

FINANCIAL CONTROL

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I. DESCRIPTION OF THE PUBLIC CONTROL ENVIRONMENT

A. The Supreme Audit Institution (SAI) (External Audit)

1. The SAI is requested to provide an extensive description of its tasks, responsibilities, its independence and its relations to the Parliament and the Ministry of Finance (discussions and follow-up of its recommendations). Relevant issues are how the SAI is adapting to EU best practice and international standards of external audit. Describe the remit of the SAI (coverage of all budgetary chapters, non-budgetary national funds, lower authorities etc.). Please provide a copy of the SAI Law in one of the official EU languages.

State Audit Office (SAO) was established by the Law on State Audit ("Official Gazette of RM" No. 73/04, consolidated version), see [28 Annex 01](#), and is based on Lima Declaration. SAO started operating at the beginning of 1999, employing 9 persons, all taken over from the Economic-Financial Audit Directorate, functioning within the then Payment Operations Bureau.

SAO is an independent supreme audit institution in charge of performing audit on the usage of budget funds and other public funds of the state. Its primary function is to serve the interests of the state and its citizens as tax payers in terms of earmarked and efficient spending of public funds, necessary for securing the functions of the state. SAO is legally obliged to submit reports to the Assembly of the Republic of Macedonia, other state institutions and the public on their proper use.

Chief state auditor is in charge of SAO, appointed by the Assembly for the period of 10 years.

Pursuant to the Law on State Audit, many internal acts and operation documents have been adopted, among which: Rulebook on the Organizational Structure and Operations of the SAO, Rulebook on Systematization of Working Positions in the SAO, envisaging 125 working positions, Plan for Operationalisation of the Law on State Audit, Strategic Plan for Development of the SAO and The Annual Operational Program of the SAO, which also includes the program for cooperation with international organizations.

In the last years, special focus was placed on human resources within SAO and their education, in order for this institution to responsibly accomplish all assigned tasks and competencies. As a result of the budget restrictions in terms of new employees, today SAO employs 68 persons, although SAO constantly emphasized the need for increasing the personnel and securing budget funds. This need was also supported by the Assembly and was included in the recommendations from the World Bank in the document "2003 Country Financial Accountability Assessment".

The SAO is financed from two sources: the Budget of the Republic of Macedonia and the fees for performed audit at certain entities, in accordance with the SAO Tariff.

Pursuant to the existing legal solutions, there is no independent budget for SAO.

The SAO became a member of the international organizations of the supreme audit institutions INTOSAI and EUROSAI in March 2001, i.e. May 2002.

Since its membership in these organizations, SAO representatives have participated at congresses, seminars, workshops under the IDI/EUROSAI Program for Long-term Regional Training Program (LTRTP), from which SAO has acquired two certified audit trainers; SAO, being a member, is actively engaged in the INTOSAI working group on environmental auditing.

SAO, within its international activities, develops and maintains multilateral and bilateral relations and cooperation with other supreme audit institutions (SAIs) and other international organizations and

institutions (SIGMA) for the purpose of exchanging experience and gaining knowledge in the field of state audit. There are contacts established with many European SAIs (Bulgaria, Croatia, Sweden, Poland, the Netherlands, Turkey, Ireland, Romania, Hungary, the Czech Republic and Greece).

The visit and talks in the European Court of Auditors in Luxemburg in 2003 significantly contributed towards becoming familiar with the experience in the field of audit, applying the audit standards and the EU practice.

Tasks and responsibilities

The following are entities subject to state audit: the Budget of the Republic of Macedonia, budgets of the local government units, budgets of the extra-budgetary funds, budget users and spending units, public enterprises, National Bank, legal entities in which the state is a dominant shareholder, the political parties financed by budget funds, agencies and other institutions established by law, other institutions financed by public funds and beneficiaries of the funds from the European Union and other international institutions.

State audit, pursuant to the enabling Law, shall mean: examination of documents, papers and reports on carried out internal control and internal audit, accounting and financial procedures and other records in terms of whether the financial statements truly and impartially reflect the financial situation and the results from the financial activities in accordance with accepted accounting regulations and standards and the International Auditing Standards of INTOSAI.

Scrutiny over financial transactions, representing the state expenditures (all current and capital expenditures financed by the budgets) in terms of legal and earmarked use of funds, evaluation of the use of funds from the point of achieved cost-effectiveness, efficiency and effectiveness of the programs in all spheres of public financing.

State Audit Office performs only financial audit and compliance audit over the operations of the entities with the legal and other regulations.

The Office plans to implement the Performance Audit in the 2005 Annual Operational Program of SAO.

State audit is performed in accordance with the dynamics determined by the SAO Annual Program, prepared by the chief state auditor. The program includes:

1. Entities subject to regular annual audit pursuant to the Law: budgets of the extra-budgetary funds, budget users and budgets of the local governance units, public companies established by the state and political parties financed by budget funds and
2. Entities at which the audit is performed in cycles, in certain number of years. The selection of entities, due to the impossibility to be fully covered by the Annual Program, is based on the following criteria: potential risk of possible deviations at the entity; percentage of share in the budget expenditures, information obtained from the mass media, written and oral information, information from the public debates in the Assembly and the municipal councils, requests from the Anticorruption Commission, findings from previous audits and separate requests for audit.

The State audit is performed by certified state auditors and state auditors employed in the SAO. The title certified state auditor is acquired by passing an exam, regulated by Rulebook on Acquiring the Title Certified State Auditor and the Program for Passing Exams. If, during the state audit procedure, complex issue arises, being estimated to require engagement of external experts for its resolution, SAO can engage such persons from relevant institutions.

While performing the state audit, SAO applies the provisions from the Law on State Audit, the regulations from the field of public finance, the INTOSAI Rulebook on state audit standards ("Official Gazette of RM" No. 56/98), as well as the International Auditing Standards ("Official Gazette of RM", No. 51/98) of the International Federation of Accountants (IFAC). In addition, SAO has translated the

European Implementing Guidelines for the INTOSAI Auditing Standards, incorporated in the State Audit Manual, to be adopted by April 2005. This Manual should serve as basic methodological and instruction document for the work of the auditors, in addition to the other acts, rulebooks, instructions, questionnaires and other materials prepared by SAO or as a result of the necessary adjustments taken over from the other SAIs.

One of the main requirements the certified state auditors have to meet is to give a statement that, during their work; they will apply the regulations determined by the INTOSAI Code of Ethics.

Manual on Performance Audit has been prepared under the World Bank Project – Dutch grant for the development of SAO. This Manual, and the training for SAO personnel, envisaged to be realized during 2005, will create solid grounds for starting to carry out performance audit.

Audit procedure

During state audit procedure, the certified state auditor has free access to the business premises and property, right to insight into the books and other documentation as well as right to ask for explanations from the representatives of the entity at which audit is performed regarding all issues relevant to the audit.

The audit is performed by a team comprised of several auditors (depending on the size and complexity of the entity, subject to audit), under the management of the team manager.

After the audit is completed, the certified state auditor issues draft audit report and the entity, subject to audit, has the right to give comments in a period of 15 days.

After the notes are reviewed, final audit report is prepared, and it is submitted to the legal representative of the entity, subject to audit, and to the line ministries or funds. The chief state auditor reaches a decision with respect to objections to the final audit report in a period of 30 days. Upon opinion by the certified state auditor, report is also submitted to the management.

The bodies in charge of the operations at the entity, subject to audit, have legal obligation to inform SAO on the undertaken measures on the basis of the findings in the audit report within 90 days following the receipt of the final report. It is SAO position that entities have to improve their acting upon this legal obligation, since the percentage of received notifications for undertaken measures was 13% in 2002 and 18% in 2003.

The SAO is obliged to submit to the Ministry of Finance the audit reports that include findings in the field of finance.

If, during the audit, the state auditor suspects of any violation or criminal act committed, he/she informs the competent authorities (Public Prosecutor, MOI, and State Anticorruption Commission) for the purpose of initiating an appropriate procedure. This is due to the fact that the state audit function has no executive and regulative authorization and authorization to apply sanctions, it only determines findings, states the conditions on the level of application of the legal regulations or the deviation thereof in the process of realizing the financing of public needs. The above-mentioned bodies have an obligation to undertake measures and to inform SAO thereof within 90 days.

With respect to the audits performed and its work, SAO submits an Annual Report to the Assembly, by 30th September at the latest in the current year, for audits performed in the previous year.

The SAO also submits to the Assembly audit reports from the current year with findings on major illegalities, prior to submitting the Annual Report (The Ministry of Finance-Budget of the Republic of Macedonia, Ministry of Labour and Social Policy, State Court Council, Civil Servants Agency, PE “Makedonijapat-Skopje”, Ministry of Health of the Republic of Macedonia, PTE (public transport enterprise) “Skopje-Skopje”, Employment Agency of the Republic of Macedonia, Ministry of Interior of the Republic of Macedonia, PE “Macedonian National Radio and Television”).

The annual report is published in full on the web site of SAO at the time of submission or within 14 days at the latest after its submission to the Assembly.

Another form of communication with the public about the work of SAO and the results from the audits performed is the Bulletin, first issue of which is expected by the end of 2004 in printed and electronic version, press conferences, etc. The extensive information published in the media and in the debates thereof create favourable surrounding for taking measures by the competent authorities, regarding the findings from SAO audit reports.

Independence

The SAO is a state body, with a status of a legal entity, which reports to the Assembly of the Republic of Macedonia for its operations.

The chief state auditor manages SAO. The chief state auditor, as well as the deputy, are elected and dismissed by the Assembly of the Republic of Macedonia, with ten-year term of office.

The Law clearly stipulates the conditions under which the chief state auditor and his/her deputy can be dismissed prior to the end of their term of office, and it also states that they are not allowed to perform any other public function, profession, nor to be members of any political party, management board, supervisory board or any type of body at another entity. Thus, high level of independency, as well as protection against outside influence on their operations is ensured.

The legislator has also prescribed concrete (restrictive) conditions under which the certified state auditors must not perform audit in order to preserve their independence.

The transparency of audit results, their publication and availability to the public via Internet and Bulletins became possible by the latest amendments to the Law on State Audit, which in great deal strengthens the independence of SAO.

Application of the Law on State Audit and the need to incorporate the regulations of the Lima Declaration, referred to very often by the experts of the World Bank, SIGMA and others, imposed the need to amend the Law. In 2003, SAO initiated a concrete suggestion to the MF, and in March 2004, new amendments to the Law were made ("Official Gazette of RM" No. 73/04, consolidated version). They allowed for the following: competencies of SAO to be broadened to the state budget and the political parties; the INTOSAI international auditing standards were confirmed as basis for the work of SAO; the potential risk at the entities to be included when planning the audits with the Annual Program; the possibility for the chief state auditor to submit to the Assembly separate audit reports for the Budget of the Republic of Macedonia, the ministries, extra-budgetary funds and public enterprises; conditions were created for increasing the level of responsibility, efficiency and independence in performing the functions of the state audit; as well as the transparency in the operations of SAO.

Constitutional basis

For the purpose of further strengthening of its functional and financial independence – right to independent budget, amendments are necessary to be made to the Constitution of the Republic of Macedonia. Therefore, in June 2004, SAO submitted to the MF and the Ministry of Justice a proposal for amending the Constitution of the Republic of Macedonia with such a provision. No initiative has been submitted to the Assembly of the Republic of Macedonia under this proposal yet.

Relations between SAO, the Assembly and the Ministry of Finance

The relations between SAO and the Assembly are defined within the framework of the Constitution of the Republic of Macedonia ("Official Gazette of RM" No. 52/91), the Law on State Audit, and the Rules of Procedure of the Assembly of the Republic of Macedonia ("Official Gazette of RM" no 60/02).

The Assembly adopts the Law on State Audit and gives consent regarding the SAO Tariff, elects and dismisses the chief state auditor and his/her deputy.

SAO submits the annual reports on performed audits and the Reports on its work to the Assembly of the Republic of Macedonia for their adoption.

