



SIGMA

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FORMER YUGOSLAV REPUBLIC OF MACEDONIA

PUBLIC INTERNAL FINANCIAL CONTROL (PIFC)

ASSESSMENT MAY 2008

1. Introduction

Financial control in the public administration of the former Yugoslav Republic of Macedonia¹ is still in a reform process. Some of these changes, in particular the introduction of internal audit, were already initiated some years ago, but the pace of change and the actual implementation of decisions normally taken in this area have speeded up, as would have been expected, as a consequence of the new status of the country as a candidate for EU accession.

The main actor in the area of internal financial control is the Ministry of Finance, in particular through its Public Internal Financial Control Department (former Central Internal Audit Department) as well as the Treasury and Budget sectors and the Financial Systems Division. The activity of the Public Internal Financial Control Department, which initially focused exclusively on internal audit, is now equally addressing financial management and control issues.

2. Baseline Questions

2.1. *Is a coherent and comprehensive statutory base in place, defining systems, principles and functioning of financial control?*

The basic framework for PIFC was initially provided by the Law on Budgets (which is the organic budget law of Macedonia, the latest consolidated version of which is dated 3 August 2005). This law and related texts, such as the Law on Accounting and the Law on Procurement, provide the overall framework for internal financial control, defining the role and responsibilities of the various actors and the concept of “budget-user”

A specific Law on Internal Audit was adopted in October 2004. The Law on Budgets initially contained some provisions in this area, which allowed some implementing of the internal audit function to start, but this is no longer the case, as there is now a specific legislation. The Law on Budgets provides the framework for public expenditure management and covers the central government, local government units and extra-budgetary funds. The “Law on Accounting for the Budget and Budget-users” of 18 July 2002, which entered into force on 1 January 2003, covers all specific accounting procedures and control responsibilities of budget users and also defines the role and responsibilities of the accountant within an organisation.

However, these legislative efforts appear to be of a piecemeal nature with regard to the introduction of a full concept of Public Internal Financial Control (PIFC), as recommended by the European Commission in the framework of preliminary scrutiny before granting the status of candidate. For this reason, the Ministry of Finance produced, in co-operation with the technical assistance that was then in place, an overall document on PIFC in the form of a Strategy for Developing Public Internal Financial Control in the Republic of Macedonia. This strategy document, dated January 2006 and accompanied by an ambitious action plan, was

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

adopted by the government on 16 February 2006 and can be considered as the PIFC policy paper of Macedonia.

The Law 22/2007 (the “PIFC law”) of 20 February 2007 was adopted as a consequence of the policy paper. This text is short and clear, which is very good progress in comparison with former drafts or comparable texts in neighbouring countries. However, it is still partly characterised by a certain ambition to go straightforward towards “modern” procedures, which were only introduced recently in more mature systems (such as the statement on internal controls by managers foreseen in article 14 of the PIFC law, with a very tight deadline for implementation). To prevent risks of misunderstanding or a waste of resources, more awareness and explanation are needed before starting with the implementation of such provisions.

Since the adoption of the law, the PIFC Department has produced a set of rulebooks addressing

- “the basic elements of the financial management and control and internal control standards in the public sector”;
- “the form, contents and the way for submission of the statement for quality and the condition of the internal controls”;
- “the basic elements of the manual for the performance, charter, annual plan and programme of the internal audit”.

These rulebooks were published in the *Official Gazette* between the end of 2007 and beginning of 2008 and are now mandatory for the relevant budget-users.

It is not clear whether the adopted rulebooks take into account the current variety of budget-users in terms of status and nature of business, as they look like rather generic documents covering all institutions in the scope of the PIFC law. The operational character of the document on the internal control statement could be disputed, as the template it contains for reporting to the PIFC Department enters into great detail on many items for which the relevance or even the legitimacy could be questioned (for instance, a summary of all internal audit reports and of all recommendations, and reporting on any deviation from the annual audit plan). In addition, the document produced is identical to the one produced by at least another neighbouring country, so that it seems more a product of consultancy than the “own” result of the Macedonian administration’s activity. These problems could impact on the smooth implementation of the documents.

