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FORMER YUGOSLAV REPUBLIC OF MACEDONIA

EXTERNAL AUDIT

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1. Introduction

The State Audit Office (SAO) of the former Yugoslav Republic of Macedonia¹ was established by the State Audit Law of 1997, and the first Auditor General was appointed in May 1998. However, operations only started in 1999 following the transfer to the SAO of employees from the audit department of the former Agency for Payments (ZPP).

The SAO is clearly the Supreme Audit Institution (SAI) of Macedonia with regard to its role, organisation and the basic features of its supporting law. However, it has no constitutional anchorage and thus lacks one of the most essential means of securing and protecting the establishment and independence of such an institution. The SAO is conscious of this weakness and has already tried to have the Constitution amended to incorporate this institution, but without success.

The SAO staff has grown from the initial number of 11 to 79, of whom 64 are directly involved in audit tasks. The target staff figure of 125 will be difficult to reach. Changes in the audit approach may improve the general productivity of audit work, and concentration on risk areas may help to make best use of the still scarce human resources.

The SAO is headed by an Auditor General, who is appointed by parliament for a ten-year term together with a deputy. The SAO has a clear SAI office type of structure. However, it differs from the classical “monocratic” SAI type as audit reports are not signed and thereby endorsed by the head of the concerned institutions but only by the auditor who is in charge of the work (“authorised state auditor”).

Seven departments compose the SAO, each of which is led by an assistant auditor general. Five of these departments conduct the audit work (one is specialised in performance audit), one is responsible for the development of the SAO (methodology, training, international co-operation, planning, analysis, reports and SAO budget preparation), and one for logistical support. The assistant auditors general, together with the Auditor General, his/her deputy and some other key SAO persons, form the “collegium”, which has no legal base (only the internal SAO rulebook) but plays an important advisory role on certain issues, such as programming or approval of the annual report.

The budget was established at 54.4 million MKD (899,881 EUR) in 2005, 55.9 million MKD (979,382 EUR) in 2006 and 62.82 million MKD (1,049,087 EUR) in 2007. Budget execution was 52.5 million MKD (888,041 EUR) in 2005 and 53.38 million MKD (891,440 EUR) in 2006, thus significantly below the budget. However, this figure does not include the SAO own resources (see below), which represented 2.06% of total resources in 2003, 2.32% in 2004, 7.43% in 2005 and 18.26% in 2006. Own resources have thus reached an uncommon level, in comparison with most supreme audit institutions, and it could be a concern if the SAO became too dependent on such resources. The amount of resources coming from charged audit activity has constantly increased at a pace always superior to the rate of increase of the budget itself; this situation cannot continue in the long term.

At the time of this assessment, the SAO planned to change its existing legal framework in order to consolidate certain key features of its set-up, strengthen its independence and take into account some shortcomings which had appeared during its first decade of operations.

The SAO has been engaged since September 2005 in a three-year partnership with the Dutch Court of Audit.

¹ In this report the former Yugoslav Republic of Macedonia will hereafter be referred to as “Macedonia”.

2. Baseline Questions

2.1. *Does the SAI have clear authority to satisfactorily audit all public and statutory funds and resources, bodies and entities, including EU resources?*

The SAO has a clear authority to audit all public institutions. According to article 1 of the State Audit Law, the SAO can audit the financial statements and financial transactions of state entities, including entities that are completely or partially financed by the budget of the Republic, as well as local entities, state-owned enterprises and the Central Bank of Macedonia. This covers namely the state budget (Budget of the Republic of Macedonia), local budgets, extra-budgetary funds, budget fund-users, legal entities in which the state is a major shareholder, political parties financed by budget funds, and electoral campaigns. In accordance with the law, the SAO can also audit the beneficiaries of EU funds, as well as projects funded by foreign and international institutions.

This means that the SAO is now supposed to perform the audit of 1837 institutions. Of these, 168 are to be audited on a mandatory yearly basis: budgets (state and local budgets, funds), users of the state budget, and state-owned enterprises. Political parties constitute an additional category. The actual number of annual audits has always been fewer than that figure, even though constant progress has been made in that respect: 110 entities were audited in 2005 and 131 in 2006, covering most of the total budgetary amounts to be audited.