The annual report is discussed at a session of the Commission for Financing and Budget, together with the opinion of the Government regarding the Annual Report of SAO. During this session, the chief state auditor explains the activities and the results from the work of SAO, pointing out the most important audit findings. After the debate, the Commission prepares report and conclusions and submits them to the President of the Assembly. At regular session of the Assembly, after the debate on the Annual Report of SAO and upon the conclusions of the Commission for Financing and Budget, the Assembly adopts, rejects or amends the conclusions of the Commission for Financing and Budget regarding the Annual Report of SAO, thus providing an evaluation for the operations of SAO.

At plenary session of the Assembly, as a rule, upon request by the chief state auditor, he/she submits report on the performed tasks, determined findings and instructions on overcoming certain conditions, the course of the operations of SAO and the next Annual Program, and presents the need to support SAO in providing the necessary resources.

On the basis of these documents, the Assembly makes conclusions, giving recommendations and instructions for the operations of SAO or for overcoming certain conditions within the scope of operations of SAO.

Pursuant to the latest amendments to the Law, the chief state auditor also submits to the Assembly of the Republic of Macedonia separate audit reports on the Budget of the Republic of Macedonia, the ministries, the budgets and extra-budgetary funds and public enterprises established by law, and audit reports presenting the restraint from giving an opinion for the financial statements or, by the estimate of the chief state auditor, that the financial statements reflect the situation in an unrealistic and biased manner.

By today, audit reports have been submitted to the Assembly for the Ministry of Finance-Budget of RM, Ministry of Labour and Social Policy, State Court Council, Civil Servants Agency, PE "Makedonijapat-Skopje", Ministry of Health of the Republic of Macedonia, PTE "Skopje-Skopje", Employment Agency of the Republic of Macedonia, Ministry of Interior of the Republic of Macedonia, PE "Macedonian National Radio and Television". No debate was conducted in the parliamentary bodies and commission regarding any of these reports.

The relations between SAO and the Ministry of Finance are defined within the framework of competencies determined by the Law on State Audit, ("Official Gazette of RM" No. 69/04, consolidated version) and the Law on Organisation and Operations of the State Administrative Bodies, ("Official Gazette of RM" No. 58/00, 44/02)

MF, being budget user, is subject to regular annual audit prepared by the SAO.

When performing the audit, SAO examines the documents, papers and reports for the performed internal control and internal audit carried out by the Central Internal Audit, Sector in the Ministry of Finance and the organizational units for internal audit of the entities, established pursuant to the Law on Internal Audit in the Public Sector ("Official Gazette of RM" No. 69/04), see [28 Annex 02](#).

Ministry of Finance, among other competencies, also performs activities related to the accounting system, auditing and payment operations. Having this competence as a starting point, the MF has the right to propose legal acts pertaining to state audit and the budget of SAO, approves funds for employment and staffing of SAO and of the Government of the Republic of Macedonia, and proposes measures and activities for improvement and development of SAO.

The relations between SAO and the Government of the Republic of Macedonia are defined within the legal obligation for SAO to submit audit reports on performed audits to the Government of the Republic of Macedonia for entities under supervision of the Government. The Government of the Republic of Macedonia determines measures and activities related to the findings in the audit reports.

2. Does the SAI benefit from community funds/programmes to develop future strategies to reform, has it already developed a strategy paper for its future tasks?

The State Audit Office does not use any direct funds from the Community.

Since 2000 onwards, with occasional interruptions, SAO has been permanently subject to monitoring and evaluation by the SIGMA missions, the World Bank mission and others. As a result of these contacts/cooperation, World Bank project for development of SAO is currently in progress within SAO (under the Public Sector Management Adjustment Loan – PSMAL 2). The funds were extended by the Dutch Government in a form of grant. The Project started in November 2003 and is estimated to last until June 2005. The Project is run by an IBTCI expert; it includes wide range of activities related to education of the SAO staff, preparation of relevant audit guidelines and manuals in line with the INTOSAI audit standards and IFAC international auditing standards, exchange of experience with other supreme audit institutions.

So far the following has been carried out and implemented under the project: financial audit training; International Accounting Standards; basis for risk and fraud assessment; preparation of effective audit reports, and seminars on the Netherlands Court of Audit (NCA). In addition, two study tours have been carried out (Ireland and Hungary). Internal auditors from the Central Internal Audit Sector within the Ministry of Finance, the Ministry of Interior and the Health Insurance Fund also took part in the training. As a result of the Project, a Manual on Performance Audit has been prepared.

The next project phase envisages training in performance audit, Depending on the time and funds available, it is planned to organized training in environment audit, EU Funds, political parties, as well as training in coordination of the external and internal audit.

With respect to the part of the program that is not going to be realized within this Project, SAO considers the possibility to use the funds of 2005-2006 CARDS Program, regarding the following: training in performance audit, project for establishing twinning program with some of the EU supreme audit institutions, through which part of the audit project could be realized and direct experience and knowledge about audit could be drawn; strengthening the IT capacity of SAO for making, preparing and publishing the Bulletin; project for preparation of methodological manuals on audit of certain entities, i.e. areas; project for training managers and accountants at the entities, subject to audit, to the end of creating responsible participants in terms of using public funds; project for evaluation of the prepared long-term strategic plan for development of SAO.

Regarding some of the envisaged needs of SAO, it will submit an application for TAIEX Program assistance.

Due to insufficient funding from the EU, SAO has also used USAID funds under the World Learning Program in a form of support for advance training in the English language for part of its staff.

For the purpose of more successful accomplishment of the objectives of the state audit and realization of the competencies arising from the Law on State Audit, ("Official Gazette of RM" No. 73/04, consolidated version), see [28 Annex 01](#), in 2004, the chief state auditor adopted the Strategic Plan for Development of SAO until 2009. It sets the strategic priorities with respect to the type of audit, staffing and preparation of a new organizational structure; strengthening of the functional and financial independence of SAO with respect to the Lima Declaration; education of staff and participation at seminars and trainings organized by the INTOSAI, the EUROSAI and others; development of forms of communication with the public and transparency in the operations, further establishment and harmonization of the relations with the Assembly and the Government; quality assurance in the operations of SAO and monitoring of the audit measures and recommendations

Important and useful knowledge about the manner of cooperation of the European Court of Auditors with the supreme audit institutions in the candidate countries was acquired from the communication with the Court. In the light of this context, SAO is preparing to be actively involved in the audit of funds and programs the European Union is going to extend to the Republic of Macedonia.

Coordinator for harmonization with the European audit practice and its application in the domestic legislation (translations, creations, and implementation) has been selected.

3. Could you describe in detail what procedures have been set up for adequate co-operation between the Supreme Audit Institution and the organisation(s) responsible for PIFC, e.g. for avoiding duplication of audit tasks at the same time in the same locality, for informing each other about perceived control/audit weaknesses in government expenditure/income, for the way of reporting audit findings to each other, for training or any other kind of regular co-operation?

Preparatory activities aimed at the coordination of the working programs, which should have the high-risk entities as a priority, coordination in eliminating the irregularities determined in the findings of both audits, etc. are currently in process. What is worth mentioning is that occasional programmed meetings of the managements are held, at which proposals of legal acts, as well as suggestions of annual working programs are discussed.

As the result of the working meetings and the discussions held, the State Audit Office and the Ministry of Finance are in a process of signing Protocol for mutual cooperation and coordinated performance with respect to the exchange of information, reports on performed audits and other materials and coordination when performing audit.

During carrying out audit, the State Audit Office uses the minutes from the performed internal audit at the entity, subject to audit. In this manner, the state audit is informed about the results from the internal audit and it uses these results upon its judgment.

In fact, when providing the acts and legal regulations for the entity at which the audit is performed, the state auditor also uses the minutes from the performed internal audit at the entity, thus obtaining information on the entity's operations. The auditor can examine the determined or can rely on the already determined irregularities, if he/she obtains reasonable assurance that they are valid. In this manner, duplication of audit tasks is avoided. At the same time, during the audit, the auditor also examines the undertaken measures for eliminating the determined irregularities by the internal audit.

The direct cooperation with the Sector for Central Internal Audit within the Ministry of Finance is mainly achieved in the field of education of personnel from the State Audit Office and the Sector for Central Internal Audit and harmonization of the working programme. Part of the personnel from the State Audit Office participated in the Internal Audit Training Program sponsored by USAID/World Learning, which was carried out in December 2003 in Budapest, and in the Project "Development Policy of the Republic of Macedonia in the field of Internal Audit and Training", sponsored by the Dutch grant.

Vice versa, the State Audit Office, within its project for training in the field of financial audit and the International Accounting Standards, included internal auditors from the Ministry of Finance, the Ministry of Internal Affairs and the Health Insurance Fund.

B. Public Internal Financial Control

General

- 1. Which ministry (and which organisation within the ministry) has the responsibility to develop, harmonise, co-ordinate and check the following elements of PIFC in your country? On the basis of which law (please provide a copy in one of the official EU languages)?:**
- a) Financial management and control systems (managerial accountability, accounting, ex-ante financial control, ex-post financial control, inspection);**
- b) Internal audit (comprising financial, systems-based, performance and IT-audits).**

Ministry of Finance is responsible for the development, harmonization, coordination and check of the public internal financial control system for in the Republic of Macedonia. The Ministry of Finance realizes this responsibility pursuant to many laws and bylaws:

- Law on Bugets ("Official Gazette of RM", No. 79/93, 3/94, 71/96, 46/00, 11/01, 93/01, 46/02, 24/03, 85/03 and 96/04), see [28 Annex 03](#);
- Law on Execution of 2005 Budget of the Republic of Macedonia ("Official Gazette of RM", No. 96/04), see [28 Annex 04](#);
- Law on Accounting for Budget and Budget Users ("Official Gazette of RM", No. 61/02 and 98/02), see [28 Annex 05](#);
- Law on Internal Audit in the Public Sector ("Official Gazette of RM", No. 69/04), see [28 Annex 02](#);
- Rulebook on Accounting for Budget and Budget Users ("Official Gazette of RM", No. 28/03), see [28 Annex 06](#);
- Rulebook on the Manner of Performing Internal Audit Operations ("Official Gazette of RM", No. 72/03), see [28 Annex 07](#);
- Manual on the Manner of Acting of the Budget Users and the Spending Units during the Treasury Operations ("Official Gazette of RM", No. 79/93, 3/94, 71/96, 46/00, 11/01, 46/02, 24/03, 85/03, 10/04), see [28 Annex 08](#);
- Manual on the Keeping Records of the Assumed Liabilities by the Budget Users and the Spending Units ("Official Gazette of RM", No. 79/93, 3/94, 71/96, 46/00, 11/01, 93/01, 24/03, 55/03), see [28 Annex 09](#);
- Manual on Internal Audit, by Maria Borda, March 2004, see [28 Annex 10](#).

In 2005, the Ministry of Finance will propose the adoption of the Law on Internal Financial Control.

a) Public internal financial control in the Ministry of Finance is mainly carried out by the Budget Sector, the Treasury Sector and the Sector for Central Internal Audit.

The Budget Sector consists of the following Units: Budget and Budget Policy Unit, which provides guidelines in the process of budget planning and preparation; Unit for Control of Salaries and Employees, which monitors the employment dynamics and payment of salaries; Unit for Budgets of Extra-budgetary Funds and Unit for Budgets of Local Governance Units.

The Treasury Sector within the Ministry of Finance consists of seven Units: Budget Execution Unit; Cash Management Unit; Public Debt Management Unit; Budget Accounting Unit; Revenue Management Unit; Unit for Reporting and Analysing and Regional Treasury Operations Unit.

The Treasury Sector controls whether the payment requests are in line with the approved annual appropriations for the budget users, the cumulative financial plan, realization and available balance at the special accounts. Treasury Operations Units control the payment requests from a formal point of view (correct and accurate filling in of all elements in the payment request). Treasury Sector also executes the payment orders on the basis of decisions for forced collection, for which decisions the

treasury account is debited. This Sector keeps analytical and synthetic records of budget revenues and expenditures, as well as of the assumed liabilities by the budget users and the spending units.

b) The Sector for Central Internal Audit consists of two Units: Central Harmonization Unit, in charge of regulating, development and harmonization of the internal audit system; and Internal Audit Unit, which performs internal audit at public sector entities without internal audit units, as well as at entities at which internal audit units are established, but which do not perform internal audit pursuant to the Law on Internal Audit in the Public Sector and the regulations based on this Law, until the irregularities are eliminated.

