for identifying, analyzing, evaluating, and recording information during the engagement. The work program should be approved prior to the commencement of work, and any adjustments approved promptly.

2240.K1 - Work programs for consulting engagements may vary in form and content depending upon the nature of the engagement.
2300 – Performing the Engagement
Internal auditors should identify, analyze, evaluate, and record sufficient information to achieve the engagement's objectives.

2310 – Identifying Information
Internal auditors should identify sufficient, reliable, relevant, and useful information to achieve the engagement’s objectives.

2320 – Analysis and Evaluation
Internal auditors should base conclusions and engagement results on appropriate analyses and evaluations.

2330 – Recording Information
Internal auditors should record relevant information to support the conclusions and engagement results.

2330.A1 - The chief audit executive should control access to engagement records. The chief audit executive should obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.

2330.A2 - The chief audit executive should develop retention requirements for engagement records. These retention requirements should be consistent with the organization’s guidelines and any pertinent regulatory or other requirements.

2330.K1 - The chief audit executive should develop policies governing the custody and retention of engagement records, as well as their release to internal and external parties. These policies should be consistent with the organization’s guidelines and any pertinent regulatory or other requirements.

2340 – Engagement Supervision
Engagements should be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

2400 – Communicating Results
Internal auditors should communicate the engagement results promptly.

2410 – Criteria for Communicating
Communications should include the engagement’s objectives and scope as well as applicable conclusions, recommendations, and action plans.

2410.A1 - The final communication of results should, where appropriate, contain the internal auditor’s overall opinion.

2410.A2 - Engagement communications should acknowledge satisfactory performance.

2410.K1 – Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.

2420 – Quality of Communications
Communications should be accurate, objective, clear, concise, constructive, complete, and timely.

2421 – Errors and Omissions
If a final communication contains a significant error or omission, the
chief audit executive should communicate corrected information to all individuals who received the original communication.

**2430 – Engagement Disclosure of Non-compliance with the Standards**
When non-compliance with the Standards impacts a specific engagement, communication of the results should disclose the:

- Standard(s) with which full compliance was not achieved,
- Reason(s) for non-compliance, and
- Impact of non-compliance on the engagement.

**2440 – Disseminating Results**
The chief audit executive should disseminate results to the appropriate individuals.

**2440.A1** - The chief audit executive is responsible for communicating the final results to individuals who can ensure that the results are given due consideration.

**2440.K1** - The chief audit executive is responsible for communicating the final results of consulting engagements to clients.

**2440.K2** – During consulting engagements, risk management, control, and governance issues may be identified. Whenever these issues are significant to the organization, they should be communicated to senior management and the board.

**2500 – Monitoring Progress**
The chief audit executive should establish and maintain a system to monitor the disposition of results communicated to management.

**2500.A1** - The chief audit executive should establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

**2500.K1** – The internal audit activity should monitor the disposition of results of consulting engagements to the extent agreed upon with the client.

**2600 – Management’s Acceptance of Risks**
When the chief audit executive believes that senior management has accepted a level of residual risk that is unacceptable to the organization, the chief audit executive should discuss the matter with senior management. If the decision regarding residual risk is not resolved, the chief audit executive and senior management should report the matter to the board for resolution.

**Glossary**

**Add Value** – Organizations exist to create value or benefit to their owners, other stakeholders, customers, and clients. This concept provides purpose for their existence. Value is provided through their development of products and services and their use of resources to promote those products and services. In the process of gathering data to understand and assess risk, internal auditors develop significant insight into operations and opportunities for improvement that can be extremely
beneficial to their organization. This valuable information can be in the form of consultation, advice, written communications, or through other products all of which should be properly communicated to the appropriate management or operating personnel.

**Adequate Control** – Present if management has planned and organized (designed) in a manner that provides reasonable assurance that the organization's risks have been managed effectively and that the organization's goals and objectives will be achieved efficiently and economically.

**Assurance Services** – An objective examination of evidence for the purpose of providing an independent assessment on risk management, control, or governance processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.

**Board** – A board of directors, audit committee of such boards, head of an agency or legislative body to whom internal auditors report, board of governors or trustees of a nonprofit organization, or any other designated governing bodies of organizations.

**Charter** – The charter of the internal audit activity is a formal written document that defines the activity’s purpose, authority, and responsibility. The charter should (a) establish the internal audit activity's position within the organization; (b) authorize access to records, personnel, and physical properties relevant to the performance of engagements; and (c) define the scope of internal audit activities.