However, all of this may again be subject to revision, since the Ministry of Finance has undertaken the production of yet another PIFC law and of another draft strategy paper. This initiative is the result of discussions with the European Commission, which concluded with the need to incorporate into a single text all PIFC-related issues and to put more emphasis on key issues, such as managerial accountability. A first draft was produced by the twinning project team and was still subject to discussion among the involved partners at the time of this assessment. The existing draft should incorporate without any significant changes the current provisions governing internal audit, but it expands the area of financial management and control beyond the strict procedural aspect addressed so far in the most recent Macedonian legislation. The intention seems indeed to practically create a real financial function in budget-users by establishing financial directorates and entrusting heads of public institutions with the mandate to determine objectives for their organisation and make them responsible for the budget, so that managerial accountability becomes a more tangible concept. Obviously these and other issues will touch upon other areas relating to civil service management, its rules and regulations, as well as rules governing administrative structures in Macedonia, and, last but not least, rules for budget execution, reporting and accounting. This is an interesting and sensible approach to the topics of PIFC implementation. On the other hand, to move in the direction of a completely new law, after having just started to implement the previous legal provisions, may lead to some confusion and, by creating an unstable situation, may put the credibility of the reform and change process at risk.

The objective to have the law adopted by the end of June 2008 has now been made very uncertain by the dissolution of the National Assembly and the call for new elections at the beginning of June. In any case, it would be advisable to start the implementation with pilot ministries, at least with regard to the most innovative components, in order to gain from experience and to be able to adjust the framework as the case may be. The Ministry of Finance should play a pioneering role in this area in order to give credibility to these reforms. If the political situation creates further delays in the process, this extra time could be used to explore more in depth the consequences of the proposed schemes and to design a progressive implementation schedule, making use of pilots.

The legal framework for PIFC is in place with the adoption of a specific PIFC law, in addition to the basic public finance laws and regulations. The production of a more comprehensive text could help to ensure a still needed consistency between the various texts applicable to financial matters in the public sector, but also risks creating legal instability and uncertainties, in particular since the secondary legislation pertaining to the existing PIFC law has already been produced. The new procedures should above all be implemented with realism and preferably in a staged approach, taking into account the current Macedonian context of public finance. Completely new schemes should preferably be based on pilot cases and be subject to appropriate awareness-raising and advocacy programmes in order to be fully understood.

2.2. *Are relevant management control systems and procedures in place?*

The existing financial management control systems and procedures are fairly regulated in first and secondary legislation, such as rulebooks, systematisation and specific manuals (e.g. on execution of treasury operations by budget-users and spending units). General compliance and budget discipline has been increased with the introduction of the treasury system in 2000.

The main provision concerning financial management and control has until now been the one contained in the Law on Accounting for the Budget, which states that budget-users should have a regular system of internal accounting control (ex post) to ensure that transactions are executed in accordance with legal regulations, accounting documentation is appropriate, and financial statements are reliable. A key point is to make sure that all revenues are properly collected and reported, as many budget-users still have own sources of income. As again stressed in the Sigma assessment on Public Expenditure Management, this issue would need further consideration, as the practice of own income needs strong control to ensure the maximum level of fiscal discipline.

However, the quality and efficiency of internal control varies between institutions, and basic principles of implementation are lacking, whereas existing prescriptions have a formal rather than an operational character. The PIFC strategy has provided various examples of current shortcomings in this area.

Whereas systems and procedures exist, they are not based on prior risk analysis and assessment, and for that matter may not be cost-effective enough. The issue of ensuring value-for-money as such plays no role in the management process.

These shortfalls have led the Ministry of Finance to incorporate in the PIFC strategy, and subsequently in the PIFC law, the responsibility of the head of each entity for the establishment of structures and procedures to support a cost-effective system of sound financial control. This process of setting up support structures and procedures by the head of each entity is regarded as a continuous activity, and the strategy does not set any particular deadlines. The basic control procedures and practices foreseen by the law are left to the heads of entities to define, but in any case on the basis of risk assessment and management, and they should include an appropriate and documented audit trail as well as procedures for ex ante and ex post controls, as defined by the law. "Executors" of financial control are to be designated by the heads of entities, which somehow casts doubts as to whether the concept of internal control has been fully understood, as it could be allocated to specific individuals rather than being regarded as a matter of common concern and commitment throughout any public organisation. The principle of reporting on control weaknesses is also set as a key component of the control systems, and includes a general provision on the protection of "whistle-blowers".