The Sector for Central Internal Audit within the Ministry of Finance operates pursuant to the Law on Internal Audit in the Public Sector, published in ("Official Gazette of RM", No. 69/04), see [28 Annex 02](#), and the Manual on the Manner of Performing Internal Audit Operations ("Official Gazette of RM", No. 72/03), see [28 Annex 07](#).

2. Has this Ministry or organisation written a Policy Paper or Strategy Paper, describing the present situation of PIFC in your country and analysing the adequacy of these systems? Does this paper contain recommendations for the future development of PIFC? Has this paper been endorsed by the Ministry of Finance and by the Government? Has the paper become a general policy carried by the Government? Please provide a copy in one of the official EU languages.

The system of public internal financial control (PIFC) in the Republic of Macedonia has not been regulated by law to date.

In January 2004, the Ministry of Finance prepared an "Information for development of the internal audit and strengthening the financial control within the budget users and funds", which was adopted by the Government on the session held on 26.01.2004, and determined the phases of development of the internal audit in the public sector (for more details see [28 I B 11](#)).

In addition, the Information also includes a recommendation on the future development of the system of public internal financial control in the Republic of Macedonia.

In 2005, the Ministry of Finance will prepare a Strategy Paper, reflecting the present situation in PIFC system in the Republic of Macedonia and containing the basic guidelines for its further development.

3. Does PIFC in your country cover the control and audit of income (customs and tax authorities), expenditure (commitments, tender and contracting procedures, disbursements and recovery of unduly paid amounts), assets and liabilities? Does PIFC cover all parts of the national (and lower authorities') budgets and if not, which parts are excluded and covered by other institutions?

Control and audit of revenues, expenditures, assets and liabilities in the Republic of Macedonia are performed by separate institutions in charge of performing the tasks and duties within the scope of their competence.

Activities related to calculation and collection of taxes and other types of public revenues are performed by the Public Revenue Office (PRO), body within the Ministry of Finance, having a status of legal entity, pursuant to the Law on Calculation and Collection of Public Revenues ("Official Gazette of RM", No. 13/01, 31/02, 61/02, 24/03, 77/03 and 3/04).

Public Revenue Office performs its activities through General Directorate, 6 regional offices and 24 tax units.

The Public Revenue Office performs the following tasks:

- implements the laws and other regulations regarding taxes and other public fees;
- records tax accounts for payment of taxes and other public fees;
- collects taxes and other public fees;
- keeps records on the taxpayers;
- monitors and analyses the realization of public fees;
- monitors and analyses the application of tax regulations, the functioning of the tax system and initiates changes in the tax system;
- issues certificates and other documents based on the tax records;
- prepares financial plan, program and operational plans;
- carries out programs on training and advanced training of the employees;
- carries out educational programs for the tax payers and performs other activities connected to the collection of public fees, pursuant to law (receipt, control and processing of the tax returns in the tax accounting; tax collection and refund; performing inspection supervision; filing misdemeanour and criminal charges; proposing changes in the tax policy and the tax regulations; cooperation with the tax authorities from other countries; keeping track of the changes in the international agreements in the tax field; issuance of certificates based on data from the records kept by the PRO; upgrading and usage of tax information system; supervision over the carrying out the games of chance, entertainment games and premium games; issuance of approvals or control stamps for marking, monitoring the production, sales and usage of certain products in accordance with specific laws regulating individual types of taxes).

The Law on Calculation and Collection of Public Revenue, ("Official Gazette of RM" No. 31/01, 01/02, 24/03, 77/03, 19/04) regulates the relationship between the taxpayers and tax authorities that implement the regulations for taxes and other public fees, unless otherwise stipulated by special laws for individual types of taxes and other public fees, representing common grounds for the tax system. Public Revenue Office performs inspection supervision over the implementation and application of the tax regulations by the taxpayers, encompassing the following:

- check of the regularity and accuracy in keeping business books, documentation on the operations and other prescribed records at the taxpayer;
- check of the financial transactions of the taxpayer;
- review on the disposable materials and stocks, inventory, raw materials, semi-finished goods, finished products and fixed assets;
- on-site check of the business and other premises in which the operations are performed or goods is kept and
- check of the condition and value of real estate, property and property rights, subject to taxation.

Pursuant to the Law, the inspection supervision is performed by a tax inspector, holding an identification card, the form and contents of which is prescribed by the Minister of Finance.

The Rulebook on Organizational Structure and Operations of the Public Revenue Office, Sector for Internal Audit was established in the Public Revenue Office – General Directorate on 02.08.2004. The Sector consists of two units: Unit for Audit Compliance and Audit of Internal Control Systems and Unit for Financial Audit and Performance Audit.

Customs Administration is a state administration body within the Ministry of Finance, with a status of a legal entity. Customs Administration performs its scope of duties through the Central Administration and customs offices.

Carrying out the financial control-related activities, i.e. carrying out the supervision and audit of revenues collected by the Customs Administration, is pursuant to the provisions in the Customs Law ("Official Gazette of RM", No. 21/98, 26/98, 63/98, 86/99, 25/00, 109/01, 31/01, 4/02, 55/02 and

42/03) and the Customs Law ("Official Gazette of RM", No. 46/04). The above-mentioned regulations determine the obligations, authorization and the manner of acting with respect to the control over collection of revenues within the scope of competencies of the Customs Administration.

There is Sector for Control and Investigation in the Customs Administration of the Republic of Macedonia that consists of: Control and Investigation Unit (comprising five Control and Audit Services), Risk Analysis Unit, Intelligence Unit, Investigation Unit, Mobile Teams Unit.

Control and Investigation Unit, in addition to its work in the field of eradicating smugglings, thus contributing a lot to prevention against grey economy and collection of revenues, also performs controls related to observing deadlines for payment of the customs arrears, i.e. revenues on the basis of customs, tax and excise duties, as well as control over the regularity in the customs clearance procedure in terms of the elements on which depends the amount of the customs and tax arrears, all that in order to implement uniform customs clearance procedure in all customs services. The documents submitted in the customs procedure, as well as the data stated in these documents are controlled, paying special attention to the control when determining the customs value, distributing the goods in accordance with the Customs Tariff, applying the international agreements related to the origin of goods, using the goods that are tax and customs exempt, as well as the control over the simplified procedures approved by the Customs Administration.

An important segment of the control when collecting revenues is also the additional control at the importers or at the other parties concerned, in their book-keeping records. By applying the risk analysis methods, both the selectiveness and the number of controls at the importers or the other parties concerned are increased, for the purpose of determining whether data presented to the customs authorities in the customs clearance process correspond to the data in the book-keeping records of the importers or the other parties concerned.

Customs Administration controls and collects part of the excise duties at import, whereas the control and the collection of excise duties in the internal turnover are carried out by the Public Revenue Office.

Regarding the control over the correctly collected revenues from customs, tax and excise duties, it also includes control over the decisions reached in the customs procedure for additional collection or settlement of the customs arrears, adopted on the basis of the results from the control or at the request by the client. The decisions are reached pursuant to the provisions in the Customs Administration Law or the provisions in the Law on General Administrative Procedure ("Official Gazette of SFRY", No.47/86, consolidated version).

In case of late payment of customs arrears, the Customs Administration calculates and collects default interest pursuant to the Law on Calculation and Collection of Public Revenues ("Official Gazette of RM", No. 13/01, 61/02, 24/03, 77/03 and 19/04). If the customs arrears and the default interest are not paid by the customs debtor, a forced collection is carried out, pursuant to the provisions in the Law on Payment Operations ("Official Gazette of RM", No. 32/01, 50/01, 103/01, 37/02, 61/02 and 42/03).

There is a Sector for Revenue Collection, Financial and Material and Legal and Property Affairs, comprising Unit for Collection, Budget, Guarantees and Analysis is operating. This Unit is responsible for revenue collection on the basis of customs and other import duties, value added tax and excise, and breaks down the collected revenues by types and by legal entities (custom debtors). It classifies the revenues by type on daily, on the basis of the received statements for payments of customs and other import duties on the recorded account and the set records for collected revenues. On the basis of the reached decisions in the administrative procedure, it refunds customs, other import duties, value added tax and excise, and regarding the decisions on additional collection, it keeps records thereof, and regarding the due liabilities, it performs forced collection through the performers of payment operations. It records the guarantees in the customs procedure, (bank guarantees and deposits), as well as the collection of all debts incurred in the customs procedure. It provides periodical information on the collected customs and other import duties, value added tax and excise,

and it prepares analysis and information for the collection trend. It cooperates with the Sectors, the customs offices and the customs terminals, with the participants in the payment operations and with other bodies - participants in the collection of customs revenues.

For the purpose of securing the integrity of the customs officials and corruption prevention, in 2003, new function was established in the Customs Administration – Sector for Professional Responsibility, with two Units: Internal Inspection Unit and Internal Investigation Unit. The Sector for Professional Responsibility is under direct jurisdiction of the Director of the Customs Administration of the Republic of Macedonia. The proposal for initiating disciplinary procedure is under the competence of the immediate superior.

State Audit Office controls the expenditures realized within the scope of operations of the Customs Administration. While performing the control, the State Audit Office examines the financial transactions, being government expenditures, in terms of the legal and earmarked utilization of the funds. The documents, papers, accounting and financial procedures and other records are examined to determine whether the financial statements truly and objectively present the financial position, as well as whether the results of the financial activities are in accordance with the accepted accounting principles and accounting standards. During the audit, special attention is paid to the investment project and public procurement procedures.

According to the Rulebook on Amendments to the Rulebook on Organizational Structure and Operations of the Customs Administration, dated 22.09.2004, Internal Audit Unit was established within the Customs Administration, in charge of planning, organising and carrying out audits pursuant to the legal regulations, the international standards for internal auditing and the established auditing policies of the Ministry of Finance.

The payment and coverage of excessive payment amounts are regulated by the Law on Execution of the 2005 Budget of the Republic of Macedonia, ("Official Gazette of RM" No. 96/04), see [28 Annex 04](#) and the Manual on the Manner of Acting of the Budget Users and the Spending Units in the Treasury Operations.

Pursuant to the Law on Execution of the 2005 Budget of the Republic of Macedonia ("Official Gazette of RM", No. 96/04), the wrongly paid amounts or amounts paid in excess are returned to the Budget on the basis of a decision by the Minister of Finance. The refund of the wrongly collected tax revenues or tax revenues paid in excess, being under the competence of the Public Revenue Office, is performed by a decision by the Director of the Customs Administration.

If, in the decision making process regarding the refund, it is determined that the taxpayer or the performer of payment operations has outstanding debts, the request for refund is rejected. When the request for refund is approved, the refund is charged from the respective public revenue. In case such revenue to be insufficient or does not exist, the refund is charged from the other revenues.

Activities related to ownership and other legal and property affairs in the Republic of Macedonia are performed by the Property and Legal Affairs Administration.

The Property and Legal Affairs Administration was established by the Law on Organisational Structure and Operations of State Administration Bodies ("Official Gazette of RM" No. 58/2000), as a body within the Ministry of Finance, with the following organizational structure:

1. Sector for Normative Legal and Property Affairs and Contracts and Torts, with two units: Unit for Legal and Property Affairs with Residents and Non-residents and Ownership Reciprocity and Unit for Registration and Disposal with Property – Funds of the State Administration Bodies; and
2. Sector for Administrative Procedure, with two units: Unit for Administrative Procedure and Regional Units for Administrative Procedure.

Property and Legal Affairs Administration is in charge of the following:

- preparation and implementation of the following laws: Law on Expropriation, ("Official Gazette of RM" No. 33/95,20/98,40/99,31/03); Law on Rights, Obligations and Responsibilities of the State Administration Bodies, ("Official Gazette of RM" No. 61/02) with respect to government funds they use and manage and Decree on the Manner and Procedure for Alienation of the constructed urban land, owned by the Republic of Macedonia, ("Official Gazette of RM" No. 61/02);
- monitoring the implementation of the laws within its competence and the sector laws sharing common grounds with the legal and property affairs;
- monitoring the ownership legal regime;
- privatization of the constructed urban land by its alienation;
- taking part in concluding bilateral agreements for regulating the legal and property affairs between the Republic of Macedonia and foreign countries;
- expropriation of property in first-instance administrative procedure;
- preparation of contracts for transfer of real estate, for which the Minister of Finance is the authorized signatory;
- providing expert opinion regarding the prepared contracts for transfer, substitution and renting real estate at the request of the administration bodies and the Government of the Republic of Macedonia;
- performing other duties pursuant to law.