It is still obvious that the SAO has insufficient human resources, above all quantitatively, to carry out a very broad audit mandate. This is particularly true with regard to local institutions. As it seems inappropriate and indeed impossible to consider either creating specific audit capacities to deal with the local sector or fully contracting it out, e.g. to the private sector, additional staff will need to be recruited. Some areas that are non-standard or of lesser strategic importance for SAO audit work may nevertheless be reconsidered and excluded from the audit mandate, which would allow more flexibility in the allocation of resources and possible redeployment. This could be the case for the audit of political parties or state-owned enterprises. In the latter case, if deemed inappropriate to delete these companies from the SAO's remit, it is worth considering whether the annual audit of bodies working under company law should not be left to (private) statutory audit only. The audit of political parties is a recent addition to the remit of the SAO: four parties were audited in 2005, and there is apparently a growing interest in the SAO to carry out this work. This activity, although non-standard, is found quite often among central European SAIs. The resources it requires should be kept under strict control.

The SAO has a broad audit remit and the authority to audit all public and statutory funds and resources, bodies and entities, including EU resources. The resources of the SAO, however, do not enable this institution to carry out its extensive mandate and it would be appropriate to look for different arrangements.

2.2. *Does the type of audit work carried out cover the full range of regularity and performance audit set out in INTOSAI auditing standards (1.0.38-1.0.44)?*

The State Audit Law provides a definition of "state audit", which generally fits the INTOSAI definition of financial audit: "examination of documents (...) accounting and financial procedures, and other records from the point of view of whether the financial reports present truthfully and fairly the financial positions and the results of the financial activities". State audit also includes an assessment of the extent to which "funds are spent economically, efficiently and effectively". This gives to the SAO a clear mandate to carry out performance audit.

The SAO provides an opinion on the financial statements produced by its auditees. In 2006, 31% of the audit reports produced gave a negative opinion, compared to more than 40% in 2005. The SAO is now making progress in working out its financial audit so that more objective criteria are used to justify the opinion, taking into account risks and materiality. New guidance material has been prepared, in particular in the framework of the ongoing technical assistance project with the Dutch Court of Audit, to assist audit staff in their assessment of materiality and risk.

The SAO does not perform a specific audit of the consolidated state accounts, not even of the execution of the state budget as a whole. The annual audit of the state budget consists rather of compiling and summing up the results of the separate audits performed on each individual audit. In fact, the current approach is almost totally disconnected from the budget process, as there is no linkage between the production of the audit report and either the submission of the annual draft budget, of a “spring budget” document or of the final (consolidated) state accounts. The audit report does not focus on the overall cash execution of the budget, and in any case the SAO has so far not audited the revenue side of the budget. This approach is possible, but it is certainly not in line with the good SAI practice of producing an overall report on the implementation of the consolidated state budget, which is a key output of any SAI and also provides a relevant matrix for further programming of audit work. In the current wording of the State Audit Law, there is no formal difference between the annual report on the audits performed and the activity report of the SAO, which are both contained in the same document. Furthermore, the annual report was supposed to be submitted to parliament at the latest seven months after the final deadline for submitting the financial statements, which may prove to be very late in the process. As a matter of fact, since 2005 the practice has been to submit the SAO annual report to parliament on 31 March each year. The new draft law envisages the submission of the annual report to parliament at the latest on 30 April, which seems a good balance, although it still gives little time to perform all of the audit work that is necessary after the accounts are produced.

As part of the financial audit, the SAO is to provide at the moment quarterly reports on its activity. The value-added and usefulness of such reports would deserve further scrutiny, as it might be worthwhile to save the resources used in preparing these reports for proper audit work.

Otherwise, consideration should be given to a change in audit approach, focusing more on risk areas and in particular on the delivery of an overall opinion on the execution of the state budget as a whole. In addition, more attention should be paid to systems audit, in parallel with the current development of internal audit and internal control procedures within the Macedonian public administration.