Just as it was previously the case for the PIFC strategy, the PIFC law does not set any particular deadlines for these control procedures to be place, except regarding the obligation for heads of entities to submit before the end of February a declaration on quality and conditions of internal control, based on self-assessments that they have performed. As indicated above, as the templates for these documents were imported from a nearby country, their operational relevance is currently under review and could be challenged.

The Public Internal Financial Control Department in the Ministry of Finance steers all processes related to the financial management and control (FMC) component of the PIFC law. It is envisaged that the FMC Unit, which now has three employees (all of whom are on short-term contracts for the time being), will employ one more staff member at the end of 2008. However, the development of FMC activities within the PIFC Department should not duplicate or ignore the activities that are already devoted to the definition and enactment of financial control procedures, such as the activities conducted by the financial services or the Treasury Department in the Ministry of Finance. In the future, a wider approach to these issues could be

more beneficial in order to reinforce coherence between all domains and consistency of the Ministry of Finance's position towards other budget-users.

Application of the rulebooks produced to implement the existing PIFC law has not started for the time being, as the law is quite recent on the one hand, and on the other it will depend on the development of the foreseen overall draft PIFC law. Judging from the available texts, it is possible to express concern about the realism of a number of provisions and the degree of understanding of certain concepts. There is in general a tendency to over-regulate the matter and to translate into legal language concepts that were not initially intended to function in that context (for example, certain components of the "COSO" framework); this does not provide a smooth and flexible implementation.

The twinning project planned to start the implementation of FMC in ten pilot institutions selected by the PIFC department on the basis of established criteria, which reasonably include the size of the institution and its connection with the management of EU funds. The Ministry of Finance is rightly part of this group, so as to give credibility to the new FMC schemes, such as the development of audit trails and the performance of control self-assessments, thereby paving the way for risk identification, assessment and management actions, and sharing the experience of such processes with other ministries and agencies. However, progress in this area has been somewhat slower than expected and of an uneven nature across the participating institutions. Next steps include the documenting of processes carried out by the institutions involved. In this regard, it is necessary to stress here that priority should be given to financial and finance-related processes.

Systems and procedures for management and control are only partially in place at the moment in Macedonia, but they should develop in the near future with the implementation of the PIFC law, supported by the full establishment of the CHU for FMC and with the assistance of the twinning project, provided that the scope of future activities remains realistic.

2.3 Is there a functionally independent internal audit mechanism in place, with relevant remit and scope?

The Law on Internal Audit in the Public Sector of October 2004 establishes this function in a wide range of public sector institutions, as it covers not only budget-users and extra-budgetary funds but also local authorities and public enterprises, as well as legal entities where the state is the "dominant shareholder". It therefore extends well beyond the mere "budget sector". The definition of internal audit given in this law is the most modern one provided by the Institute of Internal Auditors. This is quite ambitious in view of the very beginning level of understanding of this function across the public administration in Macedonia. The implementation of such a definition will take time.

A specific strategy rightly plans the setting-up of internal audit units in "budget-user institutions" in a phased way, starting with a first set of 15 such institutions, presumed to be higher risk, and a second set of 17.