**Chief Audit Executive** – Top position within the organization responsible for internal audit activities. In a traditional internal audit activity, this would be the internal audit director. In the case where internal audit activities are obtained from outside service providers, the chief audit executive is the person responsible for overseeing the service contract and the overall quality assurance of these activities, reporting to senior management and the board regarding internal audit activities, and follow-up of engagement results. The term also includes such titles as general auditor, chief internal auditor, and inspector general.

**Code of Ethics** – The purpose of the Code of Ethics of The Institute of Internal Auditors (IIA) is to promote an ethical culture in the global profession of internal auditing. A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk, control, and governance. The Code of Ethics applies to both individuals and entities that provide internal audit services.

**Compliance** – The ability to reasonably ensure conformity and adherence to organization policies, plans, procedures, laws, regulations, and contracts.

**Conflict of Interest** – Any relationship that is or appears to be not in the best interest of the organization. A conflict of interest would prejudice an individual’s ability to perform his or her duties and responsibilities objectively.

**Consulting Services** – Advisory and related client service activities, the nature and scope of which are agreed upon with the client and which are intended to add value
and improve an organization’s operations. Examples include counsel, advice, facilitation, process design, and training.

**Control** – Any action taken by management, the board, and other parties to enhance risk management and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

**Control Environment** – The attitude and actions of the board and management regarding the significance of control within the organization. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- Integrity and ethical values.
- Management’s philosophy and operating style.
- Organizational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

**Control Processes** – The policies, procedures, and activities that are part of a control framework, designed to ensure that risks are contained within the risk tolerances established by the risk management process.

**Engagement** – A specific internal audit assignment, task, or review activity, such as an internal audit, Control Self-assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

**Engagement Objectives** – Broad statements developed by internal auditors that define intended engagement accomplishments.

**Engagement Work Program** – A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan.

**External Service Provider** – A person or firm, independent of the organization, who has special knowledge, skill, and experience in a particular discipline. Outside service providers include, among others, actuaries, accountants, appraisers, environmental specialists, fraud investigators, lawyers, engineers, geologists, security specialists, statisticians, information technology specialists, external auditors, and other auditing organizations. The board, senior management, or the chief audit executive may engage an outside service provider.

**Fraud** – Any illegal acts characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the application of threat of violence or of physical force. Frauds are perpetrated by individuals and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage.
**Governance Process** – The procedures utilized by the representatives of the organization’s stakeholders (e.g., shareholders, etc.) to provide oversight of risk and control processes administered by management.

**Impairments** – Impairments to individual objectivity and organizational independence may include personal conflicts of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations (funding).

**Internal Audit Activity** – A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organization’s operations. The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

**Objectivity** – An unbiased mental attitude that requires internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Objectivity requires internal auditors not to subordinate their judgment on audit matters to that of others.

**Risk** – The uncertainty of an event occurring that could have an impact on the achievement of objectives. Risk is measured in terms of consequences and likelihood.

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**Thankful note**

The Institute of Internal Auditors (IIA) is thanking to those governmental institutions, professional organizations, internal and external auditors, and members of the management, boards of directors and academic people who guided us for the development and exemplification of the Standards. IIA owes a lot to those individuals who worked in the Board of internal audit standards and its sub commissions all these years.
The Institute of Internal Auditors

Code of Ethics *

INTRODUCTION

The purpose of The Institute’s Code of Ethics is to promote an ethical culture in the profession of internal auditing.

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

A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk management, control, and governance. The Institute’s Code of Ethics extends beyond the definition of internal auditing to include two essential components:

6. Principles that are relevant to the profession and practice of internal auditing;
7. Rules of Conduct that describe behavior norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

The Code of Ethics together with The Institute’s Professional Practices Framework and other relevant Institute pronouncements provide guidance to internal auditors serving others. "Internal auditors" refers to Institute members, recipients of or candidates for IIA professional certifications, and those who provide internal auditing services within the definition of internal auditing.

Applicability and Enforcement

This Code of Ethics applies to both individuals and entities that provide internal auditing services.

For Institute members and recipients of or candidates for IIA professional certifications, breaches of the Code of Ethics will be evaluated and administered according to The Institute’s Bylaws and Administrative Guidelines. The fact that a particular conduct is not mentioned in the Rules of Conduct does not prevent it from being unacceptable or discreditable, and therefore, the member, certification holder, or candidate can be liable for disciplinary action.

Principles

Internal auditors are expected to apply and uphold the following principles:

Integrity

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.
Objectivity
Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

Confidentiality
Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Competency
Internal auditors apply the knowledge, skills, and experience needed in the performance of internal auditing services.