Performance audit work is only in its infant phase: three performance audits were performed in 2005. It is not clear from the cases how far these audits can really enter into the category of performance audits and differ from compliance audit focusing on the purposefulness of expenditures. In 2006, pilot performance audits have continued in the framework of the Dutch technical assistance project. In total, 17 such audit reports will be produced in 2006 (11 having started in 2005 and 6 performed in 2006). This number of performance audits may look important in relation to the general resources available to the SAO and in view of the need to still focus mainly on financial audit activity. Consideration could be given to adopting a more strategic approach to this development, taking into account for future audits those issues related to the performance of public policies that currently have the greatest interest for the public, while allowing for relevant practical training of SAO auditors. Methodological support is provided by a “Manual for conducting performance audit”.

To date performance audits have been carried out by a special department of the SAO. The assignment of this function may correspond to the current level of awareness and the competence of the staff in place. It is nevertheless possible to question this arrangement from a cost-efficiency perspective and in view of the scarce resources available. Most SAIs of CEE countries of a size comparable to that of Macedonia have adopted a “client-oriented” structure, which allows for better co-ordination between financial and performance audits and for common training and practice of the staff in both areas. In addition, it is doubtful whether the importance of performance audit work really justifies the existence of a separate department. In any case, exchanges between the staff of this department and the staff of other components of the SAO should be encouraged.

The strategy of the SAO for 2006-2010 devotes some consideration to the development of performance audit but mostly by mentioning the objective of developing the performance audit department and increasing the number of performance audits in the SAO programme. Specific stress has been placed on the development of environmental audit, which could also be questioned as a priority area for an institution that is still in a building phase. In any case, the contents of the strategic plan, as far as

performance audit is concerned, would deserve further detail and elaboration, through the definition of a specific performance audit policy.

The SAO is entitled to carry out both financial and performance audit. However, the work done in practice is still limited, as the financial audit does not include at the moment the attestation of the execution of the state budget as a whole and would need further development, and the performance audit activity is still in its very early stages.

2.3. *Does the SAI have the necessary operational and functional independence required to fulfil its tasks?*

The State Audit Law formally provides the Auditor General and the SAO with a good degree of independence from the legislative and the executive, as well as from the organisations that the SAO has the responsibility to audit. The Auditor General and his/her deputy are appointed for a ten-year term, which is certainly one of the longest among SAIs with fixed-term appointments. Both officials can only be dismissed by parliament on grounds laid down by the law, which are now more specific since the amendment adopted in May 2006. Otherwise, the law provides for incompatibilities concerning the Auditor General and his/her deputy aimed at preventing a possible conflict of interest in the discharge of their duties.

Auditors are appointed by the Auditor General; they are not civil servants but are subject to the Labour Code and to the State Audit Law. This arrangement differs from the more current practice in the region, according to which auditors have been made civil servants or they are subject to similar provisions as for civil servants. In the future it will be useful to ensure that such a situation does not constitute an obstacle to the exchange of personnel or mobility within the public administration, which could be an important element in terms of career development and human resources policy.

The independence of state auditors, in terms of preventing conflict of interest, is regulated by the State Audit Law.

With regard to staff management, the Auditor General is only bound by the limits set by the Labour Law, but this is less true with regard to the number of staff, which is strictly under the control of the Ministry of Finance, as for any other public administration in Macedonia. Even if this situation does not meet the most demanding standards for the operational independence of SAIs, it is hardly avoidable given the budget situation of Macedonia at the moment. However, working in the SAO seems to be attractive, and staff salaries are slightly higher than for civil servants of an equivalent category. The discrepancy has narrowed in recent years, but the SAO has obtained – in its discussions concerning changes to the State Audit Law – the benefit of a fixed bonus, expressed in proportion to salaries (30% for management and 20% for support staff, possibly higher with the expected adoption of the current new draft law).

Since the adoption of an amendment of May 2006, the budget of the SAO is subject to a separate vote by parliament. The control exercised so far by the Ministry of Finance has led until recently to a situation where the SAO has been severely under-resourced during its first phase of operations. This in addition constitutes a weakening of the SAO's financial and operational independence. The new draft law aims to mitigate this situation by giving the SAO authority to prepare its budget and to submit it as such to parliament, with the government only entitled to provide an opinion on the proposal made by the SAO. If adopted, the SAO would be given a degree of financial independence that is well above the average for comparable institutions in the region and even for SAIs across most of Europe.