At the beginning of 2008 there were 69 internal auditors employed in 36 ministries and other budget-users, which is a fair achievement but still far from the target of 88 by the end of 2007. All "systematisation" documents have been amended in order to make recruitment procedures possible as soon as budgets are available. The development strategy has been implemented persistently in spite of a difficult budgetary context, which explains the fact that the establishment of second-phase units is lagging behind schedule. The revised plans for the establishment of internal audit units seem to better deal with the risk of having units that are too small, as most of these units at central level should employ, according to the plans, at least three internal auditors and often more. The actual implementation is nevertheless still under this target, as most budget institutions employ one or two internal auditors. The case of local government is even more telling, as 26 units are staffed with 28 internal auditors. Clearly, few units are likely to reach the critical mass that will make the internal audit activity function in an independent and professional manner and have a real impact. It is still necessary to have a less legal and institutional and more strategic and needs/risk-oriented approach to the architecture of internal audit in Macedonia. This could lead to a serious reinforcement of certain units as well as to the abandonment of the internal audit function in some others, because of its non-value-for-money character. . In fact, it still seems unrealistic to have each budget-user set up an operational internal audit unit, considering the size and number of these bodies. The amendments to the Law on Internal Audit adopted in February 2007 provide for the possibility of joint or contracted internal audit activity in order to ensure better coverage. This possibility is provided in addition to the role of the central internal audit unit in the PIFC Department, as described below. However, so far there has been no evidence of the development of plans and policies in this domain.

The establishment of internal audit units and the training of newly appointed internal auditors were largely linked to the one-year assistance project in the Ministry of Finance between 2005 and 2006. A number of tasks performed in the framework of this technical assistance would normally have belonged to the standard functions of a central harmonisation unit for internal audit, which was not in place when the process started. The Internal Audit Law of 2004 created a Central Internal Audit Unit in the Ministry of Finance, which is responsible for development, harmonisation and methodological functions, but also for providing internal audit services to organisations deprived of their own units. The latter function has not been fully operational so far and, according to the law, it is supposed to be temporary. Two staff members have been assigned to exercise the functions of internal audit for the bodies managing EU funds within the Ministry of Finance, namely the National Fund and the CFCU, and two more are to be recruited in 2008.

The Internal Audit Law of 2004 otherwise contains most of the general requirements of a fully functioning internal audit function in the public sector, and it is in early accordance with EU recommendations in the framework of negotiating chapter 32 (formerly chapter 28).

The law has nevertheless been amended in order to reflect the internal audit-related conclusions of the PIFC strategy paper adopted on 16 February 2006, as well as remarks of the European Commission. These changes were principally related to:

- the transformation of the current central internal audit department of the Ministry of Finance into a central harmonisation unit for PIFC (Public Internal Financial Control Department) and the definition of its role, including the supervision of the quality of the internal audit activity;
- the conditions for establishing an internal audit unit and related requirements (definition of competence, requirement for an internal audit charter, etc.);
- the personal status and protection of the heads of internal audit units, including the relations between heads of entities and the internal auditor;
- the status of internal auditors as full-time employees.

The Internal Audit Law did not go as far as in most other candidate countries in protecting internal auditors and in particular heads of units from the risk of arbitrary decisions concerning individuals. There is no specific consultation procedure involving the Ministry of Finance or any other advisory body when appointing or dismissing personnel.

Nearly all of the new provisions reflect current and mainstream standards, but it remains to be seen how the PIFC Department can rely on the new text to develop an overall internal audit policy for the public sector in Macedonia, including the development of ambitious human resources policies and a proper and useful networking of internal auditors. The CHU for internal audit component of the PIFC Department numbers three staff in 2008, instead of the six planned, now expected in 2011. No real workload assessment has been performed so far, and the current number of staff may well prove to be sufficient.

With regard to financial management and control, and despite the fact that a new draft law on PIFC, addressing internal audit, is underway, a rulebook has been prepared “on the basic elements of the manual for the performance, charter, annual plan and programme of the internal audit”. However, this does not appear to be too confusing since the existing provisions are regarded as generally satisfactory, and it is now planned to simply incorporate them into the currently drafted new law on PIFC, with very few changes.

In the framework of the previous PIFC technical assistance project, internal auditors were provided with substantial documentary support. The CIAD produced secondary legislation with the support of the technical assistance project in the form of a “rulebook on the basic elements of internal audit guidelines, charter, annual plan and programme for public sector institutions”, which was issued in May 2005. The audit work that has been completed to date is still too limited to enable an evaluation of the usefulness and effectiveness of this rulebook. The standards of the Institute of Internal Auditors as well as its code of ethics, the IIA practice advisories, and the Internal Audit Manual have also been produced or translated into Macedonian and put at the disposal of internal audit staff.