Rules of Conduct

1. Integrity
Internal auditors:
1.1. Shall perform their work with honesty, diligence, and responsibility.
1.2. Shall observe the law and make disclosures expected by the law and the profession.
1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.

2. Objectivity
Internal auditors:
2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.
2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. Confidentiality
Internal auditors:
3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.
3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.
4. Competency

Internal auditors:

4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.

4.2. Shall perform internal auditing services in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.

Adopted by the IIA Board of Directors, June 17, 2000
5. INTERNAL AUDIT CHARTER

In continuance is given model of the Internal Audit Charter that should be adjusted for every specific subject from the public sector.

Pursuant to Article 3, point 44 and Article 26, paragraph 1 from the Law on public internal financial control (“Official Gazette of the Republic of Macedonia”, no.90/09),

______________________________________ of ___________________________________
(Head of the public sector entity) (name of the public sector entity)

adopted this

INTERNAL AUDIT CHARTER

1. Subject of the charter

This charter establishes the frame in which ___________________________ will function with aim of
________________________________________
(improving the working of ____________________________________)
(name of the public sector entity)

2. Internal audit function

Internal Audit is an independent activity of objective assurance and consulting that takes place in the public sector determining whether acceptable policies and procedures are followed, legislative requirements and established standards are met, resources are used efficiently and economically, planned objectives (missions) are accomplished effectively and the objectives of the public sector entity are met.

3. Internal audit objective

The objective of the internal audit is to provide additional assurance to the government, relevant minister, the head and the management of the public sector entity that the implementation of management and control mechanisms is adequate, economical and consistent with the generally recognised standards and national legislation. The internal audit furnishes head of the public sector entity with analyses, recommendations, advices and information concerning the activities reviewed.

4. Independence
1. The internal audit is an independent of the activities it audits in order to ensure objective judgement and impartial advice.

8. The internal auditor does not have competence neither is responsible for the activity reviewed. The internal audit by advising may be involved in the developing or implementing departmental policies, systems and procedures in adherence to any past or present recommendations made by the Internal Audit Unit.

5. Competence

1. The competence of the Internal Audit Unit derives its authority from the Law on public internal financial control ("Official Gazette of the Republic of Macedonia", no.90/09).

2. The Internal Audit Unit is authorised to conduct regularity and financial audits, system based audits, IT-audits and performance audits on the work (from a point of view of economy, efficiency and effectiveness).

3. The Internal Audit Unit reports to the Head of public sector entity through its Head and submits reports to the auditee and to the Central Harmonisation Unit for Internal Audit in the Ministry of Finance.

4. In order to carry out responsibilities, the Head and the internal auditors from the Internal Audit Unit are authorised to have full, free and unrestricted access to all documents, property and staff relevant to the performance of internal audits. Head of the public sector entity should co-operate in providing information and explanations to the Head of Internal Audit Unit or the internal auditors for the effective and efficient performance of the audits.

6. Role and scope

1. The role of internal audit is to identify and understand the potential risk in the activities of the public sector entity and to examine and evaluate the adequacy and effectiveness of the internal control systems established to control such risk.

2. The scope of the internal audit is unrestricted and includes adherence to centrally prescribed policies, directives and procedures (including those emanating from the international commitments of the Republic of Macedonia and/or from membership within international groupings), and promotion of the economy, efficiency and effectiveness of the activities of the public sector entity in the interest also of transparency in the execution and sustainability of the public services.

3. The Internal Audit Unit has unrestricted access to all activities undertaken by the public sector in order to review, assess and report on:
a) the adequacy and effectiveness of the systems of financial, operational and management control and their operation in practice in relation to ascertained risks;
b) the extent of compliance with policies, standards, plans and procedures and their financial effects;
c) the extent of compliance with laws and regulations of the Republic of Macedonia and those emanating from the international commitments, including reporting requirements of national and international regulatory bodies;
d) the extent to which resources are acquired economically, used efficiently, duly accounted for and safeguarded from losses of all kinds arising from waste, extravagance, inefficient administration, not enough economy, efficiency and effectiveness, fraud or other causes;
e) the suitability, accuracy, reliability and integrity of financial and other information and the means used to identify, measure, classify and report such information;
f) the integrity of processes and systems, including those under development, to ensure that controls offer adequate protection against error, frauds and losses of all kinds and that the process aligns with the objectives of the public sector entity;
g) the suitability of the organisation of the subjects and other units audited, for carrying out their functions and to ensure that public services are provided in way which is economical, efficient, effective, transparent and sustainable;
h) the actions taken by the Head of the subject to remedy weaknesses identified by the internal audit and to confirm that good practice is identified and communicated widely.