The costs of mandatory and regular audits (including for the beneficiaries of EU funds and other international funds) are met from the national budget. For bodies whose main shareholder is the state, as well as for public enterprises, the Central Bank and other such legal entities are covered by fees established in a tariff approved by parliament. This financing of audit costs is regulated by article 16 of the State Audit Law. Audit carried out upon request is also paid for by fees, except in the case of a request from parliament. Funding of audit work by auditees exists, but it is rather rare in the public sector and is generally a feature of audit bodies working in conditions that are close to those of the private sector. This kind of funding can lead to bias in the establishment of the audit programme or in the relations of the

auditor to the auditee, making the SAI dependent on such funding (or alternatively preventing it from performing certain useful audits because of a lack of financial coverage). This issue deserves further consideration, with a view to restricting as much as possible the scope of audit upon request, if not abolishing it altogether. With 31 auditees subject to tariffication, out of a total of 131 entities audited in 2006, this practice of funding by auditees is not negligible. As mentioned above, this practice has now reached a level of significance in terms of contribution to the SAO budget, which would have to be reduced and restricted.

The SAI is free to decide which audit work it will carry out (article 9 of the State Audit Law prescribes that the SAO determine the scope of the tasks of the state audit, by means of its annual programme), but this decision has to take into account the mandatory audit work that it has to perform (which at the moment implies a degree of selection) and the audits that public bodies (including parliament) can request the SAO to perform but that the SAO is not obliged to accept. However, the criteria for programming a specific audit are largely at the discretion of the Auditor General, who in the last instance determines the annual programme. In practice, the collegium is consulted regarding this decision as on other management issues, but it has no decision-making competence. For the sake of transparency and independence, it would be worthwhile to consider defining the role and composition of the collegium in the State Audit Law in order to consolidate this advisory body within the State Audit Office. Criteria for defining the programme of audits would gain from being more clearly established. Above all, the State Audit Office should assess the resources allocated to audit upon request and the impact of such activity on its work. At the moment it is difficult to say whether there is an excessive practice of audit upon request. Most of the audit requests made in 2006 came from mayors and local communities, which could lead to the conclusion that national resources are diverted for the sake of purely local interests. In any case, it would be better to either remove completely this possibility so as to firmly guard the SAO's independence, or frame it by means of strict procedures, or possibly put a ceiling on the number of such audits that can be performed in a given year.

When performing audits, SAO auditors have full access to the auditee's premises, books and other records as well as the right to ask questions that are useful for the audit work. State confidentiality cannot be placed as an obstacle to the investigations of the auditors. Fines for non-compliance are foreseen by the State Audit Law. As the need may be, the SAO can hire external professionals to carry out expert work on specific issues in the course of an audit. This contracting-out of course depends on the resources available, and so far it has not been implemented in practice.

All audit reports are published on the SAO website (14 days following their submission to parliament for those subject to this procedure) and can be communicated to anyone who requests them. The results of the reports are also in principle published in the SAO Bulletin, but there has been only one issue of it and the new draft law does not make it an obligation for the SAO. The SAO must in any event transmit to parliament its annual report on audit activities as well as quarterly reports and reports containing findings of major irregularities.

The standard components of SAI independence are generally in place, but attention should be paid to the financial basis of the SAO in order to prevent too great a dependence on audit fees. The practice of audit upon request should also be more regulated to restrict its importance.