Public procurement in the Republic of Macedonia is regulated by the Public Procurement Law ("Official Gazette of RM", No. 19/04).

Pursuant to the Rulebook on the Organizational Structure and Operations of the Ministry of Finance, the Sector for Public Procurement System within the Ministry of Finance became Public Procurement Bureau, as a state administration body without the status of a legal entity, within the Ministry of Finance, being responsible to the Government and to the Minister of Finance for its operations.

Public Procurement Bureau is responsible for the development of the public procurement system, by ensuring the legality, rationality, efficiency and transparency when carrying out public procurement, as well as for supporting the competitiveness and fairness of bidders in the public procurement procedure.

Pursuant to the Public Procurement Law, the supervision over the carrying out of public procurement procedures is performed by the Sector for Central Internal Audit in the Ministry of Finance. If, while performing the supervision, it is determined that misdemeanour or criminal offence is committed, request for initiating misdemeanour, i.e. criminal procedure is submitted.

State Audit Office controls the use of funds for public procurement.

4. How is PIFC (control and audit) organised in lower authorities and municipalities in as far as they benefit from national budgetary funding? And from their own funding?

The public internal financial control, with respect to the units of local-self government, is regulated by several laws, (for more details see [28 I B 1](#)), and the Law on Financing the Local Self-Government Units ("Official Gazette of RM" No. 61/04, 96/04).

Within the units of local self-government, certified accountant carries out ex ante control of the accounting documents. This control encompasses all accounting documents from the aspect of their authentic and realistic presentation of the accounting changes, i.e. transactions. The certified accountant also controls and verifies, with his/her signature, each separate type of accounting document, before entering the data in the accounting.

In accordance with the Law on Internal Audit in the Public Sector ("Official Gazette of RM" No. 69/04), see [28 Annex 02](#), the units of local self-government are obliged to establish internal audit units. According to the Conclusion of the Government of the Republic of Macedonia, adopted on the

session held on 26.01.2004, internal audit units will be established in the units of local self-government by end of March 2006. Until they are established, the Sector for Central Internal Audit within the Ministry of Finance will perform internal audit in the units of local self-government.

In accordance with the Law on State Audit ("Official Gazette of RM" No. 73/04, consolidated version), see [28 Annex 01](#), the State Audit Office performs both state audit and audit of the budgets of the units local self- government.

5. Could an overview be given of any weak points in the areas mentioned under question 3. above, as perceived by the Ministry or other parties (such as the Supreme Audit Institution, the Treasury or the Parliament), that need further consideration for improvements in the future?

In the coming period, it is necessary to develop a broad system of public internal financial control, by developing a system of solid financial management, control and internal control.

It is necessary to strengthen the ex-ante financial and other controls on all levels, including the control performed by the management, the financial controllers and certified accountants, as well as precise division of their competences and tasks.

The entities in the public sector have to secure an "audit trail", i.e. bylaws and other internal acts which provide a detailed description of the procedures for performing all major functions of the entity, starting from the planning phase to the execution phase, highlighting the control functions.

Taking into account the fact that the public internal financial control in the Republic of Macedonia is performed by many institutions, each in its own scope of operations, it is necessary to improve their mutual cooperation in terms of mutual exchange of information and data and harmonization of the legal regulations.

It is also necessary to strengthen the cooperation between SAO and the Sector for Central Internal Audit within the Ministry of Finance, primarily in the area of preparing the annual plans, so as to avoid duplication when performing audit; exchange of opinions and suggestions for improving the operations of certain parts of the system and exchange of summary annual reports.

6. Could information be provided on the salary levels of the public control and audit staff, including a comparison with salaries in the private sector? Are there any other income elements not deriving from the national budget, either for control/audit staff or organisations? Is it difficult under the present salary regime to find suitable staff for these functions?

Pursuant to the Law on Civil Servants ("Official Gazette of RM", No. 59/00, 112/00, 34/01, 103/01, 43/02, 98/02, 17/03, 40/03, 85/03, 17/04, 69/04), the status, rights, obligations and duties of the civil servants are regulated, as well as the system of salaries and allowances of the civil servant.

In the light of this context, persons responsible for performing control/internal audit are also civil servants, and no additional sources of income are stipulated for them.

Average net salary of the internal auditors in the Central Internal Audit Sector, within the Ministry of Finance, for December 2004 (paid in January 2005) amounted to 19.536,00 MKD.

Pursuant to Article 1, paragraph (5) of the Law on Civil Servants ("Official Gazette of RM", No. 59/00, 112/00, 34/01, 43/02, 98/02, 17/03, 40/03, 85/03, 17/04 and 69/04), it is envisaged that the provisions in the Law on Civil Servants, apart from the other entities indicated in this provision, do not apply to the certified state auditors and the persons performing tasks and duties related to state audit in the State Audit Office.

Pursuant to Article 16, paragraph 2 of the State Audit Law ("Official Gazette of RM", No. 73/04, consolidated version), see [28 Annex 01](#), it is envisaged for the Chief state auditor, within the scope of operations, to regulate the internal organizational structure and the number of the operative staff in the State Audit Office by internal acts.

On the basis of the Rulebook on Organization and Operations of the State Audit Office and the Rulebook on Systematization of Working Posts in the State Audit Office, and in accordance with the competencies stipulated by the State Audit Law and in line with the right set by the Law on Payment of Salaries in the Republic of Macedonia ("Official Gazette of RM", No. 70/94, 62/95, 33/97, 50/01, 26/2002 and 46/02), Chief state auditor, by a special Decision on Determining the Salary Calculation Ratio by Working Post, determines the salaries of the employees in the State Audit Office. This Decision is also practically applied in the Tariff of the State Audit Office ("Official Gazette of RM", No. 30/00), which sets the procedure for calculating the allowance for performing state audit and for preparation of report on state audit carried out at the entities stipulated by law, the consent for which is given by the Assembly of Republic of Macedonia.

In accordance with the above-stated procedure, average net salary of the state auditors, for 2004, amounted to 26.933,00 MKD.

Revenues SAO realizes on the basis of carried out audit at part of the entities Article 19, paragraph 2 and paragraph 3 of the State Audit Law ("Official Gazette of RM", No. 73/04, consolidated version), are not used for payment of salaries of the certified state auditors.

Salaries of the certified state auditors, internal auditors and financial controllers, performing duties in the public sector, are two to three times lower compared to the salaries in the private sector.

Legislation

7. Please, provide the following documents in one of the official EU languages, if available:

a) Framework Law for PIFC

b) Specific Laws on FMC and IA (implementation laws)

c) Tertiary regulations, such as manuals for FMC and IA, IA Charter, Codes of Ethics for FMC and IA, Audit trails

a)

The public internal financial control in the Republic of Macedonia is not regulated under a special law. The internal financial control system is regulated under several laws.

b)

The following laws regulate the financial management and control, and the internal control:

- The Law on Budgets ("Official Gazette of RM", No. 79/93, 3/94, 71/96, 46/00, 11/01, 93/01, 46/02, 24/03, 85/03 and 96/04), see [28 Annex 03](#);
- Law on Execution of the 2005 Budget of the Republic of Macedonia ("Official Gazette of RM", No. 96/04), see [28 Annex 04](#);
- Law on Accounting for Budget and Budget Users ("Official Gazette of RM", No. 61/02 and 98/02), [28 Annex 05](#);
- Law on Internal Audit in the Public Sector ("Official Gazette of RM", No. 69/04), [28 Annex 02](#).

c)

Tertiary regulations on financial management and control and internal audit are the following:

- Rulebook on Accounting for Budget and Budget Users ("Official Gazette of RM", No. 28/03), see [28 Annex 06](#);
- Rulebook on the Manner of Conducting Internal Audit Operations ("Official Gazette of RM", No. 72/03), see [28 Annex 07](#);

- Guidelines on the Procedures Concerning Budget Users and Spending Units in Treasury Operations (“Official Gazette of RM”, 79/93, 3/94, 71/96, 46/00, 11/01, 93/01, 46/02, 24/03, 85/03, 10/04), see [28 Annex 08](#);
- Guidelines on Keeping Records on Commitments Assumed by the Budget Users and Spending Units (“Official Gazette of RM”, No 79/93, 3/94, 71/96, 46/00, 11/01, 93/01, 46/02, 24/03, 55/03), see [28 Annex 09](#);
- Internal Audit Handbook, Maria Borda, March 2004, see [28 Annex 10](#).

During 2005, the Ministry of Finance will prepare a framework law which will regulate the public internal financial control (for more details see [28 I B 9](#)).

Financial management and control (FMC) systems

8. Will a central Treasury system be developed? To what extent will the control functions of the Treasury have an impact on certain tasks of the traditional checks during ex-ante control or make them redundant? How will the Treasury control functions be integrated into the ex-ante control activities of the Ministry of Finance and in line ministries?

There is a developed central treasury system with an appropriate system support in the Republic of Macedonia, constantly upgraded and modernized.

Implementation of the treasury system in the Republic of Macedonia started in 1996 when the Payment Operations Bureau was performing major part of the treasury functions. During 2000, the Ministry of Finance commenced important reforms aimed at improving the process of budget execution, strengthening the control over the use of the budget funds, increasing the transparency in using public revenues and establishing system for more efficient debt management.

For the purpose of realizing the above-mentioned activities, Treasury Sector was established within the Ministry of Finance in 2000.

The introduction of the central treasury system was carried out in two phases.

The first phase, encompassing the major changes in the treasury operations, was implemented at the beginning of 2001 and consisted of the following activities:

- Change in the structure of the accounts of the budget users;
- More analytical monitoring of budget revenues and expenditures;
- Change in the payment execution procedures;
- Eliminating the balances on the operating accounts and
- Providing records on actual costs.

The second phase of the reforms in the implementation of central treasury system started in the middle of 2001, and was completely finished at the beginning of 2002.

In January 2002, the Treasury Sector completely took over the function of performer of the payment operations for the budget and the budget users. To that end, Single Treasury Account was opened at the National Bank of the Republic of Macedonia.

The principle of the Single Treasury Account meant integration of all accounts of the budget and budget users, regardless of the sources of financing (funds from own revenue resources, loans and donations), without the possibility for the budget users to open accounts outside the Single Treasury Account.

With respect to the payments executed by the budget users, there are 16 treasury offices operating in various towns throughout the country, according to the territorial distribution of the budget users.

In 2004, extra-budgetary funds were integrated within the Single Treasury Account.

In 2005, it is planned to integrate the accounts of the local government units within the Single Treasury Account.

Integration of the accounts of the extra-budgetary funds within the STA and successful inclusion of the accounts of the local government units within the Treasury will enable consolidation of the total public financial resources of the general government. Thus, greater efficiency in public finance management and greater fiscal discipline, i.e. better public financial liquidity management will be ensured, leading to better coordination between the fiscal and the monetary policy.

The established treasury system allows for collection of revenues on the Single Treasury Account in real time, as well as for budget execution through appropriate level of necessary ex-ante control over the payments, to the end of increasing the efficiency and effectiveness of the public financial management.

For the purpose of Budget execution according to the plan and improved liquidity management, the Ministry of Finance carries out certain level of control over the spending of the budget users, by being obliged to:

- submit an annual, quarterly and monthly financial plan for the expenditure performance by the budget users;
- submit quarterly plan for settlement of the liabilities and
- report the assumed liabilities, the spending units being also obliged to report, thus eliminating the possibility for the budget users to borrow above the amount of the annual appropriation.

The payment control is performed from both formal and material point of view.

The formal control, carried out by the treasury offices, consists of checking all elements of the payment requests, while the material control is carried out by the Treasury Sector by controlling the following:

- type of expenditures in accordance with the economic classification of expenditures and the approved budget;
- purpose of the expenditure;
- correspondence of the source with the purpose of the funds;
- dynamics of utilisation of the annual budget allocation;
- approved annual budget allocation, in order to eliminate the possibility to exceed it, etc.