Most internal audit activity since the adoption of the initial law were carried out in the framework of the above-mentioned assistance project, and it is therefore difficult to distinguish the intrinsic features of the system, as it was set up three years ago, from the results of the technical assistance. In the framework of the assistance project, a number of pilot internal audit activities were carried out in the first set of budget-users, which have established internal audit units. Internal audit, however, hardly seems to be a routine component

of the Macedonian public administration at the moment, and there is precious little evidence of reports being produced.

These efforts are expected to continue in the framework of the PIFC twinning project which, while focusing on financial management and control and the strengthening of the CHU's administrative capacities, still contains a significant component on "strengthening administrative capacities for internal audit", but again this seems to be related mostly to training activities. Pilot internal audits are planned but will only be undertaken in the later stages of the current twinning.

To broaden support for the development of PIFC and raise awareness, a PIFC working group has been set up, with representatives of various ministries and agencies. This welcome initiative and relevant step in the direction of making PIFC an issue for every budget-user to incorporate, instead of leaving it to Ministry of Finance specialists, has unfortunately not been pursued. It would be useful to resume the activities of this working group, or equivalent, so that it can really become a supportive vehicle for the implementation of the PIFC strategy and of the internal audit and FMC components of this policy, and of course for increasing awareness about, and advocacy for, the new legal requirements.

The State Audit Office (SAO) is represented in the PIFC working group, but so far its contribution seems to have been limited. The relations between the Ministry of Finance (PIFC Department in particular) and the SAO are reported to be good, but there is a potential for bringing them to an even better level of mutual co-operation: the SAO has an interest in improving the PIFC system, including internal audit, and the PIFC Department can draw resources from the experience of the SAO in the areas of audit and financial control. In accordance with the PIFC strategy, the SAO and the Ministry of Finance signed a Protocol on 20 October 2006, which would provide the basis for further co-operation between the PIFC Department and the SAO. This is a good move, but it remains to be seen what implementing steps are taken to turn the rather general contents of the existing agreement into practice. It will above all be crucial to see how PIFC developments, in particular those concerning internal audit, will interact with the external audit activity, with a view to improving financial management in the Macedonian public sector. The appointment as head of the State Audit Office of the former deputy director of the PIFC Department should certainly play an important role in this respect.

To really assess the development of internal audit in the Macedonian public sector, however, would require more in-depth work, e.g. in the form of a PIFC peer review, as previously suggested by the European Commission.

Internal audit has made some progress in the last four years but is still in a phase of institution-building and, despite the formal appointment of internal auditors, seems to be on stand-by with regard to operational audit activities. Considerable efforts will be needed to put this function in place and meet the assessment baseline. Efforts should be directed towards more practical internal audit activities and the production of more audit reports.

2.4. Are systems in place to prevent and take action against irregularities and to recover any amounts lost as a result of irregularity or negligence?

Amounts lost as a result of irregularities are recovered according to the provisions of the Criminal Code of the Republic of Macedonia. With regard to collection resources, the tax administration is entrusted with special enforcement powers enabling expedient recovery, such as account-freezing, confiscation and other temporary securities, and seizure. In the case of irregular expenditures, only a court decision can result in similar action. It remains to be seen whether the latter procedure is efficient in practice and can be considered as sufficiently fulfilling the demand for safe and prompt recovery of illegal spending of EU funds (in particular in the area of agricultural support) as well as for timely and comprehensive collection of EU resources.