2.4. *Are the SAI's annual and other reports prepared in a fair, factual and timely manner?*

Audits are normally carried out in accordance with the audit programme by teams working in compliance with the relevant legislation and the standards developed by the SAO (this concerns in principle the INTOSAI standards, which have been translated into Macedonian and are published in the *Official Gazette of Macedonia*). The IFAC standards are also used as a reference. Most teams comprise two staff. The State Audit Law contains proper provisions to prevent conflict of interest of auditors when carrying out an audit and to guarantee the respect of confidentiality. The draft report is submitted to the auditee, who has 15 days to provide written comments. The final report is produced, with the comments incorporated, and again submitted to the auditee, who has 30 days to lodge a complaint against the report. It is up to the General State Auditor to make the final decision, at the latest 30 days following receipt of

the complaint. This procedure is rather standard and ensures fair reporting. Laid down in a law, it has by nature a certain degree of rigidity as the deadlines are fixed independently of the nature and complexity of the audit, and leave no room for appreciation to the auditors. It furthermore tends to focus on legal issues and relies heavily on controls by third parties. A general review of quality control/quality assurance policy has been undertaken and has resulted in the production of *Guidelines on Audit Quality*, aimed at higher built-in quality in the audit process as such.

The timely production of audit reports does not seem to be a problematic issue for the Macedonian SAO.

The annual report – despite its nature, more of compiling than of auditing – and other reports are prepared in a fair, factual and timely manner, but the procedure of reporting, including the “contradictory procedure”, would need to be reviewed.

2.5. *Is the work of the SAI effectively considered by parliament, e.g. by a designated committee that also reports on its own findings?*

In addition to the annual and quarterly reports, the General State Auditor submits to parliament the reports on ministries, budgets and funds, and state-owned enterprises. Reports containing a disclaimer of opinion and reports concluding that the financial statements do not give a true and fair view of the audited entity are also sent to parliament. However, this body has so far shown little interest, if any, in the work of the State Audit Office. The normal recipient of the reports is the budget committee. It is clear, however, that the audit reports have no impact on the discussion of the annual state budget. This lack of impact may be related, among other factors, to the date on which the report has been transmitted – until 2005 – to parliament (no later than seven months after the expiration of the deadline for submission of the annual financial statements, in practice in September) as well as to the contents of the report itself, which has not focused on the overall execution of the previous year’s budget but on collecting the findings related to individual auditees. This situation should now change as far as the date is concerned, since it has now been proposed in the new draft State Audit Law that this report be submitted at the latest by 30 April, which would in any case imply a revision of the approach used so far in audit work.

The new draft audit law contains provisions that could lead to the establishment of a specific body in parliament to deal with audit reports.

This current situation does not mean, however, that there is no follow-up on audit reports. Follow-up is first of all linked to the recommendations suggesting further proceedings by means of investigations by administrative or law-enforcement bodies, such as the Ministry of Finance (in particular the Central Internal Audit Department, now renamed the Public Internal Financial Control Department), Public Revenue Office, Public Procurement Office, Public Prosecutor, Anti-corruption Committee and Financial Crime Department in the Ministry of Interior. All of these bodies are said to co-operate efficiently with the State Audit Office and to provide feedback on the work that they have undertaken in reaction to the SAO’s findings. This co-operation on follow-up is normally reflected in the SAO annual report, and it is particularly true insofar as the Public Prosecutor is concerned. It is based solely on the interpretation of the current legal provisions: article 28 of the State Audit Law provides that these authorities are to inform the SAO within 90 days of any measures taken as a result of an audit report. There is no specific procedural agreement between the SAO and any of these bodies, but this is not seen as an obstacle to efficient co-operation.

As far as co-operation with other bodies is concerned, the SAO and the Ministry of Finance concluded a protocol of co-operation in October 2006, which would provide the basis for further co-operation between the Public Internal Financial Control Department and the SAO.

An interesting development could have been the fact that an institution has been given specific competence for following up audit reports on auditees having the government as its supervisory body: the Commission on Economic Systems and Current Economic Policy has the task of reporting on measures taken to implement the recommendations of the SAO. However, there has been apparently no feedback from this procedure.

The annual activity report of the SAO contains statistical information about the implementation of its recommendations. The SAO otherwise systematically follows up in its report on the implementation of the recommendations resulting from its previous audit work. The Strategic Plan for the period 2006-2010 puts a special stress on the issue of efficiency of audit reports, and consequently on the audit follow-up, and in particular sets as a strategic goal the development of a recommendations tracking system, "to enable the SAO to better monitor and report" on the implementation of the audit recommendations.