All implemented control mechanisms are aimed at transparent, earmarked, rational and efficient use of the state budget funds.

Establishment and development of the central treasury operations are based on relevant legal regulation. The Law on Budgets ("Official Gazette of RM", No. 79/93, 3/94, 71/96, 46/00, 11/01, 93/01, 46/02, 24/03, 85/03, 96/04), see [28 Annex 03](#), being a systemic law, provides for the main guidelines for the development and the functioning of the treasury system, while the Law on Budget Execution, prepared every year with the adoption of the Budget and pertaining to the current fiscal year, defines more precisely the manner of budget execution..

For the purpose of more efficient and rational public spending policy, the following bylaws have been adopted:

- Manual on the Manner of Acting by the Budget Users and the Spending Units during the Treasury Operations ("Official Gazette of RM", No. 79/93,3/94,71/96,46/00,11/01,93/01,46/02,24/03,85/03,10/0410/04), see [28 Annex 08](#);
- Manual on the Manner of Opening and Closing the Accounts of the Budget Users and the Spending Units in the Treasury Ledger ("Official Gazette of RM", no 99/01;

- Manual on the Manner of Keeping the Registry of Budget Users and Spending Units ("Official Gazette of RM", No. 99/01);
- Manual on Revenue Classification ("Official Gazette of RM", No. 100/01,45/03,7/04,85/04);
- Manual on Expenditure Classification ("Official Gazette of RM", No. 23/94,3/96,9/97);
- Manual on Keeping Records of the Assumed Liabilities by the Budget Users and the Spending Units ("Official Gazette of RM", No. 55/03), see [28 Annex 09](#).

Adequately developed concept of the central treasury system, accompanied by a legal regulation and modern software solution, being an important support to the treasury system, allow for strengthened control of the total public spending and are basis for efficient realization of the fiscal policy.

9. Provide a description of the general set-up, roles and responsibilities of financial services in line ministries and/or budgetary chapters (you should cover the functions of the authorising officer, the accountant, double signature systems for commitments and disbursements, the ex-ante financial controller, the inspection and the ex-post financial controller). Has the concept of audit trails been introduced?

The authorized person for the budget or the budget user (issuer of order), or the person authorized by him/her, is responsible for preparing the accounting documents and with his/her signature he/she guarantees that it is authentic and that it fairly presents the accounting change, i.e. the transaction.

The accounting document is recorded in the accounting only if previously controlled and verified with a signature from the person responsible for control of the accounting and formal authenticity and accuracy of the accounting documents.

The responsible accountant performs ex-ante control over payments and can temporarily stop the payment if it is incompliant to the Law on Accounting for Budget and Budget Users ("Official Gazette of RM" No 61/02 и 98/02), see [28 Annex 05](#), the Law on Budgets ("Official Gazette of RM" No. 79/93, 3/94, 71/96, 46/00, 11/01, 93/01, 46/02, 24/03, 85/03, 96/04), see [28 Annex 03](#), or the Law on Execution of the Budget of the Republic of Macedonia for the respective year.

The budgets and the budget users ensure that there is a system of regular (ex-post) internal accounting control, which inspects whether the financial changes, i.e. the transactions, are executed in accordance with the legal regulations, whether there is an appropriate accounting documentation and whether the financial statements provide complete, authentic and reliable information on the results of the financial changes and for the financial transactions.

The budget users control the collection of revenues at the spending units, as well as control the purposeful and legal usage of funds being at their disposal.

In 2005, the Ministry of Finance will draft a Law on Internal Financial Control, which will be harmonised with the EU regulations, particularly with respect to the regulation of:

- management's responsibility for implementation, functioning, supervision and development of an efficient financial management and control system;
- clearly and in writing, defining and devolution of the authorizations and responsibilities;
- the work of the financial controllers and responsible accountants in the implementation of ex ante financial control and adherence to the principle of two signatures in the process of adopting the acts incurring liabilities and expenditures;
- operations of ex post financial control;
- procedures for reporting irregularities;
- manner of compensation for damages occurred in the financial-material operations;
- securing audit trail;
- introducing the employees to the rules and procedures of conduct for the basic processes;
- the obligation for systematic analysis of risks associated with the main activities of the entity and preparing risk management action plan;

- the authorization of the Ministry of Finance for development, regulation, coordination and harmonization of the public internal financial control system; and
- control of the usage of resources from the European Union Funds.

10. Describe the planning and nature of ex-ante control (scope and contents, 100% checks or sampling based on risk assessment, etc.). Are scientific methods used in such sampling, such as the Monetary Unit Sampling technique? Are risk assessment and risk management techniques being developed?

Pursuant to the Law on Accounting for Budget and Budget Users ("Official Gazette of RM", No. 61/02 and 98/02), see [28 Annex 05](#), ex-ante control of the accounting documents carried out by the authorized person of the budget and the budget user or the person authorized by him/her, covers every prepared accounting document in terms of its true and realistic presentation of the accounting change, i.e. transaction. The person authorized to control the accounting and formal truthfulness and accuracy of the accounting documents, controls and verifies, with his/her signature, every type of accounting document prior to entering the data into the accounting of the budgets and the budget users.

The ex-ante control by the accountant means checking whether all payments are made pursuant to the Law on Budget Accounting and Budget users, ("Official Gazette of RM", no 61/02, 98/02), the Law on Budgets ("Official Gazette of RM", No. 79/93, 3/94, 71/96, 46/00, 11/01, 93/01, 46/02, 24/03, 85/03 и 96/04) or the Law on Execution of the Budget of the Republic of Macedonia, for the respective year prior to their realization.

During the process of the ex-ante control of data in every accounting document, sampling techniques are used, while, in the coming period, systemic risk assessment is going to be applied by using scientific methods.

Internal Audit (IA) systems

11. Has the function of internal audit been introduced in your country's public sector (please refer to the attached Glossary for the exact meaning of the internal audit concept). Describe the functional independence of the internal audit function in the following terms: status inside the auditee, nomination, transfer and demotion, freedom to set annual audit plans and ad hoc planning, freedom to report to the highest level of the hierarchy and in case of conflict to other relevant organisations. Are internal audit units established in line ministries? Do they share tasks with the inspectors or is a strict separation foreseen between the two functions?

The work of the internal audit in the public sector is regulated by the Law on Internal Audit in the Public Sector ("Official Gazette of RM" No. 69/04), see [28 Annex 02](#) and the Rulebook on the Manner of Performing Internal Audit Operations, ("Official Gazette of RM" No. 72/03), see [28 Annex 07](#), incorporating the International standards for Professional Practice of Internal Auditing and the Code of Ethics of the Institute of Internal Auditors – IIA.

Pursuant to the Law, the internal audit is defined as an independent impartial activity for verifying the information and their accuracy, as well as for giving advice in order to improve the work of the entities. Internal audit function helps the entities to achieve their goals by applying a planned, strictly defined approach to assess and improve the performance in the processes of risk management, control and management.

All entities in the public sector are obliged to establish internal audit units and provide resources for their functioning, as well as the organizational and functional independence. Organizational independence means that the internal audit unit does not belong to other organizational unit within the entity. Functional independence means that the internal auditor is directly responsible to the head of the entity and should not perform other tasks within the entity that are not connected to the internal audit function.

The internal audit, depending on the competencies of the body and the number of employees, is organized in departments and units at many state administration bodies and other state institutions. The employees in the internal audit sectors and units have status of civil servants and are appointed to jobs such as heads of sectors and heads of units – internal auditors and advisors – internal auditor.

The head of the entity appoints the internal auditor, if the internal auditor meets the general and special requirements determined by law.

With respect to the appointing of the internal auditors and their transfer, the provisions of the Law on Civil Servants ("Official Gazette of RM" No. 59/00, 112/00, 34/01, 103/01, 43/02, 98/02, 17/03, 40/03, 85/03, 69/04).

The Head of the internal audit unit prepares the annual audit plan on the basis of the risk analysis, approved by the head of the entity. During the process of determining the planned audits in the annual audit plan, the need for ad hoc audits is taken into account.

The internal auditor has the full freedom to report to the highest level of the hierarchy at the entity.

If, during the audit, the internal auditor suspect of irregularity and/or fraud, which might result in criminal, misdemeanour or disciplinary procedure, he/she immediately informs the head of the internal audit unit thereof. The head of the internal audit unit informs the head of the public sector entity. If there is suspicion that might result in criminal, misdemeanour or disciplinary procedure, the internal auditor submits the documents in original to the head of the public sector entity, with a confirmation of their receipt, in order for he/she to undertake the necessary measures.

Pursuant to the Decision reached at the session of the Government of the Republic of Macedonia, held on 26.01.2004, development of internal audit and strengthening of the financial control at the budget users and the extra-budgetary funds will be carried out in three stages:

- first stage – internal audit units will be established at 17 larger budget users by 31.03. 2004, and 23 internal auditors will be trained by 30.04.2004;
- second stage – internal auditors at the other budget users will be trained, and their internal audit units will be established by end-2005 at the latest;
- third stage – internal auditors in the local government units will be trained, and their internal audit units will be established by 31.03.2006 at the latest.

The first stage in terms of establishment of internal audit units has also been completed at 15 budget users and extra-budgetary funds

The inspection supervision of the implementation and application of the legal and other regulations is performed by the state administration (inspections) in the scope of their competences determined by law. Pursuant to the Law on Organisation and Operation of the State Administration Bodies ("Official Gazette of RM", No. 58/00, 44/02), the internal auditors give initiative for performing inspection supervision and monitor the application of respective measures from the inspection supervision.

12. What kind of audits is performed by the Ministry of Finance and by Internal Audit Units, if established, in line ministries and other spending centres (regularity and legality audits, systems audits, performance and IT audits)?

Pursuant to the Law on Internal Audit in the Public Sector ("Official Gazette of RM", No. 69/04), Article 7, see [28 Annex 02](#), Sector for Central Internal Audit within the Ministry of Finance and the internal audit units at the budget users perform the following: internal control systems audit, regularity audit, performance audit and financial audit.

The Sector for Central Internal Audit within the Ministry of Finance is currently performing regularity audits, internal control systems audits and partly financial audits, whereas the internal audit units established at the budget users perform regularity audits and internal control systems audits.

13. What procedures have been introduced to ensure adequate audit reporting (contradictory procedures with auditees) and for the adequate follow-up of audit findings? Who ensures the feed back of audit findings into the FMC systems?

Internal auditor prepares draft report, and after he/she reviews and harmonizes the report with the authorized persons at audited entity, he/she prepares final audit report. In case of any disagreement with the audited entity, the internal auditor explains his/her opinion in the final report by indicating that the audited entity has opposite opinion.

On the basis of the audit findings and recommendations, the responsible at the audited entity prepares an action plan in which the responsible persons and the deadlines for undertaking the necessary measures are determined, and he/she informs the head of the entity and the head of the internal audit unit on the implementation of the action plan.

The Head of the Internal Audit Unit monitors the implementation of the recommendations from the performed audit and the action plans, and prepares quarterly and annual reports on the performance.

The quarterly and the annual report, prepared by the Head of the Internal Audit Unit and the Head of the entity and submitted to the Ministry of Finance, also contain the report on the implemented audit findings and recommendations.

Central harmonisation for FMC and IA

14. Could a description be given of the tasks that the Ministry of Finance has in relation to providing central guidance on methodology to all ex-ante control and internal audit activities in all line ministries and government spending centres? How does the Ministry ensure that these guidelines are adhered to? Are there compliance and substantive tests performed for this purpose?

Pursuant to the Law on Internal Financial Control, the adoption of which is expected in 2005, a unique methodology for carrying out ex-ante control activities in the public sector is going to be stipulated, and a unit in charge of development, regulation, coordination and harmonization of the public internal financial control system is going to be established in the Ministry of Finance.

Pursuant to the Law on Internal Audit in the Public Sector ("Official Gazette of RM", No. 69/04), see [28 Annex 02](#), unique methodology for carrying out internal audit activities in the private sector is stipulated.

Ministry of Finance, through the Central Harmonization Unit, which is within the Sector for Central Internal Audit, coordinates the operations of the internal audit units at the public sector entities and regulates, develops and harmonizes the internal audit system.