In accordance with the previous PIFC strategy, the function of anti-fraud co-ordination was to be performed by the PIFC Department in the Ministry of Finance, and two additional staff members were foreseen in 2007 for that purpose. Apparently this attribution of responsibility was considered to be not fully appropriate, since it is now planned to entrust the Financial Police Office, operating within the Ministry of Finance, with anti-fraud co-ordination. A unit for the co-ordination of fraud prevention will be set up in this body and become the contact point for OLAF. The necessary legal framework, including adoption of the new PIFC law and adjustment of the Financial Police Office rulebook, should be in place by the end of June 2008, and the new unit set up by the same date. In view of the current context in Macedonia, this solution may seem

more appropriate than what had been previously planned. It remains that the available texts relating to this issue, similar in both the draft policy paper and the national programme for the implementation of the *acquis*, still provide a rather vague definition of this unit's function. It is still necessary to ensure that the expected functions of a future AFCOS for Macedonia are properly analysed and understood before further steps are taken. In this connection, it would still be useful to consider the comparable experience of new EU Member States that have recently set up such AFCOS bodies. It is currently foreseen to appoint "irregularity officers", who would be competent to receive reports on irregularities and frauds and take preventive actions in this area. This function also seems to have been "imported" from similar procedures in a nearby country and would have to demonstrate its value in the Macedonian context.

Systems seem to be partially in place to deal with irregularities and to recover amounts lost, but further consideration should be given to their likely efficiency. The period ahead should be used to better define the institutional aspects of co-operation with OLAF and the role and procedures allocated to the anti-fraud co-ordination unit, now located in the Financial Police Office.

3. Capacity to Further Develop the System

The Macedonian Ministry of Finance has shown an intense determination in the development of PIFC with the initial development of internal audit and the further drafting and adoption of the PIFC strategy in a very short period of time. This development of PIFC has covered both legal drafting and institution-building aspects, essentially within the Ministry of Finance but also in other institutions. The period under review has again been very active but can also be characterised by a certain degree of instability, with the drafting of a new PIFC strategy and also the plan to adopt a new PIFC law, only a few months after a first text had been voted. All of this activity has taken place in a difficult political context for Macedonia.

The relatively rapid development of PIFC, including the move to new initiatives, such as the drafting of a policy/strategy paper, may unfortunately be accompanied by insufficiently in-depth, practical implementation work.

In the area of harmonisation, quality, policy training, development and methodology – for both internal audit and internal control central harmonisation functions – still need to be more formally established. The new CHU/PIFC Department would have to approach new developments with more prioritisation of objectives and more realism. Producing or introducing changes to legal texts, although not easy when it comes to their adoption, is nevertheless easier than ensuring their proper implementation in the Macedonian context. This is even more the case when legal texts tend to reproduce standard language disseminated by the impact of international consultancy, as is manifestly the case with regard to the rulebooks attached to the existing PIFC legal framework. Efforts are now required in other areas than law drafting, and training, while still an important task, should make room for actual implementation of the related policies to be conducted by the CHU, such as networking, advising and promoting good practice.

Stakeholders seem to be generally supportive (although with some exceptions), but more awareness-raising is needed among managers, more needs analysis, as well as an understanding of the new concepts. The Ministry of Finance has been able to establish a new legal framework for PIFC, but this has also been at the expense of an in-depth analysis of what was in place, thus creating the risk of not using its scarce resources in the most cost-efficient way. This has now been made even more difficult as the process of legislating will continue with the production of yet another new text, while the current text is still awaiting actual implementation. Ongoing improvements with respect to public expenditure management, budget processes and development of the treasury system are relevant for the development of PIFC as such, as well as for the introduction of procedures and methods applicable to the management and control of EU funds.

In that framework, there is no doubt that support and assistance are a continuing need. However, assistance should be in proportion to the current and future absorption capacity of the Macedonian counterpart, which remains limited.

On the other hand, delays and difficulties are a normal consequence of certain deficiencies, starting with the paucity of human resources in the public service, both quantitatively and qualitatively, in the PIFC area as in other public policy areas. Serious problems remain in terms of understanding the new concepts that have been introduced, and at the moment it is difficult to say whether these concepts have permeated the public administration beyond the small group of officials involved in project activities.

4. Summary and Next Steps

The PIFC system in Macedonia is still largely in an institution-building phase. The development of internal audit was linked to the implementation of the technical assistance project of 2005-2006, which gave a kick-off to this new function within the Macedonian public administration. The internal audit units now have to develop.