The consideration given by parliament to audit reports remains limited, but most other follow-up activities seem to be efficient.

2.6. *Has the SAI adopted internationally and generally recognised auditing standards compatible with EU requirements, and how far have they been implemented?*

As mentioned above, the INTOSAI standards have been translated into Macedonian and have been published in the *Official Gazette of Macedonia*. According to the State Audit Law, audits are to be conducted in accordance with the applicable laws and regulations and follow the INTOSAI auditing standards. It is difficult to assess what this means in practice.

The SAO has produced a financial audit manual. Its implementation is still recent as it only started at the end of 2005. According to its development strategy, the SAO planned to issue a performance audit strategy as early as December 2005. This has proved to be too ambitious a deadline, and the work still has to be carried out; the Strategic Development Plan for 2006-2010 does not mention a specific performance audit strategy. A proper policy is currently being developed in the area of quality control and assurance, resulting notably in the issuing of audit quality guidelines. However, there is still no policy in key areas, such as human resources management and communications. The improvement of the communication capacities of the SAO constitutes a full chapter of the Strategic Development Plan for 2006-2010. An IT strategy has been adopted in connection with the IT component of the current technical assistance project.

The SAO has adopted the INTOSAI auditing standards, but practical implementation is still limited for the time being.

2.7. *Is the SAI appropriately aware of the requirements of the EU accession process?*

The status of candidate for EU accession was only granted to Macedonia in December 2005. The issue of the SAO's awareness of EU requirements is therefore somewhat premature. However, the SAO has already taken action on certain points, such as the right to access end-users of funds and suggestions for amending the State Audit Law accordingly.

More generally, in spite of its recent establishment and limited resources, the SAO already plays an active role in various international forums. A member of INTOSAI since March 2001, the SAO is also a member of EUROSAI since May 2002 and in particular a member of its working groups on environmental audit and IT audit. Furthermore, the SAO is represented in various training activities, and staff have been trained and certified as IDI (INTOSAI Development Initiative) trainers. The SAO is also a member of the network of SAIs of EU candidate and potential candidate countries and of the European Court of Auditors. The SAO just sent an intern to the European Court of Auditors.

A very important development in this area is the fact that the SAO accepted to become audit authority for the upcoming EU pre-accession funds (IPA) and was formally designated as such by the government in April 2007. This will require additional resources but illustrates the commitment of the Macedonian SAO to the accession process.

The SAO has made quick progress on the issue of the EU accession process, and this can only develop further, taking into account the fact that Macedonia has only recently been granted candidate status and the fact that the SAO will act as audit authority for pre-accession funds..

3. Capacity to Further Develop the System

The State Audit Office of Macedonia has demonstrated in recent years a firm determination to develop and improve its capacities and operations in order to become an efficient SAI.

As a priority, important efforts have been dedicated to the staffing of the institution. Even if the current number of staff may still seem insufficient and in particular cannot cover the – very broad – audit remit of the office, it is not a small achievement to have reached a level that is fully comparable to sister organisations in the region.

The legal framework is in place and is generally in line with INTOSAI principles. As such it does not seem to require substantial changes. Possible amendments should result from the practice of audit activities and their constant improvement rather than corresponding to attempts to reach ideal standards. However, the SAO management has decided to prepare and submit for approval a new law on state audit to better express the contents of some INTOSAI standards to which the SAO is committed. This basically relates to the strengthening of the financial independence of the SAO, its co-operation with parliament, and enhanced audit coverage of EU funds as well as of the revenue side of the Macedonian budget. This law is expected to be adopted by mid-2007.

The SAO has suffered from financial restrictions and, like all public institutions in Macedonia, it is subject to strong interference from the Ministry of Finance in its financial management. This interference of course diverges from the spirit of the INTOSAI Lima Declaration and would require adjustment in a way that is compatible with the still fragile situation of the country's public finances.