Sector for Central Internal Audit within the Ministry of Finance monitors the work of the internal audit function by: preparing proposals with respect to laws and bylaws related to internal audit; giving suggestions for development and harmonization of the internal audit system; monitoring the implementation of the laws, bylaw and internal acts, in accordance with the accepted professional standards and the code of ethics, the instructions and methods of internal audit; developing the system for training of internal auditors; preparing summary quarterly and annual reports on internal audit; and cooperating with the State Audit Office and other professional organizations in the field of audit and accounting.

15. What actions are undertaken to train controllers and auditors? Who is responsible? Is there a Public Finance School for these functions? Are there contacts with the SAI, the IIA chapter for your country and with academic authorities? Is there training for certified public internal auditors? Is staff being trained to become training specialists?

The Ministry of Finance commenced training of internal auditors, by engaging foreign experts, in 2000. In 2004, within the project "Development Policy of the Republic of Macedonia in the field of Internal Audit and Training", in the period 29.03. – 09.04. 2004, training of internal auditor was carried out, and internal auditors within 16 budget users and extra-budgetary funds were trained.

On its session, held on 26.01.2004, the Government of the Republic of Macedonia reached a decision for the training of internal auditors at the other the budget users to be carried out by the end of 2005, and at the local government units by the end of 2006.

The Sector for Central Internal Audit within the Ministry of Finance is in charge of developing the internal audit system and training of internal auditors.

Ministry of Finance has not established a Public Finance School for training controllers and internal auditors, but it has been cooperating with the Centre of Excellence in Finance, located in Ljubljana, for many years, and has been regularly organizing workshops and seminars in the field of internal audit and control. Ministry of Finance has already initiated activities to establish and provide equipment for a training centre with a capacity of 20 students, financed by the Dutch grant.

Regarding the training of the internal auditors, the Sector for Central Internal Audit within the Ministry of Finance, regularly cooperates with the State Audit Office, especially regarding participation of the state auditors at trainings organized by the Sector for Central Internal Audit.

The Sector for Central Internal Audit within the Ministry of Finance was cooperating with the IIA -The Institute of Internal Auditors – Florida, USA, regarding the IIA International Standards for the Professional Practice of Internal Auditing, which the Republic of Macedonia fully adopted ("Official Gazette of RM", No. 72/03), see [28 Annex 07](#).

In the future period, professional body in the field of the internal audit is expected to be established, which, in cooperation with the academic authorities and the international professional institutions in the field of internal audit, will train and certify the public internal auditors and the internal auditors outside the public sector.

16. Have rules been established to ensure a minimum of knowledge and experience before staff can become financial controllers and internal auditors (examination board or otherwise)?

Pursuant to the Law on Internal Audit in the Public Sector ("Official Gazette of RM", No. 69/04), Article 16, see [28 Annex 02](#), requirement to be met by the internal auditors are stipulated, being the following:

- university education in the field of economics, law or other fields pursuant to the acts on organisational structure and classification of posts; and
- at least two years of working experience in internal audit, external audit or finance.

The Law on Internal Financial Control, to be adopted during 2005, will stipulate the requirements to be met by the financial controllers.

The project for training internal auditors, organized by the Ministry of Finance, which started in April 2004, is going to be extended in 2005 and 2006. The training is going to cover education of the financial controllers as well.

17. What expertise is presently transferred to the government in this field under what programmes (consultants, Sigma, others)?

In 2004, under the Project "Internal Audit Development and Training", financed by the Dutch Trust Fund and administered by the World Bank, an expert in internal audit was engaged in the preparation of the Law on Internal Audit in the Public Sector, ("Official Gazette of RM" No. 69/04), see [28 Annex 02](#), and the Rulebook on Internal Audit, see [28 Annex 10](#). Under the same project, ten-day training on internal audit was also organized.

In the period from 29.11 until 03.12.2004 an internal audit expert was engaged through TAIEX who held a workshop on the content of the by-laws pursuant to the Law on Internal Audit in the Public Sector. Along the internal auditors from the Sector for Central Internal Audit at the Ministry of Finance, the internal auditors of the budget beneficiaries that have established internal audit units participated at the workshop.

In 2005, Project for Development of Internal Audit, financed by the European Commission as a part of the CARDS 2004, is going to be implemented, providing for training of internal auditors.

During 2005, SIGMA consultant is expected to be engaged in the preparation of PIFC Policy Paper (Strategic document on public internal financial control) and the Law on Internal Financial Control.

18. Could a description be given of the available staff capacity in the organisation dealing with the development of FMC and IA harmonisation?

According to the new Rulebook on organization and operations of the Ministry of Finance No. 01-8440/1, dated 09.04.2004, within the Sector for Central Internal Audit, a Unit for Internal Audit System has been established. This unit is responsible for internal audit harmonization and has 2 employees.

C. Management and Control of (future) EU funds

1. Is there a paying agency in charge of the management of your agricultural policy? If yes, please submit information on the way it operates. If no, please provide information on the institution in charge of the management of your agricultural policy (Ministry of Agriculture, regional offices, marketing boards, etc.)? In both cases, information on the structures of the organisation(s) involved should also be provided.

There is no Payment Agency in the Republic of Macedonia. In 2004, the Minister of Agriculture, Forestry and Water Economy prepared a Strategy for Approximation of the Macedonian Agriculture and Food Sector with the Common Agricultural Policy of the EU, which envisages establishment of Payment Agency with defined competencies for implementation of agricultural policy.

Currently, the Minister of Agriculture, Forestry and Water Economy is the institution in charge of managing the agricultural policy. In 2004, a Sector for Support of Agriculture and Rural Development was established within the Ministry, and this Sector is responsible for preparation of payments of funds for promotion of agricultural development.

The Systematization Act envisages 12 positions in the Sector for Support of Agriculture and Rural Development, divided into two units as follows:

- a) Unit for analysis and financial support in agriculture;
- b) Unit for rural development.

a) The Unit for analysis and financial support in agriculture collects requests for financial support from natural persons and legal entities carrying out agricultural production analyzes them, checks their accuracy, and completeness, enters the data in computer, prepares decisions for payment, and closely cooperates with the accounting service.

b) The Unit for rural development participates in the policy-making regarding development of rural areas.

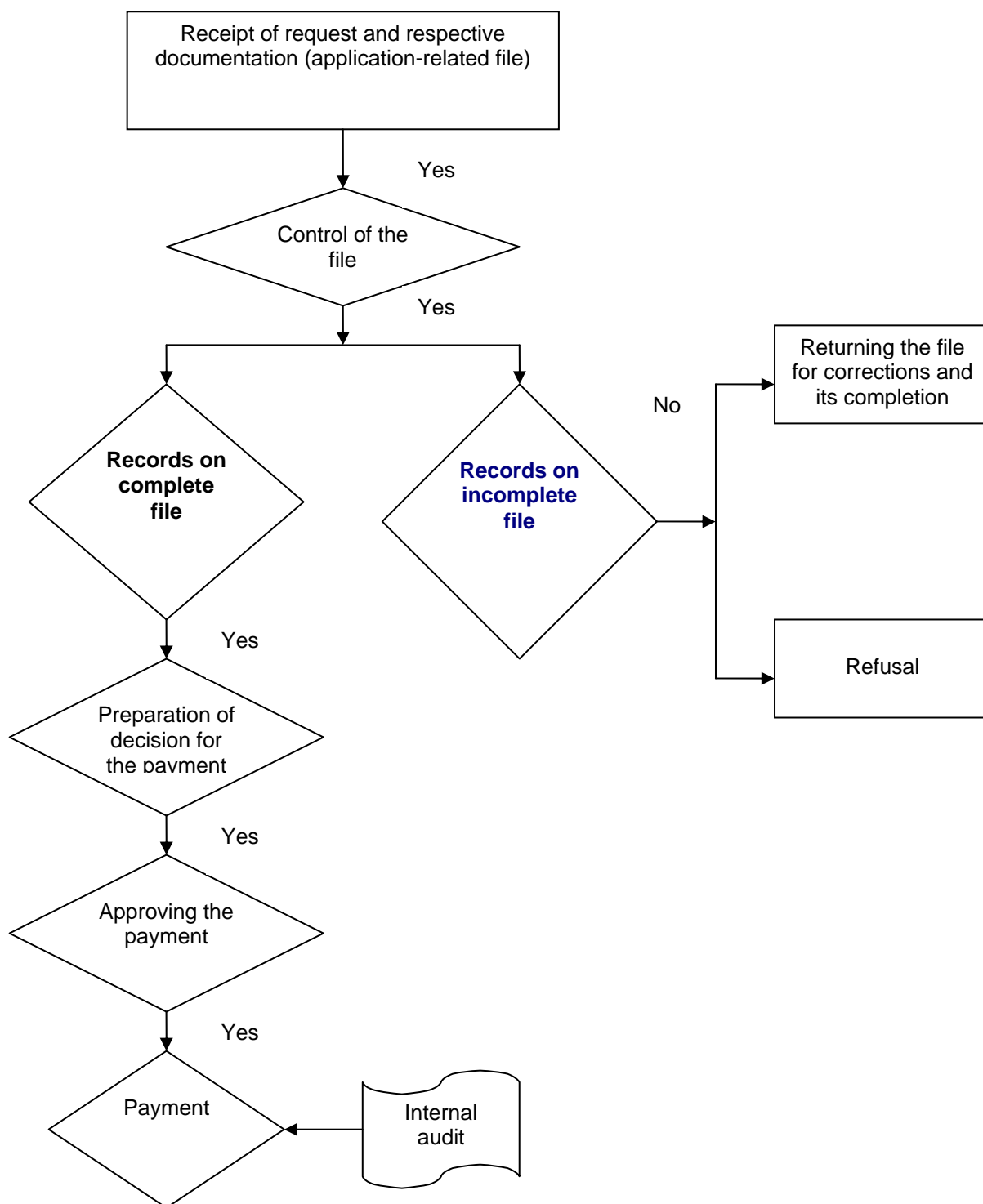
The regional offices of the Minister of Agriculture, Forestry and Water Economy take part in the procedure for collecting requests for financial support from natural persons, their classification and forwarding to the Sector for Agriculture Support and Rural development.

2. When receiving applications for aids, how are they processed, authorized and paid? Please provide detailed flowcharts describing the main processes and procedures in order to demonstrate that there is an adequate management and internal control system.

When receiving applications for aids, the Unit for Analysis and Financial Aid in Agriculture within the Ministry of Agriculture, Forestry and Water Economy controls internality and accuracy of the submitted documents, keeps computer records of the applicants, and if the submitted documents are in accordance with the Program for Agriculture Development Promotion, adopted by the Government of the Republic of Macedonia and the Decision on the Manner of Exercising the Right to Use Funds under the Program for Agriculture Development Promotion, adopted by the Minister, decisions for payment are prepared. It is authorised by the advisor who prepared the application-related file, then by the Head of Unit and by the Head of the Sector for Agriculture Support and Rural Development, being approved by the Minister of Agriculture, Forestry and Water Economy.

The payment of funds, under the aids, to the citizens and the legal entities is performed through bank.

After such funds are paid, the internal audit participates in the process of control.



3. Is there any separation of functions?

Heads of the units in the regional offices of the Ministry of Agriculture, Forestry and Water Economy collect the requests for financial assistance by the natural persons, prepare lists of received requests, stating personal data of the applicants, data on reported production and the amount of requested financial assistance, and by signing the requests, he/she confirms their internality and validity in accordance with the Program for Agriculture Development Promotion and the Manual for its realization, adopted by the Minister. The heads of the units submit the lists to the Sector for Agriculture Support and Rural Development.

State agricultural inspector, by carrying out on-site visits, in the regional offices, controls the validity of the data on the reported production by the natural persons, and confirms the factual situation by preparing minutes. The inspector submits the minutes to the head of the unit in the regional office. If the head of the unit in the regional office identifies that the data in the request and the one in the minutes are not identical, he/she submits a written notification to the Sector for Agriculture Support and Rural Development to change the data in the previously submitted list for the financial assistance.

State agricultural inspector in the regional office controls the accuracy of the reported production by the natural persons in the period prior to and after the performed payment.

Internal Audit Unit within the Ministry of Agriculture, Forestry and Water Economy audits the operations of the State Agricultural Inspectorate and the state agricultural inspectors.