As in all comparable countries, recent efforts have been more – if not exclusively – focused on internal audit development, rather than on financial management and control. The issue of the incorporation of local government in the development of PIFC policies remains to be addressed. Ensuring the availability of properly resourced internal audit at these levels of government – without running the risk of scattering – is an important task. If this issue is not adequately addressed, there is still a risk that these scarce audit resources will become uneconomical and useless.

Practical aspects in the development of financial control have been steadily dealt with since the adoption of the current PIFC law in terms of producing secondary legislation and practical working documentation. What has been accomplished in this area could nevertheless be questioned by the adoption of a new legal framework.

The Public Internal Financial Control strategy, and its translation into legal requirements and practice, will contribute to progressively bringing Macedonian financial control arrangements in line with good practices of other candidate countries and EU Member States. However, some clarification is still needed with regard to the various key functions. A better balance should be sought between institutional and legal procedural aspects on the one hand and practical working aspects on the other, which would keep PIFC from becoming a matter reserved for some specialist functions only. In addition to the further development of the still new internal audit function, priority should now be given in practical terms to the development and improvement of internal control systems and procedures and to the strengthening of the PIFC Department in its role as Central Harmonisation Unit. To date the design and implementation of policies have been very closely linked to the technical assistance provided in recent years, and, as in neighbouring countries, some concern about ownership and sustainability can be raised, but at a lesser degree in comparison with similar examples abroad.

Finally, the ambition of Macedonian authorities to rapidly develop their PIFC system is quite legitimate. However, common experience has shown that these developments need time and will not happen overnight without huge risks for the practical implementation. Less tight (to date self-imposed) deadlines and more stable policy options should be set to ensure a real understanding of the new policies, allocation of adequate resources, and – in the end – solid implementation.

Priority should be given to the following actions:

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

- Implementation of the PIFC strategy should continue steadily, but the Ministry of Finance should be ready to revise and adapt the document on the basis of experience or further thinking.
- There is now a pressing need to start the production line of audit reports; the internal audit component of PIFC should no longer be seen as mainly a training activity.
- Co-ordination and consistency must be ensured between the recently produced secondary PIFC legislation and the planned new PIFC legislation.
- The new PIFC Department still needs to develop its own work plan, independently from the technical assistance.
- In this regard, it still makes sense to revive an inter-ministerial structure for PIFC, in the form of a working group or other body, to broaden the scope of PIFC advocacy outside the borders of the Ministry of Finance; the draft law apparently contains provisions to that effect.
- The development of PIFC could benefit from the ongoing elaboration of policies and measures in the area of management and control of EU funds; the CHU should continue to share information in that respect with the National Fund.
- The coverage of budget-users with internal functions should be finalised. However, the general deployment of internal audit will need to be reviewed in order to avoid the establishment of too small units, and the scope for co-operation and exchange between existing units should broaden.

- The awareness of managers with regard to internal control and internal audit policies and functions needs to be further developed.
- Production of audit trails, control self-assessments, and risk identification/assessment/management policies could be undertaken as pilot exercises, preferably in the Ministry of Finance. However, the templates foreseen to be used, based on disputable foreign examples, may need to be reviewed and streamlined.
- The introduction of appropriate internal audit methodologies and the development of manuals should continue. More feedback and monitoring are needed with regard to the audit activities in budget-users currently underway, including testing of the validity of the tools applied.
- Systems to prevent and take action against irregularities and to recover amounts lost need to be reviewed.
- Possible activities of the anti-fraud co-ordinating unit, and their signification in practice, should be subject to a thorough analysis, as for the moment there has still not been any operational work carried out in this area.
- All of the above processes and developments could be supported or enlightened through a peer review of the current state of PIFC systems in Macedonia.

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

- A PIFC strategy for local government is needed. Based on this policy, the plans for public internal financial control at local level should begin to be implemented.
- Beyond the definition of the status of internal auditors, an appropriate human resources policy for internal auditors will have to be developed by the CHU.
- In that context, schemes and organisation of future training of internal auditors should be developed, in particular in view of the sustainability of results once technical assistance has terminated.
- A specific strategy to fight against fraud will need to be developed in due course.