7. Responsibilities

The Internal Auditor shall function in compliance with the Standards for Professional Practice of the internal audit and the Code of Ethics.

1. The head of the Internal Audit Unit shall be responsible for:

   a) effective performance of all types of audits;
   b) effective management and development of the internal audit in the public sector entity by providing the necessary professional, technical and operational directions that emanate from the international audit standards, guidelines and practices;
   c) providing effective functioning and independence of the Internal Audit Unit within the frames of the public sector entity with no direct responsibility for, nor competence over any of the audited activities;
   d) preparation of strategic plan based on the objective and scope of the internal audit and on the objective understanding of risks to which the
public sector entity is exposed, and submission of the plan to the Head of the public sector entity for endorsement;
e) preparation of an annual operational plan for execution of the strategic plan. When preparing the plan will be taken into consideration the policies and directives of the Central Harmonisation Unit of the internal audit in the Ministry of Finance, interests of the Head of the public sector entity and the risk assessments of the activities of the public sector entity carried out by the Internal Audit Unit from time to time. The annual audit plan contains the key areas that will be audited, defines the tasks to be performed, determines the dead lines and needed resources;
f) realization of the plans submitted to, and approved by the public sector entity and for completion of other ad-hoc assignments that might be required in order to fulfil the role and cover the scope of the internal audit within the public sector entity;
g) giving proposals to the Head of the subject and to the Central Harmonisation Unit of the internal audit in the Ministry of Finance in regard to the resources that are required to meet the approved audit plans;
h) maintaining of a professional level of the employees in the Internal Audit Unit by providing sufficient level of knowledge, skills and experience;
i) providing a continuous and timely internal audit for the needs of the Head of the subject completely respecting the confidentiality of the work.

8. Reporting

1. The Internal Audit Unit formally will inform the Head of the public sector entity for the results of its work.

2. The previous audit report shall be produced within one month of the conclusion of the audit and shall be submitted to the auditee and to the Head of the public sector entity responsible for the audited areas. The report contains findings and recommendations arising from the assessment of the reliability and adequacy of that audited parts of the internal control system. The draft version of the previous audit report will be discussed with the auditee for consolidation and precising prior to the issue of the previous report.

3. In case of fraud or financial irregularity, the internal audit in writing shall inform the Head of the subject and the person in charge of irregularities.

4. The Internal Audit shall report to the Head of the subject throughout the year, at least on a quarterly basis, for the achieved results against the adopted audit plans and shall explain any variation from the plan.
5. The Internal Audit Unit submits an Annual Report on the activities during the year to the Head of the public sector entity. A copy of the report shall be submitted to the Central Harmonising Unit for internal audit in the Ministry of Finance latest by 10\textsuperscript{th} May next year. As a minimum, the report shall include:

- summary for performed audits;
- analysis of the common or significant weaknesses;
- a comparison of realized audits with planned;
- details for the findings from significant audits or investigations where urgent action was required, but has not been taken, including the findings identified in the audit reports from previous years.

9. Relationship with the State Audit Office (SAO)

The relationship between the Internal Audit Unit and SAO shall be in accordance with the following conditions:

a) The communication between SAO and the Internal Audit Unit shall be realized only personally through the General Auditor and the Head of Internal Audit Unit.

b) The Head of the Internal Audit Unit shall discuss with the audit plans with the General Auditor regarding the main tasks of the internal audit, with primary objective to avoid duplication of the activities and the resources.

c) The working documents of the Internal Audit Unit, that might be sensitive or to have restrictions of their contents, may be available to SAO only on request by the General Auditor.

d) The Head of the subject is owner of the reports prepared by the Internal Audit Unit and they may be available to SAO if they are directly requested by the Head of the public sector entity.

e) Both the SAO and the Head of the Internal Audit Unit agree in a spirit of mutual trust, respecting their independence, to inform each other is any of them discover, during an audit assignment, that there is a serious suspicion for bad management and/or fraud.

f) Both SAO and the Head of the Internal Audit Unit shall inform each other and mutually shall participate in any training initiative that is under their competences, including the EU initiatives intended for control and protection of the financial interests of EU.

Date:
A copy of the signed Audit Charter shall be submitted to the Central Harmonization Unit for internal audit in the Ministry of Finance.