The legal entities submit application for agricultural production to the head of the unit in the regional office. State agricultural inspector in the regional office, by carrying out on-site visits, controls the validity of the reported production by all legal entities and confirms the factual situation by preparing minutes. The inspector submits copy of the minutes to the legal entity, applicant for financial assistance.

The legal entity submits the request for financial assistance, together with the minutes prepared by the State Agricultural Inspector in the regional office and the other documents, to the Sector for Agriculture Support and Rural Development.

The associate for analysis and financial assistance in the agriculture collects the group requests by the natural entities, sent from the regional offices of the Ministry, as well as the requests by the legal entities, classifies them and submits them to the advisor for analysis and financial assistance in the agriculture.

The advisor for analysis and financial support in the agriculture examines the whole documentation and determines whether it is in accordance with the Program for Agriculture Development Promotion and the Manual for its realization, adopted by the Minister, electronically records the data. With respect to the accurate and complete application-related files, he/she prepares decisions for payment, and afterwards, submits the complete application-related file to the head of the unit for analysis and financial assistance in the agriculture. Inaccurate and incomplete files are returned to the applicants, with the corresponding explanation.

Head of the unit for analysis and financial assistance in the agriculture controls the documentation, and by signing it, he/she confirms its internality and validity.

Head of the Sector for Agriculture Development Promotion and Rural Development also controls the documentation, and by signing it, he/she confirms its internality and validity and submits it to the Minister to sign it.

Minister of Agriculture, Forestry and Water Management approves the payment under the above-mentioned documentation.

4. What are the procedures as far as accounts are concerned?

The Sector for Agriculture Support and Rural Development keeps electronic registry of the paid assistance to each beneficiary of funds earmarked for agricultural production support.

The funds for agricultural production support are paid from the budget account of the Ministry of Agriculture, Forestry and Water Economy, in accordance with the Program for Promotion of Agricultural Production Development.

State Audit Office audits the annual statements and the financial operations of the Ministry of Agriculture, Forestry and Water Economy.

5. Is there any internal service in charge of performing a control of the institution?

There is Internal Audit Unit established within the Ministry of Agriculture, Forestry and Water Economy, which performs audit on the operations of the Sector for support of the agriculture and Sector for Agriculture Support and Rural Development, pursuant to the Law on Internal Audit in the Public Sector, ("Official Gazette of RM" No. 69\04), see [28 Annex 02](#)

6. Is there any external service in charge of performing a control of the institution?

The Law on State Audit ("Official Gazette of RM", No. 73/04, consolidated version), see [28 Annex 01](#), regulates the obligation of the State Audit Office to performing mandatory annual audit in the Ministry of Agriculture, Forestry and Water Economy, as a state body and beneficiary of the EU funds and assistance from other international institutions.

7. Is there any internal audit unit?

There is Internal Audit Unit within the Ministry of Agriculture, Forestry and Water Economy. In 2004, Internal Audit Unit was established in the Sector for Assisting the Minister, with two posts according to the systematization act.

8. Is there a system to deal with securities, debts and recoveries?

There is no special system to deal with securities, debts and recoveries in the Sector for Agriculture Support and Rural Development within the Ministry of Agriculture, Forestry and Water Economy.

9. Is there any delegation to other institution(s) regarding payments and controls? If yes, on what basis?

Agriculture support-related payments are carried out by the Ministry of Agriculture, Forestry and Water Economy, in accordance with the Decision on the Manner of Exercising the Right to Use Funds under the Program for Agriculture Development Promotion, adopted by the Minister, and they are not delegated to any other institution.

10. How is the IT system protected?

Currently, there is no designed or protected IT system. The operations are performed on personal computers.

According to the CARDS Program, the implementation of the first phase of the IT strategy will start in 2005, by purchasing an integrated system (software and hardware).

11. What kind of training is given to the staff?

CARDS 2004 Project for Structural and Legal Reforms in the Ministry of Agriculture, Forestry and Water Economy will provide training for the employees in the Sector for Agriculture Support and Rural Development, focusing on the implementation-related issues and the models essential for the Sector, in accordance with the SAPARD and the respective regulations, and taking into account the current administrative, personnel and organizational conditions within the Ministry, in order to attain complete functionality in accordance with the EU regulations.

12. Which institution is responsible for public intervention for agricultural products?

The Minister of Agriculture, Forestry and Water Economy is responsible for government intervention regarding agricultural products.

13. What is the system in place to prevent the occurrence of conflicts of interest?

Within the Minister of Agriculture, Forestry and Water Economy, systems are in place for prevention of conflicts of interest, which are regulated in accordance with the following:

- Law on Civil Servants ("Official Gazette of RM" No. 59/2000, 112/2000, 34/2001, 103/01, 43/2002, 98/2002, 17/2003, 40/2003, 85/2003, 17/2004, 69/2004); and
- Law on Internal Audit in the Public Sector ("Official Gazette of RM" No. 69/2004), see [28 Annex 02](#).

14. What sensitive posts policies have been developed?

All employees working on jobs related to control and preparation of documentation for payment of financial resources are considered as having highly sensitive jobs, subject to enhanced control.

Control over the operations of state agriculture inspectors is carried out by the Heads of Units within the State Agriculture Inspectorate in cooperation with certain state inspectors from the regional offices.

15. Is there a service in charge of dealing with frauds in the agricultural sector?

The State Agriculture Inspectorate as a body within the Minister of Agriculture, Forestry and Water Economy is in charge for issues regarding frauds in the agriculture sector.

The State Agriculture Inspectorate operates in accordance with the Law on Agricultural Inspection ("Official Gazette of RM" No. 38/04) and the Law on Promoting Agriculture Development ("Official Gazette of RM" No. 24/92, 32/92, 83/92, 78/93 and 14/96).

16. Are the accounts of the institution(s) certified by an external audit company?

The annual accounts of the Minister of Agriculture, Forestry and Water Economy are not verified by an external audit company. The State Audit Office carries out external audit of the annual accounts.

17. What are the legal procedures for calls for tender (eligibility criteria, selection, contracts, ex-ante and ex-post controls)?

Public procurement procedures are carried out in accordance with the Public Procurement Law ("Official Gazette of RM" No. 19/04). The criteria for selecting the most favourable bidder and concluding contract are in accordance with Article 50, of the same law.

The criteria for selecting the most favourable bid, depending on the type of procurement are the following: only the lowest price or economically most favourable bid with respect to the price, delivery deadline, payment method, operating costs, efficiency, quality, aesthetic and functional characteristics, technical quality, warranty and post – warranty period, post – sales maintenance services and provision of technical assistance (spare parts etc).

The public procurement procedure is carried out by the Public Procurement Committee appointed upon a Decision by the Minister of Agriculture, Forestry and Water Economy.

The Committee suggests the most favourable bidder, and upon a Decision by the Minister of Agriculture, Forestry and Water Economy, it selects the most favourable bidder and signs the decision.

By signing the decision for selection, the Public Procurement Committee informs all bidders about the selection of the most favourable bid. After the decision by the Minister comes into effect, a request is submitted to the Ministry of Finance for obtaining consent for concluding a contract between the contracting authority and the bidder for the respective procurement.

The Internal Audit Unit within the Minister of Agriculture, Forestry and Water Economy is in charge of ex-ante control.

The State Audit Office and the Sector for Central Internal Audit within the Ministry of Finance are in charge of ex-post control.

Treatment and follow-up of cases of suspected fraud and other irregularities, protection of EU financial interests ("first pillar" aspects) "Third pillar" issues related to the protection of the Communities' financial interests are dealt with under Chapter 24.

18. Does national law provide for specific obligations and procedures with regard to the treatment of cases of suspected fraud and other irregularities affecting national or international funds?

The actions in case of suspected fraud and other irregularities that affect national and international funds are stipulated in the national legislation, in the following laws:

- Law on Organisation and Operations of the State Administrative Bodies ("Official Gazette of RM" No. 58/00, 44/02);
- Law on Stimulating Agricultural Development ("Official Gazette of RM" No. 24/92, 78/93 and 14/96);
- Criminal Code ("Official Gazette of RM" No. 37/96, 80/99, 4/02, 43/3, 19/04);
- Law on Agricultural Inspection ("Official Gazette of RM" No. 38/04);
- State Audit Law ("Official Gazette of RM" No. 65/97, 70/01, 31/03 and 19/04, consolidated version), see [28 Annex 01](#) and
- Law on Internal Audit in the Public Sector ("Official Gazette of RM" No. 69/2004), see [28 Annex 02](#).

19. How are cases of suspected fraud and other irregularities dealt with in practice? Are any statistics kept on detected cases of suspected fraud and other irregularities? If yes, please provide recent statistics.

The State Agriculture Inspectorate carries out inspection supervision – control over legal entities and natural persons from the date of submitting the request for usage of funds of the program. Regarding legal entities, the inspector carries out control and prepares report on the findings that constitutes mandatory integral part of the request for financial support. Regarding natural persons, the inspector controls certain number of persons selected randomly or upon prior suspicion and prepares report on the findings. The inspection supervision also continues after receiving the financial support in terms of whether the funds have been properly used. During the control, the State Agriculture Inspectorate, if necessary, cooperates with the competent services within the Ministry of Internal Affairs, for the purpose of providing additional documentation. In case when the State Agriculture Inspector, during the control, discloses that by violation of the Law on Stimulating Agricultural Development ("Official Gazette of RM" No. 24/92, 78/93 and 14/96), or other regulation, an offence or criminal act was perpetrated, he/she files a request for initiation of an offence procedure or for return of the illegally acquired financial support to the competent court, i.e. files criminal charges for fraud to the respective Public Prosecution. When the violation or any other irregularity is proved, the State Agriculture Inspectorate endeavours to collect the illegally acquired financial support in order to return it to the Ministry.

The State Agriculture Inspectorate prepares statistical records for the disclosed cases of suspected fraud or any other irregularities. In 2003, 3 charges for fraud by legal entities were filed to the Ministry of Internal Affairs, and against those entities, a court procedure is underway.

The Ministry of Internal Affairs, in accordance with its competences, undertakes measures for stamping out any kinds of crime. It undertakes measures for resolving criminal acts – frauds, including frauds related to the usage of funds for promoting agriculture development. It also focuses on the potential misuse of the official position by persons in charge regarding forgery of official documents.

20. Is your country considering setting up specific institutions or bodies for the investigation and/or treatment of cases of suspected fraud and other irregularities affecting national and/or international funds (separate from the PIFC-systems), or are such institutions or bodies already in place? If so, what is the scope of their competencies? Is their administrative capacity and their operational independence ensured? Have any procedures been defined for the communication, by other national authorities, of cases of suspected fraud and other irregularities to these institutions or bodies? Have any mechanisms been defined for co-operation between these different authorities?

In the Republic of Macedonia, there are many institutions working on detecting and solving cases of frauds and other irregularities affecting national or international funds.

Within the Ministry of Internal Affairs, there is a Sector for stamping out organized crime, in whose framework the Unit for stamping out trafficking of human beings, property offences with elements of violence, forgery and gambling, among other tasks, deals with frauds as well.

The following institutions are part of the Ministry of Finance: Foreign Exchange Inspectorate, Money Laundering Prevention Directorate, Public Revenue Office, Financial Police and Customs Administration– Sector for Control and Investigation.

The scope of operations of these institutions is regulated under special laws.

The Unit for stamping out trafficking of human beings, property offences with elements of violence, forgery and gambling, within the Ministry of Internal Affairs, operates in accordance with the Law on Internal Affairs (“Official Gazette of RM” No. 19/95, 55/97, 38/02 and 19/02), the Criminal Code (“Official Gazette of RM” No. 37/96, 80/99, 4/02, 43/03 and 19/04) and Law on Criminal Procedure (“Official Gazette of RM” No. 15/97, 44/02).

The Foreign Exchange Inspectorate within the Ministry of Finance operates in accordance with the Law on Foreign Exchange Operations (“Official Gazette of RM” No. 34/01, 49/01, 103/01, 54/02 and 51/03).

The Money Laundering Prevention Directorate operates in accordance with the Law on Prevention of Laundering Money and other Proceeds from Crime (“Official Gazette of RM” No. 46/04).