The adoption of a development strategy in December 2004 for the period 2005-2009 is a good indicator of the commitment of the SAO to constant improvement. The strategy includes the definition of a vision and a mission statement. These elements were fully endorsed by the Auditor General, who was appointed after these strategic documents were adopted. The strategic goals and the related planned activities make sense and are in general realistic. The strategic document has been reviewed and now concerns the period 2006-2010; it now lists five strategic goals: independence, strengthening of institutional capacities, development of new types of audits and improving the quality of audits, IT system, and communication policies. It is unfortunately unclear how far the strategy, and in particular its revisions, reflect current developments in the Macedonian public administration, e.g. the introduction of Public Internal Financial Control. In any case, a proper procedure is needed to steer and monitor the implementation of the strategy and to provide feedback. This procedure as such is not in place at the moment, as implementation is left to the twinning mechanisms. The SAO has rightly initiated action to share the strategy review with key stakeholders, and in particular organised a communication and awareness-raising event with its main stakeholders present and participating in a roundtable conference (January 2007).

The progress of the SAO, including implementation of the Strategic Development Plan, is currently supported by a bilateral assistance project, in the form of "twinning", provided by the Dutch Court of Audit. This long-term project (until September 2008) has four components that address the key challenges of the SAO: audit process (auditors' skill enhancement), including the introduction of performance audit; administrative capacity of the institution; IT and IT audit; and the legal framework. The approach of this project also demonstrates a keen interest in a process of change and modernisation. Another important point in that respect is the setting up of a division specifically concerned with development and training issues. There will be a need soon, however, to plan for the situation when the technical assistance will have terminated, in particular as far as training is concerned.

While focusing on the relation with its long-term partner, it is worthwhile for the SAO to expand the scope of exchanges of experience and confrontation with other external audit models. This would enable the SAO to base its further development on a broader knowledge of the existing possibilities and to contribute to resolving some specific Macedonian problems. In this perspective, the fact that the SAO has asked another homologue organisation, the German Court of Audit, to carry out a peer review of its functioning and activity speaks for its acceptance of exposure in order to submit its current development and change process to external scrutiny.

4. Summary and Next Steps

External audit in Macedonia generally meets the requirements of the Lima Declaration of INTOSAI. The need for improvement suggested above is real but is not in major contradiction with a fair alignment with the applicable principles.

After nearly ten years of operation, the SAO has achieved substantial progress in many aspects of its activity. However, further work is needed to reinforce the SAO's audit capacity, strengthen its professionalism and move progressively towards an SAI that contributes to establishing sound management of public finance in Macedonia.

Priority should be given to the following actions:

A. Should be applied (or started) in the short term (or next 12 months):

- Continue with the implementation of its revised strategy, ensuring a clear and continuous linkage between strategy development and implementation and the current long-term technical assistance activity;
- Assess the impact of audit work requested by external parties and take appropriate steps, as needed, to give full priority to the SAO's own programmed work;
- Finalise current policy development activities;
- Define clearer procedures for the programming of audit work;
- Define policies and procedures to cover the current broad audit remit of the SAO, and contribute to revising policies related to the audit of local entities;
- Prepare guidance for the upcoming work on audit of budget income;
- Become involved, as appropriate, in current plans for reforming key aspects of the Macedonian public service and public finance, e.g. reform of the accounting system, setting-up of management and control systems for EU funds;
- Continue to assume an active approach to international co-operation and contribute to the exchange of working methods and experience;
- Formulate the role of the SAO collegium and the need for its involvement in decision-making related to the programming of audit work;
- Strengthen, as appropriate, the SAO's relations with parliament;
- Finalise the current legislative process;
- Make plans for performing the function of audit authority.

B. Should be applied (or started) in the medium term (or next two years):

- Revisit the concept of the annual audit on the execution of the budget, with a view to expressing an opinion on the budget process as a whole, rather than providing a compilation of reports on individual budget-users; this change of approach will require more use of the concepts of risk and materiality;

- Use the above audit approach so that the annual report on budget execution becomes a key document focused on the validity of figures and the reliability of the system of internal (management) control;
- Continue to develop performance audit capacity and design plans for future implementation, selecting topics with a potentially useful impact related to the current needs of the public sector; initiate more pilot audits and cross-sector activities;
- In due course, seek an opportunity to secure the constitutional position of the SAO.