The Public Revenue Office operates in accordance with the Law on Calculation and Collection of Public Revenue (“Official Gazette of RM” No. 13/01, 31/02, 61/02, 24/03, 77/03 and 3/04) and the Criminal Code of the Republic of Macedonia (“Official Gazette of RM” No. 37/96, 80/99, 4/02, 43/03 and 19/04).

The Financial Police operates in accordance with the Law on Financial Police (“Official Gazette of RM” No. 55/02).

The Customs Administration – Sector for control and investigation operates in accordance with the Customs Administration Law (“Official Gazette of RM” No. 21/98, 26/98, 63/98, 86/99, 25/00, 109/01, 31/01, 4/02, 55/02 and 42/03), Customs Administration Law (“Official Gazette of RM” No. 46/04), the Criminal Code and the Law on Criminal Procedure.

The above-mentioned institutions, under the authorization from the respective ministries under which they operate, have ensured administrative capability and independence in their operations.

In accordance with the Law on Organisation and Operation of the State Administrative Bodies ("Official Gazette of RM" No. 58/00, 44/02), the state administration bodies performing inspection supervision are obliged to mutually cooperate when performing inspection operations of common interest, as well as to cooperate with other state administration bodies.

The procedures for informing the respective institutions by other state bodies, in cases of suspicion of fraud or other irregularities, are defined in this chapter. (for more details see [28 I C 21](#)).

21. Financial and judicial follow-up: Have any procedures been defined for the communication of cases of suspected fraud to the prosecution authorities? Have any procedures been defined for the recovery of uncollected resources and unduly spent funds in the case of suspected fraud or other irregularities?

The procedures for informing the relevant institutions by other state bodies, in case of suspected fraud or other irregularities, i.e. the procedures for informing the investigating bodies for suspected fraud, are defined under the Law on Criminal Procedure ("Official Gazette of RM" No. 15/97, 44/02) for all crimes prosecuted ex-officio, not only fraud or similar crimes.

In accordance with Article 140 of the Law, the state bodies and institutions performing public duties and other legal entities are obliged to report crimes which are prosecuted ex-officio, of which they are informed or of which they learn in a different manner. By filing charges, the persons reporting the crime state the evidence they know of, and undertake measures to protect the traces of the crime, objects upon which or with which the crime has been committed and other evidence.

In addition, each person is obliged to report a crime prosecuted ex-officio and failure to do so constitutes a crime in the cases prescribed under the law. In accordance with Article 364 of the Criminal Code ("Official Gazette of RM" No. 36/96, 80/99, 4/02, 43/03,19/04), an official who deliberately fails to report a crime he/she disclosed while performing his/her duty, shall be considered as committing a crime of "failure to report a crime or perpetrator of a crime", if, according to the law, that crime is subject to a punishment of five-year imprisonment and the crime is prosecuted ex-officio.

In accordance with Article 141, the criminal charge is filed to the public prosecutor verbally or in writing. In case when the criminal charge is submitted verbally, the person reporting the crime will be warned for the consequences for false reporting. For the verbal criminal charges, written report will be prepared and in if informed by phone; an official note will be prepared. If the criminal charges have been filed to the court, to the Ministry of Internal Affairs, or a non-competent public prosecutor, they will accept the criminal charges and will submit it to the respective public prosecutor immediately.

The definition of the procedures for the recovery of uncollected resources and unduly spent funds in case of suspected fraud or other irregularities is included in the provisions of the Criminal Code. According to those provisions no person can retain the direct or indirect property benefit gained through crime and no person can retain and usurp objects resulting from, used for or aimed for perpetrating the crime (Articles 97 and 100-a).

In accordance with Article 100 of this law, if a legal entity acquires property benefit through crime this benefit is confiscated.

The Law on Criminal Procedure (Articles 203-a and 203-b) states that an investigative judge or Council, with a decision, can temporary secure the property or funds related to crime. Temporary security means: freezing, confiscating, retaining of funds, bank accounts and financial transactions or income. The court can pass this decision upon a request by another country, in the cases stipulated under international agreements ratified in accordance with the Constitution of the Republic of

Macedonia. Also, this law, under a separate chapter (Chapter XXVII), stipulates the procedure for confiscating property or property benefit.

II. PROTECTION OF THE EURO AGAINST COUNTERFEITING

22. What are the procedures and bodies established for the fight against counterfeiting?

The fight against counterfeiting money in the Republic of Macedonia encompasses the following procedures:

All counterfeit or suspicious MKD banknotes and coins are submitted to the National Bank of the Republic of Macedonia, where its professional sector performs expertise and technical analysis of the counterfeit, i.e. suspicious notes. The National Bank of the Republic of Macedonia informs the financial institutions, especially the public, about the findings, and submits a copy of the counterfeit banknotes to the financial institutions as well. For all disclosed counterfeits, the National Bank of the Republic of Macedonia submits a report to the Ministry of Internal Affairs, along with a transcript of the expertise, as well as one copy of the previously prepared report on the counterfeiting and then they agree on undertaking joint measures for stamping out counterfeiting money.

All suspicious samples of Euro banknotes and coins and of other foreign currencies are submitted to the Ministry of Internal Affairs of the Republic of Macedonia and the National Bank of the Republic of Macedonia is in charge of performing technical analysis. The expertise is performed by the Sector for criminal – technical expertise and afterwards the findings are submitted to the Sector for criminal police. Upon appearance of greater amount of forged money in an organized form, the Ministry of Internal Affairs informs the National Bank of the Republic of Macedonia and the public.

The fight against counterfeiting money falls within the competences of the Ministry of Internal Affairs of the Republic of Macedonia, i.e. the Sector for criminal police, which, together with the National Bank of the Republic of Macedonia organizes and undertakes the necessary operational and tactical and other measures.

23. Have authorities been designated for the centralisation and processing of information concerning counterfeit banknotes and coins? Have authorities been designated for the technical analysis of counterfeit banknotes and coins?

In the Republic of Macedonia, the institutions responsible for centralisation and processing the information concerning counterfeit banknotes and coins are strictly defined, as well as their competences for technical analysis. For this purpose, the National Bank of the Republic of Macedonia, on the basis of Article 72 of the Law on the National Bank of the Republic of Macedonia ("Official Gazette of RM" No. 3/02,51/03,85/03,40/04) and the Decision on the manner of operation with banknotes and coins in the National Bank of the Republic of Macedonia, Decision No. 02-15/II-92 as of 05.10.1992, Guidelines were prepared on prevention of counterfeiting money, Decision No. 126/94. In accordance with the Guidelines, the National Bank of the Republic of Macedonia is responsible for performing technical analysis and central collection and processing of information for counterfeit MKD banknotes and coins, whereas the Ministry of Internal Affairs of the Republic of Macedonia (Sector for criminal – technical expertise) is responsible for performing technical analysis, i.e. forensics regarding counterfeit Euros and other foreign currency banknotes and coins.

The Ministry of Internal Affairs, i.e. the Sector for criminal police is pointed as responsible for recording all registered counterfeit banknotes of the MKD, EUR and other foreign currency banknotes and coins and to undertake all legal actions against counterfeiting banknotes and coins.

24. Have any procedures been defined for the gathering and indexation of statistical data relating to counterfeit banknotes and coins (both for the euro and other currencies)?

In the Republic of Macedonia, there are procedures defined for collecting and indexing statistical data referring to forgery of banknotes and coins.

In accordance with the Guidelines on Preventing Money Forgery, prepared by the National Bank of the Republic of Macedonia, Decision No. 126/94, a procedure is determined for technical analysis and marking the types of forgeries, as well as keeping records on the forgeries, relating to:

- type of forgery – banknotes or coins and the date of issue of the authentic money, denominations;
- type of forgery – manner of producing the forgery and for the persons committing the forgery;
- number of forgeries – number of forgeries of one type disclosed in circulation, i.e. with forgers and distributors after their potential arrest;
- time and place of distributing the forgeries – connected to the number of forgeries discovered in one place; and
- name of the forgers and whether the distributors of the forged money are known or arrested.

The Ministry of Internal Affairs of the Republic of Macedonia, i.e. the Sector for criminal – technical expertise, carries out procedure for technical analysis and marking of forged foreign currencies, in accordance with the international standards and criteria. This Sector keeps statistical record according to serial numbers, type of forgery, quality of paper, printing etc. In accordance with the Interpol standards, a report is prepared for every confiscation of forged money under standardized procedure.

25. Have any procedures been defined for the transmission of examples of counterfeit notes and coins and related information to the relevant authorities inside or outside your country?

The Guidelines on preventing the money forgery, No. 126/94, adopted by the National Bank of the Republic of Macedonia, strictly defines the procedures for transfer of samples of forged currencies and banknotes in the Republic of Macedonia, as well as the procedures for presenting appropriate information to the competent bodies inside and outside our country.

Internal informing is carried out by the National Bank of the Republic of Macedonia, which submits the previously prepared report on the findings and a copy of the sample of the discovered forgery, to the financial institutions and the Ministry of Internal Affairs – Department for criminal police and Department for police.

External informing is the responsibility of the Ministry of Internal Affairs. The Department for criminal police informs EUROPOL and INTERPOL on the emergence of forged Euros, whereas regarding other the forged foreign currencies and coins, it reports directly to the police services of the respective countries the forgery of which is detected. The reports include information on to the forgeries, perpetrators of crimes and the discovered printing shops.

26. Does national legislation provide for the obligation of credit institutions to withdraw from circulation all banknotes and coins which they know or have sufficient reason to believe to be counterfeit and to hand them over to the competent authorities? Have any sanctions been defined in the case this obligation is not complied with?

On the basis of the Decision on the manner of operating with banknotes and coins No. 02-15/III-92 as of October 15, 2002, the National Bank of the Republic of Macedonia adopted the Guidelines on preventing money forgery, No. 126/1994, which is compulsory for all banks, savings houses and post offices in the Republic of Macedonia. In the Guidelines on preventing money forgery, the National Bank of the Republic of Macedonia specifically prescribed and obliged all credit institutions to withdraw all banknotes and coins for which they know or have sufficient reasons to believe that they

are forged. After retaining the suspicious samples or forgeries, the credit institutions are obliged to immediately inform the National Bank of the Republic of Macedonia and the Ministry of Internal Affairs and to submit the suspicious samples to the National Bank of the Republic of Macedonia for technical analysis.

The Guidelines envisage an obligation for the bank, the savings house or the post office, if, during their operations, they disclose forged banknotes or coins, to immediately take away the cash and inform the Ministry of Internal Affairs. The bank is obliged, in case of forged MKD banknotes, to deliver the suspicious or forged samples to the National Bank of the Republic of Macedonia for conducting expertise, and if necessary, the National Bank will consult the Ministry of Internal Affairs. The suspicious or forged samples of foreign currency are submitted to the Department for criminal police – Sector for criminology within the Ministry of Internal Affairs, for technical analysis.

Regarding the issue whether sanctions are envisaged in case of incompliance with the specified obligations, Article 268 of the Criminal Code (“Official Gazette of RM” No. 37/96, 80/99, 4/2002, 43/2003 and 19/2004), imprisonment for a period of 1 to 10 years is envisaged for the person who produces forge money with an intention to put them in circulation as authentic. Imprisonment for a period of 1 to 10 years is envisaged for the person who obtains forged money with an intention to put them in circulation as authentic. Article 268, paragraph 4 of the Criminal Code, envisages for the person who took forged money as authentic and put them in circulation, or the person who knew that forged money are produced or put in circulation, and failed to report it, to be fined or imprisoned from 1 to 3 years.

27. Have modalities been created to transmit examples of counterfeit banknotes and coins to bodies outside your country?

The National Bank of the Republic of Macedonia is authorized and obliged to collect, record and perform expertise on the forged MKD banknotes. The National Bank of the Republic of Macedonia submits all suspicious EUR banknotes or other foreign currency received upon any basis, to the Ministry of Internal Affairs for an expertise, recording and further procedure.

The National Bank of the Republic of Macedonia does not submit samples of forgery to institutions outside our country. Once a year, the Ministry of Internal Affairs provides Interpol with information on Euro forgery. Regarding other foreign currencies, the Ministry of Internal Affairs submits the information on forgeries directly to the police of the respective country - issuer of the currency.